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Mexico

Cotton and Products Annual

2016 Cotton and Products Annual Mexico

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Report Highlights:

Post/New marketing year (MY) 2016/17 total Mexican cotton production is forecast to decrease approximately 4 percent due to an expected decrease in planted area. Total domestic cotton consumption in MY 2016/17 is forecast to increase slightly from the previous year to 2 million bales (each bale weighs 480 pounds). The Government of Mexico (GOM) continues to support cotton growers and growth of the Mexican textile industry in general. The United States should remain the main supplier of cotton to Mexico which accounts for almost 100 percent of Mexico's total cotton imports.

Executive Summary:

The Post/New MY 2016/17 total Mexican cotton production is forecast to decrease approximately 4 percent due to an expected 9 percent decrease in planted area. Private sources stated that the decrease in planted area is mainly due to the need to rotate cotton with other crops like corn and vegetables in order to maintain more fertile soils.

Official sources estimate that MY2015/16 yields will reach an average of 7 bales per hectare (ha), as a result of improved cotton seed use, varieties that permit high density planting, combined with favorable weather conditions. The MY 2015/16 domestic consumption is expected to increase slightly to 1.97 million bales. The Mexican textile industry remains competitive and is expected to grow with the implementation of various supports initiated by the GOM, including favorable custom, tax and financial measures.

Commodities:

Cotton

Production:

The Post/New MY 2016/17 Mexican cotton production is forecast to decrease to approximately 870,000 bales due to a reduction in the expected planted area compared to the previous year estimation. According with the State Committee of Plant Health (CESAVECH), the reduction in planted area is primarily the result of an expected increase of production areas for other feed and food crops like corn, watermelon, melon and peppers. These are used as a crop rotation practice to maintain productive soils. Table 1 shows Mexico's MY 2016/17 cotton production forecast by state/region.

Table 1. Mexico: MY2016/17 Forecast Cotton Production by State

State	Planted Area (Has)	Yield (Bales/Ha)	Production (Bales)
Baja California	13,636	7.61	103,704
Chihuahua	80,159	7.28	583,270
Coahuila	3,201	8.37	26,780
La Laguna / Durango and SW Coahuila	13,672	7.46	102,002
Sinaloa	280	3.08	863
Sonora	5,844	6.16	35,988
Tamaulipas	4,960	3.69	18,320
TOTAL	121,752	7.15	870,926

The Post/New MY 2015/16 total Mexican cotton production estimate has been revised slightly downward from the USDA/official estimate to 908,000 bales, based on updated figures from the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA).

The 2014/15 total cotton harvested area estimates have been revised slightly upward however the total production estimate was revised downward from the USDA/official estimate to 1.32 million bales in a

harvested area of 182,000 hectares (ha), based on updated figures from the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA).

In Mexico, cotton is grown throughout the year during two seasons: the main growing season is spring-summer (planted mainly from April – July and harvested August – January (see Fig. 1) and fall-winter (which is planted in November-January and harvested mainly in April to May). The main cotton production states are in the north part of the country, as it is shown in the Figure 2.

Figure 1. Cotton planting and harvesting main season in México.

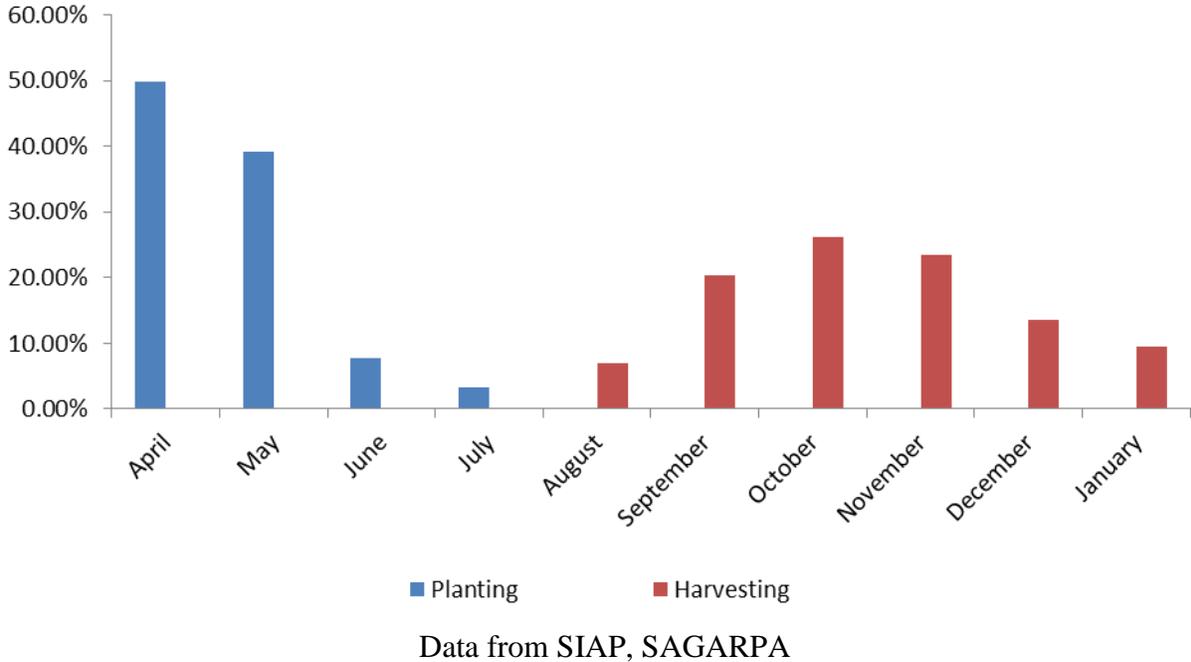


Figure 2. Mexican States where cotton is produced.



Cotton yields vary significantly among the major producing areas in Mexico. Average cotton yields for MY 2016/17 and MY 2015/16 are estimated at about 7 bales/ha. The highest yielding area is expected to be in Coahuila with 8.3 bales/ha, while the lowest yielding areas are located in Tamaulipas and Sinaloa with a little over 3 bales/ha, mainly produced during winter season.

The National Council of Cotton Producers estimate that in Mexico genetically engineered (GE) cotton seed use covers about 96 percent of the planted area throughout the country. Most cotton growers in Mexico have adopted the use of GE seed varieties and high density planting; however other factors, such as weather and varying uses of technology can explain differences in production levels. For example, in Tamaulipas all cotton production is in non-irrigated areas, which significantly reduces yields.

On February 3, 2016 SAGARPA, through the National Health Service, Food Safety and Quality Service (SENASICA), gave official recognition to the states of Baja California and Sonora for reaching the status of “free zone of pink worm in cotton”. Earlier, on January 22, 2015, SAGARPA gave this same recognition to the state of Chihuahua.

SAGARPA has recognized USDA for their support and assistance in the *Binational Program for the Eradication of Pink Bollworm and Boll Weevil*. Control actions were taken to successfully eradicate these pests by using integrated pest management, genetic engineered seeds and applying the sterile insect and pheromone mating disruption techniques. Both techniques used biological material provided by USDA. *Bt* genetic engineered cotton directed against the pink bollworm has been used in Mexico since 1996. As a result of these actions, according to SENASICA, 85 percent of Mexico’s cotton producing area is now free of pink bollworm and 70 percent of boll weevils are depleted. According to SENASICA officials, from 1996 to the present, farmers from Chihuahua saved 30 to 40 percent on their production costs. For example, most Chihuahua cotton growers have reduced from 18 to 1 the number of insecticide applications needed, while at the same time increasing their yields from 3.7 to more than 7 bales of cotton per hectare.

Regarding the quality of cotton fiber, textile industry sources say they expect that the more widespread use of GE cotton varieties will allow producers to obtain not only better yields but significantly improve the quality of domestic cotton production. National Textile Industry Chamber of Mexico (CANAINTEX) representatives stated that standardization in cotton quality is of extreme importance for

the continued stability of domestic consumption. Harvesting methods also have an influence on cotton quality and this is variable by region. In La Laguna for example, the cotton harvest is picked by hand and is considered the region with better fiber quality.

Consumption:

Industry sources, including the National Council of Cotton Producers, forecast total domestic cotton consumption in MY 2016/17 to reach 2 million bales (each bale weighs 480 pounds), mainly because of GOM's various support programs as well as their actions taken related to global competition (see Policy section). The domestic cotton consumption estimate for MY 2015/16 and MY 2014/15 has been revised slightly higher from USDA official estimates based on updated data from the textile industry. According to officials from the Secretary of Economy, apparel and textile protective duties will be maintained until 2018 (see report [MX4029](#)).

Since 2015, due mainly to the implementation of various government support programs and other measures taken by the GOM (see Policy section), the Mexican textile and clothing industries grew 5.9 percent according with the National Chamber of Textile Industry (CANAITEX) and the National Chamber of the Clothing Industry (CANAIIVE). This GOM support is expected to increase consumption of cotton and other fibers by approximately 1 to 2 percent in 2016.

Trade:

The Post/New MY 2016/17 total cotton import forecast is estimated at 1.05 million bales, based on first months of import data from the Global Trade Atlas (GTA).

The Post/New revised import estimate for MY 2015/16 has been increased by 10 percent from the USDA official figures to 1.07 million bales. The increase is due mainly to the lower than previously estimated production.

The Post/New total cotton import estimates for MY 2014/15 have been revised slightly upward from the USDA/Official estimate to 0.97 million bales, reflecting updated data available from the GTA.

The United States should remain the main cotton supplier to Mexico which accounts for about 100 percent of total cotton imports.

The Post/New Mexican cotton export forecast for MY 2016/17 is 100,000 bales. According to the Baja California Producers Association, exportation of cotton from Mexico remains challenging due to the high levels of international stocks. For MY 2015/16 export data have been revised downward from the USDA/Official estimate to 95,000 bales, because of the lower than previously estimated production. However, export data from MY 2014/15 have been revised slightly upward from USDA/Official data based on information from the GTA.

Stocks:

The Post/New MY 2015/16 and MY 2014/2015 ending stock estimates have been revised upward from USDA/Official estimates. The upward revisions are due to higher-than-previously anticipated imports for those two marketing years. For MY 2016/2017, ending stocks are forecast to decline to approximately 483,000 bales, due to an expected reduction in production.

Domestic Cotton Prices:

The May 2016 price for cotton future contracts is US\$272.93 per bale according to the Agency of Marketing Services and Development of Agricultural Markets (ASERCA), which is in charge of publishing the cotton future prices as shown in table 2.

Table 2. Cotton Future Prices

Cotton Future Prices (March 9, 2016)			
	US Cents / Pound	Variation	US Dollars / Bale
May 2016	56.86	-0.520	272.93
July 2016	56.81	-0.540	272.69
October 2016	56.72	-0.540	272.26
December 2016	56.78	-0.480	272.54
March 2017	57.67	-0.460	276.82

Source: <http://www.infoaserca.gob.mx/coberturas/algodon.pdf>

Policy:

PROAGRO

On December 30, 2015, SAGARPA announced in the Mexican Federal Register, MFR (*Diario Oficial*) a notice which modifies the operational rules of “PROAGRO Productivo”, the Mexican domestic agricultural support program, during calendar year 2016. This program grants direct supports to cotton growers, although not for production, but to provide incentives to use the Forward Contract Program (*Agricultura por Contrato*). This program has been extensively used by producers as well as by the traders.

On March 9, 2016 a notification was published in the MFR which re-opens the Forward Contract Program for the next 15 days. This will provide another opportunity for producers to sign up for the Program if they had not already done so. This special provision of the Program (called “Special Coverage for Cotton”) will apply to a maximum volume of 445,000 bales that mature in May 2016.

Additionally, the notification provides the option for growers to receive assistance in cases of environmental disasters. In general, the rule specifies that if severe weather conditions or a natural disaster prevents plantings in eligible areas, support may still be granted by a designated SAGARPA representative provided a written request is submitted, accompanied by a technical opinion of the competent authority that endorses the presence of such conditions in the affected areas. This measure shall be subject to federal budget availability.

In January 2015, the Ministry of Economy (SE), in coordination with the Ministry of Finance and Public Credit (SHCP), implemented a comprehensive support strategy for the textile and clothing industries. In general, the strategy aim is to enhance and ensure employment for 450,000 families belonging to Mexico’s textile and clothing sectors and to promote the productivity and competitiveness of these enterprises as well as ensuring the legality and fairness of global competition. The GOM’s three specific areas of focus are:

1. Industrial policy that supports innovation in Mexico’s textile and clothing companies, including the creation of a National Center for Textile and Clothing Innovation (CENITV) in the state of Hidalgo.

2. Customs issues to avoid unfair competition.

3. Obtaining credit from Development Bank and Finance Industry to include a credit outlay of 450 million pesos (approximately \$30 million).

Measures already established by the GOM to support the textile and clothing industries:

1. A sectorial register of importers that identifies and measures the risk of their operations.
2. Required minimum 5 day automatic advance notice for imports to Mexico of textiles and clothing to the Tax Administration Service (SAT).
3. Continuous audit program established by SAT for importers of goods and their customers.
4. Pilot program that splits tariff lines to be more descriptive.
5. Suspended until 2018, tariff reduction to 80 fractions of imported cotton and other materials. Therefore, the tariff rate will remain at 25 percent for those countries with which Mexico has no free trade agreements (see reports [MX4029](#) and [MX3031](#)).
6. Warranty prices on imports of raw and convertible material.
7. SAGARPA, through ASERCA, supports for the purchase of cotton from Mexican farmers as part of the GOM's assistance to the textile industry and to encourage the integration of the industry value chain.

For Mexico to meet the global competition generated by imports, a new National Center for Innovation and Fashion for Textile Industries and Apparel (CENITV) is currently under construction in Pachuca, Hidalgo. The Center is expected to open by the end of 2018. Public and private sources stated that the new National Center reportedly received investments from the Federal Government and the Textile Industry worth more than 200 million pesos (approximately 10.2 million U.S. dollars). The objective of the new National Center is to provide support to the Mexican textile industry, including professional advice on design, fabric types, etc., as well as helping to improve industry services in order to achieve a higher level of global competitiveness.

In February 2015, various Mexican institutions and textile and clothing industries came together with the aim to establish an industry and researcher partnership. An objective of the partnership is to help promote the development of the CENITV. Partnership representatives then formed an interagency group responsible for training programs at CENITV according to the needs of the Industry. The group has in the past visited numerous research centers, universities and leading institutions in the textile and garment industry in the United States. The Mexican delegation consisted of representatives from Mexico's various national industry chambers and officials from federal and state governments. The delegation visit also included stops to meet with executives of the College of Textiles at the University of the State of North Carolina, the Fashion Institute of Technology, Cotton Inc. and the Center for Innovation Textile and Clothing Technology Corporation, and other institutions engaged in research and

development in order to learn more about these industries and the potential to apply certain applications to Mexico's industry.

Table 3. Mexico: PSD for MY 2014/15 through 2016/17

Cotton Mexico	2014/2015		2015/2016		2016/2017	
	Market Year Begin: Aug 2014		Market Year Begin: Aug 2015		Market Year Begin: Aug 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	183	0	133		121
Area Harvested	181	182	130	130		121
Beginning Stocks	584	584	740	755		663
Production	1366	1319	950	908		870
Imports	830	968	975	1070		1050
MY Imports from U.S.	0	967	0	1070		1050
Total Supply	2780	2871	2665	2733		2583
Exports	165	166	150	95		100
Use	1850	1925	1900	1950		1975
Loss	25	25	25	25		25
Total Dom. Cons.	1875	1950	1925	1975		2000
Ending Stocks	740	755	590	663		483
Total Distribution	2780	2871	2665	2733		2583
1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA						

For More Information:

FAS/Mexico Web Site: We are available at www.mexico-usda.com or visit the FAS headquarters' home page at www.fas.usda.gov for a complete selection of FAS worldwide agricultural reporting.

FAS/Mexico YouTube Channel: Catch the latest videos of FAS Mexico at work

<http://www.youtube.com/user/ATOMexicoCity>

Useful Mexican Official Web Sites: Mexico's equivalent to the U.S. Department of Agriculture (SAGARPA) can be found at www.sagarpa.gob.mx, equivalent to the U.S. Department of Commerce (SE) can be found at www.economia.gob.mx, equivalent to the TAX office

<http://www.sat.gob.mx/Paginas/Inicio.aspx> and equivalent to the U.S. Food and Drug Administration (SALUD) can be found at www.salud.gob.mx. The information about biotechnology and biosafety in Mexico is compiled by an Interministerial Commission (CIBIOGEM) <http://www.cibiogem.gob.mx>.

These web sites are mentioned for the readers' convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with, the information contained on the mentioned sites.

Other Relevant Reports Submitted by FAS/Mexico:

Report Number	Subject	Date Submitted
MX5015	2015 Cotton and Products Annual	4/7/2015
MX4029	2014 Cotton and Products Annual	4/8/2014
MX3031	Cotton Production Expected to Decline as Domestic Consumption Holds Steady	3/27/2013
