

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Mexico**

### **Cotton and Products Annual**

#### **Cotton Still More Attractive than Forage Crops**

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**Report Highlights:**

Total cotton production for marketing year (MY) 2018/19 is forecast to be 1.57 million bales, slightly higher than the previous marketing year. The forecast reflects another year of producers choosing to plant cotton over other crops, such as sorghum and corn used for silage, credited to attractive prices.

**Executive Summary:**

Mexico is ranked within the top 15 countries in the world for domestic cotton production. Cotton contributes 0.93 percent to agricultural gross domestic product (GDP). The Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) has included cotton in its 2017-2030 national strategy to improve productivity, profitability, and competitiveness to combat poverty and promote a more balanced region.

Cotton planted area rebounded in MY 2017/18, which resulted in a substantial increase from MY 2016/17. This increase is attributed to favorable weather conditions, adequate irrigation, continued use of genetically engineered (GE) seeds, a return to cotton planting after a year of crop rotation, and better prices. Post forecasts MY 2018/19 total cotton production slightly up from the previous marketing year, due to better prices for cotton than for other crops, such as sorghum and corn.

Mexico is looking to diversify its imports with countries that also offer zero tariffs, like Argentina, Brazil, Greece, and Italy. Under the Trans-Pacific Partnership, Mexico is interested in developing a commercial relationship with Australia in the future. The United States, however, should remain the main supplier of cotton to Mexico which accounts for almost 100 percent of Mexico's total cotton imports.

## **Commodities:**

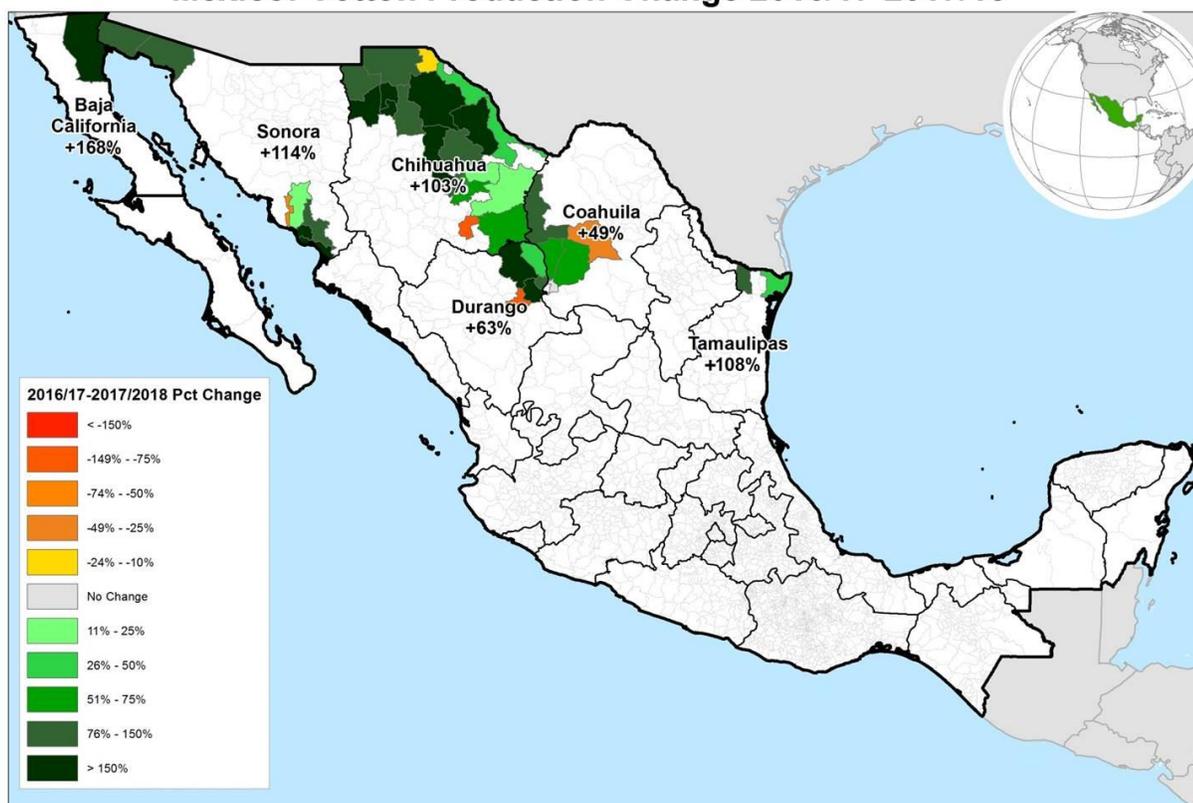
## Cotton

### Production

Post/New MY 2018/19 cotton production forecast is 1.57 million bales keeping nearly the same planted area for a second year in a row. This forecast reflects better prices for cotton compared to other crops, such as sorghum and corn, according to producers in the Laguna region (a region in northern Mexico occupying the states of Durango and Coahuila), Tamaulipas, and Chihuahua.

Post's MY 2017/18 and MY2016/2017 cotton production estimates are slightly up from previous estimates, based on updated figures from the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food, Information System (SAGARPA/[SIAP](#)). The increase in MY 2017/18 production was achieved due to a combination of factors, including favorable weather, adequate irrigation, continued use of genetically engineered (GE) seeds, a return to cotton planting after a year of crop rotation for other crops, and most notably better prices. Those factors swayed farmers to plant more cotton versus other crops such as corn and sorghum.

**Mexico: Cotton Production Change 2016/17-2017/18**



**USDA** Foreign Agricultural Service  
Office of Global Analysis  
International Production Assessment Division

Source: SIAP 2016/17 2017/2018 Statistics  
Summer/Winter Cotton Production by Municipality

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 - February and fall-winter (planted from November - January and harvested June - August).

Cotton yields vary significantly among the producing areas. Although most cotton growers have adopted the use of GE seed varieties and high density planting, other factors, such as weather and the use of technology can explain differences in production levels. For example, in the state of Tamaulipas all cotton production is done on non-irrigated areas, which compared to other states, has significantly reduced yields. There is no storage capacity infrastructure for cotton in Mexico; bales are stored outdoors, making production vulnerable to loss.

**Table 2. MY2018/19 Cotton Production by State, Forecast**

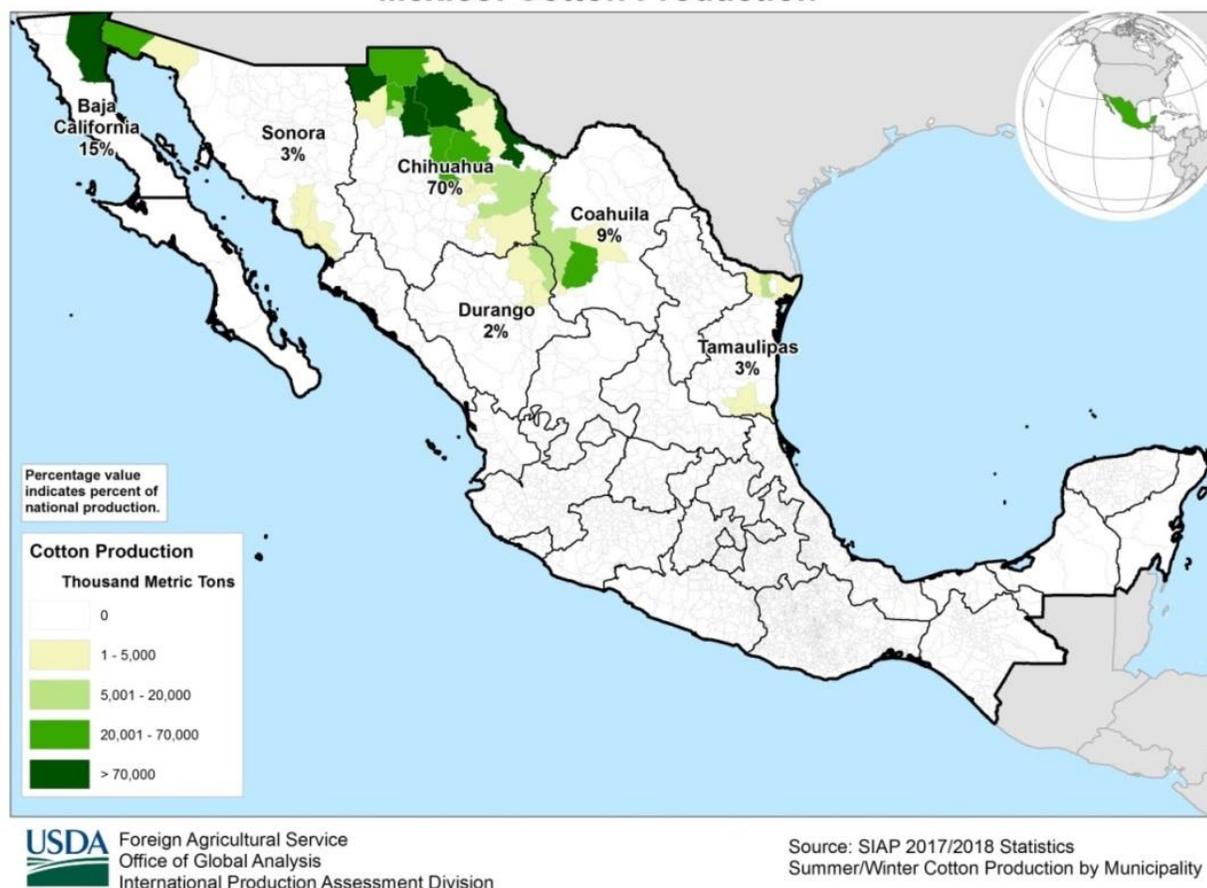
<b>State</b>	<b>Intention of Planting Area* (Ha)</b>	<b>Forecast Yield (Bales/Ha)</b>	<b>Forecast Production (Bales)</b>
Baja California	27,000	7.9	243,000
Chihuahua	145,000	7.4	1,073,000
Coahuila	16,500	7.5	123,750
Durango	4,000	7.6	30,400
Sonora	8,000	5.8	46,400
Tamaulipas	11,000	5.6	55,000
<b>TOTAL</b>	<b>211,500</b>	<b>7.4</b>	<b>1,571,550</b>

Source: Intention of planting area forecast is provided by Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) through communication with the Agricultural and Livestock Information System ([SIAP](#)) and the National Health Service, Food Safety and Quality Service (SENASICA); all other forecasts are from Post.

SAGARPA has included cotton in its 2017-2030 national strategy. SAGARPA's aspirations are to achieve 0.21 percent in increased production and 1.12 percent in domestic consumption by 2030. To reach those goals SAGARPA will: 1) start a program of adequate dates of planting (Currently, producers must wait for GE seed and water permits, affecting planting dates); 2) maximize high density planting; 3) keep eradication of pink bollworm and boll weevil control programs; 4) promote the use of improved seeds; 5) retain the future contracts program; and 6) modernize cotton mills. Investment in storage infrastructure is not considered in the strategy, although producers have expressed it as need over subsidies.

The binational program for the eradication of pink bollworm and boll weevil has been in place since 1996. Control actions consist of integrated pest management, which includes GE seeds, the sterile insect technique, and pheromone mating disruption. *Bacillus thuringiensis (Bt)* cotton directed against the pink bollworm cover about 96 percent of the planted area for cotton. SAGARPA through the National Health, Food Safety, and Quality Service (SENASICA), recognizes the states of Chihuahua, Baja California, and Sonora as zones free of pink worm in cotton. In January 2017, SAGARPA reported a reduction of 99 percent of the pink worm population in the Laguna region.

## Mexico: Cotton Production



Cotton production contributes 0.93 percent to agricultural GDP. Mexico is a major textile producer, with an industry based on competitive labor costs and its close proximity to the United States. According to the Mexican National Institute of Statistics and Geography ([INEGI](#)), 63 percent of the textile industry is concentrated in the central and northeastern parts of the country including Puebla, Mexico City, and the States of Mexico, Hidalgo, Tlaxcala, Jalisco, Guanajuato, Nuevo Leon, and San Luis Potosi. The textile sector represents 1.3 percent of Mexico's GDP. Mexico is the seventh largest exporter of denim worldwide and the main supplier to the United States. It has maintained this place for over 15 years, which makes the sector vital to the economy. According to INEGI, 40 percent of the denim fabricated in Mexico is divided between domestic consumption and Latin American countries, such as Peru, Chile and Colombia, and the remaining 60 percent is exported to the United States.

Yarn producers do not cover all the needs of the sector and a significant amount of yarn is imported, particularly from the United States (polyester/viscose and polyester/cotton). Specialty and industrial fabrics, as well as medical textiles do not cover all the needs of the fabrics sector and are imported, mainly from United States, according to the Office of Textiles and Apparel ([OTEXA](#)).

### Consumption

Total domestic cotton consumption in MY 2018/19 is forecast at 2.12 million bales (each bale weighs 480 pounds). Consumption for MY 2017/18 is revised slightly higher than the previous estimate at 2 million bales, based on market intelligence.

U.S. imported yarns and cotton fabrics are used in apparel, home furnishings, and other industrial textiles. In the late 1990’s and early 2000’s before leaving for Asia, textile manufacturing made up a good portion of the maquiladora industry. Specialized textile manufacturers, such as leather furniture manufacturing and other products that required a more skilled labor force, remained in Mexico. Mexico is the second largest market for U.S. made medical textiles, accounting for 28 percent of the total textile market share in 2016. It can be attributed to rising incomes and an increasing standard of living along with advances in medical technology and increased spending on healthcare.

**Trade**

Post/New MY 2018/19 total cotton imports are forecast to slow to 825,000 bales due to the expected larger crop. The expansion in production is likely to encourage yarn and textile manufactures to source their needs from local cotton producers. Domestic production is now covering nearly 80 percent of the total domestic use. This trend is expected to continue.

Mexico is looking to diversify its imports by looking to countries that also offer a zero tariff, like Argentina, Brazil, Greece, and Italy. With TPP, Mexico is expecting to develop a commercial relationship with Australia. The United States, however, should remain the main supplier of cotton to Mexico which accounts for almost 100 percent of total cotton imports.

The import estimates for MY 2017/18 and MY 2016/17 are up slightly from the USDA/Official estimate, at 1.04 and 1.03 million bales, respectively, reflecting updated Global Trade Atlas (GTA) data.

**Table 1. Mexico Import Statistics, 2015/2016 – 2017/2018**

Commodity: Cotton					
Year Ending: July					
Partner Country	Quantity (480 lb Bales)			% Share	
	2015/2016	2016/2017	2017/2018*	2016/2017	2017/2018
World	1,021,828	1,031,741	509,343	100.00	100.00
United States	1,021,410	1,031,525	509,247	99.96	99.98
Egypt	193	216	96	0.02	0.02
Brazil	115	0	0	0.01	0.00
India	110	0	0	0.01	0.00

Source of Data: INEGI 480 lb. Bales  
 \*Trade from August 2017 through January 2018

Post/New cotton export forecast for MY 2018/19 is 300,000 bales. For MY 2017/2018 with the domestic production rising, exports are estimated down to 243,000 bales. In MY 2016/17, exports estimate at 130,000 bales, based on GTA data.

**Table 2. Mexico Export Statistics, 2015/2016 – 2017/2018**

Commodity: Cotton					
Year Ending: July					
Partner Country	Quantity (480 lb Bales)			% Share	
	2015/2016	2016/2017	2017/2018*	2016/2017	2017/2018
World	142,600	129,660	155,237	100.00	100.00
Vietnam	33,716	36,826	39,991	23.64	28.40
China	50,377	24,120	24,855	35.33	18.60
Pakistan	3,013	17,432	35,347	2.11	13.45
Hong Kong	2,848	13,542	14,465	2.00	10.45
Taiwan	11,277	9,224	12,903	7.91	7.11
Indonesia	18,227	6,936	8,153	12.78	5.35
United States	11,056	6,670	1,851	7.75	5.14
Japan	3,312	4,194	3,950	2.32	3.23
Thailand	2,664	3,284	868	1.87	2.53
Cuba	3,404	2,614	216	2.39	2.02
Singapore	106	2,485	0	0.07	1.91
Malaysia	620	1,066	299	0.43	0.82
Guatemala	1,401	703	101	0.98	0.54
Ecuador	381	395	505	0.27	0.30
Switzerland	5	92	6,665	0.00	0.07
Korea South	0	83	0	0.00	0.06
Dominican Republic	92	0	0	0.07	0.00
Germany	5	0	0	0.00	0.00
India	101	0	859	0.07	0.00
Portugal	0	0	3,762	0.00	0.00
Honduras	0	0	450	0.00	0.00

Source of Data: INEGI 480 lb. Bales

\*Trade from August 2017 through January 2018

### *Textile Industry*

Although U.S. yarn and cotton fabrics can be more expensive than those from other countries, apparel producers in Mexico use U.S. made textiles in products that are exported to the United States because the goods may enter the United States tariff-free.

U.S. cotton bales are exported as fluff, yarn, or fabric to Mexico where they are cut, sewn, and pieced together. According to the International Trade Administration, 40 percent of jeans for men and boys in the United States are made in Mexico. Some of the world's largest denim companies, including Levi Strauss & Co and VF Corporation, maker of Lee, Wrangler, and Dickies brands, have a presence in Mexico.

The global demand for technical textile products has increased as a result of their rising base of applications in end-use industries. Much of the demand for technical textile comes from end-use industries, such as automotive, construction, healthcare, protective clothing, agriculture, sports

equipment/sportswear, and environmental protection. As a result, there is a need for more investments in the technical textile market. This presents an opportunity for U.S. exporters to increase their presence in Mexico (<https://www.export.gov/article?id=Mexico-Textiles>).

Mexico gradually reduced its tariffs on textile imports from the United States that meet the NAFTA rules of origin (i.e., wholly processed in the United States, Canada, or Mexico). NAFTA tariff preferences are important in keeping Mexican producers competitive in the U.S. market.

### *Apparel Industry*

Mexico's apparel industry relies almost entirely on the U.S. market. Its cut and assembly operations often use U.S. made fabrics to produce basic items such as denim jeans and T-shirts, which are then exported to the United States. For example, manufacturers of cotton T-shirts or cotton twill trousers in Mexico can avoid a 16.5 percent import duty if U.S. inputs are used. Geographic proximity to the United States gives apparel producers in Mexico an advantage over Asian producers, allowing quick replenishment of items for which time is a critical factor.

Mexico has had to adjust to the intensifying global competition. Some of this competition comes from other textile and apparel producers in the Western Hemisphere. Nevertheless, the most significant competitive challenge for textile and apparel production in North America has come from outside of the region, specifically China and Vietnam.

### **Stocks**

The Post/New MY 2018/2019 ending stocks forecast is 824,000 bales due to the production forecast. For MY 2017/2018 the estimate is up from the previous estimate at 853,000 bales, due to the increase in imports and higher production estimates. There are no government-held stocks.

### **Prices**

The New York average price for cotton on April 2018 is 78.9 U.S. cents per pound according to the Agency of Marketing Services and Development of Agricultural Markets (ASERCA), which is in charge of publishing cotton prices. The annual variation with last year price is 1.2 percent higher and a monthly variation of 3.1 percent lower.

**Table 3. Cotton Prices**

<b>Month and Year</b>	<b>US Cents / Pound</b>
April 2017	71.0
March 2018	418.00
April 2018	397.55

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

### **Policy**

The main support programs for the agriculture sector are subject to the federal budget. The programs are PROAGRO Productivo, which provides payments to growers, and the Forward Contract Program, the percentage supported in hedging operations.

[PROAGRO](#) aims to promote agricultural production of various crops, including cotton. PROAGRO promotes more productive, competitive, and fair implementation in the agricultural countryside. Payments, however, are made on the basis of the number of hectares registered, irrespective of the type or volume of production or the related domestic or international prices.

Depending on the level of farming operation of the grower as well as regional conditions, PROAGRO supports can be used for training, technical assistance, mechanization, use of improved seeds, plant nutrition, productive reconversion, crop insurance and price hedging.

Producers have expressed that they prefer help building storage infrastructure. PROAGRO is seen as a subsidy and not as an incentive. SAGARPA defines (subject to federal budget availability) strategies to reincorporate farmers registered in the PROAGRO directory that are not currently in the program's target population. SAGARPA gives priority to subsistence growers who cultivate basic grains and oilseeds.

The Mexican government continues to encourage forward contract purchases between farmers and buyers through the Forward Contract Program, *Agricultura por Contrato*. The program is designed for producers, traders, and consumers of corn, wheat, sorghum, soybean, cotton, coffee, orange juice, and livestock products (beef and pork). Cocoa and coverage for agricultural and fishing inputs such as fertilizers, natural gas (and derivatives), and diesel were recently added. For cotton, it has been extensively used by producers and traders who see it as an insurance of the sale price.

Cotton is the only commercially grown GE crop in Mexico. As part of routine procedures, the Secretariat of Agriculture, Livestock, Rural Development, Fishery and Food (SAGARPA), monitors the fulfillment of precautionary measures established for each GE release (Monitoring measures such as distance of isolation with wild relatives, seed management, records of pesticide applications, etc.). In May and June 2017 during routine monitoring, SAGARPA officials found the following two cases of events not explicitly mentioned on the commercial GE cotton permits in the state of Chihuahua and La Laguna region:

- a. The events Boulgard I under a permit for Boulgard II. Boulgar II is a stacked event that contains Boulgard I.
- b. Events approved to different companies were found on the same producer cotton field.

As a result, in August 2017 Mexican authorities ordered the custody of 1,500 hectares of GE cotton as a precautionary measure, resulting in 13 court injunctions by the seed industry. Later in the year, SAGARPA established biosafety measures for the management and processing of the fields that were under custody. The fields were eventually processed as fiber and oil.

In recent years, the seed industry has submitted dozens of requests for the release of GE cotton in several pilot and commercial stages. There are entities, such as in the state of Chihuahua, where permission is granted after the required consultation with indigenous communities.

### *Textile Decree and Reference Prices*

Since 2015, the Secretary of Economy (SE), in coordination with the Secretary of Finance and Public Credit (SHCP), implemented a comprehensive support strategy for the textile and clothing industries that face growing competition from Asia. Due mainly to the implementation of this government program, 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). There are a number of measures enacted under this strategy that affect Mexican textile importers, and collaterally, U.S. cotton exporters. These measures include an importer registry, the establishment of reference prices (though they should not be applied to products coming in under a NAFTA Certificate of Origin), and a five-day waiting period for all imports. Importers of textiles and apparel products must be registered in the Official Registry No.11 for the textile/apparel sector (<https://www.export.gov/article?id=Mexico-Textiles>).

The following measures were established by the Government of Mexico to support the textile and clothing industries:

- The Servicio de Administración Tributaria (SAT – the Mexican Internal Revenue Service) has been conducting extensive verification of origin audits for textile and apparel imports.
- A sectorial register of importers that identifies and measures the risk of their operations.
- Required minimum 5 day automatic advance notice for imports into Mexico of textiles and clothing to SAT.
- Continuous audit program established by SAT for importers of goods and their customers.
- Mexico gradually reduced its tariffs on textile imports from the United States that meet the NAFTA rules of origin.
- Warranty prices on imports of raw and convertible material.
- SAGARPA, through ASERCA, supports the purchase of cotton from domestic farmers as part of support to the textile industry and encourages the integration of the value chain.

Qualification for preferential duty treatment under NAFTA depends on whether they qualify as goods produced in the region. NAFTA rules of origin concerning textiles are complex and detailed. In order for a product to be eligible for duty-free entry into Mexico or Canada, the product must be produced in the United States, entirely of NAFTA component parts, or if foreign components are used, the foreign component must undergo sufficient processing in United States to meet the rules of origin.

### **Marketing**

Mexico traditionally imports more “value-added” U.S. cotton yarn (70 percent) than raw U.S. cotton fiber (30 percent), but raw fiber imports are still important. Local production is insufficient to meet mill and industry demands.

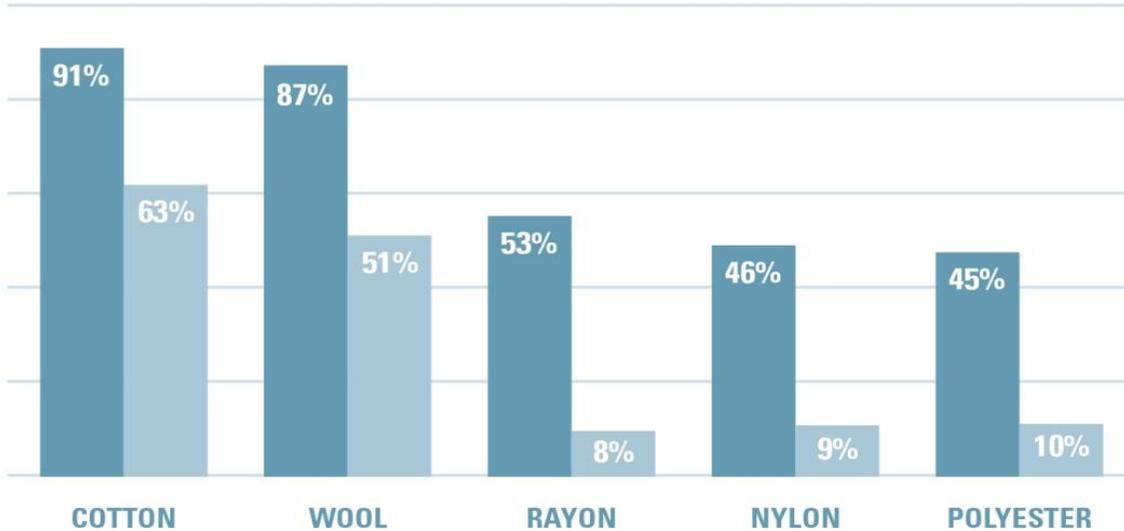
Most of the top global brands from the United States and Europe have a presence in Mexico. Moreover, Mexico is considered a fashion leader in Latin America due to its large media presence in the region. Promotions targeting consumers may also serve to influence other markets in greater Latin America such as neighboring Guatemala and similar large economies in the Southern cone. ProMexico is the federal agency responsible for coordinating strategies aimed at strengthening Mexico's participation in the international economy, supporting marketing strategies, providing export assistance to producers and exporting firms, and coordinating activities aimed at attracting foreign investment. According to ProMexico, the clothing industry intends to seize growth opportunities by leaning on two of its main advantages: efforts by various fashion sectors and the excellent quality of Mexican manufacturing.

U.S. cotton competes with man-made fibers. [Cotton Incorporated](#) has informed the industry about the downside of “peak oil vs. peal polyester”. Cotton Incorporated has a promotional campaign highlighting the disadvantages and environmental challenges that “man-made fibers” present. The degradation of polyester fibers is only 4 percent vs. cellulose’s 41 percent. Consumers in Mexico are interested in sustainable natural clothing.

## PERCEPTIONS OF SAFETY AND SUSTAINABILITY

% saying the following fibers are...

■ Safe for Environment    ■ Sustainably Produced



Sources: Cotton Council International & Cotton Incorporated 2017 Global Environment Survey --- survey of 7,365 women and men in the U.S., U.K., India, China, Mexico, Germany and Italy.

The Cotton Council International (CCI)/Cotton USA promotes U.S. cotton fiber and manufactured cotton products around the world. Their annual meeting, “Cotton USA Western Hemisphere Sourcing Fair,” is held every spring in Cancun, Mexico. Over 13 U.S. mills and more than 100 buyers and manufacturers from across the Americas attend this three-day event. CCI’s main objective in Mexico is to maintain U.S. cotton’s strong market position among imported fiber and products by ensuring that

U.S. cotton remains the preferred cotton among Mexican mills and manufacturers. “Cotton Leads” is the latest cotton marketing campaign by CCI and it is geared towards sustainability.

*Upcoming Textile Events in Mexico:*

[Exintex 2018](#), October 2-5, 2018, Puebla, Puebla

[Expo Produccion](#), March 26-28, 2019, Mexico City, Mexico

**Table 4. Mexico: PSD for MY 2016/17 - 2018/19**

Cotton Mexico	2016/2017		2017/2018		2018/2019	
	Market Year Begin: Aug 2016		Market Year Begin: Aug 2017		Market Year Begin: Aug 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	105	0	210	0	211
Area Harvested	103	104	210	209	0	211
Beginning Stocks	605	605	444	496	0	898
Production	764	765	1540	1556	0	1571
Imports	1000	1031	825	1044	0	825
MY Imports from United States	0	1031	0	1044	0	825
Total Supply	2369	2401	2809	3096	0	3294
Exports	150	130	300	243	0	300
Use	1750	1750	1850	1975	0	2100
Loss	25	25	25	25	0	25
Total Dom. Cons.	1775	1775	1875	2000	0	2125
Ending Stocks	444	496	634	853	0	824
Total Distribution	2369	2401	2809	3096	0	3294
1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA						

For More Information:

Useful Official Web Sites:

Mexico's equivalent to the United States Department of Agriculture (SAGARPA) can be found at [www.sagarpa.gob.mx](http://www.sagarpa.gob.mx) , equivalent to the United States Department of Commerce (SE) can be found at [www.economia.gob.mx](http://www.economia.gob.mx), equivalent to the TAX office <http://www.sat.gob.mx/Paginas/Inicio.aspx> and equivalent to the United States Food and Drug Administration (SALUD) can be found at [www.salud.gob.mx](http://www.salud.gob.mx). The information about biotechnology and biosafety in Mexico is compiled by an Interministerial Commission (CIBIOGEM) <http://www.cibiogem.gob.mx>. OTEXA <http://web.ita.doc.gov/tacgi/overseasnew.nsf/alldata/Mexico>

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