

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 12/11/2017

GAIN Report Number: MX7063

Mexico

Cotton and Products Update

Significant Increase in Cotton Production Anticipated

Approved By:

Lashonda McLeod

Prepared By:

Adriana Otero

Report Highlights:

Post forecasts marketing year (MY) 2017/18 total cotton production for Mexico up to 1.54 million cotton bales, due to increased planting areas.

Post:
Mexico City

Commodities:
Cotton

Author Defined:

Production:

Post/New forecast MY 2017/18 cotton production is 1.54 million bales based on an expansion in planted area. The increase in planted area reflects a return to cotton planting after a year of crop rotation for other feed crops, such as sorghum and corn, according to the Union of Cotton Producers of Chihuahua and the Laguna region.

Table 1. MY2017/18 Cotton Production by State, Forecast

State	Planted Area (Ha)	Yield (Bales/Ha)	Production (Bales)
Baja California	25,769	8.04	207,353
Chihuahua	145,554	7.29	1,061,467
Coahuila	18,017	7.90	142,398
Durango	3,039	7.69	23,393
Sonora	7,828	7.39	57,879
Tamaulipas	9,979	5.04	50,383
TOTAL	210,185	7.34	1,542,875

Source: Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) through the Agricultural and Livestock Information System ([SIAP](#)) as of November 30, 2017

Post's new MY 2016/17 total Mexican cotton production estimates are just slightly up from the previous estimate, based on updated figures from the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food, Information System (SAGARPA, [SIAP](#)).

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 and fall-winter (planted from November-January and harvested mainly in April and May).

Mexico: Total Cotton Production by Municipality, 2015-2016



Cotton yields vary significantly among the major producing areas. Average cotton yields for MY 2017/18 are estimated at 7.34 bales/ha. Although, most cotton growers in Mexico have adopted the use of genetically engineered (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 Tamaulipas all cotton production is in non-irrigated areas, which significantly reduces yields.

Since 2015, SAGARPA through the National Health Service, Food Safety and Quality Service (SENASICA), has recognized the state of Chihuahua as “zone free of pink worm in cotton.” On February 3, 2016, SAGARPA gave this recognition to the states of Baja California and Sonora. In January 2017, SAGARPA reported the reduction of 99 percent of the pink worm population in the Laguna Region (Durango and Coahuila).

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. *Bacillus thuringiensis (Bt)* genetic engineered cotton directed against the pink bollworm has been used in Mexico since 1996. GE cotton seed use

covers about 95 percent of the planted area throughout the country.

On average, cotton loss has been maintained on 25,000 bales during past years. Cotton loss is defined as the amount that has been included in the production, but not in consumption, stocks, nor exports. It leaves the distribution chain through physical disappearance (management or fires).

Textile Production

Despite competition from China, Mexico's proximity to the United States has always been important for the export of denim to the United States. Mexico is the seventh largest exporter of denim worldwide and the main supplier to the United States. Mexico is a major textile producer, with an industry based on competitive labor costs and close proximity to the United States. According to the Mexican National Institute of Statistics and Geography ([INEGI](#)), the Mexican textile industry is concentrated in the central and north eastern parts of the country: Puebla, Mexico City and the states of Mexico, Hidalgo, Tlaxcala, Jalisco, Guanajuato, Nuevo Leon, and San Luis Potosi. It has maintained this place for over 15 years, which makes the textile industry a vital factor for 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.

Mexican yarn producers do not cover all the needs of the fabrics sector, a significant amount of yarn is imported, particularly from the United States (especially polyester/viscose and polyester/cotton).

Consumption:

Total domestic cotton consumption in MY 2017/18 is forecast at 1.94 million bales (each bale weighs 480 pounds). Consumption for MY 2015/16 is revised slightly higher at 1.9 million bales, based on industry sources. In 2015, due mainly to the implementation of various government support programs and other measures taken by the Mexican government (see Policy section), textile and clothing industries grew nearly 6 percent according to the National Chamber of Textile Industry (CANAITEX) and the National Chamber of the Clothing Industry (CANAIIVE). This initiative boosted consumption of cotton and other fibers by approximately 3 percent in 2016 and it is expected a higher consumption for 2017.

Mexico is one of a select group of countries that has been identified as an emerging market for non-woven textiles. Mexico is the largest market for U.S. medical textiles. The medical textiles sector is the fastest growing sector of the four sectors in Mexico. This can be attributed to factors such as rising incomes and an increasing standard of living along with advances in medical technology, and awareness of safety, and increased spending on healthcare.

Trade:

The Post/New MY 2017/18 total cotton import is forecast at 800,000 bales due to the high production forecast. The import estimates for MY 2016/17 and MY 2015/16 are revised up slightly from the USDA/Official estimate, at 1.03 and 1.02 million bales, respectively, reflecting updated Global Trade Atlas (GTA) data.

The Post/New cotton export forecast for MY 2017/18 is unchanged from previous estimate at 275,000 bales due to the high production forecast. For MY 2016/17 cotton exports estimate is revised down to 130,000 bales, the MY 2015/16 export estimate is slightly up at 142,000 bales, based on GTA data.

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

Since 2008, Mexico has held the distinction of being the top market for U.S. specialty and industrial fabrics. For 2015, U.S. specialty and industrial fabric exports to Mexico accounted for approximately 50 percent of total specialty and industrial textile exports, representing a 6 percent increase over the previous year (Top Markets Report: Industrial Textiles, Mexico 2016 http://www.trade.gov/topmarkets/pdf/Textiles_Mexico.pdf).

Stocks:

The Post/New ending stocks forecast is 618,000 bales, due to the large production forecast. For MY 2016/2017 the estimate is slightly up from the previous estimate at 496,000 bales, due to an increase in imports. There are no government-held stocks for cotton bales and stocks are kept through the chain of value.

Prices:

The price for cotton future contracts December 2017 is US\$345.55 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.

Table 2. Cotton Future Prices

Month and Year	Variation	US Dollars / Bale
Dec 2017	-1.10	359.04
March 2018	0.53	348.91
May 2018	0.86	352.66
July 2018	0.58	354.38
December 2018	1.20	343.97

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

Policy:

The main support programs for the agriculture sector suffered cuts in 2017 because they are subject to federal budget overview. PROAGRO Productivo provides payments to growers and the percentage supported in hedging operations under the Forward Contract Program. PROAGRO aims to promote agricultural production of various crops, including cotton. This program effort is directed to promote more productive, competitive and fair implementation for the agricultural countryside. 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. Payments 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.

SAGARPA can define (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 can give priority to

subsistence growers who cultivate basic grains and oilseeds. The notice states that SAGARPA can pay liabilities from agricultural cycles in the previous fiscal year which were not liquidated due to the lack of budget. SAGARPA is authorized to allocate up to 1.5 percent of the full program budget to establish a training and technical assistance program directed primarily to subsistence growers to facilitate the adoption of technological innovations, improve agricultural practices, and increase crop yields (see GAIN report [MX7007](#)).

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.

The textile and apparel industry is based on competitive labor costs and geographic proximity to the United States. The pattern has been for U.S. companies to supply textiles and fibers to Mexico's in-bond processing factories (known as maquilas or maquiladoras) that receive favorable fiscal and trade treatment. The maquiladoras then re-export these inputs after processing in the form of finished garments. The Mexican government has acknowledged the need to promote these technical industries, which have the ability of taking on other international manufacturers in terms of price and quality. If Mexico's textile industries can continue to adapt quickly to the needs of the domestic and international markets and turn competition from abroad into an opportunity for innovation, they are likely to maintain their standing as the top destination for U.S. technical textiles. (NOTE: Technical textiles are defined as textile materials and products used primarily for their technical performance and functional properties, sometimes as a component or part of another product to improve the performance of the product. The global demand for a variety of such textiles has increased as a result of their rising base of applications in end-use industries. Much of the demand for technical textiles comes from various end-use industries, such as automotive, construction, healthcare, protective clothing, agriculture, sports equipment/sportswear, and environmental protection. END OF NOTE)

Since 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 to face the growing competition from countries like China.

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. Qualification for preferential duty treatment under the North American Free Trade Agreement (NAFTA) depends on whether they qualify as goods produced in the NAFTA region.
- 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 (i.e., wholly processed in the United States, Canada and Mexico). 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](#)).
- Warranty prices on imports of raw and convertible material.
- SAGARPA, through ASERCA, supports the purchase of cotton from Mexican farmers as part of the GOM's assistance to the textile industry and encourages the integration of the value chain.

Textile firms in Mexico realized they needed to increase their competitiveness by investing in the expansion of production centers and manufacturing high-quality textile products in order to compete in international markets. The Mexican textile articulated its different value chains by promoting competitiveness through innovation, design, and technology.

Marketing:

Mexico traditionally imports more “value-added” U.S. cotton yarn than raw U.S. cotton fiber, raw fiber imports are still important. Mexico has regularly ranked among the top five markets in the world for U.S. cotton fiber and the U.S. cotton industry benefits because local production is insufficient to meet its mill and industry demands.

Mexico is a country with great growth potential since middle class consumers are growing in size and spending power. The Mexican middle class is expected to show an average growth in consumption of 7 percent every year for the next five years. By 2030, Mexico is projected to have 10 million middle class households, and spend about \$25 billion per year on clothing. Most of the top global brands from the United States and Europe already have a presence in Mexico. Moreover, Mexico is considered a fashion leader in Latin America due to its large media presence in the region and promotions targeting consumers may also serve to influence other consumer markets in greater Latin America. According to ProMexico, Mexico's clothing industry intends to seize these growth opportunities by leaning on two of its main advantages: the combination of efforts by the various fashion segments and the excellent quality of Mexican manufacturing. (NOTE: ProMexico is the federal government agency responsible for coordinating strategies aimed at strengthening Mexico's participation in the international economy, supporting the process of exporting firms established in the country and coordinating activities aimed at attracting foreign investment. END OF NOTE)

U.S. cotton competes with manmade fibers for market share. [Cotton Incorporated](#) is informing the industry about the downside of “peak oil vs. peal polyester” and the environmental challenges they present. The degradation of polyester fibers is only 4 percent vs. cellulose's 41 percent. Not only is there a significant difference in cost between U.S. cotton and manmade fibers, but U.S. cotton is also premium priced due to its quality and availability. Therefore, it is impossible for U.S. cotton to compete solely on price; rather, U.S. cotton must compete on the basis of

differentiation, quality, innovation, environmental advantages and branding.

The Cotton Council International (CCI)/Cotton USA promotes U.S. cotton fiber and manufactured cotton products around the globe. They hold their annual “Cotton USA Western Hemisphere Sourcing Fair” in Cancun every spring where more than 13 U.S. mills host over 100 buyers and manufacturers from across the Americas for 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. Major retailers such as Walmart, Target and GAP, are on-board with this international campaign.

Table 3. Mexico: PSD for MY 2015/16 - 2017/18

Cotton Mexico	2015/2016		2016/2017		2017/2018	
	Market Year Begin: Aug 2015		Market Year Begin: Aug 2016		Market Year Begin: Aug 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	135	0	104	0	210
Area Harvested	133	133	103	104	205	210
Beginning Stocks	693	693	605	605	444	496
Production	943	943	764	765	1500	1542
Imports	975	1021	1000	1031	800	800
MY Imports from U.S.	0	1021	0	1031	0	800
Total Supply	2611	2657	2369	2401	2744	2838
Exports	131	142	150	130	275	275
Use	1850	1885	1750	1750	1800	1920
Loss	25	25	25	25	25	25
Total Dom. Cons.	1875	1910	1775	1775	1825	1945
Ending Stocks	605	605	444	496	644	618

Total Distribution	2611	2657	2369	2401	2744	2838
1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA						

For Additional Information:

Useful 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 IRS <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 is compiled by the Inter-ministerial Commission (CIBIOGEM) <http://www.cibiogem.gob.mx>. These web sites are mentioned for the readers' convenience. USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with, the information contained.