

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 8/22/2018

GAIN Report Number: MX8040

Mexico

Post:

Mexico City

Cotton and Products Update

Favorable Prices for GE Cotton Preferred over other Crops

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Report Highlights:

Total cotton production for marketing year (MY) 2018/19 is forecast to be 1.59 million bales, 2 percentage higher than the previous marketing year. The forecast reflects another year of producers' preference to plant cotton over other crops, such as sorghum and corn used for silage, attributable to attractive prices.

Executive Summary:

Mexico is ranked within the top 15 countries in the world for domestic cotton production. Cotton generates the 0.93 percent of the agricultural Gross Domestic Product (GDP) and it is an important agro-industrial product. 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, and a return to cotton planting as a result of favorable prices, after a year of crop rotations Post forecasts. MY 2018/19 total cotton production 2 percent up than the previous MY, due to continued favorable 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. With the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, CPTPP or TPP-11, 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.

Table 1. Mexico: PSD for MY 2016/17 - 2018/19

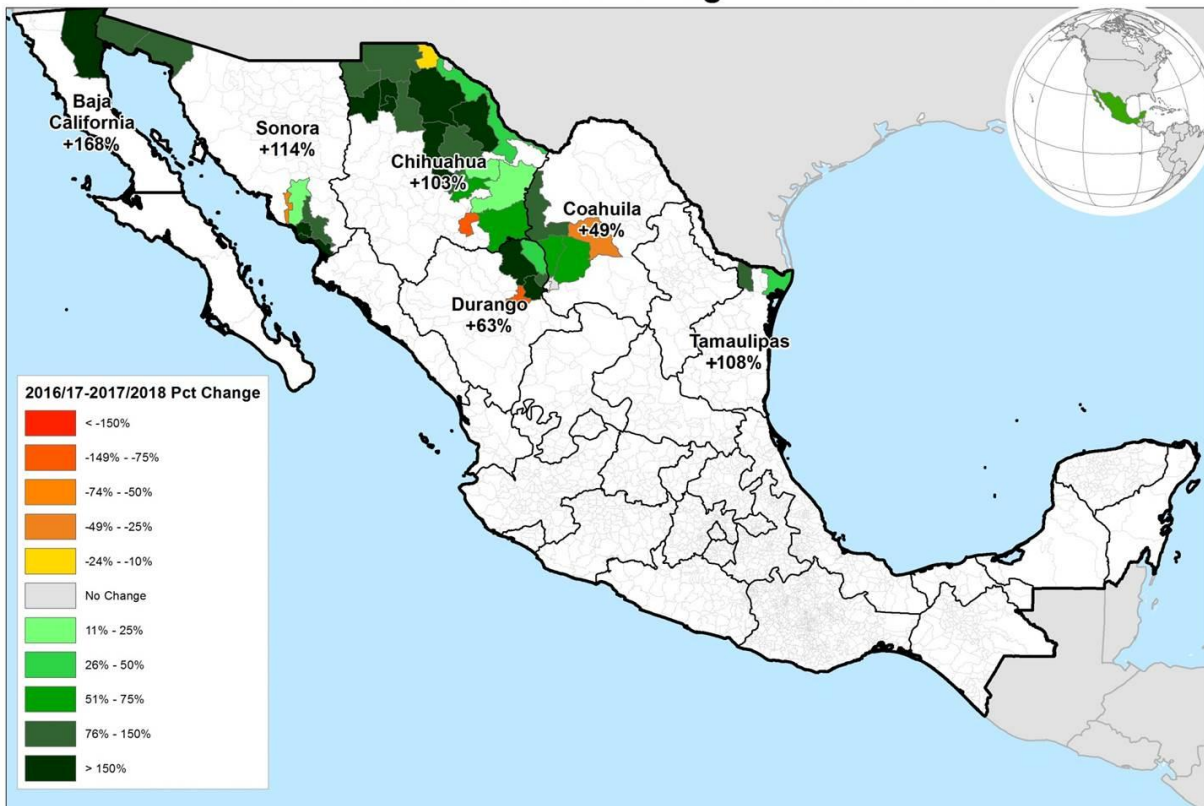
Cotton Mexico	2016/2017		2017/2018		2018/2019	
	Market Year Begin: Aug 2016		Market Year Begin: Aug 2017		Market Year Begin: Aug 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	105	0	210	0	216
Area Harvested	104	104	209	210	230	216
Beginning Stocks	605	605	445	496	751	736
Production	765	765	1556	1560	1750	1598
Imports	1000	1031	1000	990	925	925
MY Imports from United States	0	1031	0	990	0	925
Total Supply	2370	2401	3001	3046	3426	3260
Exports	150	130	325	325	550	550
Use	1750	1750	1900	1975	1900	2000
Loss	25	25	25	25	25	25
Total Dom. Cons.	1775	1775	1925	2000	1925	2025
Ending Stocks	445	496	751	721	951	669
Total Distribution	2370	2401	3001	3096	3426	2819
1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA						

Production

Post/New MY 2018/19 cotton production forecast is 1.59 million bales, 9 percent lower than the USDA official estimation. According to SAGARPA, the planted area will be kept nearly the same for a second year. The forecast reflects continued favorable 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.

MY 2017/18 cotton production estimate is higher from previous estimate, based on updated production data from the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food, Information System (SAGARPA/[SIAP](#)). Additionally, 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 as a result of favorable prices, after a year of crop rotations. These factors swayed farmers to plant more cotton than 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: spring-summer, planted mainly from April - July and harvested August - February; and fall-winter, planted from November - January and harvested June - August.

Farmers have indicated that the use of GE cotton has resulted in better pest control and pest management. Also, higher yields of GE cotton are generally mentioned. Nearly all planting of non-GE seeds has stopped, due to the difficulty in controlling pests and high costs of insecticides. According to the Mexican farmers, GE cotton showed higher yields and required less use of insecticides and crop management. 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 and yield levels. For example, in the state of Tamaulipas all cotton production is 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 the production vulnerable to losses.

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

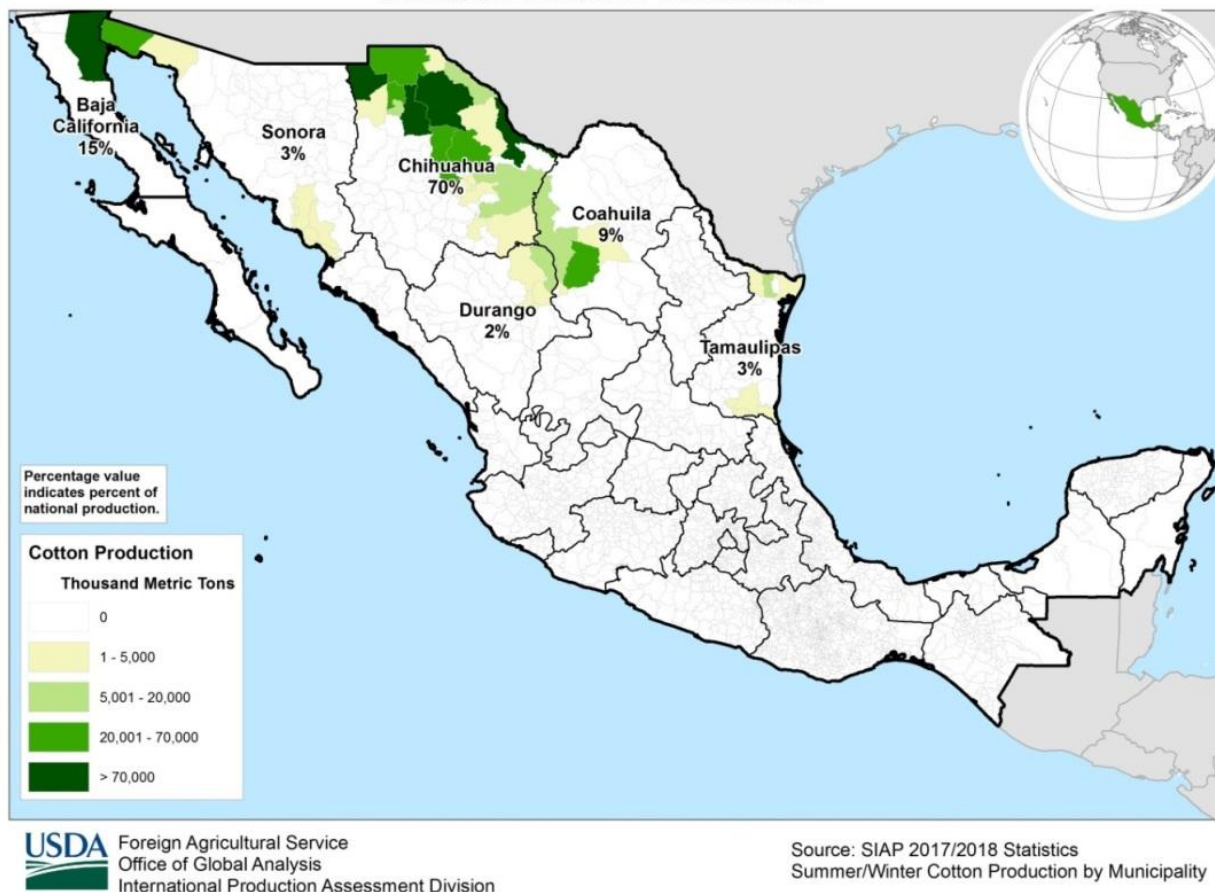
State	Intention of Planting Area* (Ha)	Forecast Yield (Bales/Ha)	Forecast Production (Bales)
Baja California	28,125	9.0	253,125
Chihuahua	146,287	7.4	1,082,524
Coahuila	18,453	7.5	138,398
Durango	2,997	7.6	22,777
Sonora	8,774	5.8	50,889
Tamaulipas	11,278	3.5*	45,890
TOTAL	215,914	6.4	1,598,853

Source: Intention of planting provided by Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) through communication with the Agricultural and Livestock Information System ([SIAP](#)); all other forecast by Post. *Yield for summer 2.5 and for winter 5 bales/Ha.

SAGARPA has included cotton in its 2017-2030 national strategy. SAGARPA hopes to achieve 0.21 percent in increased production and 1.12 percent in domestic consumption by 2030. To reach its goals SAGARPA looks to: 1) Implement and optimize a new planting program (Currently, producers must wait for GE seed and water permits, affecting planting dates); 2) maximize high density planting; 3) maintain eradication and control programs of pink bollworm and boll weevil; 4) promote the use of improved seeds; 5) retain the future contracts program with domestic industry; 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 covers about 96 percent of the planted area for cotton.

Mexico: Cotton Production



Cotton production in Mexico contributes 0.93 percent of the agricultural GDP and it is an important agro-industrial material. Mexico is a major textile producer with an industry based on competitive labor costs that is deeply integrated with the United States, given its close geographic proximity. According to the Mexican National Institute of Statistics and Geography ([INEGI](#)), 63 percent of the Mexican 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 for over 15 years, which makes the textile industry vital for the economy. According to INEGI, 40 percent of the denim fabricated in Mexico is divided between domestic consumption and consumption in Latin American countries, such as Peru, Chile and Colombia, while the remaining 60 percent is exported to the United States.

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

Consumption

Total domestic cotton consumption in MY 2018/19 is forecast at 2.02 million bales (each bale weighs 480 pounds). Consumption for MY 2017/18 is revised higher than previous estimates at 2 million bales, based on industry sources.

Mexico uses U.S. imported yarns and fabrics for apparel, home furnishings, and other industrial textiles. Textile manufacturing in Mexico made up a good portion of the maquiladora industry until the late 1990's and early 2000's before most left for Asia. Specialized textile manufacturers, such as leather furniture manufacturing and other products that require a more skilled labor force, remain in Mexico. The Mexican government has acknowledged the need to promote this technical industry. Despite this, Mexico continues to serve as an important market for U.S. made textiles, attributed to rising incomes and standard of living along with advances in healthcare spending and medical technology. This 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 at 925,000 bales due to the expected large crop production. The expansion in production is expected to encourage yarn and textile manufactures to source their needs from the local cotton industry. Production, however, in Mexico now consists of nearly 80 percent of total domestic use. This trend is expected to continue. Mexico is looking to expand and diversify its imports looking to countries that also offer a zero tariff, like Argentina, Brazil, Greece, and Italy. With the CPTPP, 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 Mexico's total cotton imports.

The import estimates for MY 2017/18 is revised lower and MY 2016/17 is revised higher from the USDA/Official estimate, at 0.99 and 1.03 million bales, respectively, reflecting updated Global Trade Atlas (GTA) data.

Table 3. Mexico Import Statistics 2016-2018

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	816,321	100.00	100.00
United States	816,321	816,321	816,224	816,321	816,321
Egypt	193	216	96	0.02	0.02
Brazil	115	0	0	0.01	0.00
India	110	0	0	0.01	0.00
Paraguay	0	0	0	0.00	0.00

Source of Data: INEGI 480 lb. Bales

*Trade from August 2017 through May 2018

Post/New MY 2018/19 cotton export forecast is 550,000 bales. For MY 2016/17 the estimate is revised lower from the USDA/Official estimate, at 130,000 bales, based on GTA updated data.

Table 4. Mexico Export Statistics 2016 – 2018

Commodity: Cotton						
Year Ending: July						
Partner Country	Quantity			% Share		% Change
	2016	2017	2018	2016	2017	2017/2016
World	142,600	129,660	313,542	100.00	100.00	- 9.07
Vietnam	33,716	36,826	66,151	23.64	28.40	9.22
China	50,377	24,120	69,293	35.33	18.60	- 52.12
Pakistan	3,013	17,432	53,891	2.11	13.45	478.55
Hong Kong	2,848	13,542	27,028	2.00	10.45	375.49
Taiwan	11,277	9,224	19,444	7.91	7.11	- 18.20
Indonesia	18,227	6,936	17,304	12.78	5.35	- 61.94
United States	11,056	6,670	1,934	7.75	5.14	- 39.67
Japan	3,312	4,194	7,386	2.32	3.23	26.63
Thailand	2,664	3,284	4,042	1.87	2.53	23.27
Cuba	3,404	2,614	2,356	2.39	2.02	- 23.21
Singapore	106	2,485	11,690	0.07	1.91	2244.33
Malaysia	620	1,066	1,282	0.43	0.82	71.93
Guatemala	1,401	703	202	0.98	0.54	- 49.82
Ecuador	381	395	1,635	0.27	0.30	367
Switzerland	5	92	11,144	0.00	0.07	1740.00
Korea South	0	83	0	0.00	0.06	0.00
Dominican Republic	92	0	0	0.07	0.00	- 100.00
Brazil	0	0	0	0.00	0.00	0.00
El Salvador	0	0	0	0.00	0.00	0.00
Germany	5	0	0	0.00	0.00	- 100.00
India	101	0	859	0.07	0.00	- 100.00
Portugal	0	0	4,479	0.00	0.00	0.00
Honduras	0	0	537	0.00	0.00	0.00
Philippines	0	0	923	0.00	0.00	0.00
France	0	0	11,975	0.00	0.00	0.00

Source of Data: INEGI 480 lb. Bales

*Trade from August 2017 through May 2018

Textile Industry

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

Cotton bales from the United States 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 from Mexico, according to the International Trade Administration. Some of the world's largest denim companies have a presence in Mexico, such as United States International Levi Strauss and VF Corporation, maker of Lee and Wrangler brands.

The global demand for technical textile products has continuously increased as a result of their rising base of applications in end-use industries, such as automotive, construction, healthcare, protective clothing, agriculture, sports equipment/sportswear and environmental protection. This increase in demand has resulted in the need for greater investments in the technical textile market and is a great opportunity for U.S. exporters to increase their presence in Mexico (<https://www.export.gov/article?id=Mexico-Textiles>).

For Mexico, NAFTA tariff preferences are important in keeping apparel producers competitive in the U.S. market, and thereby helping to preserve imports from U.S. made textiles.

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 trousers in Mexico can avoid a 16.5 percent import duty if U.S. inputs are used. Geographic proximity to the United States gives Mexican apparel producers an advantage over Asian producers, allowing for quick restocking of items for which time is a critical factor.

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

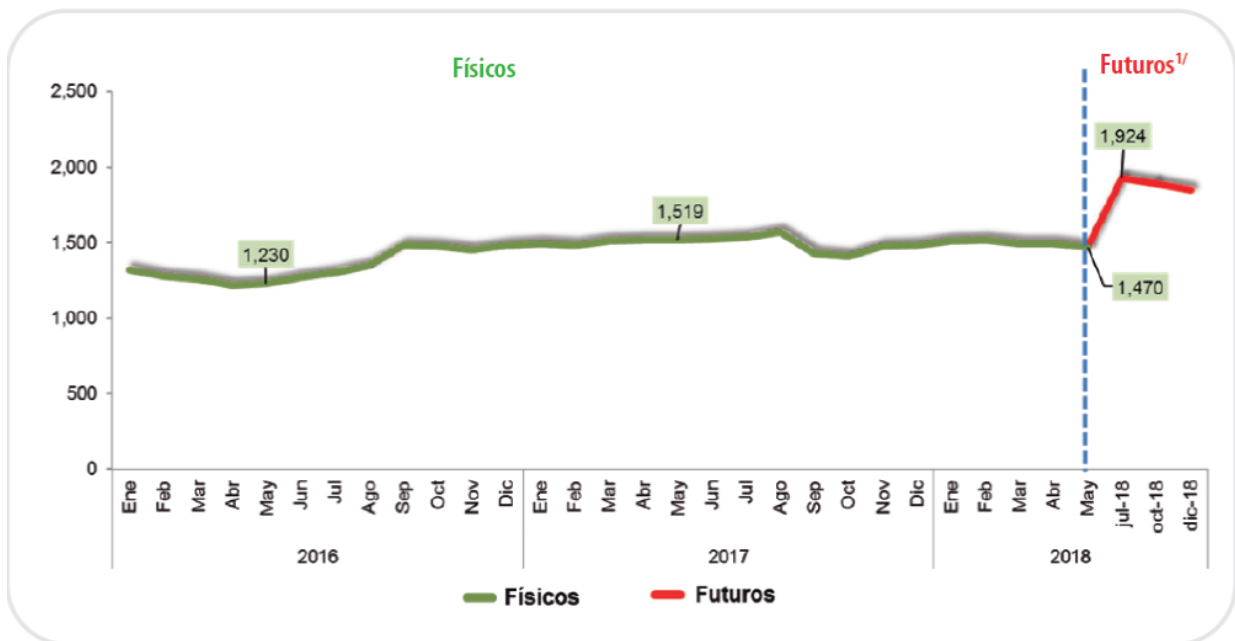
Stocks

The Post/New MY 2018/2019 ending stocks forecast is 669,000 bales due to a higher exports forecast than the previous MY. For MY 2017/2018 the estimate is revised 4 percent lower from the USDA/Official estimates at 721,000 bales, due to a lower imports estimate and a higher than previously estimated consumption. For MY 2016/2017 the estimate is revised 11 percent higher from the USDA/Official estimates at 496,000 bales, due to updated trade estimates data. There are no government-held stocks for cotton bales in Mexico.

Prices

The New York Stock Exchange (NYSE) average price for cotton on May 2018 was 1,470.48 U.S. dollars per ton according to Mexico's Agency of Marketing Services and Development of Agricultural Markets (ASERCA), which is in charge of publishing cotton prices. The annual variation with last

year's price is 3.2 percent lower and a monthly variation of 1.5 percent lower. This is the reference price for Mexico contracts. The reference prices for July 2018 is 1,924.44 U.S. dollars per ton, 30 percent higher than in May



2018.

Source data: SIAP, SAGARPA

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 aim is to promote more productive, competitive, and fair implementation for 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 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 a routine procedure the Secretariat of Agriculture, Livestock, Rural Development, Fishery and Food (SAGARPA), monitors and ensures the oversight of precautionary measures established for each GE release every year (Measures such as distance of isolation with wild relatives, seed management, records of pesticide applications, etc.). For example, during routine monitoring activities in May and June 2017, officials found two irregularities involving commercial GE cotton permits in the state of Chihuahua and La Laguna region:

- a. The events Boulgard I under a permit for Boulgard II. Boulgard II is a stacked event that contains Boulgard I.
- b. Events approved to the release for one company in areas of another company. The producer does have the freedom to buy the seeds from any company that has a possibility for commercial permits.

In August 2017, Mexican authorities ordered the precautionary custody of 1,500 hectares of GE cotton, resulting in 13 court injunctions by the seed industry. Nevertheless, SAGARPA established biosafety measures for the management and processing of the fields under custody, which did not affect the producers because the production of these fields was processed as fiber and oil.

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 grow 5.9 percent according to 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. Qualification for preferential duty treatment under the NAFTA depends on whether they qualify as goods produced in the NAFTA region.
- A sectorial registry 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 for importers of goods and their customers established by SAT.
- Mexico gradually reduced its tariffs on textile imports from the United States that meet the NAFTA rules of origin (i.e., wholly processed in Canada, United States and Mexico).
- Warranty prices on imports of raw and convertible material.
- SAGARPA, through ASERCA, supports the purchase of cotton from Mexican farmers as part of the Mexican Government assistance 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. The U.S. cotton industry benefits from additional raw cotton and yarn exports because local production in Mexico is insufficient to meet its mill and industry demands.

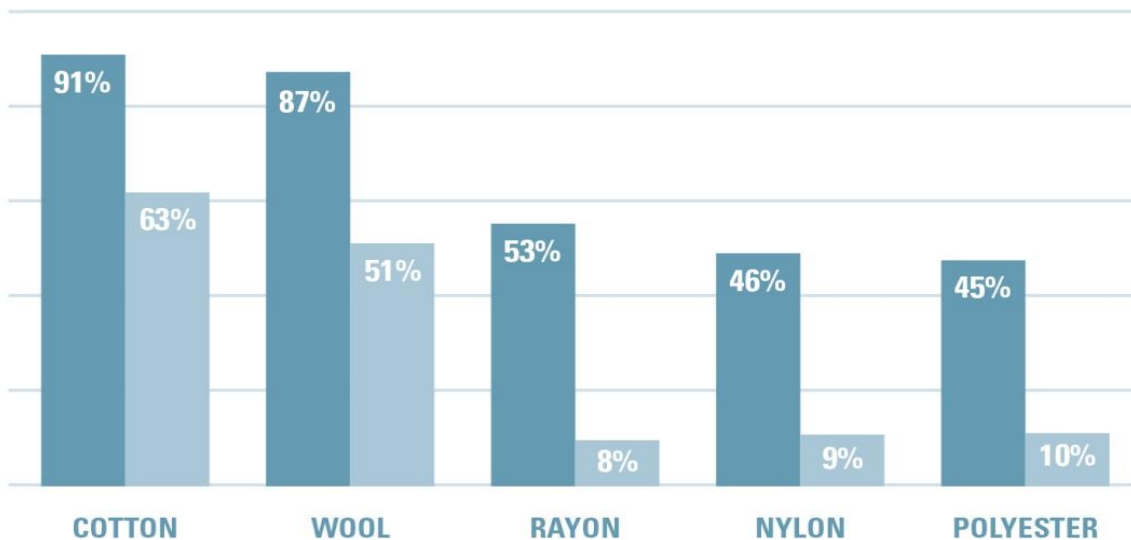
Most of the top global brands from the United States and Europe have a presence in Mexico. Moreover, Mexico is considered a fashion leader in Latin America due to its large media presence in the region and promotion campaigns targeting consumers. This also serves to influence other consumer markets in 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 established in the country, 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: the combination of efforts by the various fashion segments and the excellent quality of Mexican manufacturing will lead to increased demand locally and abroad.

U.S. cotton competes with man-made fibers for market share. [Cotton Incorporated](#) has informed the industry about the downside of “peak oil vs. peak polyester”. Cotton Incorporated has a new U.S. industry promotional campaign on the disadvantages of and the environmental challenges that “man-made fibers”. The degradation of polyester fibers is only 4 percent vs. cellulose’s 41 percent. Mexican consumers are interested in sustainability and 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) is a non-profit trade association that promotes U.S. cotton fiber and manufactured cotton products around the globe with the COTTON USA Mark. “Cotton USA Western Hemisphere Sourcing Fair” is an annual event in Mexico 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.

Upcoming Textile Events in Mexico

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

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

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, equivalent to the United States 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 United States 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>.

OTEXA <http://web.ita.doc.gov/tacgi/overseasnew.nsf/alldata/Mexico>

Scientific paper: [Evaluation of the impact of genetically modified cotton after 20 years of cultivation in Mexico](#).

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.

FAS/Mexico Web site: We are available at <https://www.fas.usda.gov/regions/mexico> or readers may visit the FAS headquarters' homepage at www.fas.usda.gov for a complete selection of FAS worldwide agricultural reporting.

Useful Mexican 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 and equivalent to the U.S. Food and Drug Administration (SALUD) can be found at www.salud.gob.mx. These websites 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.