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Mexico

Cotton and Products Update

Cotton Seed Shortage to Reduce Production from Previous Year Record

Approved By:

Rhiannon Elms

Prepared By:

Adriana Otero and Rhiannon Elms

Report Highlights:

Mexican cotton producers have faced a shortage of available cotton seed for marketing year (MY) 2019/20 planting, resulting in an expected reduction in planting and production, which reached a record in 2018/19. This reduction will be offset by an increase in imports, which are fulfilled completely by the United States. Additionally, there are concerns that the uncertainty and weakness of the Mexican economy is creating consumption challenges for the domestic textile sector. Contacts indicate that the textile industry is working to diversify and expand product offerings in order to compensate for low consumer consumption demand.

Production

Post MY 2019/20 cotton production is forecast at 1.49 million bales, a 14 percent decrease from the previous Post forecast. According to data from the Secretariat of Agriculture and Rural Development (SADER), State Committees of Plant Health and the associations of producers, planted area will be reduced compared to the previous MY, mainly on reductions in Chihuahua as a result of low seed availability, and due to poor quality of the MY 2018/19 crop, which affected grower income and liquidity to finance MY 2019/20 planting (as mentioned in report [MX9015](#)).

Seed Shortage

Producers have faced a shortage of available cotton seed for MY 2019/20 planting. In Mexico, the process of obtaining approval for planted area is granted through permits from SADER directly to seed companies, based on applications requesting a specific amount of hectares. After obtaining permits, companies then sell seeds directly to producers within the approved area. This year, Post has learned that one company was not granted any permits, leaving a large seed demand that could not be met by companies that had received permits. Additionally, the slow approval of GE cotton seed events by the Mexican Government has exacerbated supply challenges.

The development of cotton seed typically requires five to six years, and the sharp increase of Mexican production over the past three years was not factored into seed production. The slow GE cotton event approval has resulted in a smaller variety of seeds available to companies and producers. For example, the Mexican Government has approved 5 GE events compared to Brazil's 17 events. When the seed shortage occurred, it was difficult for seed companies to find other sources globally, because the only events approved for planting in Mexico are outdated and unavailable on the world market. Post forecasts a conservative yield forecast for MY 2019/20 at 7.02 bales/ha, based on new seed variations this planting cycle, and concern that producers are not familiar with proper management techniques needed to optimize yields.

There is concern among producers that gains in production expansion and improved quality (due to public and private investments) over the past two years will be lost if the seed shortage continues.

The new planting forecast also reflects lower use of the Forward Contract Program, due to low future prices for cotton in comparison to previous years. The Forward Contract Program, *Agricultura por Contrato* is designed for producers, traders, and consumers of a number of commodities, to provide a price risk management incentive through an early coverage scheme. The Advance Coverages are intended to allow participants to cover themselves when market conditions are better for their operation and protect their income. For cotton, it has been extensively used by producers and traders who see it as insurance for the price of sale. However, current low prices have disincentivized use of the program, and contacts mentioned that credit agencies are concerned that cotton producers will be unable to pay their credits.

Table 1. Cotton Production, Supply and Distribution for Mexico

Cotton Mexico	2017/2018		2018/2019		2019/2020	
	Market Year Begin: Aug 2017		Market Year Begin: Aug 2018		Market Year Begin: Aug 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	211	0	247		215
Area Harvested	210	210	238	243	240	212
Beginning Stocks	445	445	655	585	720	570
Production	1560	1560	1690	1735	1750	1491
Imports	925	930	850	850	850	875
MY Imports from United States	0	930	0	850	0	875
Total Supply	2930	2935	3195	3195	3320	2936
Exports	350	350	500	600	550	550
Use	1900	1975	1950	2000	2000	2000
Loss	25	25	25	25	25	25
Total Dom. Cons.	1925	2000	1975	2025	2025	2025
Ending Stocks	655	585	720	545	745	336
Total Distribution	2930	2935	3195	3195	3320	2936

1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA

Table 2. MY2019/20 Cotton Production by State, Forecast

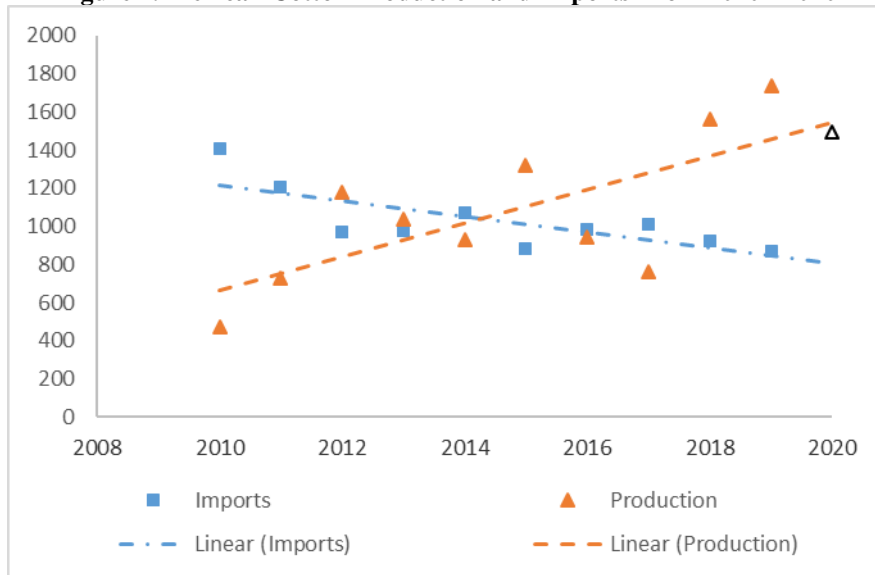
State	Planting Area* (Ha)	Forecast Yield (Bales/Ha)	Forecast Production (Bales)
Chihuahua	145,000	7.3	1,054,150
Baja California	31,000	6.3	195,300
Coahuila	16,732	7.8	130,510
Tamaulipas	9,000	5	45,000
Sonora	8,027	5.8	46,396
Durango	2,500	7.6	18,975
Sinaloa	100	5	500
TOTAL	212,332	7.02	1,490,831

Source: Planting area intentions obtained by communication with SADER, State Committees of Plant Health and with producers associations.

MY 2018/19 cotton production is forecasted up, due to an increase in the harvest area in Chihuahua, where climatic conditions were ideal for production, and yields reached an average of 7.5 bales per hectare. This forecast also takes into account updated production data from SADER and producer associations. Yields in Baja California and Sonora were affected by regional climatic problems like Monsoon effects, and the outbreak of a new pest in the region; the mealybug (*Phenacoccus solenopsis*), for which control efforts are being carried out by National Health Service, Food Safety and Quality Service (SENASICA), and local State Committees of Plant Health.

Cotton production in Mexico has increased over the last ten years due to the use of GE seeds, good pest management programs, and equipment investment that has allowed for precision techniques in harvesting. The chart below illustrates this increase, and the resulting reduction of imports.

Figure 1. Mexican Cotton Production and Imports From 2010 - 2020



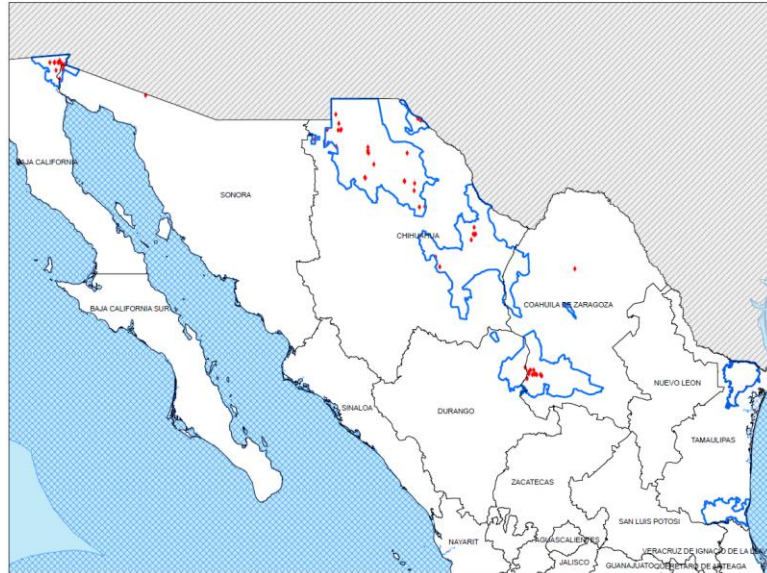
Source: Imports data from Mexican National Institute of Statistics and Geography (INEGI) through GTA, Production data from Production, Supply and Distribution (PS&D, USDA). 1000 480 lb. Bales

In Mexico, cotton is grown during the spring-summer cycle, which is planted from April - June and harvested August – February. Tamaulipas has a second fall-winter growing season, planted from November - January and harvested June - August. All states are irrigated, except for Tamaulipas, where during the spring-summer period 78 percent of the area is rain-fed and only 22 percent is irrigated.

There has been significant private sector investment in cotton gins within Mexico. Currently there are 77 cotton gins in country, with 37 of them in Chihuahua.

Figure 2. Cotton Gins in Mexico

Regions	Cotton Gins
Chihuahua	37
La Laguna (Durango & Coahuila)	16
Baja California & Sonora	16
Tamaulipas	6
Sinaloa	2



Source: Communication with seed companies

Textile Production

Mexico is a major textile producer, with an industry based on competitive labor costs and deep integration with the United States. 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. Mexico is the seventh largest exporter of denim worldwide, and the main supplier to the United States. According to INEGI, 40 percent of the denim fabricated in Mexico is divided between domestic consumption and Latin American consumption (including Peru, Chile and Colombia), while the remaining 60 percent is exported to the United States.

Consumption

Post forecasts MY 2019/20 domestic cotton consumption at 2.02 million bales, the same level as MY 2018/19. The flat consumption forecast is based on concerns that the uncertainty and weakness of the Mexican economy is creating consumption challenges for the domestic textile sector, as consumer purchasing power has been reduced, and foreign investment remains cautious. July GDP data from The National Statistics Office of Mexico showed the economy had contracted 0.2 percent from the previous quarter. Contacts indicate that the textile industry is working to diversify and expand product offerings in order to compensate for low consumer consumption demand. For example, Post has learned of potential contracts with the Mexican government to produce and provide primary school uniforms throughout the country (uniforms are provided to students free of cost). However, Post forecasts that a reduction in consumption is unlikely due to the importance of the textile industry to the Mexican manufactory economy (including employment generation), and strong integration with the US market.

The MY 2018/19 consumption forecast is revised up due to the strength of the textile sector. According to statistic information of the National Chamber of the Textile Industry (CANAITEX), production, number of jobs, and exports of textile products increased in 2018 and to date in 2019.

According to the National Chamber of the Clothing Industry (CANAIIVE) figures, the clothing sector accounted for 2 percent of the Mexican Gross Domestic Production 2018, and generated 330,000 formal jobs in 9,000 factories. In 2018, the clothing industry exported goods worth USD 5.5 billion, and January to May 2019 exports reached 2.1 billion.

As mentioned in the Cotton and Products annual ([MX9015](#)), national electricity costs increased 90 percent during 2018. As result, contacts indicated that some small textile factories went out of business, and only those with the capital to invest in modernized machinery or alternative energy sources remain. These investments have led to increased production and energy efficiency. The modern machinery requires a very specific range of fiber, which is not produced in Mexico and must be supplied from the United States. In 2019, electricity costs have stabilized with only moderate increases. The textile industry in Mexico continues to struggle with efficiency (in comparison to the U.S.), with 50 percent higher costs of energy, and recent challenges with natural gas (which is used for a wide range of machinery, including dyeing) availability. Textile manufacturers have reported random and unexpected cuts (of approximately 30 percent) to their gas supply. These cuts are a result of a conflict between the Federal Electricity Commission and pipeline builders.

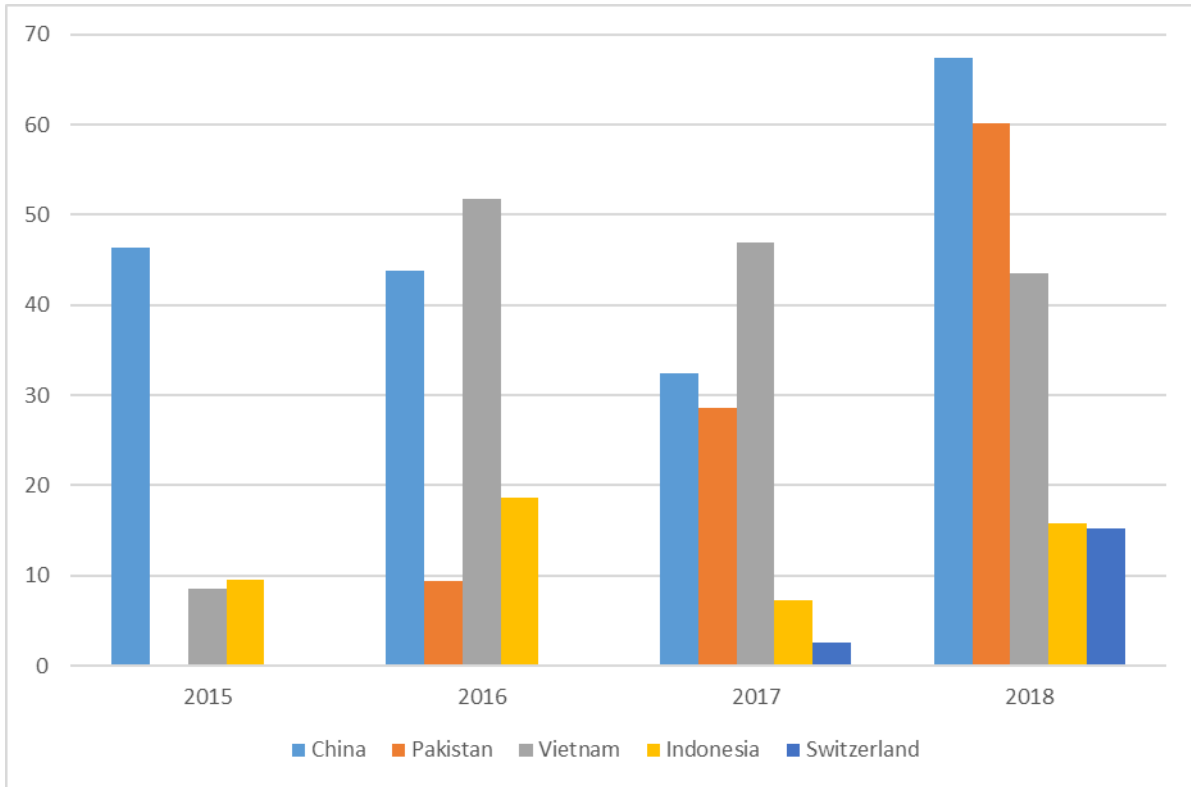
Trade

Post forecasts MY 2019/20 cotton exports at 0.55 million bales, 9 percent lower than MY 2018/19. This decrease is due to reduced planted area and production. Exports will mainly go to China, Pakistan and Vietnam. According to traders, 95 percent of Baja California production will be exported to Japan and Pakistan. La Laguna region will export to Indonesia, China and Turkey; meanwhile Chihuahua and Tamaulipas cotton will cover mainly domestic consumption.

Post MY 2019/20 cotton imports are forecast at 0.87 million bales, 2.9 percent higher than the previous MY, due to the reduction in production, and reflective of the importance and stability of the U.S. market, including the integration of the value chain and rules of origin commitments in NAFTA.

The Mexican textile industry prefers to use U.S. cotton over domestic supplies for a number of reasons. 1) In order to comply with origin content rules if the product is for re-export. 2) The United States produces cotton with a unique standard degree needed to feed high speed and energy efficient machines industry uses in Mexico. Mexican fiber does not always have the standard thickness necessary. 3) With U.S. cotton, yearly or twice a year contracts are made with textile companies to provide monthly deliveries, which saves the buyer warehouse, insurance and financial expenses. Mexican producers must sell their complete harvest because there is insufficient storage facilities in-country.

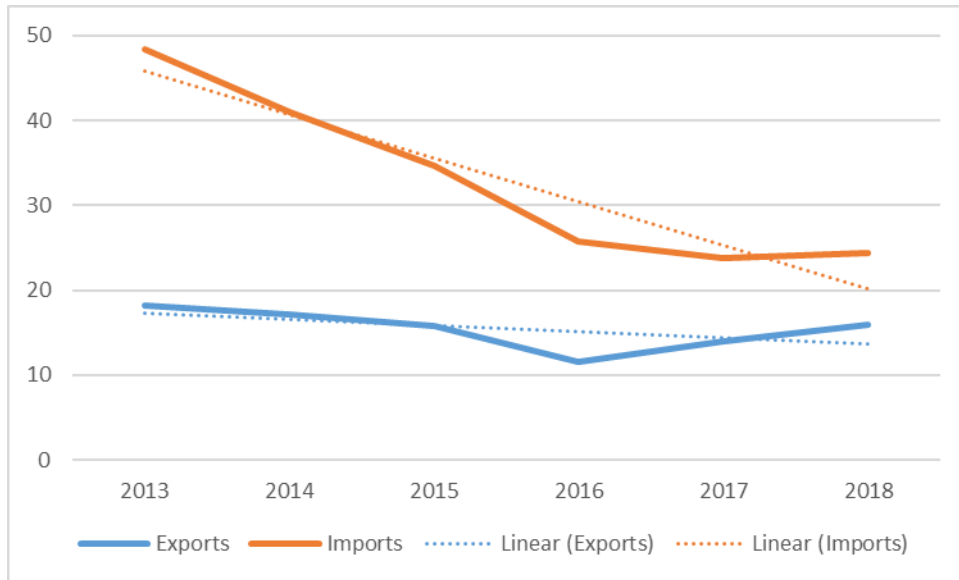
Figure 3. Top Export Destinations for Mexican Cotton



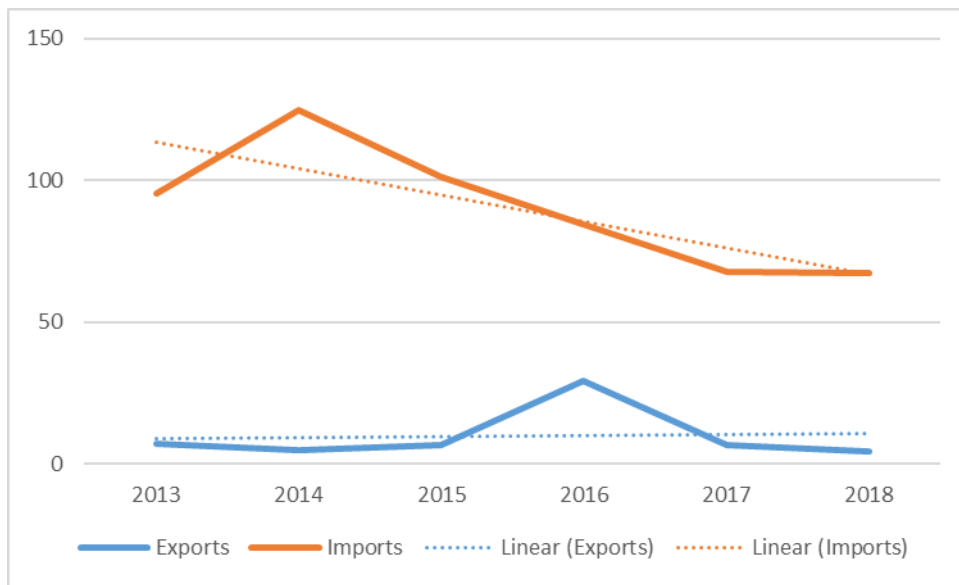
Source: GTA, 1000 480 lb. Bales

The textile and apparel industry in Mexico 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 factories in Mexico (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.

Figure 4. Mexican Cotton Trade of Yarn and Fabrics



Source: GTA, cotton yarn (other than sewing thread), containing 85% (by wt.) or more cotton, not put up for retail sale, thousand tons



Source: GTA, woven fabrics of cotton, containing 85% or more cotton by weight, weighing not more than 200 g/m², million m²

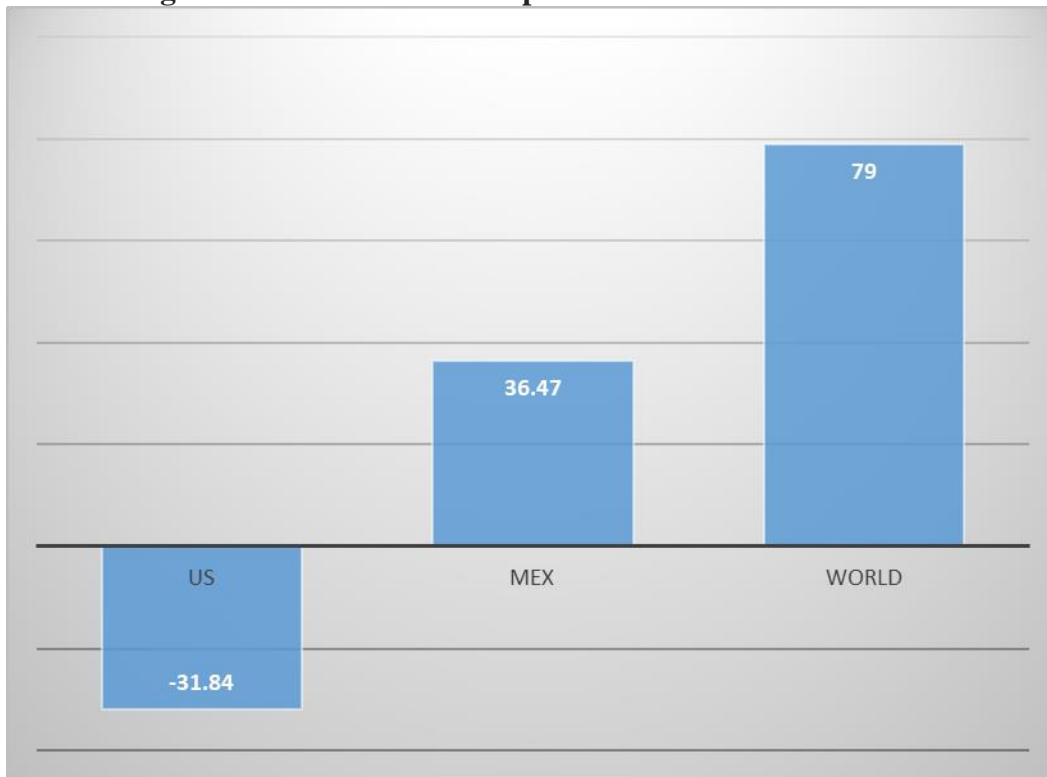
The charts above, illustrates the reduction of imports of yarn and fabric over the past five years, due to increased domestic cotton production and consumption, as well as greater efficiency and quality of Mexican textiles.

Mexico Sees Advantage in U.S. – China Trade Tensions

While trade tensions between the United States and China continue, Mexico has taken advantage with a significant increase of cotton exports to China. Cotton is one of China’s most important agricultural imports from the United States, but the imposition of a 25 percent tariff (with a final tariff as high as 65 percent for out-of-quota imports already with 40 percent tariff) has brought benefits to other countries. China has replaced U.S. cotton by sourcing mainly from Brazil,

Australia and India, however, Mexican exports to China during the last year have increased by 36.5 percent, a value of USD \$52.7 million (Fig. 5). While Mexico hopes to expand raw cotton exports as the U.S. - China tensions continue through 2019, they could also look to take advantage in the textile sector. However, long term results will depend on additional investment and improved export capacities in Mexico, including improving investor confidence and ease of business with international customers.

Figure 5. Percentage of Growth in Cotton Exports to China from June 2018 to June 2019



Source: GTA

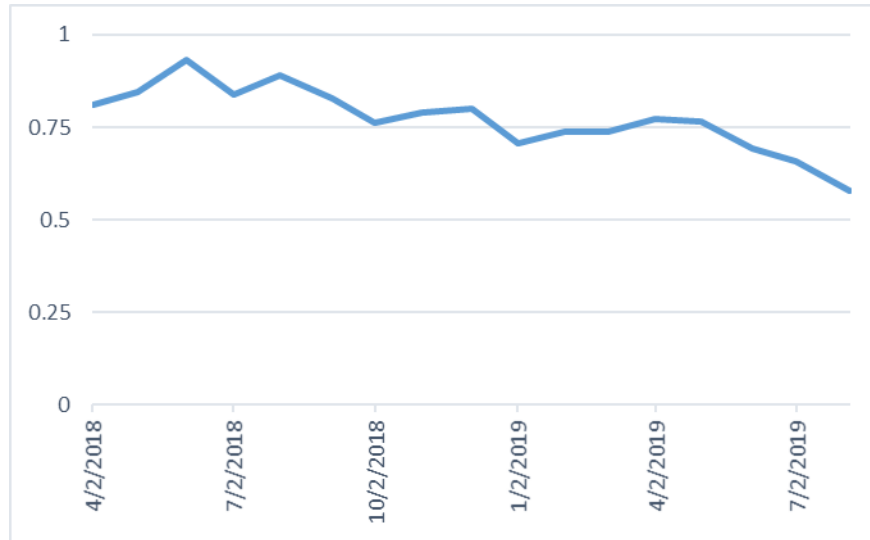
Stocks

The Post MY 2019/20 ending stocks forecast is 0.33 million bales, a reduction of 44 percent from previous estimates due to the production decrease. MY 2018/19 ending stocks are estimated at 0.54 million bales, 0.01 percent lower than previous estimates to account for increased consumption. There are no government-held stocks in Mexico.

Prices

The New York Stock Exchange (NYSE) average price for cotton on August 8, 2018 was USD \$0.53 per pound according to Mexico’s Agency of Marketing Services and Development of Agricultural Markets ([ASERCA](#)), which is in charge of publishing cotton prices. Cotton prices continue a downward trend that began in July 2018.

Figure 6. Global Cotton Prices Trend since April 2018 (USD)



Policy

Cotton is the only commercially grown GE crop in Mexico. Several officials named for key policy posts are vocal opponents of biotechnology. Contradictory language has been used by other government officials. As mentioned, slow approvals process for GE events has been one of the factors causing a shortage of GE cotton seeds for the MY2019/20.

Commodities:

Cotton

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