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Mexico

Cotton and Products Annual

2010 Cotton Production Forecast to Increase

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Report Highlights:

Total Mexican cotton production for marketing year (MY) 2010/11 (Aug-Jul) is forecast at 550,000 bales. Attractive international prices and an appropriate government coverage program are enticing producers to replant the vast land extensions that have historically been devoted to cotton production. The United States should continue to be the main supplier to Mexico. Cotton imports are forecast to increase to 1.6 million bales in MY 2010/11.

Executive Summary:

Total Mexican cotton production for marketing year (MY) 2010/11 (Aug-Jul) is forecast at 550,000 bales, an increase of 22.2 percent from last year's estimate. According to the Confederation of Mexican Cotton Associations (CMCA), attractive international prices and an appropriate government coverage program are enticing producers to replant the vast land extensions that have historically been devoted to cotton production. For MY 2009/10, total Mexican cotton production was revised down slightly to 421,180 bales, which is a decline of 6.4 percent from Post's initial estimate. The United States should continue to be the main supplier to Mexico, accounting for practically 100 percent of total cotton imports. Cotton imports are forecast to increase to 1.6 million bales in MY 2010/11 in order to complement domestic production and a steady demand from the Mexican textile industry.

Commodities:

Cotton

Production:

Total Mexican cotton production for marketing year (MY) 2010/11 (Aug-Jul) is forecast at 550,000 bales, an increase of 22.2 percent from last year's estimate. According to the Confederation of Mexican Cotton Associations (CMCA), attractive international prices and an appropriate government coverage program are enticing producers to replant the vast land extensions that have historically been devoted to cotton production. Also, beneficial weather and ample water supplies are expected to spur production. However, increased input costs (particularly fuel and fertilizers), higher costs for purchasing genetically modified (GM) seed varieties, and excessive administrative procedures within the Government of Mexico (GOM) could halt the timely acquisition of imported GM seed. Nevertheless, many experts believe they can overcome this situation since growers have a renewed commitment to plant cotton.

For MY 2009/10, total Mexican cotton production was revised down slightly to 421,180 bales, which is a decline of 6.4 percent from Post's initial estimate. As previously reported, this drop was attributed to several factors that affected not only the cotton sector but the entire Mexican agricultural sector. This situation limited the expansion of acreage during MY 2009/10. However, the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA) recently stated that it considers cotton production to be a key factor in turning around the economic conditions throughout Mexico, especially in the domestic textile industries.

In previous seasons, the GOM target price was set at 67.75 (USD) cents per pound and contributed to an average of 650,000 - 480 bales per cycle. The GOM's target price for the 2009 growing season, which is used to determine GOM support payments to producers, was set at 42.02 (USD) cents per pound. According to various sources, throughout the years the Mexican cotton sector performed under this target price scheme — (USD) cents per pound — but ended the program in 2009. This had a huge impact on many producers. For 2010, the GOM announced a new future coverage program to substitute the previous target price program. The new program will allow producers to receive a fair minimum price set at 55 (USD) cents per pound as well as the guarantee that producers can receive an extra payment if the international price of cotton increases. Under this scheme, the price of cotton will be set between 61-71 (USD) cents per pound. However, private sources indicate that this scheme is

still in the development process so expected benefits may not occur for a while. The industry hopes the target price program will return until the new coverage program starts.

The MY 2008/09 production remains unchanged, reflecting official data. The following table encompasses the updated figures for MY 2009/10 according to the main producer states and regions. No official forecast for MY 2010/11 has been published by the GOM.

| Mexico: Cotton Production by State/Region | | | |
|--|---------------------------|-------------------------|---------------------------|
| Region | Planted Area (Has) | Yield (Bales/Ha) | Production (Bales) |
| MY 2009/10 update | | | |
| South Sonora | 1,700 | 6.5 | 11,050 |
| North Sonora | 0 | 0.0 | 0 |
| Mexicali, BC | 19,081 | 6.5 | 124,027 |
| Juarez, Chihuahua. | 15,065 | 5.0 | 71,236 |
| Delicias, Chihuahua. | 531 | 3.8 | 2,060 |
| Ojinaga-Aldama, Chihuahua. | 12,422 | 5.8 | 72,716 |
| La Laguna / Durango-Coahuila. | 20,013 | 7.0 | 140,091 |
| North Tamaulipas | 0 | 0.0 | 0 |
| TOTAL | 68,812 | 6.1 | 421,180 |

Cotton yields around the main cotton producing areas vary significantly. Average cotton yields for MY 2010/11 are expected to reach 6.1 bales/ha with a range between 4-7 bales per hectare. The highest yield/ha is expected in the La Laguna region where cotton growers have adopted the use of GM seed varieties. The CMCA stated that biotechnology continues to be an important tool in reducing pesticide use by more than 50 percent as well as stimulating yields. At this point, it is uncertain the amount of acreage farmers intend to plant with GM seed varieties due to the Mexican peso exchange rate, which has been more favorable in recent months. However, timely acquisition could limit GM planting in southern Sonora (another main producing state). As usual, it is expected that GM seed will be planted mainly in Chihuahua, Mexicali and the La Laguna region (Coahuila and Durango states), which all have the best infrastructure and resources to use this seed.

According to the CMCA, the quality of the MY 2010/11 crop is similar to averages from recent years. In general, the quality of Mexican cotton is poor and this trend is expected to continue. There are approximately 150 gin mills in Mexico: 23 in Chihuahua, 15 in the La Laguna region, 12 in San Luis Rio Colorado, and the rest in other states.

Consumption:

MY 2010/11 consumption is projected at 1.8 million (480 lb. bales) as a result of sustained demand from the Mexican textile industry, which continues to reflect the impact of an economic slowdown and a relatively lower level of consumer purchasing power for apparel spending. The total consumption estimate for MY 2008/09 and MY 2009/10 was kept unchanged based on updated information from industry sources.

Trade:

Cotton imports are forecast to increase slightly from 1.5 million bales in MY 2009/10 to 1.6 million bales in MY 2010/11 in order to complement domestic production and a steady demand from the Mexican textile industry. Exchange rate fluctuations will undoubtedly play a key role in determining the importation level. Nevertheless, the United States should continue to be the main supplier to Mexico, accounting for practically 100 percent of total cotton imports. The import estimate for MY 2008/09 was kept unchanged reflecting official data from the Secretariat of Economy (SE).

Mexican cotton exports are expected to increase to 200,000 (480 lbs. bales) in MY 2010/11, according to private

industry sources. Since Mexican exports to the United States are being displaced by various Asian countries (mainly China), Mexican cotton producers are searching for market niches in Central and South America. The export figures for MY 2009/10 have been adjusted downward due to decreased production and the economic slowdown in the United States. The MY 2008/09 export figures were kept unchanged reflecting revised information from the SE and the industry.

According to the National Cotton Council, although Mexico is losing market share in the U.S. textile and garment markets due to lower costs of production in Asian countries, Mexico was once again one of the largest exporters of cotton goods to the United States in 2009.

Industry consultants have reported that in order to remain the major supplier of textiles and apparel to the United States, Mexican firms should continue efforts to shift production from low-value-added basic garments to high-quality and technology intensive products. However, stagnation in the textile sector may hamper the accomplishment of these projects in the short-medium term.

The textile industry has been under pressure from foreign suppliers and various economic factors, thus growth in consumption within this sector has been stagnant. Industry sources estimate that this trend will likely continue in MY 2010/11. The Mexican textile industry, specifically in the apparel sector, has historically competed with foreign textile industries.

Despite the fact that Mexico's apparel and textile industry expanded as a result of NAFTA, it has been declining the past few years. This decline is almost exclusively attributed to the fact that Mexico's apparel and textile industry is losing domestic and U.S. market share to lower production cost countries, such as China. From 2000 – 2009, the textile industry lost 350,000 jobs, but that trend started reversing – even if slightly – towards the end of 2009.

The aforementioned factors continue to hamper the competitiveness of the Mexican apparel industry. The outlook for 2010 does not support a dramatic shift in these key factors. Regarding the domestic market, industry sources have stated that 6 of each 10 garments are supplied illegally (through contraband, stolen merchandise, and/or products manufactured without paying proper taxes).

Mexico is competitive in the production of fibers as well as the cutting, assembly and export of garments. However, Mexico has not been able to produce quality fabric that is required for apparel. Mexico still relies heavily on imported textiles. Industry sources have commented that energy costs are extremely expensive, thus making it difficult for the domestic industry to cut costs.

Stocks:

MY 2010/11 ending stocks are forecast to increase approximately 14 percent to 967,000 bales, due to an increase in production and imports as well as a sustained domestic demand. Stocks for MY 2008/09 remain unchanged reflecting official data.

Policy:In mid 2009, SAGARPA published a notice that modifies the operational rules of PROCAMPO (the Mexican domestic agricultural support program for the 2009 to 2012 crop cycles). The new supports will be between 963 to 1,300 pesos per hectare (USD \$71.07- 95.94/ ha), depending on the number of hectares each producer has registered in the program. Additionally, SAGARPA has reduced the maximum payment limit under the program to 100,000 pesos (roughly USD \$7,380.00) regardless of total area under production.

Production, Supply and Demand Data Statistics:

| |
|-------------------|
| PSD Table |
| COUNTRY: MEXICO |
| COMMODITY: COTTON |

| | 2008/09 | | | 2009/10 | | | 2010/11 | | |
|----------------------|--------------------------------|-------|---------------------|--------------------------------|-------|---------------------|--------------------------------|---|---------------------|
| | Market Year Begin: Aug 2008 | | | Market Year Begin: Aug 2009 | | | Market Year Begin: Aug 2010 | | |
| | USDA Official Data | | New Post Data | USDA Official Data | | New Post Data | USDA Official Data | | New Post Data |
| Area Planted | 0 | 110 | 110 | 0 | 100 | 73 | 0 | 0 | 110 |
| Area Harvested | 101 | 101 | 101 | 69 | 70 | 70 | 0 | 0 | 90 |
| Beginning Stocks | 932 | 933 | 933 | 772 | 845 | 845 | 0 | 0 | 842 |
| Production | 575 | 567 | 567 | 421 | 450 | 422 | 0 | 0 | 550 |
| Imports | 1,315 | 1,400 | 1,400 | 1,500 | 1,450 | 1,500 | 0 | 0 | 1,600 |
| MY Imports from U.S. | 0 | 1,400 | 1,400 | 0 | 1,450 | 1,420 | 0 | 0 | 1,600 |
| Total Supply | 2,822 | 2,900 | 2,900 | 2,693 | 2,745 | 2,767 | 0 | 0 | 2,992 |
| Exports | 175 | 130 | 130 | 100 | 120 | 100 | 0 | 0 | 200 |
| Use | 1,850 | 1,900 | 1,900 | 1,900 | 1,800 | 1,800 | 0 | 0 | 1,800 |
| Loss | 25 | 25 | 25 | 25 | 25 | 25 | 0 | 0 | 25 |
| Total Dom. Cons. | 1,875 | 1,925 | 1,925 | 1,925 | 1,825 | 1,825 | 0 | 0 | 1,825 |
| Ending Stocks | 772 | 845 | 845 | 668 | 800 | 842 | 0 | 0 | 967 |
| Total Distribution | 2,822 | 2,900 | 2,900 | 2,693 | 2,745 | 2,767 | 0 | 0 | 2,992 |
| Stock to Use % | 38 | 42 | 42 | 33 | 42 | 44 | 0 | 0 | 48 |
| Yield | 1,240 | 1,222 | 1,222 | 1,328 | 1,400 | 1,313 | 0 | 0 | 1,331 |

Trade Matrices

| Table 2. Mexico: Cotton Exports | | | |
|---------------------------------|-------------------------------------|--------------|-------------------------|
| Cotton | H.T.S. 52010002, 52010003, 52010099 | | |
| | Units: MT | | |
| Exports to: | MY 2007/2008 | MY 2008/2009 | MY 2009/10 ^① |
| U.S. | 64 | 20 | 30 |
| China | 36,979 | 12,369 | 6,729 |
| Japan | 1,361 | 1,445 | 1,633 |
| Vietnam | 670 | 9,453 | 979 |
| Others not listed | 12,330 | 10,167 | 715 |
| Grand total | 51,404 | 33,454 | 10,086 |

| Table 3. Mexico: Cotton Imports | | | |
|---------------------------------|-------------------------------------|--------------|-------------------------|
| Cotton | H.T.S. 52010002, 52010003, 52010099 | | |
| | Units: MT | | |
| Imports from: | MY 2007/2008 | MY 2008/2009 | MY 2009/10 ^① |
| U.S. | 357,253 | 308,184 | 128,039 |
| Egypt | 509 | 185 | 20 |
| Others not listed | 491 | 29 | 25 |
| Grand total | 358,253 | 308,398 | 128,084 |

SOURCE: Global Trade Atlas, August-July Market Year. ^①Data as of December 2009

| Table 4. Mexico: Cotton Yarn Exports | | | |
|--------------------------------------|-------------------------|---------|---------|
| Cotton Yarn | H.T.S. 5205, 5206, 5207 | | |
| | Units: MT | | |
| Exports to: | CY 2007 | CY 2008 | CY 2009 |
| U.S. | 8,232 | 8,079 | 6,366 |
| Canada | 306 | 411 | 174 |
| Guatemala | 628 | 744 | 983 |
| Colombia | 9,066 | 5,684 | 3,452 |

| | | | |
|------------------|--------|--------|--------|
| Other not listed | 2,589 | 3,873 | 5,559 |
| Grand Total | 20,821 | 18,791 | 16,534 |

| Table 5. Mexico: Cotton Yarn Imports | | | |
|---|-------------------------|---------|-----------|
| Cotton Yarn | H.T.S. 5205, 5206, 5207 | | Units: MT |
| Imports from: | CY 2007 | CY 2008 | CY 2009 |
| U.S. | 20,391 | 20,966 | 22,614 |
| El Salvador | 892 | 857 | 677 |
| Spain | 1,042 | 1,501 | 1,044 |
| South Korea | 1,792 | 1,959 | 1,051 |
| Other not listed | 1,358 | 1,691 | 1,143 |
| Grand Total | 25,472 | 26,974 | 26,529 |

| Table 6. Mexico: Woven Cotton Fabric Exports | | | |
|---|-------------------------------------|------------|-----------------------|
| Woven Cotton Fabric | H.T.S. 5208, 5209, 5210, 5211, 5212 | | Units: M ² |
| Exports to: | CY 2007 | CY 2008 | CY 2009 |
| U.S. | 17,449,843 | 15,873,695 | 9,219,310 |
| Colombia | 22,230,820 | 17,335,240 | 13,294,009 |
| Guatemala | 997 | 4,718,753 | 895,210 |
| Dominican Republic | 32 | 328,732 | 1,983,891 |
| Other not listed | 28,973,477 | 12,093,844 | 8,637,739 |
| Grand Total | 68,655,137 | 52,590,007 | 34,030,159 |

| Table 7. Mexico: Woven Cotton Fabric Imports | | | |
|---|-------------------------------------|-------------|-----------------------|
| Woven Cotton Fabric | H.T.S. 5208, 5209, 5210, 5211, 5212 | | Units: M ² |
| Imports to: | CY 2007 | CY 2008 | CY 2009 |
| U.S. | 372,749,889 | 213,195,062 | 158,770,201 |
| China | 68,076,153 | 152,912,427 | 304,223,768 |
| Brazil | 18,032,838 | 42,616,092 | 15,877,512 |
| Spain | 12,492,889 | 12,800,182 | 7,623,088 |
| Guatemala | 13,503,845 | 22,971,318 | 12,354,178 |
| Pakistan | 22,454,068 | 26,555,882 | 24,969,270 |
| Other not listed | 127,810,151 | 68,712,874 | 36,416,065 |
| Grand Total | 553,601,140 | 539,763,837 | 560,234,082 |

SOURCE: Global Trade Atlas

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