USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: 05/24/2005
GAIN Report Number: MX5047

Mexico

Cotton and Products

Annual Report

2005

Approved by:
Suzanne E. Heinen
U.S. Embassy Mexico City

Prepared by:
Benjamin Juarez

Report Highlights:
Mexican cotton production is forecast to increase by 47 percent to 900,000 bales in MY 2005/06 (Aug-Jul). Government support through its target-price program and overall good growing conditions should combine to increase production. With increased production, cotton imports are expected to decline 11 percent in MY 2005/06 to 1.6 million bales. A slight recovery on the textile export market coupled with the ongoing economic rebound is expected to create a 4.7 percent in cotton consumption in MY 2005/06.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Mexico [MX1]
[MX]

Table of Contents

SECTION I. SITUATION AND OUTLOOK

Economic Situation and Outlook

Mexico's economy grew 4.1 percent during 2004, compared to 1.3 percent in 2003. Growth was supported by an increase in U.S. demand, which stimulated Mexican exports. While an improvement, the 2004 growth rate was still below the average growth rate from 1996-2001 of 5 percent. Mexico's economy is heavily dependent on the United States, which purchases 90 percent of Mexico's exports. Growth is expected to slow in 2005 to approximately 4 percent, in light of an expected slowdown in the U.S. economy.

Mexico's currency and financial markets remained stable, the stock market was one of the 10 best performers among emerging economies, and foreign direct investment climbed 64 percent to $18 billion in 2004. Macroeconomic stability was achieved in large part due to sound monetary and fiscal policies. Nonetheless, the lack of structural reforms serves to keep Mexico from improving its global competitiveness. Mexico ranked 48th in competitiveness according to the World Economic Forum, down from 47th a year ago.

Congressional opposition has prevented President Fox from advancing structural reforms throughout his administration and 2004 was no exception. Fiscal, energy, and labor reforms were all stalled during 2004. Some will reportedly be reconsidered during 2005, but with an impending presidential election, significant reforms may be shelved until at least 2006. Most economic observers agree that passage of key reforms is critical to improving Mexico's competitiveness.

Cotton Situation and Outlook

For marketing year 2005/06 Aug-Jul), the initial forecast of Mexican cotton production is 900,000 bales (480 lb./bale) an increase of 47 percent from the revised estimate for MY 2004/05. The main factor contributing for this sharp increase is the government target price support of US$ 0.64 per pound of cotton lint and the additional government support of US$ 0.0375 per pound, which supports increased planted area for cotton. Increased penetration of genetically modified seed varieties is another factor that should contribute to higher production. The MY's 2003/04 and 2004/05 production estimates have been revised slightly downward reflecting data from the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA), as well as from private sources.

Domestic demand for cotton is forecast at 2.2 million bales in MY 2005/06, up 4.7 percent from MY 2004/05, reflecting the favorable impact of the economic rebound on the textile industry, the main user of Mexican cotton.

With increased domestic production, imports are expected to decrease 11 percent to 1.6 million bales in MY 2005/06. However, the United States is expected to continue maintaining 97-99 percent of the Mexican import market due to its geographic proximity coupled with its market promotion efforts and access to credit guarantees. The cotton import estimate for MY 2004/05 has been revised upward in line with updated official information from the Secretariat of Economy (SE). According to industry sources, Mexican imports for MY 2004/05 up to May 11, 2005, totaled approximately 1.07 million bales, leaving an estimated 731,500 bales of imports still anticipated before the end of July. As usual, practically all of the imports will be sourced from the United States. At the same time, Mexican exports of cotton to traditional markets in the Far East are expected to increase to 210,000 bales in MY 2005/06. With the sharp increase of domestic cotton production in MY 2005/06, ending stocks are projected to increase to 1.26 million bales.

SECTION II. STATISTICAL TABLES

PSD Table						
Country	Mexico					
Commodity	Cotton			(HECTARES)(MT)		
	2003 Revised		2004 Estimate		2005 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	08/2003		08/2004		08/2005	
Area Planted	0	65480	0	109134	0	155000
Area Harvested	62000	62700	105000	105460	0	150000
Beginning Stocks	224694	224694	240152	237911	267368	260452
Production	77728	75418	136079	133612	0	196200
Imports	404536	405279	391908	391908	0	348320
MY Imp. from U.S.	0	0	0	0	0	0
TOTAL SUPPLY	706958	705391	768139	763431	267368	804972
Exports	25909	26584	38102	40310	0	45717
USE Dom. Consumption	435453	435453	457226	457226	0	478940
Loss Dom. Consumption	5443	5443	5443	5443	0	5443
TOTAL Dom. Consumption	440896	440896	462669	462669	0	484383
Ending Stocks	240152	237911	267368	260452	0	274872
TOTAL DISTRIBUTION	706957	705391	768139	763431	0	804972

PSD Table						
Country	Mexico					
Commodity	Cotton		HECTARES & 480 lb Bal Conversion 0.00459291			
	Revised 2003		Estimate 2004		Forecast 2005	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	08/2003		08/2004		08/2005	
Area Planted	0	65480	0	109134	0	155000
Area Harvested	62000	62700	105000	105460	0	150000
Beginning Stocks	1032127	1032127	1103133	1092839	1228149	1196380
Production	357042	346431	625076	613744	0	901240
Imports	1858227	1861640	1800220	1800220	0	1600000
TOTAL SUPPLY	3247395	3240198	3528429	3506803	1228149	3697621
Exports	119012	122113	175021	185163	0	210000
USE Dom. Consumption	2000243	2000243	2100257	2100257	0	2200000
Loss Dom. Consumption	25002	25002	25002	25002	0	25002
TOTAL Dom. Consumption	2025246	2025246	2125260	2125260	0	2225003
Ending Stocks	1103133	1092839	1228149	1196380	0	1262618
TOTAL DISTRIBUTION	3247391	3240198	3528429	3506803	0	3697621

Trade Matrices

Cotton	H.T.S. 52010002. 52010003, 52010099		UNITS: MT
Exports to:	MY 2002/2003	MY 2003/2004	MY 2004/2005①
U.S.	537	2,359	7,584
OTHER			
JAPAN	7,166	6,156	3,141
GUATEMALA	1,856	2,154	410
TOTAL OF OTHER	9,022	8,310	3,551
OTHERS NOT LISTED	5,989	15,915	9,974
GRAND TOTAL	15,548	26,584	21,109

SOURCE: World Trade Atlas, Mexico Edition, February 2005.
MY begin August ends July. ①Data as of February 2005.

Cotton	H.T.S. 52010002. 52010003, 52010099		UNITS: MT
IMPORTS FROM:	MY 2002/2003	MY 2003/2004	MY 2004/2005①
U.S.	502,882	404,752	179,239
OTHER			
CAMEROON	2,602	0	0
MALI	1,749	527	0
TOTAL OF OTHER	4,351	0	0
OTHERS NOT LISTED	0		0
GRAND TOTAL	507,233	405,279	179,239

SOURCE: World Trade Atlas, Mexico Edition, February 2005.
MY begin August ends July. ①Data as of February 2005.

Cotton Yarn H.T.S. 5205, 5206, 5207		UNITS: MT
EXPORTS TO:	CY 2003	CY 2004
UNITED STATES	20,518	19,558
OTHER		
CANADA	460	700
GUATEMALA	25	249
COLOMBIA	235	145
TOTAL OTHER	720	1,094
OTHER NOT LISTED	152	216
GRAND TOTAL	21,390	20,868

SOURCE: World Trade Atlas, Mexico Edition, February 2005.

Cotton Yarn	H.T.S 5205, 5206, 5207	UNITS: MT
IMPORTS FROM:	CY 2003	CY 2004
UNITED STATES	5,727	4,834
OTHER		
EL SALVADOR	513	1,419
SPAIN	829	1,029
TOTAL OTHER	1,342	2,448
OTHER NOT LISTED	714	1,867
GRAND TOTAL	7,784	9,149

SOURCE: World Trade Atlas, Mexico Edition, February 2005.

Woven Cotton Fabrics	H.T.S. 5208, 5209, 5210, 5211, 5212	UNITS: M^2
EXPORTS TO:	CY 2003	CY 2004
UNITED STATES	19,433,227	14,375,579
OTHER		
COLOMBIA	1,248,080	1,401,370
CUBA	382,671	542,519
TOTAL OTHER	1,630,751	1,943,889
OTHER NOT LISTED	2,114,742	3,510,589
GRAND TOTAL	3,178,720	19,830,057

SOURCE: World Trade Atlas, Mexico Edition, February 2005.

Woven Cotton Fabrics	**H.T.S. 5208, 5209, 5210, 5211, 5212**	**UNITS: M^2**
IMPORTS FROM:	CY 2003	CY 2004
UNITED STATES	51,476,270	86,035,717
OTHER		
BRAZIL	9,324,247	15,353,182
SPAIN	18,539,820	15,218,570
INDIA	15,892,689	13,217,139
TOTAL OTHER	43,756,756	43,788,891
OTHER NOT LISTED	40,381,008	55,045,516
GRAND TOTAL	135,614,034	184,870,124

SOURCE: World Trade Atlas, Mexico Edition, February 2005.

SECTION III. NARRATIVE ON SUPPLY, DEMAND, POLICY, & MARKETING

Production

Mexican cotton production for MY 2005/06 is forecast at approximately 900,000 bales (480 lb./bale), an increase of 47 percent from the revised estimate of MY 2004/05. The main factor behind this increase is the government target price support of US$ 0.64 per pound of cotton lint (see MX3098) and the additional government support of US$ 0.0375 per pound (to compensate for the decline in international cotton prices), which is expected to lead to increased acreage planted. Another contributing factor that will benefit the crop in MY 2005/06 will be increased penetration of genetically modified seed varieties and narrow planting furrows which increase yields. Despite the large percentage increase in production, it should be noted, that cotton production has been relatively depressed in the last few years compared with the production levels registered at the end of the 1990s. The production estimates for MY 2003/04 and MY 2004/05 have been revised downward, reflecting the most recent official information from the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA).

The MY 2005/06 forecast is in line with goals of the Cotton Committee (see MX3087), which established as one of its objectives the increase of domestic production to reach nearly 1.0 million bales. In general terms, the main objective of the Cotton Committee is to define a strategic plan for increasing the production of cotton and enhancing marketing linkages. This Cotton Committee, as well as other product committees, was created as a part of the measures outlined in the National Agreement on Agriculture, which was signed by the Government of Mexico (GOM) and producer groups on April 28, 2003 (See MX3067). Another objective is to encourage forward purchases between cotton farmers and mills in an attempt to influence production patterns, however, the Committee has yet to implemented any significant action in this regard.

According to the Confederation of Mexican Cotton Associations (CMCA), the outlook for cotton production shows that, for MY 2005/06, cotton farmers increased their planting area to approximately 155,000 hectares, a 42-percent increased above the revised MY 2004/05 planted area estimated at 109,000 ha. In states such as Sonora, Sinaloa and Baja California farmers have switched production from wheat and corn to cotton.

The increase in planted area is particularly true for farmers in Sonora where the forecast of planted area has increased from 15,4000 hectares in MY 2004/05 to approximately 32,000 hectares in MY 2005/06. As a result, the production of this state is expected to reach nearly 184,000 bales. The CMCA stated that crop conditions in Sonora have been near ideal, due to abundant water reservoir levels as well as beneficial precipitation received during January and beginning of February. Yield is forecast to remain 5.8 bales per hectare in Sonora for the MY 2005/06, similar to that registered a marketing year earlier. National average cotton yields, however, are forecast to increase slightly to reach 6 bales per hectare for MY 2005/06, assuming normal weather conditions.

According to the CMCA, approximately 40,000 hectares were planted with genetically modified seed varieties in MY 2004/05. For MY 2005/06, SAGARPA sources estimated that this area could reach nearly 60,000 ha. The CMCA stated that genetically modified seed varieties have helped to combat pests, offset some production costs and increase yields. In La Laguna region, for example, approximately 24,000 hectares are estimated to be planted in MY 2005/06 with transgenic seeds, a 71-percent increase above the last year figure.

Costs of production for cotton continue to vary according to areas. In Cd. Obregon Sonora, for example, costs are estimated at approximately 14,000 pesos/ha (roughly US$ 1,259/ha).

While in the La Laguna area costs are reportedly 19,000 pesos/ha. (US$ 1,709). The CMCA pointed out that, on average, production costs are higher than those in the United States, despite the fact that an increase in the use of BT cottonseed in some Mexican cotton-growing areas has helped offset some production costs.

Mexican cotton quality is generally poor and inconsistent according to industry sources. Although there are approximately 150 gins, almost all are outdated and damage the cotton during the ginning process. Textile firms use the High Volume Instrument testing (HVI), but not the growers. Consequently, only smaller mills use Mexican cotton, with products designed for the domestic market. Large mills generally consume U.S. cotton in the production process, as U.S. cotton is considered to be more consistent and of better quality. It should be noted, however, that recently larger mills have increased the consumption of domestic cotton in order to reduce production costs, mainly in the design of some apparel products such as denim jeans for the export market where cotton quality is less important.

Production Policy

In addition to the direct support through the "Target Price" program already mentioned, cotton producers are receiving an income support subsidy through the governmental program PROCAMPO. On March 9, 2005, SAGARPA announced it will pay producers of cotton and other crops 963 pesos (roughly US $ 86) per hectare during the 2005 spring/summer and the 2005/06 fall/winter planting seasons under PROCAMPO. This payment is 3 percent greater than what SAGARPA paid during the same period in 2004/05. The announcement also indicates that farmers with producing areas of between one and five hectares will receive 1,160 pesos per hectare (approximately US $103/ha). It should be noted that growers insist that they would not be able to produce cotton without this type of government supports.

Consumption

For MY 2005/06, consumption is expected to increase and is initially forecast to rise by approximately 4.7 percent over the current year. Improved macroeconomic performance has had a positive impact on the textile industry and consequently in its cotton demand during MY 2004/05, a trend that is expected to continue, albeit to a lesser extent, in MY 2005/06. Moreover, cotton consumption will be also stimulated by the expectation of lower cotton prices. In contrast, prices of alternative fibers, such as the polyester, have been rising during 2004 and the first quarter of 2005. Reportedly, polyester prices on April 2005 were approximately 20 percent higher than the cotton prices. Consequently, sources expect that mills will continue to take advantage of the cheaper prices available for cotton vis-à-vis polyester during MY 2005/06.

Some industry sources also expect a slight increase in Mexico's textile exports to the United States in MY 2005/06 due the recent announcement of the U.S. Committee for the Implementation of Textile Agreements (CITA), which stated it will invoke safeguards on textile imports from China. Mexico has been losing market share to China in the U.S. market in the last few years. Mexico's apparel and textile industry continues to be heavily dependent on exports, with 66 percent of production exported and 34 percent used domestically. According to the National Apparel Industry Chamber (CNIV), these proportions have changed in the last few years due to the strong competition from China in the U.S. market. In CY 2000, for example, 71 percent of total textile and apparel production was exported, while the rest was consumed domestically.

Cotton consumption estimates for MY's 2003/04 and 2004/05 have remained unchanged.

Trade

Cotton imports are forecast to decrease from 1.8 million bales in MY 2004/05 to 1.6 million bales as a result of increased domestic production. Despite this decline, the United States should continue to be the main supplier, accounting for practically 100 percent of total cotton imports. In FY 2004, Mexican cotton importers used US$ 60.2 million of GSM-102 credit against US$ 82.8 million used in FY 2003. As of April 8, 2005, U.S. $39.2 million of GSM-102 has been registered for cotton during FY 2005 (Sep-Oct). It is expected these credits will continue for the remainder of FY 2005 to stimulate additional sales. The import estimate for MY 2003/04 has been revised slightly upward reflecting official data from the Secretariat of Economy (SE).

Mexican cotton exports are expected to increase to 210,000 bales in MY 2005/06, an increase of 13.4 percent from MY 2004/05's revised estimate due to the strong demand of Asian countries (mainly Japan), which continue to be the largest export markets for Mexican cotton. The export figures for MY 2004 and MY 2005 have been adjusted upward according to revised information from SE and the industry.

Stocks

Due to lower production and higher exports than previously estimated in MY 2003/04 and MY 2004/05, stocks have decreased from our previous forecasts. For MY 2005/06, however, the initial forecast of cotton production shows an increase of nearly 290,000 bales and a combined consumption and export increase of only approximately 125,000 bales. As a result, 2005/06 ending stocks are forecast to grow 5.5 percent to 1.26 million bales.

Marketing

The challenge for U.S. exporters in Mexico in the near future is to maintain their share of the Mexican textile market in the face of increasing domestic production. The U.S. industry should continue to increase Mexican consumers' awareness of the advantages of cotton textile products. The United States has a distinct commercial advantage with its close proximity to Mexico, which permits cotton purchases practically on an "as needed basis." Moreover, the availability of credit terms offered under the GSM-102 commercial credit guarantee program improves the standing of U.S. cotton vis-à-vis other countries. U.S. cotton bales include fiber classification labels called HVI, as well. According to industry sources these fiber-defining systems alleviate the miller's task by increasing handling and processing efficiency.

TEXTILE INDUSTRY

After three consecutive years of decline, Mexico's textile industry output grew 1.6 percent in CY 2004 compared to a year earlier. Mexico's National Textile Industry Chamber (CANAITEX) stated that in 2004 the foreign market and the improved economic performance bolstered the textile industry. This trend is expected to continue in 2005 albeit at a slower pace than year earlier, due to the expected slowdown in the U.S. economy and slower growth of the Mexican economy. However, the domestic textile sector continues to experience strong competition for the United States textile and apparel markets from China.

Following are figures showing the average output growth rates for the Mexican textile industry:

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
%	-5	-7	1.1	-6.3	15.7	10.5	3.9	3.1	5.4	-8.6	-5.8	-8.9	1.6

Source: National Institute of Geography, Statistics and Computer (INEGI).

With the implementation of the World Trade Organization's Agreement on Textiles and Clothing (WTO-ATC), the textile and apparel industries of Mexico and the United States are experiencing intense competition from China and other countries outside NAFTA. These industries became highly integrated during NAFTA's first decade, as a division of labor emerged in which the United States supplies raw cotton to Mexican textile and apparel producers and Mexico exports some of its textile and apparel output to the United States.

Mexico's textile and apparel industry has struggled with both heightened competition for the U.S. market and rising imports into Mexico with the liberalization of global trade in textiles on January 1, 2005. The Uruguay Round provided for the gradual liberalization of this trade over a period of ten years from January 1995 to December 2004, allowing time for adjustment before the January 2005 expiration of the WTO-ATC, when Mexico and all WTO members were required to lift their remaining quotas on textiles trade. According to some estimates, China's share of the U.S. clothing import market is expected to rise as much as 50 percent in the next few years, which will displace Mexican textile and apparel exports to the Unites States.

CANAITEX pointed out, however, that with the recent upturn in U.S. demand, Mexican textile and apparel exports reached U.S. $ 11.05 billion in CY 2004, an increase of 7.3 % from CY 2003. At the same time, employment in the textile sector remained practically unchanged in 2004 compared to 2003, which could be considered a positive sign, given nearly 250,000 Mexican textile workers had lost their jobs over the previous three years.

The textile industry primarily produces yarns and knitted and woven fabrics, with denim fabric being a specialty. Traditionally, these fabrics have been sold to domestic apparel manufacturers. The majority of the textile firms are located in the central part of the country (Puebla, Tlaxcala, Mexico and Guanajuato). While the apparel firms are located in Coahuila, Mexico City, state of Mexico and Puebla. The CNIV indicates that the apparel sector is highly concentrated as 9 leading apparel manufacturers account for approximately 40 percent of total apparel production.

At the same time, the domestic textile and apparel sectors continue to struggle against high levels of smuggling and relatively high cost of production. According to the CNIV approximately 58 percent of apparel purchased in the Mexican market is contraband or products that are manufactured in Mexico without paying taxes. The contraband is mainly of Asian and Chinese origin. As a result, Mexican textile and apparel producers have continued pressing the GOM to intensify the measures to protect their industries against what they call totally unfair competition. Moreover, both industries have been lobbying the GOM to enact measures that would allow them to be more competitive, such as a reduction on electricity tariffs, which the textile industry claims are extremely high. Also, the Mexican textile industry has requested that the SE continue compensatory quotas on Chinese garments and textile products. Despite the fact that China joined the WTO at the end of 2001, Mexico made a bilateral deal to keep high tariffs (approximately 500 percent) on certain Chinese products for another six years.

As noted earlier, the recent CITA announcement that it will invoke textile safeguards based on market disruption and threat of market disruption due to the magnitude of increases in textile imports from China and China's significant capacity to increase production and exports to the United States in several products, has been considered by industry sources as another factor, which could stimulate the Mexican textile and apparel export sector in CY 2005.