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Cotton and Products

Annual

2003

Approved by:
William L. Brant
U.S Embassy Mexico City

Prepared by:
Benjamin Juarez

Report Highlights:
Mexican cotton production is expected to increase by approximately 60 percent to 310,000 bales in MY 2003/04 (Aug – Jul). Relatively favorable world cotton prices along with expected new government supports will likely contribute to increase production. With the anticipated increase in domestic production, imports are forecast to decrease 200,000 bales to 2.0 million bales.

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

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SECTION I. SITUATION AND OUTLOOK

Economic Situation and Outlook

Mexico's 2003 economic prospects augur well for continuing growth. It will a better year than 2002, but not exceptional, because of the slow recovery of the U.S. economy. Therefore, Mexico's exports to the U.S. will likely continue to increase slightly.

The outlook for the Mexican economy for 2003 remains positive, as real growth is likely to be higher than it was in 2002. Since final domestic demand and exports will remain relatively strong, GDP growth could average 2.0 percent in 2003. This performance would be better from the 0.9 percent real growth recorded in 2002. Inflation in 2003 may be slightly lower than it was in 2002. The average was 5.7 percent last year, and forecasters are predicting 4.8 percent for 2003.

Mexico's economic growth depends on its export market, essentially the United States. Ninety percent of Mexico's exports, including half of its manufacturing output, are exported to the United States. In 2002, Mexico exported US$ 168.8 billion, a 0.2 percent increase over 2001. Exports should continue to increase in 2003, reflecting a better performance of the U.S. economy. Similarly, personal consumption should fuel Mexico's economic growth. Demand for goods and services, including imports, grew slightly in real terms in CY 2002. According to some private analysts that figure may average more than 2 percent in CY 2003.

Cotton Situation and Outlook

Responding to higher world cotton prices, cotton production for MY 2003/04 is expected to increase to approximately 300,000 bales, an increase of 60 percent, or 106,000 bales (480 lb.), from the revised estimated of MY 2002/03. Reflecting the tighter world market, international cotton prices have continued to rise from the lows set in 2001. It should be noted, however, that Mexico's production output only accounts for 13 percent of total consumption with the rest of consumption coming from imports. Another factor contributing to higher production is a new governmental support program. According to the Confederation of Mexican Cotton Associations (CMCA), cotton farmers have increased their planting intentions, based on the assumption that the Mexican government is going to increase its supports. MY 2001/02 and 2002/03 production estimates were revised downward and upward respectively, reflecting new official information from the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA) as well as from private sources.

Meanwhile, domestic consumption for cotton is forecast at 2.3 million bales in MY 2003/04, up approximately 2 percent from MY 2002/03, reflecting consumers´ preference for cotton. Consumer demand for textile products is increasing in MY 2002/03, a trend which will likely continue in MY 2003/04 and one which is driven by textile exports. A main user of Mexican cotton is the textile industry.

With increased domestic production, imports are expected to decrease to 2.0 million bales in MY 2003/04. However, the United States is expected to continue maintaining 95-98 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 2001/02 and MY 2002/03 has been revised upward in line with updated official information from the Secretariat of Economy (SE). According to industry sources, Mexican imports for MY 2002/03 up to May 16, 2003, totaled approximately 2.270 million bales, leaving an estimated 756,900 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 remain unchanged at 55,000 bales. With the continued increase of mill use in MY 2003/04, ending stocks are projected to decline to 815,000 bales, tightening the stocks-to-use ratio to 35.1 percent against 38.9 percent in MY 2002/03.

SECTION II. STATISTICAL TABLES

PS&D Tables

PSD Table						
Country	Mexico					
Commodity	Cotton			(HECTARES) (MT)		
	Revised 2001		Estimate 2002		Forecast 2003	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	08/2001		08/2002		08/2003	
Area Planted	0	84027	0	41992	0	74000
Area Harvested	82000	81570	38000	38000	0	71500
Beginning Stocks	117572	117572	145224	179178	138474	192827
Production	94058	94066	42239	42077	0	67480
Imports	413680	449502	446339	478900	0	435400
TOTAL SUPPLY	625310	**661140**	633802	**700155**	138474	**695707**
Exports	17418	19293	10886	12060	0	12100
USE Dom. Consumption	457226	457226	478998	489825	0	500710
Loss Dom. Consumption	5443	5443	5443	5443	0	5443
TOTAL Dom. Consumption	462669	462669	484441	495268	0	506153
Ending Stocks	145224	179178	138474	192827	0	177454
TOTAL DISTRIBUTION	625311	**661140**	633801	**700155**	0	**695707**

PSD Table						
Country	Mexico					
Commodity	Cotton		HECTARES & 480 lb Bal		Conversion 0.00459291	
	Revised 2001		Estimate 2002		Forecast 2003	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	08/2001		08/2002		08/2003	
Area Planted	0	84027	0	41992	0	74000
Area Harvested	82000	81570	38000	38000	0	71500
Beginning Stocks	540064	540064	667083	823050	636077	885746
Production	432053	432090	194024	193280	0	309968
Imports	1900230	2064777	2050248	2199816	0	2000000
TOTAL SUPPLY	2875347	3036932	2911355	3216146	636077	3195714
Exports	80009	88622	50005	55397	0	55581
USE Dom. Consumption	2100257	2100257	2200266	2250000	0	2300000
Loss Dom. Consumption	25002	25002	25002	25002	0	25002
TOTAL Dom. Consumption	2125260	2125260	2225269	2275002	0	2325002
Ending Stocks	667083	823050	636,077	885746	0	815131
TOTAL DISTRIBUTION	2872352	3036932	2911350	3216146	0	3195714

Trade Matrix

Cotton	H.T.S. 5201		UNITS: MT
EXPORTS	MY 2000/2001[1]	MY 2001/2002[1]	MY 2002/2003[2]
TO:			
U.S.	**4,138**	**3,360**	**428**
OTHER			
JAPAN	3,366	8,044	6,269
GUATEMALA	5,059	5,203	1,556
TOTAL OF OTHER	8,425	13,247	7,825
OTHERS NOT LISTED	8,712	2,709	2,380
GRAND TOTAL	**21,275**	**19,316**	**10,633**

SOURCE: World Trade Atlas, Mexico Edition, February 2003.
[1]MY begin August ends July. [2]Data as of February 2003

Cotton	H.T.S. 5201		UNITS: MT
IMPORTS	MY 2000/2001[1]	MY 2001/2002[1]	MY 2002/2003[2]
FROM:			
U.S.	**403,320**	**442,777**	**266,474**
OTHER			
JAPAN	3,367	5,723	2,602
GUATEMALA	2,174	1,064	1,076
TOTAL OF OTHER	5,541	6,787	3,678
OTHERS NOT LISTED	742	101	0
GRAND TOTAL	**409,603**	**449,665**	**270,152**

SOURCE: World Trade Atlas, Mexico Edition, February 2003.
[1]MY begin August ends July. [2]Data as of February 2003

Cotton Yarn	H.T.S. 5205 , 5206 , 5207		UNITS: Kg
Exports to:	CY 2001	CY 2002	CY 2003③
UNITED STATES	**22,493,547**	**20,017,944**	**3,719,024**
OTHER			
CANADA	1,279,914	864,865	142,210
DOMINICAN REPUBLIC	0	91	17,489
FRANCE	262,383	24,784	0
TOTAL OTHER	1,542,297	889,740	159,699
OTHER NOT LISTED	158,713	77,370	3,854
GRAND TOTAL	**24,194,557**	**20,985,054**	**3,882,577**

SOURCE: World Trade Atlas, Mexico Edition, February 2003.
③Data as of February 2003.

Cotton Yarn	H.T.S 5205 , 5206 , 5207		UNITS: Kg
Imports from:	CY 2001	CY 2002	CY 2003③
UNITED STATES	**34,632,632**	**23,513,149**	**2,670,607**
OTHER			
TAIWAN	519,925	1,166,603	235,635
SPAIN	445,572	1,076,235	135,380
TOTAL OTHER	965,497	2,242,838	371,015
OTHER NOT LISTED	1,715,730	1,919,865	384,133
GRAND TOTAL	**37,313,589**	**27,675,852**	**3,425,755**

SOURCE: World Trade Atlas, Mexico Edition, February 2003.
③Data as of February 2003.

Woven Cotton Fabrics H.T.S. 5208, 5209 , 5210 , 5211, 5212			UNITS: Kg
Exports to:	CY 2001	CY 2002	CY 2003③
UNITED STATES	**90,012,352**	**93,908,124**	**8,251,206**
OTHER			
CANADA	3,506,339	4,518,907	610,049
EL SALVADOR	1,374,804	1,386,932	187,158
COLOMBIA	3,547,672	2,257,603	171,830
GUATEMALA	1,146,158	1,423,976	101,478
TOTAL OTHER	9,574,973	9,587,418	1,070,515
OTHER NOT LISTED	23,883,531	23,499,253	567,722
GRAND TOTAL	**123,470,856**	**126,994,795**	**9,889,443**

SOURCE: World Trade Atlas, Mexico Edition, February 2003.
③Data as of February 2003.

Woven Cotton Fabrics H.T.S. 5208, 5209 , 5210 , 5211, 5212			UNITS: M^2
Imports from:	CY 2001	CY 2002	CY 2003③
UNITED STATES	**1,144,793,784**	**490,479,631**	**64,818,487**
OTHER			
SOUTH KOREA	16,051,444	24,027,620	8,144,494
CHINA	20,363,100	59,369,719	8,029,016
INDIA	32,454,057	35,119,009	1,976,123
TOTAL OTHER	68,868,601	118,516,348	18,149,633
OTHER NOT LISTED	33,594,332	118,006,490	431,888
GRAND TOTAL	**1,247,256,717**	**727,002,469**	**83,400,008**

SOURCE: World Trade Atlas, Mexico Edition, February 2003.
③Data as of February 2003.

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

Mexican cotton production for the Marketing Year 2003/04 (MY) is expected to increase to an estimated 310,000 bales, approximately 60 percent higher than last year's revised estimated. This increase is mainly the result of more favorable international prices as well as a new support program for cotton production, which includes a target price of 14,000 pesos per metric ton - roughly U.S. $0.64 per pound – (see MX 2173). It should be noted, however, that the Government of Mexico (GOM) still has to announce the rules of this new program. Reportedly, the new program also will include the commodity-hedging program for cotton that SAGARPA has handled, through ASERCA, since 1996 (see MX 6104). ASERCA is an agency of SAGARPA tasked with advising producers on methods for reducing waste and improving quality and profitability through better organization and the development of an entrepreneurial approach. ASERCA is also involved with risk management (such as futures) and information market.

Cotton producers in several areas, such as Mexicali, San Luis Rio Colorado and Chihuahua, are expected to have a better year in MY 2003/04 than the previous one. In Chihuahua, for example, cotton grower's sowed transgenic seed in approximately 2,500 has. in the 2002 spring/summer crop, which reduced the use of insecticides and increased yields and crop quality. Also, a method of high density sowing (more planting seeds per hectare) was implemented in Chihuahua. According to official sources, for 2003 spring/summer crop, Chihuahua growers could plant approximately 5,000 has. of transgenic seed. In Mexicali approximately 2,000 has. were planted with transgenic seeds in the 2002 spring/summer crop and a slight increase in area planted with transgenic seeds is expected for the 2003 spring/summer crop. Sources estimate that nearly 20 percent of total production has a quality of extra long staple cotton and is produced mainly in the state of Chihuahua (Juarez region) and in some areas of Mexicali, Baja California. Delta Pine and Sure Grow are the most popular seed type used by cotton producers in those regions and only a small proportion of Pima variety is planted in Juarez region. Other popular seeds type used by Mexican producers are Stoneville, and Chembred; all are imported from the United States. Nearly 80 percent of Mexican harvested cotton is mechanized, with manual harvests still popular in the La Laguna areas.

Production estimates for MY 2001/02 and 2002/03 have been revised slightly upward in line with updated official information from SAGARPA and the CMCA.

Production of cotton by state for MY 2002/03 and the production estimate by state for MY 2003/04 are as follows:

CROP PRODUCTION BY REGION/STATE	2002/03		2003/04*	
REGION AND STATE	HECTARES	PRODUCTION (BALES)	HECTARES	PRODUCTION ESTIMATED (BALES)
SONORA (SOUTH)	1,800	9,990	1,400	7,000
SONORA (NORTH)	950	3,800		
MEXICALI, BAJA CALIFORNIA	13,785	78,905	15,668	78,340
CD. JUAREZ, CHIHUAHUA	17,500	80,003	23,000	103,500
OJINAGA – JIMENEZ, CHIHUAHUA	2,500	12,062	13,000	60,900
LA LAGUNA, COAHUILA	1,457	8,524	6,500	35,750
TAMAULIPAS (NORTH)			2,000	4,000
TAMAULIPAS (SOUTH)			10,000	20,000
Total	37,992	193,284	71,568	309,490

*Preliminary Forecast
SOURCES: Confederation of Cotton Associations of the Mexican Republic, A.C.

Yields and Inputs

Cotton yields for MY 2003/04 are expected to reach 4.3 bales/ha, which is slightly lower than the last year. This reduction is because only the more productive areas were planted in MY 2002/03. The yields around the country traditionally vary. The overall average yield for the MY 2002/03 cotton crop, for example, was 5.0 bales/ha, with a range between 4.3 and 5.8 bales per hectare.

Also, costs of production for cotton vary according to areas. While in the Mexicali/San Luis area, for example, costs are reportedly around 11,000 pesos/ha (roughly US$ 1,100/ha). In other states, such as La Laguna, Coahuila costs are estimated at 9,000 -10,000 pesos/ha (US$ 900 - $1,000/ha). The breakdown of production costs for Mexicali/San Luis area are as follows:

COTTON PRODUCTION COST BUDGET STATE OF BAJA CALIFORNIA (PESOS PER HECTARE)	
ITEM	Spring/Summer 2002
LAND PREPARATION	1,407
PLANTING	502
FERTILIZING	644
IRRIGATION	848
CULTURAL PRACTICES	920
CONTROL OF DISEASE	3,035
HARVEST	2,075
OTHER COSTS	2,005
TOTAL	11,43

Exchange Rate: US $1.00 = $10.40 (May 20, 2003)
Source: Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA)

Production Policy

On February 20, 2003, SAGARPA announced it will pay producers of cotton and other crops 905 pesos per hectare (US$ 93/acre) during the 2003/03 spring/summer and the 2002/03 fall/winter planting seasons under its domestic support program, PROCAMPO. This payment is 3.5 percent greater than what SAGARPA paid during the same period in 2001/02. The announcement also indicates that farmers with producing areas of between one and five hectares will receive 1,030 pesos per hectare (US$ 106/acre).

Consumption

For MY 2003/04, consumption is expected to continue increasing and is initially forecast to rise by approximately 2.2 percent over the current year. Despite recent increases in cotton prices, Mexico’s cotton mill use has continued to be strong. The National Textile Industry Chamber (CANAITEX) indicates that the industry was supported basically by the foreign market and this trend will likely continue in MY 2003/04. The United States continues to be the principal market for Mexico's textile exports, accounting for 85 percent of total textile exports. At the same time, the relatively larger affluent population will be a positive factor. While Mexico's population is expected to continue increasing at approximately 1.5 percent per year, a slight growth in the economy is also expected. Some private forecasts predict an average economic growth of 2.0 percent during 2003. This growth should bolster textile fiber consumption. The cotton consumption estimate for MY 2002/03, has been revised upward based on data from Mexico’s National Textile Industry Chamber (CANAITEX) and CMCA.

Trade

Increased domestic production will cause a decrease in imports from 2.19 million bales in MY 2002/03 to 2.0 million bales in MY 2003/04. The United States is expected to continue being the main supplier. Mexican exports are expected to remain unchanged in MY 2003/04. As in the past, Asian markets are anticipated to be the main purchasers of Mexican cotton. The Mexican cotton import estimates have been revised upward in MY 2001/02 and 2002/03, in with SE's official data and industry sources.

Under the North American Free Trade Agreement (NAFTA), Mexico's tariffs on cotton imports were phased out on January 1, 2003. Also under NAFTA, the rules of origin for cotton textiles products (such as fiber and yarn forwarding provisions) ensure that only textiles from NAFTA countries benefit from tariff reductions. The following cotton products are subject to NAFTA rules of origin: a) Fiber-forward: cotton yarns; cotton knit fabrics; b) Yarn-forward: most cotton woven fabrics; most cotton/man-made blends; c) Fabric-forward: cotton luggage, handbags, flat goods, cotton fabrics that are coated, laminated, or impregnated; d) Single substantial transformation: men's shirts from certain high-count cotton fabrics; men's shirts from certain cotton/man-made blends; apparel from specific fabrics (corduroy, velveteen).

In addition, U.S. import restrictions (Section 22 quotas) on Mexican cotton were replaced by a NAFTA tariff rate quota, which remained in place until January 1, 2003, after which they were eliminated. In FY 2002, Mexican cotton importers used US$ 69.4 million of GSM-102 credit. For FY 2003, GSM-102 is expected to continue to stimulate additional sales. As of March 28, 2003, US$ 77.1 million of GSM-102 credit has been registered for cotton during FY 2003 (Sept-Oct).

Stocks

With total consumption expected to increase to 2.3 million bales in MY 2003/04, ending stocks are expected to decline 70,000 bales to 815,000 bales. The decrease in carryover is expected to reduce the stocks-to-use ratio from 38.9 to 35.1 percent. Stocks for MY 2001/02 and 2002/03 have increased from our previous forecast and estimate, reflecting more recent available information.

Marketing

The U.S. industry should continue to increase Mexican consumers' awareness of the advantages of cotton textile products. At the same time, Cooperators should continue to promote the consumption of natural fiber products over synthetics. Cotton Incorporated (CI) and the U.S. Cotton Council International (CCI) have continued to work actively in the Mexican market. There are a wide variety of activities and services that CI and CCI makes available to help develop U.S. cotton interests in Mexico. Similarly, the U.S. Agricultural Trade Office (ATO) in Mexico City and Monterrey encourage the U.S. cotton industry to take advantage of the benefits the USDA's GSM-102 and the Supplier Credit Guarantee Program (SCGP) export financing programs. The primary mission of the U.S. Agricultural Trade Offices (ATO) in Mexico City and Monterrey is to assist in the market development and promotion of U.S. food and agricultural products in the Mexican market. There are a wide variety of activities and services that the ATO offices, along with the CCI and CI, make available to help develop U.S. agricultural interests in Mexico.

Textile Industry

In CY 2002, textile output declined again for the second year in row, this year by 6.5 percent. It should be noted, however, that this reduction is lower compared to the severe contraction of 8.1 percent in CY 2001. According to Mexico's National Textile Industry Chamber (CANAITEX), the main problems the textile sector is facing are high levels of smuggling, the slow recovery of the U.S. economy, and relatively high costs of production. In addition, the drop in textile output also reflects the reduction in the apparel production, which declined by 10.4 percent in 2002.

CANAITEX pointed out, however, that in CY 2002, textile exports diminished only 2.4 percent compared with a year earlier. This decline represented a total value of U.S.$ 3,505.2 million, but was lower than previously expected as the textile industry has diversified its exports to several Latin American countries, such as the Dominican Republic, Guatemala and Nicaragua, thereby partially compensating for the fall in textile exports to the United States. At the same time, textile imports increased 1.5 percent in CY 2002, whereas textile imports for the "maquila" industries, which are typically re-exported, decreased 1.4 percent for the same period.

According to the Mexican Institute of Social Security (IMSS), employment in the textile sector diminished 2.7 percent in 2002, compared to 2001. As a result, CANAITEX estimated a loss of approximately 4,000 jobs in 2002. The negative output trend, however, is expected to reverse during CY 2003, assuming that both the U.S. and Mexican economies could recover this year.

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

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
%	2.9	3.7	-5	-7	1.1	-6.3	15.7	10.5	3.9	3.1	5.4	-8.1	-6.2

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

Data from CANAITEX also reflects the severe contraction that the Mexican textile industry has suffered as a result of the current economic problems. In CY 2002, imports of textile machinery and equipment totaled US$ 197 million, an astounding 38.4 percent decrease compared to a year earlier. According to preliminary information from CANAITEX, cotton fiber continues to represent approximately 50 percent of total fiber (synthetic and natural) consumed in Mexico, a similar figure as the previous year. The export apparel industry continues to be the main user of cotton fiber.

CANAITEX complains that the smuggling of illegal textile products continues to affect the textile industry, in spite of efforts by the federal government to control it. The contraband is mainly of Asian and Chinese origin. Industry sources have also complained of smuggling of third countries of textiles products (also Chinese origin). Reportedly, these products have been exported to Mexico as U.S. textile products, violating the NAFTA rules of origin for cotton textiles products. According to sources, the textile private sector has requested the GOM to challenge the United States in the World Trade Organization (WTO) in order to reduce the third country contraband. At the same time, CANAITEX also complains against the "maquila" industry, which is accused of being responsible the import of Chinese contraband. As a result, the CANAITEX has continued to petition the Mexican Ministry of Treasury (SHCP) and SE to establish stricter measures to control the flow of contraband into the country.

Despite the fact that the private textile and apparel association has centered its attention on the damage done by illegal competition, most analysts estimate that the recovery of the global economy, particularly the U.S. economy, in 2003 will totally reverse the economic downturn in the Mexican industries. Moreover, CANAITEX acknowledges NAFTA's advantages, namely duty-free and quota-free treatment of U.S.-formed and cut fabrics sewn in the Mexican "maquilas" (apparel assembly operations). As a comparison, Mexican textile producers, prior to NAFTA, had only a one-sixth market share of U.S. imports; currently they currently claim to be the third-largest textile exporter to the United States. Among NAFTA's advantages for U.S. cotton producers is that the U.S. apparel imports contain significant amounts of U.S.-grown fiber.