

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Voluntary Public

Date: July 6, 2012

GAIN Report Number: ET 1204

Ethiopia

Post: Addis Ababa

Ban on Cotton Exports Lifted

Report Categories:

Cotton and Products

Approved By:

Merritt Chesley

Prepared By:

Teddy Tefera

Report Highlights:

In April 2012 the Government of Ethiopia lifted a ban it had imposed in October 2010 on the export of cotton. The ban was imposed because of the government's desire to expand domestic textile production, and its assumption that textile growth would lead to an impending shortage in the supply of cotton. However, measures employed by the government over the past one and one-half years have succeeded in increasing cotton production levels, while at the same time outside competition led to a contraction in the domestic textile industry and a consequent drop in domestic cotton demand. Because of the excess supply of cotton, the ban was officially lifted, but the cumbersome approval process put into place has resulted in very few actual exports.

Cotton production a government priority

The government of Ethiopia's ambitious five-year Growth and Transformation Plan (GTP) gives special emphasis to export industries, including the textile and garment sector. Therefore, cotton production is a high priority, and the Ministry of Agriculture (MOA) aims to increase the current production level more than twofold, to 193,000 tons, by 2015. By the same time, plans are to increase export earnings from the textile industry to \$100 million, a dramatic threefold increase from the 2011 level of \$23 million.

To achieve these goals, the government (which owns all land in Ethiopia) is leasing large plots of land to investors at low prices, with priority given to cash crops. Of the 3 million hectares of land that the government has targeted for cotton production, 2.6 million hectares have been identified and made available to private investors for long-term leasing, specifically for cotton. Of that amount, less than five percent has been planted to cotton to date, leaving much room for growth.

Supply and Demand of Raw Cotton in Ethiopia

Marketing Year (Sept- August)	Cotton growing land (ha)	Cotton production (MT)	Local Demand (MT)
2010/11	80,000	60,000	60,000
2011/12	111,886	79,421	60,000

Source: MOA & Central Statistics Authority (not confirmed by FAS Addis Ababa)

In addition, MOA is also encouraging small-scale farmers to shift from sesame, which grows in many of the areas suitable to cotton, to cotton production, and has a special \$20 million credit line which cotton growers can access by producing a contract with a domestic textile and garment firm that will export its product. Loans are to be repaid after collection of sales proceeds.

Exports banned in 2010 due to short supply

The Ethiopian government banned exports of raw cotton in October 2010, despite the much-needed hard currency that these exports brought in. The ban was imposed because of high international cotton prices and because the government anticipated an increased demand from the local textile and garment industry. To compensate cotton growers, the government promised that cotton would be sold in local market at international prices, adjusted for freight and transportation costs.

Value of Cotton Export (Millions of US Dollars)

Commodity	Marketing Years (Sept-August)				
	2006/07	2007/08	2008/09	2009/10	2010/11
Cotton	14.3	19.2	5.8	10.6	0.5

Source: Ethiopian Customs and Revenue Authority

A team of government institutions, comprising the Ministry of Agriculture, the Ministry of Trade (MOT), and the Ethiopian Textile Industry Development Institute (ETIDI), set the local selling price, and promised to review this price on a quarterly basis to ensure consistency with international prices. Originally set at 42.78 Birr (\$3.21) per kilogram in November 2010, the price was raised to 57 Birr (\$3.43) in February 2011. Following a significant decline in world prices, the government removed the price cap on cotton in August 2011.

Government allows export of raw cotton

Ethiopian cotton production has increased considerably since the introduction of government incentives mentioned above. However, rather than expanding domestic textile production, as the government expected, Ethiopian textile companies in fact contracted somewhat, due to increasing competition from textiles from other countries, especially China. With large stocks of raw cotton carried over from last year, the local textile industry has bought so far only 22,000 tons of raw cotton in the first three-quarters of this marketing year, substantially lower than available local production.

Because of this, after months of lobbying by cotton growers, the government lifted the ban on cotton exports, effective April 2012. The MOA, the National Bank of Ethiopia (NBE), and ETIDI continue to monitor the trade, to ensure that Ethiopian export prices of cotton are not less than the prevailing international market price. Furthermore, in order to export, cotton exporters must first get permission from three separate government agencies (MOA, MOT, and NBE). This burdensome procedure has discouraged exporters, with the result that very little cotton has been exported despite the lifting of the ban, and cotton growers continue to complain about the situation.