

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Egypt

Beyond All Expectations: Egypt's 2016 Cotton Production Set to Plummet

Report Categories:

Cotton and Products

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Report Highlights:

Post is revising Egypt's MY2016/17 cotton PSD as the latest field surveys indicate a dramatic plunge in planted area of 50 percent to 50,000 ha from MY2015/16, as farmers are particularly wary of planting cotton without a strong government commitment to market the crop. In consequence, production is revised down from 395,000 bales to an all-time low of 160,000 bales, a drop of 53 percent from last year's production of 320,000 bales. Post maintains its forecast of lint consumption at 590,000 bales. Imports are forecast to increase by 18 percent to 530,000 bales, while exports are forecasted to decrease to 120,000 bales, a drop of 20 percent from last year.

General Information:

Production:

Post is revising cotton production downwards from 395,000 bales to a record low of 150,000 bales, a drop of 53 percent or 170,000 bales from last year's production of 320,000 bales. The drop in production is due to a jaw-dropping decline in area planted of 50 percent to just 50,000 ha compared to 100,000 ha last year. Post attributes the drop in area planted to cotton farmers' concern in terms of their ability to market the crop, especially with the lack of strong commitment from the government that it will buy the crop from farmers. Egypt's industry is relying less on the domestic crop which is comprised mostly of extra-long staple and long staple varieties, while users' needs have shifted to medium and short staple varieties.

On May 23, 2016, the Ministry of Agriculture and Land Reclamation (MALR) released their survey stating that 51,000 ha have been planted to cotton this year compared to 97,000 ha last year, a drop of 47 percent. MARL's report indicated that 40,000 ha were planted with extra-long and long staple varieties in the Delta Region compared to 85,000 ha last year, a drop of 53 percent, while 11,000 ha were planted with medium staple varieties in the Upper Egypt Region, the same as in 2015.

This historic drop in cotton area came unexpectedly as both the government and the cotton industry's consensus on the worst case scenario was that area would remain unchanged from MY2015/16. Before the onset of planting, media reports indicated that a gentlemen's agreement had been reached between the textile industry and the MALR to limit production to 100,000 ha, in order to avoid marketing problems. Moreover, during the first weeks of planting, announcements made by some local agricultural officials in different governorates indicated that the area planted would increase by 10 to 20 percent. For instance, in Kafr El-Sheikh governorate, one of the largest cotton growing governorates, local agricultural officials announced that area for the 2016/17 crop would be 35,700 ha compared to 32,000 ha in 2015/16.

Marketing Challenges:

In the 1980s, Egypt grew as much as 500,000 ha of cotton per year, but this area decreased to 400,000 ha per year in the 1990s. By MY2000/01, Egypt's cotton area was down to 223,000 ha, continuing to drop and reaching 100,000 ha by MY2015/16. The drop is attributed mainly to the changes taking place in the world textile industry responding to consumer preferences and newer technologies.

Consumer preference shifted heavily to garments such as denim, t-shirts, jeans, and others that require short and medium staple cotton, outpacing the demand for higher-end clothing and bed sheets that use extra-long and long staple cotton varieties. Additionally, with the introduction of new technologies, manufacturers were able to efficiently produce the types of yarns from short and medium staple cotton, which previously could only be produced from extra-long and long staple cottons. World consumption of extra-long and long staple varieties decreased, currently accounting for only 2.5 percent of total global consumption.

Unfortunately, the Egyptian Government and the country's growers failed to adapt to the changing scenario. To this day, Egypt's cotton production is made up of about 90 percent extra-long and long

staple varieties, while 10 percent are short and medium staple varieties. As demand for extra-long and long staple cotton diminished and prices were less attractive, production declined as less efficient farmers were unable to market their crop successfully. To mitigate this problem, the government instituted policies focusing on subsidizing extra-long and long staple cotton through a series of mechanisms. The policies worked for a while, containing further decreases in production; however, in the last couple of years as the government tried to reduce its subsidies, it has become evident that the policies only exacerbated the problem as farmers have been unable to market their output.

Despite announcing prices for the local cotton production on May 10, 2016, the announcement came in late and the Egyptian Government did not make it clear whether it would buy the cotton production from farmers through the Holding Company for Textile, Weaving and Spinning (HCTWS), as it did for the 2015 crop. Therefore the government's late announcement (usually announced before the onset of planting) and the lack of a firm commitment to buy the crop made farmers wary that they would end up with a crop they would be unable to sell, resulting in a larger-than-expected drop in cultivated area. Of late, the government has come in for withering criticism from the Parliament, with the Committee of Agriculture and Irrigation summoning the Minister of Agriculture and Land Reclamation, Dr. Essam Fayed, twice to discuss the current situation.

Purchase prices announced are EGP 1,250 (\$140.7) per qintar (or \$682/bale), a small drop from the EGP 1,300 (\$146.3) per qintar (or \$709/bale) offered last year, for extra-long and long staple varieties and EGP 1,100 (\$123.8) per qintar (or \$600/bale), a similar drop from the EGP 1,150 (\$129) per qintar (or \$625/bale) offered last year for the short and medium staple varieties grown in Upper Egypt.

Rice Instead of Cotton:

On May 26, 2016, the Minister of Irrigation and Water Resources (MIWR) was quoted as stating that the area planted to rice is expected to increase this year, exceeding the allowable area set by the government at 462,000 ha (Post forecasts MY2016/17 rice area at 650,000 ha ([Grain and Feed GAIN Annual Report 2016](#)). This result is attributed to the increase in prices of paddy and milled rice, making it attractive to many cotton farmers to shift their production to rice.

Trade:

The massive fall in local cotton production will dramatically affect Egypt's cotton exports and imports. Post is revising cotton lint exports downward from an initial estimate of 200,000 bales to 120,000 bales, a drop of 20 percent or 30,000 bales from last year's exports of 150,000 bales. It's estimated that 80 percent of Egypt's cotton production will be exported, with the rest consumed locally. Exports have become attractive due to the expected increase in international cotton prices and the devaluation of the Egyptian pound, which in a year has gone from EGP 7.88 to EGP 8.88 for \$1, but EGP 11 for \$1 in the black market.

Cotton imports are increased from an initial estimate of 400,000 bales to 530,000 bales, an increase by 18 percent or 80,000 bales compared to last year imports of 450,000 bales. The increase in imports will be necessary to compensate for the drop in local production.

Cotton Market Begin Year	2014/2015		2015/2016		2016/2017		
	Aug 2014		Aug 2015		Aug 2016		
	USDA Official	New Post	USDA Official	New Post	USDA Official	Old Post	New Post
Egypt							
Area Planted	0	0	0	0	0	0	0
Area Harvested	157	157	100	100	120	120	50
Beginning Stocks	189	189	189	189	179	179	179
Production	525	525	340	320	400	395	160
Imports	335	335	450	450	400	400	530
MY Imports from U.S.	0	0	0	0	0	0	0
Total Supply	1049	1049	979	959	979	974	869
Exports	200	200	150	150	200	200	120
Use	650	650	650	620	580	580	580
Loss	10	10	10	10	10	10	10
Total Dom. Cons.	660	660	660	630	590	590	590
Ending Stocks	189	189	169	179	189	184	159
Total Distribution	1049	1049	979	959	979	974	869

(1000 HA) ,1000 480 lb. Bales