

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Egypt

### Cotton and Products Annual 2014

**Approved By:**

Ron Verdonk

**Prepared By:**

Mohamed Hamza

**Report Highlights:**

Post forecasts total lint cotton production to decrease by 15 percent at 370,000 bales in MY2014/2015.

The expected decrease in production will result from an anticipated drop in total area planted by 15 percent at 110,000 HA in MY2014/2015. Consumption is forecast to remain stable at 610,000 bales in MY2014/2015. Total imports are forecast to increase by 12.5 percent to a record 450,000 bales, up by 50,000 bales compared to the current marketing year. In MY2013/2014, the government refrained from announcing the indicative prices for domestic cotton before the planting time. According to Egypt's new constitution, the state is committed to purchase basic agricultural crops, including cotton, at a reasonable price so as to achieve a fair return for the farmer.

## **Commodities:**

Cotton

### **Production:**

Post forecasts total lint cotton production to decrease by 15 percent at 370,000 bales in MY2014/2015. The decrease in production is due to the drop in total area planted by a forecast 15 percent at 110,000 HA in MY2014/2015. Post estimates total lint cotton production was 435,000 bales and total area planted at 130,000 HA in MY2013/2014.

FAS Cairo's analysis is that the drop in total area planted in MY2013/2014 and MY2014/2015 is attributable to farmers' reluctance to grow cotton while shifting to more profitable crops like rice and corn. The key factors influencing farmers' decisions are the government's new policy to avoid announcing support prices and difficulties encountered in marketing the domestic crop.

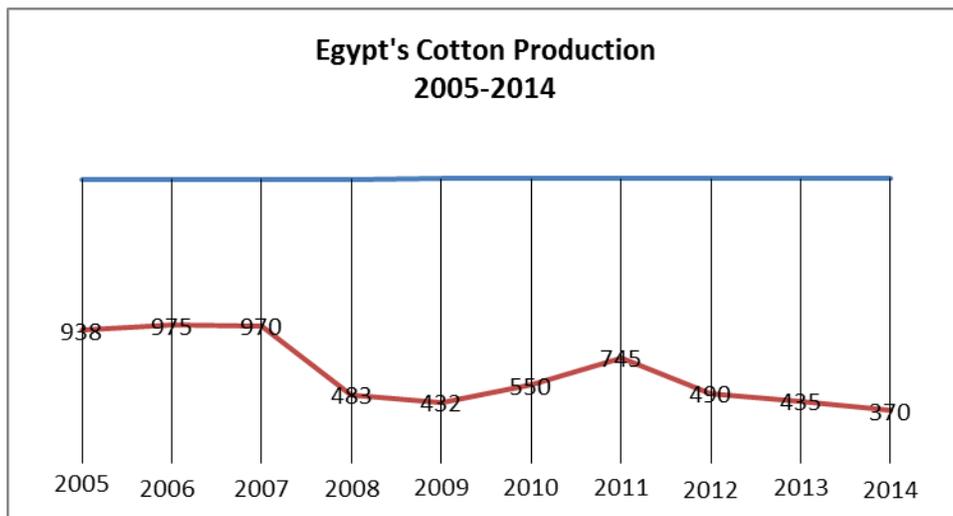
The government indicative prices for cotton, much like the procurement prices for corn and wheat, often exceed international prices and are intended to encourage farmers to expand total area planted. Moreover, the government pays LE 200/ton (US\$ 28/ton) to mills and traders to encourage purchasing of local cotton. This subsidy reduces the gap between prices for locally-produced cotton versus imported varieties.

For the 2013/2014 crop, the government did not announce indicative prices before (or after) producers planted and most likely will not indicative prices for the 2014/2015 season. In MY2012/2013, the total amount of subsidy paid to mills and traders to use locally-produced cotton was nearly LE225 million (US\$ 33 million). During MY2013/2014, the government announced that it would pay only LE170 million (US\$24 million), instead of the LE200 million (US\$28.5 million) requested by local mills and traders, as subsidies for local cotton mills to encourage them to buy the domestic cotton.

The government's new policy comes after the cotton marketing crisis that caused problems starting from MY2011/2012 and which is expected in MY2014/2015. The crisis started when the government announced, before the planting season, the indicative prices that cotton farmers could expect for their crop which were far higher than international prices prevailing at the time. Producers were encouraged to increase area planted by almost 37 percent, seeking more profits in selling their production with these high prices announced by the government.

As it turned out, because the announced prices were so high relative to prevailing international market pricing, farmers were unable to market their crop. The cotton milling industry found it cheaper to buy their main input from the international marketplace rather than use domestic cotton even with the government's subsidy of LE200/ton. As a consequence, farmers were reluctant to grow cotton and total area planted dropped in MY2012/2013 from 220,000 HA to 143,000 HA.

The Ministry of Agriculture and Land Reclamation (MALR) announced its projection that 154,377 HA would be planted to cotton in the 2014/2015 planting season. However, post notes that similar announcements for forecast cotton area during recent years have not been met.



Source: USDA Numbers in U.S. bales

### **Cotton Varieties Produced:**

Egypt produces three different varieties of cotton: 1) Extra-long staple (ELS); 2) Long staple (LS) and 3) Short and medium staple cotton. Extra-long staple cotton consists of five main varieties (i.e., Giza 45, Giza 70, Giza 87, Giza 88, and Giza 92); however, the main variety among the extra-long staple varieties is Giza 88. This variety accounts for 20 percent of Egypt's total production and is grown in the northern part of the country.

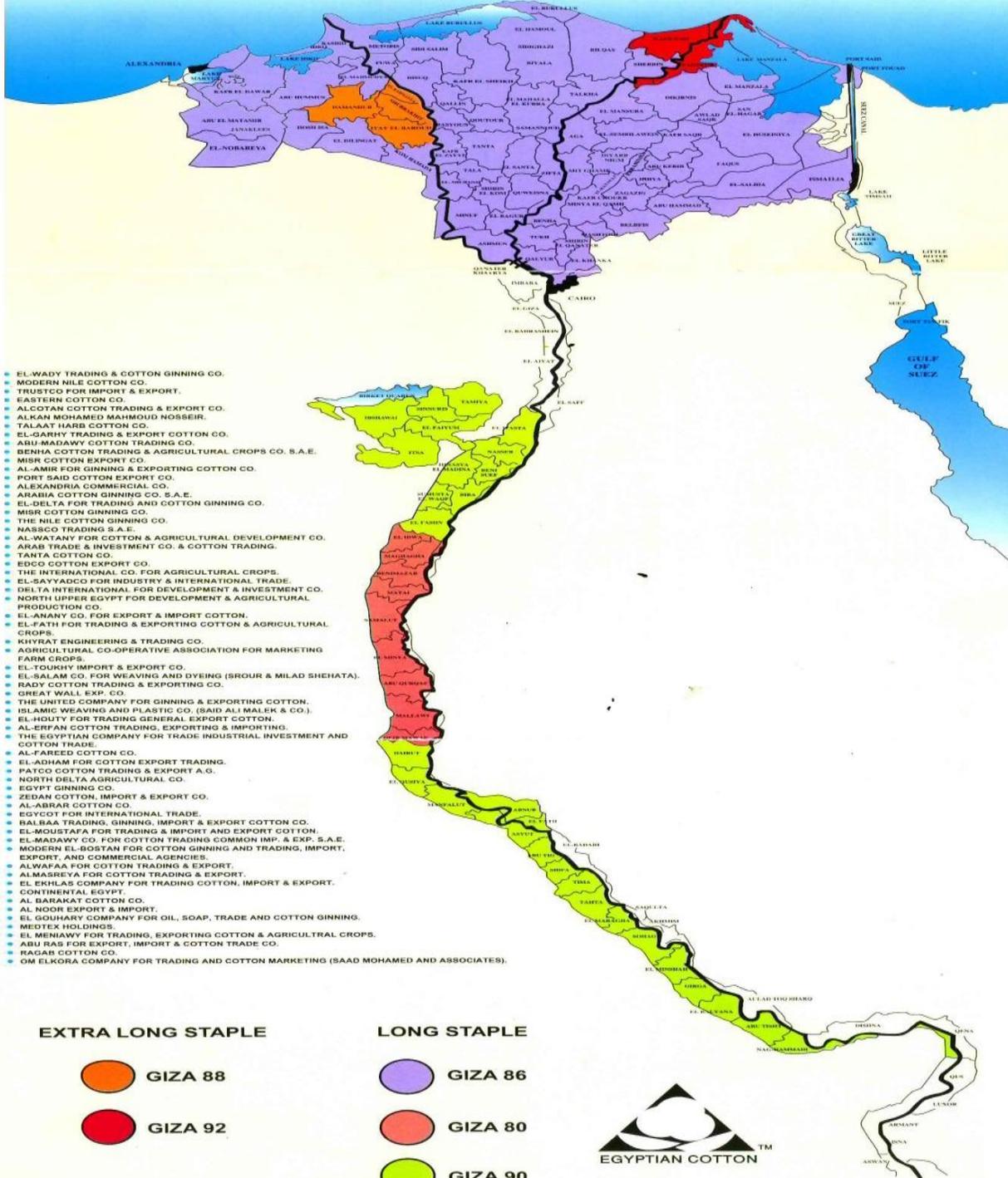
Of the long staple cotton varieties, Giza 86 is the main variety and accounts for 70 percent of Egypt's total cotton production. Long staple cotton is grown in the Nile Delta area. The third variety grown in Egypt is short and medium staple (Giza 80 and Giza 90) cotton which accounts for about 10 percent of total cotton production. This variety is grown mainly in Upper Egypt (Southern Egypt) (see cotton map for 2013/2014) season.



# Alexandria Cotton Exporters' Association

## COTTON MAP 2013 / 2014 SEASON

MEDITERRANEAN SEA



- EL-WADY TRADING & COTTON GINNING CO.
- MODERN NILE COTTON CO.
- TRUSTCO FOR IMPORT & EXPORT.
- EASTERN COTTON CO.
- ALCOTAN COTTON TRADING & EXPORT CO.
- ALKAN MOHAMED MAHMOUD NOSSEIR.
- TALAAT HARB COTTON CO.
- EL-GARHY TRADING & EXPORT COTTON CO.
- ABU-MADAWY COTTON TRADING CO.
- BENHA COTTON TRADING & AGRICULTURAL CROPS CO. S.A.E.
- MISR COTTON EXPORT CO.
- AL-AMIR FOR GINNING & EXPORTING COTTON CO.
- PORT SAID COTTON EXPORT CO.
- ALEXANDRIA COMMERCIAL CO.
- ARABIA COTTON GINNING CO. S.A.E.
- EL-DELTA FOR TRADING AND COTTON GINNING CO.
- MISR COTTON GINNING CO.
- THE NILE COTTON GINNING CO.
- MASSCO TRADING S.A.E.
- AL-WATANY FOR COTTON & AGRICULTURAL DEVELOPMENT CO.
- ARAB TRADE & INVESTMENT CO. & COTTON TRADING.
- TANTA COTTON CO.
- EDCO COTTON EXPORT CO.
- THE INTERNATIONAL CO. FOR AGRICULTURAL CROPS.
- EL-SAYYADCO FOR INDUSTRY & INTERNATIONAL TRADE.
- DELTA INTERNATIONAL FOR DEVELOPMENT & INVESTMENT CO.
- NORTH UPPER EGYPT FOR DEVELOPMENT & AGRICULTURAL PRODUCTION CO.
- EL-ANANY CO. FOR EXPORT & IMPORT COTTON.
- EL-FATH FOR TRADING & EXPORTING COTTON & AGRICULTURAL CROPS.
- KHYRAT ENGINEERING & TRADING CO.
- AGRICULTURAL CO-OPERATIVE ASSOCIATION FOR MARKETING FARM CROPS.
- EL-TOUKHY IMPORT & EXPORT CO.
- EL-SALAM CO. FOR WEAVING AND DYEING (SROUR & MILAD SHEHATA).
- RADY COTTON TRADING & EXPORTING CO.
- GREAT WALL EXP. CO.
- THE UNITED COMPANY FOR GINNING & EXPORTING COTTON.
- ISLAMIC WEAVING AND PLASTIC CO. (SAID ALI MALEK & CO.).
- EL-HODTY FOR TRADING GENERAL EXPORT COTTON.
- AL-EFPAN COTTON TRADING, EXPORTING & IMPORTING.
- THE EGYPTIAN COMPANY FOR TRADE INDUSTRIAL INVESTMENT AND COTTON TRADE.
- AL-FAREED COTTON CO.
- EL-ADHAM FOR COTTON EXPORT TRADING.
- PATCO COTTON TRADING & EXPORT A.S.
- NORTH DELTA AGRICULTURAL CO.
- EGYPT GINNING CO.
- ZEGAN COTTON, IMPORT & EXPORT CO.
- AL-ABRAR COTTON CO.
- EGYCOT FOR INTERNATIONAL TRADE.
- SALBA TRADING, GINNING, IMPORT & EXPORT COTTON CO.
- EL-MOUSTAFA FOR TRADING & IMPORT AND EXPORT COTTON.
- EL-MADAWY CO. FOR COTTON TRADING COMMON IMP. & EXP. S.A.E.
- MODERN EL-BOSTAN FOR COTTON GINNING AND TRADING, IMPORT, EXPORT, AND COMMERCIAL AGENCIES.
- ALWAFAA FOR COTTON TRADING & EXPORT.
- ALMASREYA FOR COTTON TRADING & EXPORT.
- EL EKHLAS COMPANY FOR TRADING COTTON, IMPORT & EXPORT.
- CONTINENTAL EGYPT.
- AL BARAKAT COTTON CO.
- AL NOOR EXPORT & IMPORT.
- EL GOUHARY COMPANY FOR OIL, SOAP, TRADE AND COTTON GINNING.
- MEDTEX HOLDINGS.
- EL MENIAWY FOR TRADING, EXPORTING COTTON & AGRICULTURAL CROPS.
- ABU RAS FOR EXPORT, IMPORT & COTTON TRADE CO.
- FAGAR COTTON CO.
- OM ELKORA COMPANY FOR TRADING AND COTTON MARKETING (SAAD MOHAMED AND ASSOCIATES).

**EXTRA LONG STAPLE**

- GIZA 88
- GIZA 92

**LONG STAPLE**

- GIZA 86
- GIZA 80
- GIZA 90



**Consumption:**

Post forecasts Egypt's total cotton consumption to remain stable at 610,000 bales in MY2014/2015. Previously, local spinners were the main consumers for domestically produced cotton, absorbing about 75 percent of their requirements from local production and 25 percent from imports. But the situation has changed considerably so that in MY2013/2014, imports represent 66 percent of total domestic supply.

In recent years, cotton mills have shifted to consume more imported cotton and less domestically produced cotton. In MY2013/2014, out of the 610,000 bales estimated total cotton consumption 400,000 bales will have been imported. Again, the shift is due to the increase in prices of local cotton versus imported cotton. Cotton mills found it cheaper to import their needs from international suppliers instead of buying expensive domestic cotton. In addition, industry sources point out that local cotton mills are equipped with machines that only work with medium and short staple cotton, and Egypt has less production of these types of cotton.

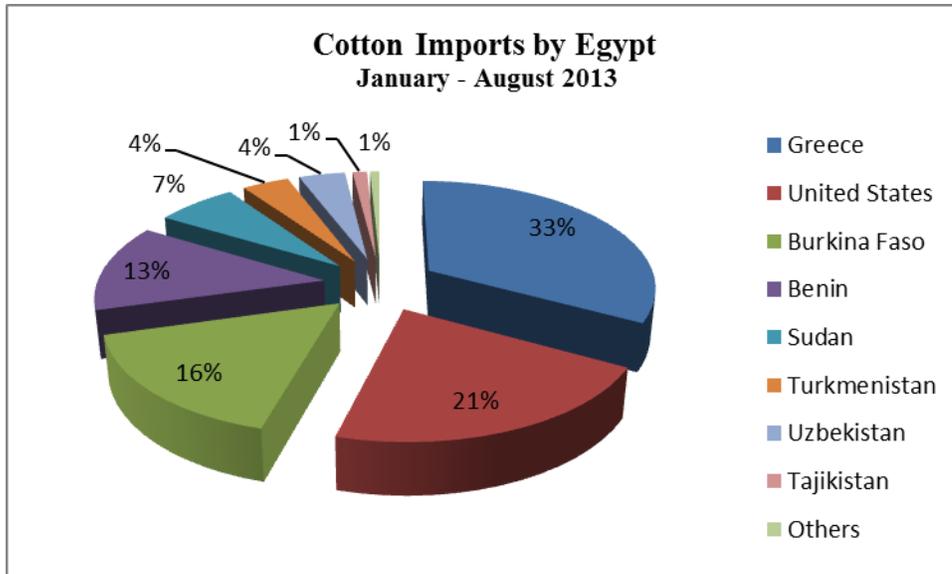
Industry sources add that the problem is not just the high prices of local cotton; rather it is the inability to provide the industry with the needed varieties and quantities of raw cotton. The local production of long-staple cotton cannot be used by the majority of yarn factories in Egypt. Media reports indicate that many textiles and spinning companies have to work at half their production capacity due to supply shortages, to the point that some factories have laid off workers to limit losses. Some factories are suffering from almost a 30 per cent drop in the quantity of sales.

By the end of February 2014, roughly 31,000 bales of local lint cotton has been delivered by traders to spinning mills. This amount is only equivalent to only 7 percent of total production and 5.5 percent of total supply (production and stocks excluding imports).

**Trade:**

For the coming marketing year, FAS Cairo forecasts total imports to increase by 12.5 percent to a record 450,000 bales, up by 50,000 bales compared to the current marketing year. Post attributes this increase to greater demand by local mills for short and medium staple cotton which is better suited to their production capabilities and market needs. Also, the expected increase in cotton imports is attributed to the drop in total domestic cotton production of all varieties including short and medium staple cotton which is needed by a wide range of local mills.

In the last few years, Egypt has largely sourced its cotton imports from the United States and Greece. In MY2013/2014, importers indicate that a number of shipments have been sourced from Burkina Faso which is expected to be a significant competitor to the U.S. and Greece in the coming years. Currently, Egypt allows cotton imports from Uzbekistan, Turkmenistan, Kazakhstan, United States, Greece, Sudan, Benin, Burkina Faso, Syria and Turkey.



Data: GTA

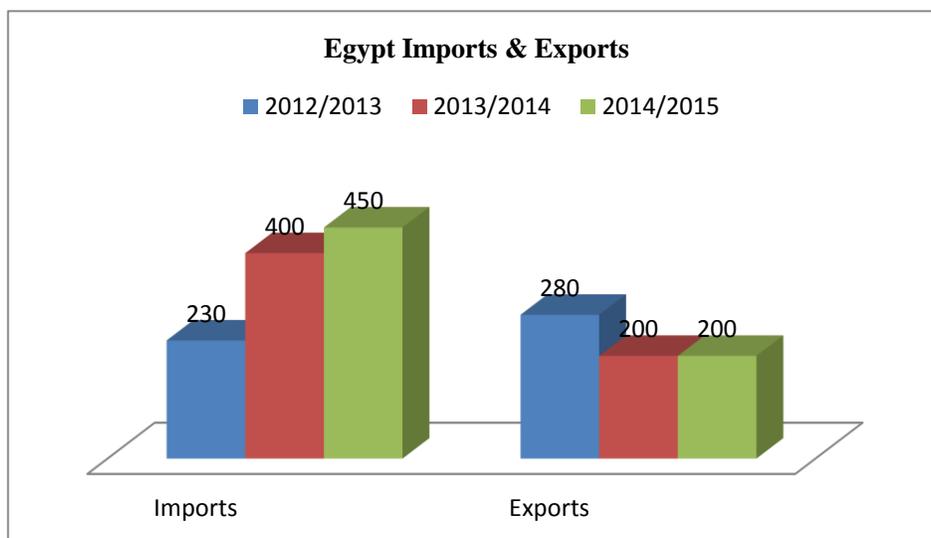
Exports are forecast to remain stable at 200,000 bales in MY2014/2015, same as the current year. Exports have declined in MY2013/2014 by 80,000 bales or 28 percent. The decline in exports is due to lower quality of the extra-long varieties Giza 88 and Giza 86 in addition to high prices. Sources indicate that the diminished quality and the lower specifications of Giza 88 was the result of mixing seed varieties and mixing extra-long staple cotton varieties like Giza 88 and 86 with medium staple varieties like Giza 90. Cotton varieties are mixed because traders seek additional profits as prices of extra-long staple varieties usually are higher than medium and short staple varieties.

The law prohibits transporting seed cotton between governorates without a permit from the Ministry of Agriculture and Land Reclamation. So, transporting seed cotton from the Upper Egypt area which produces Giza 80 and 90 medium and short staple cotton to the Delta which produces extra and long staple cotton like Giza 86 and 88 is prohibited by law unless permitted by MALR. However, due to the disruption in security following the January 2011 revolution, the application of this law has faced difficulties. The mixing of cotton varieties usually results from the need for ginning seed cotton to separate the seed from the lint. Sometimes separation of a huge amount of seed cotton by lots is very difficult, thus occasioning the mixing of seed from different lots of cotton.

India, Germany, China, Switzerland, Italy, Turkey and Malaysia were Egypt's top export destinations in MY2013/2014 and are expected to remain so in MY2014/2015. According to the Alexandria Cotton Export Association (ALCOTEXA), total export commitments through the beginning of March 2014 were almost 105,000 bales compared to 200,000 bales during same period last year. However, nearly 13 percent of total commitments are exported to Egypt's free zones while 27 percent goes to India and 13 percent to Germany.

In November 2010, the United States obtained access for upland cotton to the Egyptian market after lengthy negotiations concerning the efficacy of cleaning, ginning and universal compression baling in eliminating the risk of boll weevil. U.S. pima cotton previously had access due to Egypt recognizing

California and Arizona as boll weevil-free areas. Since November 2010, Egypt has allowed importation of U.S. cotton from all states except Texas, but has still required fumigation. As a result, U.S. cotton exports increase from \$12 million in CY 2010 to \$47 million in 2011. U.S. upland cotton is valued by Egypt's textile industry for both domestic and export products.



Source: FAS/Cairo Cotton Annual Reports

### **Stocks:**

Post forecasts MY2014/2015 ending stocks at 174,000 bales compared to 164,000 bales in the current marketing year.

### **Policy:**

Currently Egypt does not restrict or ban cotton imports as was the case between October 2011 and March 2013. As has come to be expected each year, farmers and traders are pressuring the government to ban cotton imports and force traders and processors to buy their crop. The Holding Company for Spinning and Weaving (HCSW), which is a state-owned company and responsible for buying domestic cotton, is reluctant to buy local cotton due to its high price compared to international prices.

In early March 2014, Ibrahim Mehleb, the newly appointed Prime Minister, announced that the government will allow imports of cotton from all origins and also eliminate the fumigation requirement at origins to facilitate these imports. FAS Cairo understands that the Ministry of Agriculture and Land Reclamation's CAPQ has not received any instructions from the Prime Minister for allowing cotton from all origins and eliminate the fumigation requirement at origin.

The Prime Minister's announcement came after tens of thousands of workers at the HCSW in El-Mahala City, north of Cairo, were on strike requesting overdue wages and to develop policies that could improve the industry. Reports indicate that one of the main issues that face the industry that was brought to the attention of the Prime Minister is the lack of short and medium staple cotton varieties that is needed by the majority of yarn factories.

Currently, the government requires fumigation at origin for all imported cotton and cotton bales shipped to Egypt which should be free of any seeds (whole or broken), as well as free of foreign particle matter, insects, and other foreign matter.

### Marketing:

The Egyptian Government previously paid support prices, but since 2011, it has announced indicative prices and no longer purchases cotton; therefore, these prices have no market impact. Nevertheless in order to encourage traders to buy domestic cotton, the government does subsidize mills with LE200/qintar (\$29/~160 kg). This policy has led to marketing problems during the last few years as traders have found it cheaper to source their needs from foreign suppliers, and farmers have refused to sell their crop with prices lower than the announced indicative prices. In many cases, farmers were forced to sell their seed cotton with prices lower than the indicative prices.

It is worth mentioning that Egypt’s new constitution, approved by 98.1 percent of those who voted, states for the first time that the state is committed to purchasing basic agricultural crops at a reasonable price so as to achieve a fair return for the farmer, based on agreement with agricultural unions and associations. Cotton is clearly one of Egypt’s staple or traditional agriculture crops, so the government, depending on the interpretation of the new constitution, will presumably work to ensure producers are fairly compensated.

### Prices:

Early this year, the HCSW announced that it is ready to buy all domestic cotton with prices equal to international prices. The company offered LE900/qintar (US\$128/qintar) or LE 5,715/MT (US\$816/MT) for Upper Egypt short and medium staple seed cotton Giza 80 and 90, and LE1000/qintar (US\$ 143/qintar) or LE 6,350/MT (US\$907/MT) for extra-long and long staple seed cotton. However, farmers and traders refused to sell their crop at these prices and claimed that they were lower than the actual costs for growing the cotton and would result in considerable loss to farmers. Farmers contended that fair prices are LE1200/qintar (US\$ 171/qintar) or LE7,620/MT (US\$1,088/MT) for Upper Egypt short and medium staple seed cotton Giza 80 and 90 and LE1350/qintar (US\$ 193) LE8,572/MT (US\$1,224) for extra-long and long staple seed cotton which are almost 40 percent higher than international prices at this time. (~ 1 qintar of seed cotton = 157.5 kg)

### Value-Added Cotton:

According to the Central Bank of Egypt, in 2011/2012, the production of cotton yarn and fibers totaled nearly 336.5 TMT compared to 320.5 TMT the previous year. Synthetic fibers’ production increased from 109.2 TMT in 2010/2011 to 114.7 TMT in 2011/2012. The private sector share of the total production for yarn and synthetic fibers is significantly higher than for the public sector.

Table (1): Cotton yarn, fibers and synthetic fibers production

Product	2009/2010			2010/2011			2011/2012		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
Cotton yarn, fibers	82.4	231.8	<b>314.2</b>	84.3	236.2	<b>320.5</b>	N/A	N/A	<b>336.5</b>
Synthetic fibers	3.2	105.7	<b>108.9</b>	3.3	105.9	<b>109.2</b>	N/A	N/A	<b>114.7</b>

The industry suffers from structural problems related to continued use of older equipment and a general lack of technological improvements. It also suffers financially due to surplus labor and the burden of the debts owed to banks. For example, the failure to integrate newer technologies hampers the development of the spinning and weaving industry and makes it less competitive in the global market.

In addition to outdated machinery and equipment, lack of spare parts and inadequate maintenance, there is some shortfall in skilled labor.

As mentioned before, compounding the high price of domestic cotton which represents at least 70 percent of the total cost of spinning production, the local production of long-staple cotton cannot be used by the majority of yarn factories in Egypt. World textile production has shifted to medium and short staple cotton for producing yarn and fabrics while extra-long and long staple varieties are used in certain textile production. Additionally, prices of domestic cotton and how it is marketed are changing, and these factors directly affect the sales price to spinning facilities, and in turn, the cost of production for the spinning, weaving and apparel industries. In sum, the majority of the textile industry depends on imported medium and short staple raw cotton and cotton yarn which are cheaper and fit their production needs.

The Government of Egypt continues to impose various taxes on the industry which adds to the burden on yarn and spinning companies, including the sales tax (18%), the tax on imported machinery (10%), the custom duties on assets ranging from 15% to 40%, the general revenue tax ranging from 8% to 50% and the commercial and industrial profits tax (32%).

Cotton yarn exports were estimated at 26,000 MT in 2013 compared to 21,780 MT in 2012 and 27,457 MT in 2011. Italy, Turkey, Portugal, Spain, Pakistan and the United States are Egypt's main export destinations for cotton yarn. Cotton fabric exports were estimated at 15,000 MT in 2013 compared to 5,387 MT in 2012 and 3,644 MT in 2011. Turkey and Pakistan are Egypt's main export destinations for cotton fabrics.

Turkey is one of Egypt's main buyers of cotton yarn. Turkey cancelled protective tariffs on cotton yarn imports from Egypt and other suppliers, effective January 1, 2013, which has provided an excellent opportunity for Egypt to increase exports of cotton yarn to Turkey. Egyptian yarn exports benefit from zero in-quota tariffs granted under the free trade agreement between Cairo and Ankara. Also, given the proximity, lower transport costs for Egyptian exports give Egyptian yarn an advantage over competitors from Southeast Asia.

Cotton yarn imports were estimated at 40,000 MT in 2013 just as they were in 2012, compared with 65,584 MT in 2011. Cotton fabric imports were estimated at 25,000 MT in 2013 compared to 22,000 MT in 2012. India, Turkey, China and Syria are Egypt's suppliers for cotton yarn and cotton fabrics. Egypt protects its domestic cotton yarn industry. Since July 2012, Egypt has applied gradual definitive safeguard duties (Minister of Industry and Foreign Trade's decree number 589/2012) on imports of cotton yarn and cotton mixed yarns for a three-year period ending December 2014. The duties were LE3.48/kg (US\$ 1 = LE 6.99) during the period from July 2012 through December 2012, LE3.13/kg for 2013 and LE2/kg for 2014.

Variety	Beginning stock at September 1 <sup>st</sup> , 2013	Lint produced 2013/14	Total Supply 2013/14	Spinning delivered till March 2 <sup>nd</sup> , 2014	Export Commitments till March 2 <sup>nd</sup> , 2014	Total Distribution	Remaining in March 2 <sup>nd</sup> , 2014	Commitments till March 2 <sup>nd</sup> , 2014
Giza 45	0	0	0	0	0	0	0	0
Giza 70	92	0	92	0	0	0	92	0
Giza 87	62	0	62	0	62	62	0	62
Giza 88	20,496	21,269	41,765	1,299	13,157	14,456	27,309	8,075
Giza 92	109	6,605	6,714	0	2,154	2,154	4,560	1,433
Giza 86	20,480	355,271	375,751	25,639	77,990	103,628	272,122	47,201
Giza 80	57	343	400	0	0	0	400	0
Giza 90	94	30,137	30,232	8,670	0	8,670	21,561	0
Under Trial	186	0	186	0	0	0	186	0
Mixed Exports' Type (E.T)	2,002	0	2,002	0	351	351	1,652	0
<b>Total</b>	<b>43,580</b>	<b>413,625</b>	<b>457,205</b>	<b>35,608</b>	<b>93,713</b>	<b>129,321</b>	<b>327,884</b>	<b>56,771</b>

Data: in 480 lb. Bales

Source: IDC/CATGO

Cotton Egypt	2012/2013		2013/2014		2014/2015		
	Market Year Begin: Aug 2012		Market Year Begin: Aug 2013		Market Year Begin: Aug 2014		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Planted	0	0	0	0		0	(1000 HA)
Area Harvested	143	143	130	130		110	(1000 HA)
Beginning Stocks	259	259	139	139		164	1000 480 lb. Bales
Production	490	490	450	435		370	1000 480 lb. Bales
Imports	230	230	400	400		450	1000 480 lb. Bales
MY Imports from U.S.	0	0	0	0		0	1000 480 lb. Bales
Total Supply	979	979	989	974		984	1000 480 lb. Bales
Exports	280	280	225	200		200	1000 480 lb. Bales
Use	550	550	550	600		600	1000 480 lb. Bales
Loss	10	10	10	10		10	1000 480 lb. Bales
Total Dom. Cons.	560	560	560	610		610	1000 480 lb. Bales
Ending Stocks	139	139	204	164		174	1000 480 lb. Bales
Total Distribution	979	979	989	974		984	1000 480 lb. Bales