

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Cotton and Products Annual 2016

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Report Highlights:

Post forecasts total lint cotton production to increase by 23 percent to 395,000 bales in MY2016/17. The expected increase in production is a result of an anticipated increase in total planted area of 20 percent to 120,000 ha from MY2015/16 and an increase in yields from 3.2 bales/ha to 3.3 bales/ha. Consumption is forecast to drop by 6 percent or 40,000 bales to 590,000 bales in MY2016/17. In turn, total lint cotton imports are forecast to drop by 11 percent or 50,000 bales to 400,000 bales in MY2016/17 compared to 450,000 bales in the current marketing year. Exports are to increase by 33 percent at 200,000 bales. At least 25 percent of Egypt's total lint cotton imports are sourced from U.S. suppliers, and since 2007, most U.S. cotton exports to Egypt have been of the Pima cotton variety.

Production:

FAS/Cairo forecasts MY2016/17 cotton area harvested to increase by 20 percent or 20,000 ha to 120,000 ha. Total area harvested in MY2015/16 is estimated at 100,000 ha. Post attributes the increase in area to farmers' willingness to grow more cotton with expectations that the government's cash subsidies will continue for the MY2016/17 crop. In addition, the government's takeover of the distribution of cotton seeds addresses farmers' concerns on seed quality, which was deteriorating under private operators.

Although the Ministry of Agriculture and Land Reclamation (MALR) did not announce the targeted area for the MY2016/17 crop, announcements made by some local agricultural officials in some governorates support FAS Cairo's forecast for area harvested in 2016/17. Local agricultural officials in Sohag governorate, southern Egypt, announced that their targeted area for MY2016/17 crop is 840 ha compared to 281 ha in MY2015/16. In Kafr El-Sheikh governorate, located in the Delta region north of Cairo, local agricultural officials announced that their target area for the 2016/17 crop is 35,700 ha compared to 32,000 ha in 2015/16.

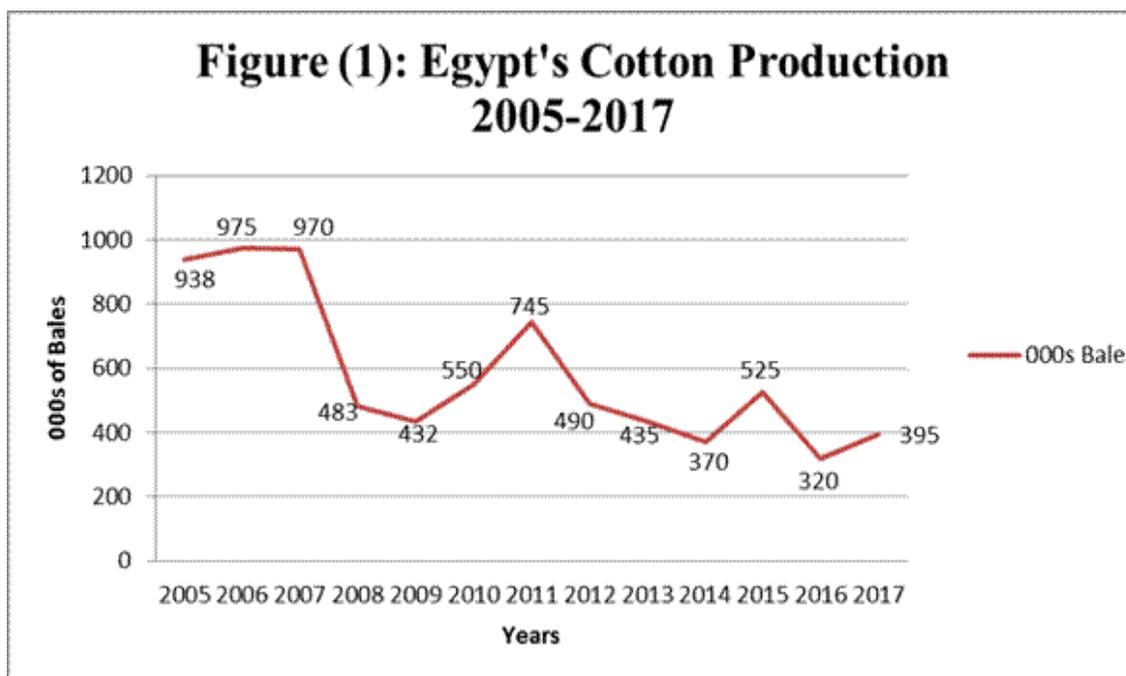
In spite of forecast increases, Egyptian cotton production is still trending downward. Cotton area in MY2016/17 is projected to be 24 percent lower than total cotton area harvested in 2014/15 which was at 157,000 ha. Farmers who shifted to other crops like sugar beet are still hesitant to grow cotton again due to the marketing challenges facing the crop as well as the floundering and ever changing government's policies. After backtracking on its previous policy, the government is once again providing cash subsidies for the MY2015/16 crop, a positive signal to producers that will encourage them to increase planted area in MY2016/17. In October 2015, the newly appointed government backtracked on its policy of ending cash subsidies; therefore allocating LE 261.7 million (\$29.6 million) to purchase the MY2015/16 crop following pressures from farmers and traders ([Cotton GAIN Voluntary Report November 2015](#).) This came only ten months after the cash subsidy policy was removed by the former government which was headed by then Prime Minister, Dr. Ibrahim Mehleb, and farmers were asked to have sales contracts in place before planting [Cotton GAIN Annual April 2015](#).

Another reversal and conflicting policy came after the Ministry of Agriculture and Land Reclamation's Central Administration for Plant Quarantine (CAPQ) issued a directive stating on July 4, 2015, that it stopped issuing import permits for cotton of all origins. The decision was a clear attempt by the government to force manufacturers to use locally produced cotton. The notion was reinforced when former MALR Minister, Dr. Salah Helal, publicly stated that the measure was intended, in part, to facilitate marketing of the 2015 cotton crop. Farmers welcomed the decision and considered it as encouraging step for them to increase the area planted with cotton in the next season. However, on July 15, 2015, and under pressure from manufacturers and importers, Egypt's former Prime Minister, Dr. Ibrahim Mehleb, made an announcement rescinding the measure taken by CAPQ and cotton imports were allowed again [GAIN Voluntary Report August 2015](#).

In early 2016, former Minister of Investment, Dr. Ashraf Salman, stated that the Egyptian government understood the needs of the spinning and textile industry; therefore, the government will allow the expansion of area planted with short and medium staple varieties, however, there is no clear indication when or if this will happen. Expanding the area planted with short and medium staple cotton and reducing the area planted with extra-long staple cotton is a demand that the spinning and textile industry has made for years. The industry relies on short and medium staple cotton to produce the type of yarn

required for producing some of the more popular fabrics. Post believes if the government allows the expansion in planting medium and short staple cotton, farmers will be more encouraged to grow cotton.

MY2016/17 lint cotton production is projected to increase by 23 percent or 75,000 bales to reach 395,000 bales. The increase in production would derive from the increase in total area harvested and to the slight increase in yield from 3.2 bales/ha to 3.3 bales/ha. The increase in yields is associated with improved seed quality, which, with the current MY2015/16 season, came under stricter supervision of the government. Post estimates total production in MY2015/16 at 320,000 bales produced from total area harvested of 100,000 ha. The same area would produce 340,000 bales if better seed were used across growing areas.



Source: FAS/Cairo GAIN Reports

During the past five years, the role of the private operators in the seed supply business increased with minimal oversight from the government. Seed quality gradually deteriorated to the point where millers insisted that the government should either take over or increase oversight of the seed production process. As a result, MALR issued ministerial decree number (1918/2015) published in the Egyptian official gazette on February 8, 2016, which identifies the conditions for qualifying seeds for planting. The decree stipulates that seeds should not be allowed for planting if the degree of genetic purity is less than 99.5 percent, if *Gossypium Hirsutum L* (upland cotton) seeds are found, if the germination percentage is less than 72 percent and if the agricultural value is less than 70 percent.

Additionally, the government took full ownership of seed production and distribution in an effort to improve the final product. For the MY2015/16 crop, the government planted selected cotton seeds from high quality lint in an area of 30,000 feddan (12,600 ha) in eight governorates. This area produced around 200,000 qintar or (41,237 bales) of cotton. The ministry said it will conduct another round of

seed purification to improve the quality and expects that around 60 percent of the seeds produced are going to be used for the MY2016/17 crop.

MY2015/16 Subsidy Regime:

In October 2015, the newly appointed government announced the allocation of LE 261.7 million (\$29.6 million) to support purchasing the MY2015/16 cotton crop. Under the plan, the government, through the Holding Company for Textile, Weaving and Spinning (HCTWS), buys farmers' medium and short staple cotton grown in Upper Egypt at LE 1,100 (\$ 124) per qintar (or \$603/bale), and the long and extra-long staple cotton grown in the Delta region at LE 1,250 (\$141) per qintar (or \$685/bale).

The government will pay the HCTWS a subsidy to encourage it to buy cotton from farmers at the aforementioned prices. For the short and medium staple cotton, the government pays the HCTWS LE150 (\$17) per qintar (or \$82/bale) procured up to a value of LE11.7 million (\$1.3 million). For the long staple cotton grown in the Delta region, which represents the bulk of Egypt's cotton production, the government pays LE 250 (\$28) per qintar (or \$137/bale) up to a value of LE 250 million (\$28 million).

Cotton Varieties Planted:

Egypt produces around 10 different varieties of cotton that come under three categories: extra-long staple cotton, long staple cotton and short and medium grain cotton. Every year, two months before planting time, the minister of agriculture issues a decree that identifies the varieties that are allowed for planting by region, as each variety should be grown in separate areas.

For the MY2016/17 crop, the minister of agriculture issued Ministerial Decree 278/2016, identifying cotton varieties that are allowed for the season's planting and the areas for each variety. These are: Giza 45, 87, 93, 92, 88, 86, 34, 90 and 95, in addition to three new varieties: Giza 70X, Giza 51B, and Giza 62C that have been derived from Giza 84. In MY2015/16, varieties of extra-long staple cotton include Giza 45, Giza 70, Giza 87, Giza 88 and Giza 92. The varieties of long-staple cotton include Giza 86, which is grown in the northern part in the Nile Delta, and the varieties of short and medium staple cotton Giza 80 and Giza 90, which are grown in the southern part of Upper Egypt.

Of the extra-long staple varieties, Giza 87 is the most widely grown, accounting for 1.8 percent of Egypt's total cotton production in MY2015/16, while of the long-staple varieties grown in delta region Giza 86 is the most widely grown accounting for 84.3 percent of Egypt's total cotton production. Of the long-staple varieties grown in Upper Egypt area, Giza 90 is the most widely grown accounting for 8 percent of Egypt's total cotton production. The map distributed by the Alexandria Cotton Exporters' Association for 2015/2016 season shows that of the extra-long staple varieties Giza 45, Giza 87, Giza 93 and Giza 88 were planted while of the long-staple varieties Giza 86 and Giza 90 were planted in addition to two new hybrid varieties (See Figure 1).



Figure (2) Cotton Map 2015/2016 season

Source: ALCOTEXA

Consumption:

In MY2016/17, FAS Cairo forecasts local consumption of lint cotton to drop by 6 percent or 40,000 bales to 590,000 bales. The corresponding quantity for MY2015/16 is estimated at 630,000 bales. Local spinners will likely obtain 70 percent of their cotton requirements from imports and the remainder from local cotton production. The drop in local consumption is due to the challenges facing the spinning and textile industry in Egypt. During last year, some spinning mills closed while others had to reduce their production capacity due to financial and manufacturing problems. In addition, forex shortage and other import challenges forced many spinners to reduce their production capacity due to difficulties in getting their imported cotton needs from international markets.

Trade:

Imports

Post forecasts MY2016/17 total lint cotton imports to drop by 11 percent or 50,000 bales to 400,000 bales compared to 450,000 bales in the previous marketing year. Post attributes this drop to the decrease in production capacity of the spinning industry, due to some factory closures and reductions in production capacity of others. This is closely related to the current forex problems facing Egypt, which are expected to continue in 2016/17. In addition, the Egyptian Government seems to have ever-changing import regulations that usually are trade disruptive.

Egypt, which relies heavily on imports, has been facing a shortage of foreign currency since the 2011 revolution that drove away tourists and investors, two major sources of hard currency. Importers find it difficult to source their dollar needs to pay for their shipments, as the government has instituted a series of measures to tackle forex drainage.

In 2015, the Central Bank of Egypt (CBE) limited foreign currency deposits in banks to \$10,000 a day and \$50,000 a month. The cap was raised in early 2016 to \$250,000 for importers of food, machinery, spare parts, capital goods, and medicine only. In February 2016, CBE decided to raise the cap on dollar deposits at banks to \$1 million per month, or its equivalent in other foreign currencies, with no limit on daily deposits. According to CBE, this applies to corporations that export and have import requirements. Nonetheless, the decision to raise the cap is contingent on a number of factors, including the compatibility between import requests and the size of deposits.

Additionally, the company accessing the forex must export products for at least the same amount of foreign currency within a period not exceeding three months. The beneficiary must also provide adequate proof of such export operations. If the latter condition is not met, the relevant bank must notify CBE, which would ban the client from making future cash deposits. On March 9, 2016, Egypt's Central Bank (CBE) lifted the monthly cap on dollar deposits and withdrawal for companies importing essential goods which include food commodities, production machinery, manufacturing components, and pharmaceuticals. The caps still apply to companies importing other “non-essential” commodities like cotton.

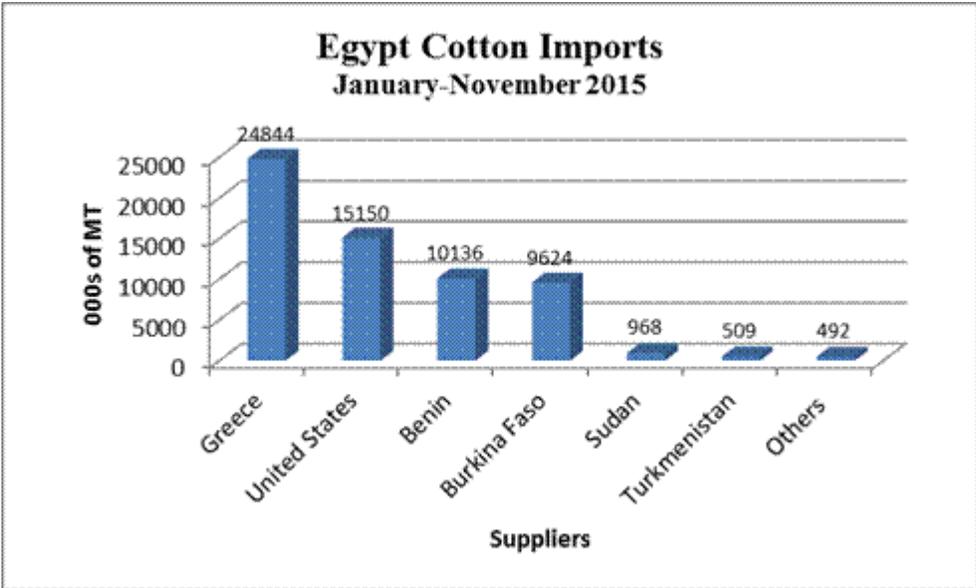
These measures have wrought havoc in an already beleaguered industry, as imported cotton is a must for the local spinning industry. Egyptian extra-long staple cotton is not suitable to manufacture most of the fabrics produced in Egypt, as most of the yarns produced require medium and short staple cotton. Even those who manufacture yarns that come from extra-long staple cotton see U.S. pima cotton as better alternative due to the latter's higher quality. Although the prices of U.S. Pima cotton are higher than Egyptian extra-long staple cotton, the deterioration of the Egyptian extra-long staple cotton forced local spinners to rely on Pima cotton to produce high quality yarn.

During the last quarter of 2015, Egyptian extra-long staple cotton (Giza 88) was sold to spinners at LE 891/qintar (LE4,321/bale) or \$100.6/qintar (\$488/bale) while imported U.S. Pima cotton was sold at LE 1400-1698/qintar (LE 6,790-8,235/bale) or \$158-192/qintar (\$767-930/bale). One yarn producer told post that even with the high prices of imported Pima cotton, his yarn importers in Europe are requesting yarn produced from Pima cotton and are willing to pay the extra cost due to its high quality compared to yarn produced from the inconsistent quality of Egyptian extra-long staple cotton.

In 2015, U.S. cotton exports of lint cotton to Egypt increased by 30 percent or \$12.282 million to reach \$40 million compared to \$27,733 million in 2014. Volume increased from 2,185 bales in 2014 to 4,643 bales in 2015. Since 2007, U.S. Pima cotton has been the main variety exported by U.S. suppliers to Egypt. Due to the high shipping cost of U.S. upland cotton, Egypt’s local spinning industry depends on imports of cheaper short and medium staple cotton from Greece and Sudan.

		Table (1): U.S. Exports of Cotton to Egypt					
		CY 2013		CY 2014		CY 2015	
HS Code	Product	Value	Qty	Value	Qty	Value	Qty
5201009000	PIMA,>28.58	25,084	2,320	14,596	1,080	32,013	3,962
5201002030	PIMA,ETC,>28.58	5,994	396	6,035	334	5,701	359
5201001090	PIMA>25.4,<28.58	2,891	287	7,102	771	2,301	322
Grand Total		33,969	3,002	27,733	2,185	40,015	4,643
Quantities in U.S. bales /Values in Thousands of Dollars				Data Source: GTIS			

According to Egypt’s Central Agency for Public Mobilization and Statistics, CAPMAS, from January-November 2015, Greece was the leading exporter to Egypt with 40 percent of Egypt’s total cotton imports; the United States was the second with 24.5 percent and Benin was the third with 16.5 percent. Burkina Faso was the fourth with 15.6 percent while the balance came from Sudan, Turkmenistan, Turkey and Uzbekistan. Post expects that in MY2016/17, Greece, the United States, Benin and Burkina Faso will remain Egypt top suppliers of cotton imports.



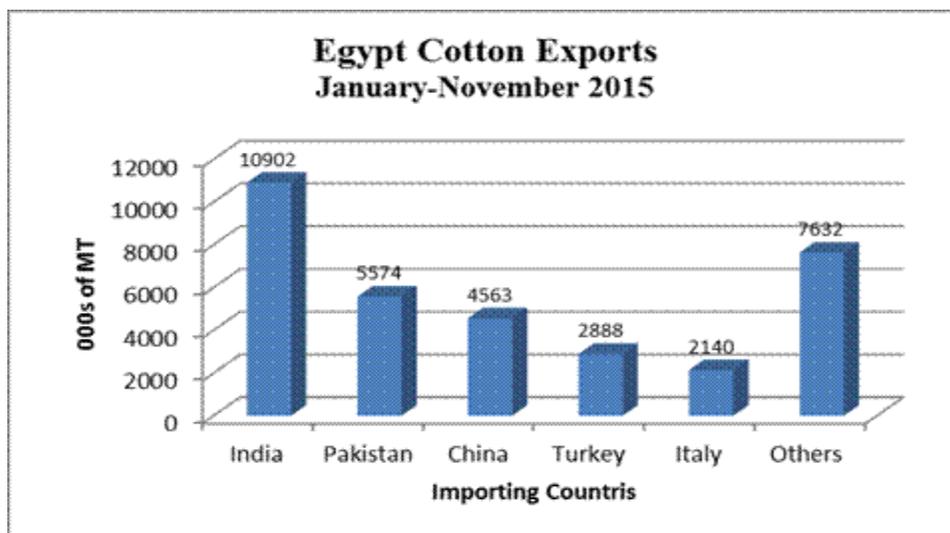
Source: GTA/CAPMAS

Exports

For MY2016/17, FAS Cairo forecasts total lint cotton exports to increase 33 percent to 200,000 bales. Post attributes the increase in Egypt’s total exports to the increase in production and demand from

international yarn producers for Egyptian extra-long staple cotton, as some degree of confidence in quality has been restored due to the government's efforts to improve seed quality.

India, Pakistan, China, Turkey and Italy were Egypt's top export destinations in MY2015/16 and are expected to remain so in MY2016/17. According to CAPMAS, from January-November 2015, Egypt's cotton exports totaled 140,000 bales.



Source: GTA/CAPMAS

During the 12th meeting of the International Cotton Advisory Committee (ICAC) of the Inter-Regional Cooperative Research Network on Cotton for the Mediterranean and Middle East Regions held in Sharm El-Sheikh, Egypt from 6-10 October 2015, Egypt's Cotton Research Institute officially announced its discovery of the genomic fingerprint of Egyptian cotton that will help in cotton DNA analysis. In addition, The Egyptian Ministry of Trade and Industry and the Alexandria Cotton Exporters' Association (ALCOTEXA), owners of the Egyptian Cotton logo, have formed the Cotton Egypt Association (CEA), which will be the sole representative of the registered trademark logo and licensing program to market and certify the authenticity of Egyptian cotton through DNA analysis, in an effort to ensure quality and fight fabric fraud in order to ensure and protect consumers in their purchase of genuine Egyptian cotton products.

To accomplish this, CEA established a monitoring system covering the entire supply chain of licensed Egyptian cotton holders, monitoring quantities purchased and sold by each licensee and mapping sales and helping establish a traceability system around the world. CEA verifies the data in the applications, sets criteria for testing samples and checking results, ensures quality and standards in using the logo, and conducts random auditing visits to licensee premises. Moreover, CEA checks websites that promote Egyptian cotton products and works to notify them of proper usage. CEA regularly collects samples of products that are promoted as Egyptian cotton from retailers, tests them, and addresses their producers.

Policy:

There is no government ban or restriction on cotton imports from the United States or other approved origins. Importers have to apply for an import permit at the MALR's Central Administration for Plant Quarantine (CAPQ) and which is valid for one year. Egypt imposes zero import tariffs on raw cotton or

cotton lint (HS: 520100) and 5 percent import tariffs on carded or combed cotton (HS: 520300).

On August 15, 2015, CAPQ released publication number 18 that set up new regulations for cotton imports. The new regulations require: 1) Importers to request import permits at least one month before importation; 2) Importers should identify the port of entry and the date of arrival to facilitate the work of port inspectors and to reserve the equipment required for fumigation, and 3) A fumigation certificate from the quarantine authorities at the port of origin is required and should not exceed a validity period of three months from the date of issuance to the date of arrival. If it exceeds the three-month validity period, the shipment must be returned to its origin to repeat its fumigation, and a new fumigation certificate must be issued.

Egypt's cotton import regulations stipulate that imported cotton should be free from whole or broken seeds or foreign materials (Article 51 of the Egyptian Plant Quarantine Rules & Regulations: Ministerial Decree number 3007/2001). When a shipment is found to have whole or broken seeds (even if one seed is found in the baled cotton) it will not be released. The importer can either destroy it under the supervision of CAPQ or re-export it to another destination or its country of origin. If the importer decides to re-export, he will receive a certificate from CAPQ addressed to the destination stipulating the reason for its rejection.

Egypt also requires that cotton exported to Egypt be fumigated at the country of origin using *methyl bromide, magtoxin or phostoxin* at specified concentrations found in the import permit. Fumigating the shipment at country of origin does not exclude it from being fumigated in Egyptian ports, if necessary. The following statement must be in the certificate: "The cotton is free from boll weevil *Anthonomus grandis*". The government also recommends an optional pre-shipment inspection at origin. If done, two CAPQ inspectors travel and inspect the shipment prior to its departure from port of origin. Although pre-shipment inspection is optional, some importers prefer to bear the cost and send inspectors to avoid delays at the port of entry.

Value-Added Cotton:

Egypt has a total of 2,525 textile plants. Of these, there are 25 government-owned and 2,500 private companies. The 25 government-owned companies are affiliated with the Holding Company for Spinning, Weaving and Textile, and most of them are working in spinning and weaving with around 65,000 employees producing 35 percent of Egypt's textile production. The 2,500 private companies are mainly small-to-medium operations, mostly involved in garment manufacturing. The private companies employ around 1.135 million workers and account for 65 percent of Egypt's textile production.

Egypt's textile industry faces serious problems and has been in decline over the last 30 years. The industry suffers from lack of renovation, high input prices, limited skilled labor, high salaries, and high tax and finance costs. The industry lacks the modernization needed to increase productivity. Most of the 25 government-owned companies are equipped with the same machines they were fitted with back in the 1960s.

In an effort to renovate the textile industry, in late 2015, Egypt signed a deal with US-based Werner International, a management consultancy firm to the textile, apparel and fashion industries to restructure the 25 state-owned textile companies. According to the Egyptian government, Werner, in cooperation

with another Egyptian consultant, will conduct a study on ways to develop and restructure the companies. In early February 2016, Werner began its work with field visits, expecting to finalize the study in 43 weeks or by October 2016. The government said it has allocated the money needed for the development and restructuring of the sector. Once the study is concluded, the government will implement its recommendations.

The industry also suffers from the high cost of inputs, as raw cotton represents at least 70 percent of the total cost of the spinning production. For years, the industry was forced by the government to buy local cotton at prices higher than international prices. Although the government paid the industry the difference between the local and international prices, the industry faced difficulties in selling its yarn due to waning demand as the world textile industry shifted its demand towards cheaper medium and short staple cotton, relegating Egyptian yarn and cotton to niche markets for which its use is limited to a few textile products.

The industry's problems were affected by the reality that EgyptAir was forced to suspend air shipments on its flights bound to New York and Canada based on recommendations of U.S transportation safety experts. The decision hit the Qualified Industrial Zones (QIZ) exporters the hardest, as this sector exports most of its garments through the QIZ to enjoy its tariff privileges. Between January and August 2015, QIZ exports totaled \$974 million, of which \$446 million were textile and cotton products.

From January through November 2015, Egypt cotton yarn exports were at 46,837 MT compared to 29,892 MT in 2014. Bangladesh, Turkey, Italy, Portugal, France, Brazil and Pakistan were Egypt's main export destinations. Cotton fabric exports, from January through November 2015, were at 18,873 MT compared to 18,871 MT in 2014. Turkey and Pakistan were Egypt's main export destinations for this product.

From January through November 2015, Egypt cotton yarn imports were at 113,425 MT compared to 70,459 MT in 2014. As for fabrics, from January through November 2015, imports were at 40,505 MT compared to 32,514 MT in 2014. India, Turkey, Pakistan and China were Egypt's top suppliers for yarn, as well as for fabrics. Egypt imposes 5 to 10 percent import tariffs depending on the type of yarns and fabrics.

**Table (2): Statistical Position of Egyptian Cotton
MY2015/2016**

Variety	Beginning stock at September 1st, 2015	Lint produced 2015/16	Total Supply 2015/16	Spinning delivered till Feb 17, 2016	Export Commitments till Feb 20, 2016	Total Distribution	Remaining in Feb 21, 2016	Exported till Feb 20, 2016
Giza 45	23	62	85	0	0	0	85	0

Giza 70	2	0	2	0	0	0	2	0
Giza 87	10	5,749	5,759	0	866	866	4,893	0
Giza 88	10,475	586	11,061	3,083	4,705	7,788	3,273	2,346
Giza 92	833	0	833	78	379	458	375	338
Giza 93	0	191	191	0	0	0	191	0
Giza 95*	0	307	307	0	247	247	60	0
Giza 86	165,840	260,391	426,232	35,475	70,558	106,033	320,199	36,981
Giza 80	15	0	15	0	0	0	15	0
Giza 90	9,138	25,138	34,276	12,923	103	13,026	21,249	103
Giza 95**	645	7,219	7,865	0	0	0	7,865	0
Mixed Export's Type (E.T)	0	6,156	6,156	0	239	239	5,916	0
Total	186,982	305,799	492,781	51,560	77,098	128,657	364,124	39,769

Data: in 480 lb. Bales

Source: CATGO

*Giza 95 planted in the Delta **Giza 95 planted in Upper Egypt

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	New Post
Egypt						
Area Planted	0	0	0	0	0	0
Area Harvested	157	157	100	100	0	120
Beginning Stocks	189	189	189	189	0	179
Production	525	525	340	320	0	395
Imports	335	335	450	450	0	400
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	1049	1049	979	959	0	974
Exports	200	200	150	150	0	200
Use	650	650	650	620	0	580
Loss	10	10	10	10	0	10
Total Dom. Cons.	660	660	660	630	0	590
Ending Stocks	189	189	169	179	0	184
Total Distribution	1049	1049	979	959	0	974

(1000 HA) ,1000 480 lb. Bales