USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

**Date:** 4/29/2007

**GAIN Report Number:** EG7006

# Egypt

## Cotton and Products

## Annual

## 2007

**Approved by:**
Peter Kurz
U.S. Embassy

**Prepared by:**
Chris Rittgers & Sherif Ibrahim

**Report Highlights:**
Faced with eroding competitiveness in global markets and higher returns from other crops in Egypt, in 2007/08 cotton area and production are forecast to fall 13 and 10 percent, respectively. With expectations for lower production, exports are forecast to fall about 8 percent in 2007/08. Growth in the local textile sector is still sluggish, and imports and use are forecast to grow only marginally.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Cairo [EG1]
[EG]

## Table of Contents

**PSD Table** ..... **3**
Area Planted and Production ..... 3
**Consumption and Utilization** ..... **4**
Prices ..... 4
**Government Policy** ..... **4**
Trade ..... 4
**Trade Matrix** ..... **5**
Stocks ..... 5
**Factors Affecting U.S. Exports** ..... **5**

## PSD Table

| Egypt<br>Cotton<br>(HECTARES)1000 480 lb. Bales(PERCENT)(KG/HA) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005 | Revised | | 2006 | Estimate | | 2007 | Forecast | |
| | USDA Official | Post Estimate | Post Estimate New | USDA Official | Post Estimate | Post Estimate New | USDA Official | Post Estimate | Post Estimate New |
| **Market Year Begin** | | 08/2005 | 08/2005 | | 08/2006 | 08/2006 | | 08/2007 | 08/2007 |
| Area Planted | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Area Harvested | 273 | 273 | 275 | 240 | 252 | 246 | 0 | 0 | 214 |
| Beginning Stocks | 673 | 164 | 673 | 635 | 23 | 761 | 622 | 32 | 891 |
| Production | 925 | 972 | 932 | 950 | 919 | 813 | 0 | 0 | 725 |
| Imports | 525 | 471 | 525 | 550 | 551 | 630 | 0 | 0 | 635 |
| MY Imports from U.S. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Supply | 2123 | 1607 | 2130 | 2135 | 1493 | 2204 | 622 | 32 | 2251 |
| Exports | 475 | 666 | 438 | 500 | 459 | 380 | 0 | 0 | 350 |
| Use | 1000 | 910 | 918 | 1000 | 990 | 920 | 0 | 0 | 950 |
| Loss | 13 | 7 | 13 | 13 | 11 | 13 | 0 | 0 | 20 |
| Total Dom. Cons. | 1013 | 917 | 931 | 1013 | 1001 | 933 | 0 | 0 | 970 |
| Ending Stocks | 635 | 23 | 761 | 622 | 32 | 891 | 0 | 0 | 931 |
| Total Distribution | 2123 | 1606 | 2130 | 2135 | 1492 | 2204 | 0 | 0 | 2251 |
| Stock to Use % | 43.05085 | 1.459391 | 56.12094 | 41.46667 | 2.20842 | 68.53846 | 0 | 0 | 65.87361 |
| Yield | 738 | 775 | 738 | 862 | 794 | 720 | 0 | 0 | 738 |

## Area Planted and Production

Total cotton area in 2007/2008 is forecast to be 214,000 HA, compared to 246,000 HA in 2006/2007. Area continues to decline as quality of ELS has been eroded due to mixing ELS seed varieties (especially Giza70), resulting in lower export prices and less attractive returns. Price increases for local corn and rice, coupled with the decreases in cotton prices, have led farmers to replace cotton, particularly in Upper Egypt.

In 2007/2008, approximately 20 percent of the total cotton crop is expected to be extra long staple (ELS) varieties (staple lengths of 1 3/8 inches and above), a 6 percent decrease from the 2006/2007 level. This is mainly due to the decreased demand for ELS cotton varieties by the export market. Major ELS varieties are Giza 45, Giza 87 and Giza 88. The remainder of the crop is comprised of long staple (LS) varieties (staple lengths of 1/4 inches): Giza 80, Giza 83, Giza 85, Giza 86, Giza 89 and Giza 90. Every year the government specifies certain varieties of cotton for each growing region, and farmers are obligated to cultivate those varieties according to their respective areas. The Ministry of Agriculture continues to be the sole distributor of cottonseed. In order to encourage early cultivation to conserve water, the Egyptian government continues to provide some assistance to cotton farmers who cultivate cotton before March 31 (not many farmers cultivate cotton before March 31) to help with the cost of production such as land preparation, pesticide and planting seeds.

## Consumption and Utilization

For 2007/2008, total use is projected at 970,000 bales, reversing a downward trend of previous years. Until a few years ago, the textile industry's annual requirement of raw cotton averaged between 1.2 and 1.4 million bales. The loss of competitiveness and financial difficulties of local textile companies, plus the relatively high prices of local cotton, caused the downward trend. Approximately 60 percent of total cotton consumption is imported cotton, mainly from Greece and Sudan. Imported cotton is used in the production of coarse count fabrics (Ne 20/1 to Ne 30/1), which are used for shirts, knitwear and toweling. Textile and garment exporters also import fabric from cheaper sources such as Syria, Pakistan and India. This is done under the temporary admission system of imports, which allows manufacturers to import their inputs duty free provided that the end products are exported.

## Prices

Market prices for the 2006/07 season were reported at LE 820 for Giza 86, LE 750 for Giza 70, LE 750 for Giza 88, and LE 630 for Giza 89 (prices are per kentar of 50 kg). This is compared to LE 830 for Giza 86; LE 1,100 for Giza 70; LE 995 for Giza 88 and LE 640 for Giza 89 varieties, in the 2005/06 season. As the above price data indicate, local prices for most varieties continue to fall, leading to the decline in attractiveness of planting cotton as described in Section 1.

## Government Policy

Despite a desire to privatize certain public sector companies, of the 31 government textile companies that were scheduled to be privatized by the year 2000, only five companies have been privatized. The process of privatizing the textile sector has been extremely difficult for the government. Most of the targeted companies are in poor financial condition and thus unattractive to potential investors. Problems include large bank debts, antiquated equipment and over-employment. The problem of what to do with redundant workers is not just an economic question, but also a political and social issue.

## Trade

Exports in 2006/07, are expected to reach 380,000 bales, down from 438,000 bales the previous year. Exports are forecast to fall again in 2007/08 due to the drop in production and increased production costs. The average production cost for Egyptian cotton is $1.11/lb, while average export price is $1.05/lb. In order to promote the sale of Egyptian cotton, ALCOTEXA and the Ministry of Foreign Trade developed an Egyptian Cotton logo. ALCOTEXA and the Ministry of Foreign Trade own the logo. The logo is marketed by "Cotton Egypt" the Fiber Promotions Department of ALCOTEXA. The Logo is to be used on products made from 100 percent Egyptian Barbadense cotton. The logo is licensed in Egypt to cotton growers that follow specific growing instructions.

In 2006/2007, imports are forecast at 630,000 bales of short staple cotton, mostly from Greece at a reported price $0.60 per LB C&F, including fumigation at the loading port. Egypt also imported Acalla cotton from Sudan at a reported price of $0.50 per LB and Barakat at $.70 per LB. Imports for 2007/2008 are forecast to increase slightly to 635,000 bales.

Imports of U.S. cotton are permitted only from California and Arizona as they were declared free from boll weevil. According to Egyptian agricultural quarantine officials, sourcing U.S.

cotton from other areas will be allowed only after presenting the technical file demonstrating the area is from boll weevil.

## Trade Matrix

| Egypt<br>Cotton<br>(US 480 lb. Bales) | | | |
|---|---|---|---|
| Time Period | 2005 | Units: | 2006 |
| Exports for: | | | |
| U.S. | 32.491 | U.S. | 26.172 |
| Others | | Others | |
| India | 193.094 | Pakistan | 100 |
| Pakistan | 130.694 | India | 94.552 |
| China | 57.12 | China | 50.123 |
| Italy | 47.468 | Italy | 41.628 |
| Turkey | 35.732 | Turkey | 22.564 |
| Switzerland | 31.43 | S.Korea | 17.188 |
| Thailand | 21.502 | Emirates | 13.596 |
| S.Korea | 20.056 | Portugal | 11.649 |
| Japan | 19.473 | Japan | 11.622 |
| Indonesia | 15.611 | Switzerland | 10.215 |
| Total for Others | 572.18 | | 373.414 |
| Others not Listed | 61.119 | | 38.066 |
| Grand Total | 665.79 | | 437.652 |

## Stocks

Stocks are expected to increase in 2007/08 as exports are expected to decrease and imports to increase.

## Factors Affecting U.S. Exports

Until a few years ago, most Egyptian cotton imports originated from the U.S. (California and Arizona), as the GOE considered only these two states to be free of boll weevil. Egypt requires that all imported cotton be grown in areas free of pests (e.g. boll weevil) and diseases that are, or could be harmful to domestic production. However, Egypt changed its import requirements and began allowing imports from other suppliers including Greece, Syria, Sudan and Ethiopia, because these countries are certified ball-weevil free.