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Egypt

Cotton and Products

COTTON ANNUAL REPORT

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Report Highlights:

In 2000/2001, Egypt's area planted to cotton continues to decline reaching 224,700 HA, the lowest level ever in more than 100 years. Carry over stocks have declined sharply and Egyptian mills are expected to increase their raw cotton imports significantly to satisfy their requirements. U.S. cotton exports to the Egyptian market are expected to face strong competition from suppliers of cheaper short staple cotton.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Cairo [EG1], EG

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Area Planted and yield

Egypt's area planted to cotton continues to decline. In MY 2000/2001, total area is estimated at 535,000 feddan (1 feddan = 0.42 HA) the lowest ever in Egypt's recorded history of cotton plantation. This decline is mainly attributed to farmers reluctance to plant cotton because of the low return of cotton rotation as compared with other competing crop rotations. For example, the total net return of the cotton /bersim rotation is estimated at LE 800 per feddan, while rice/wheat rotation is estimated at LE 2,500 per feddan and the wheat/corn rotation is estimated at LE 1,700 per feddan.

In MY 2000/2001, area devoted to extra long staple (ELS) cotton varieties is expected to increase slightly to 34,020 HA, compared to 32,416 HA in MY1999/2000. The main ELS varieties currently cultivated in Egypt are Giza 45, Giza 70 and Giza 88. All of these varieties are 1 3/8 inches and above staple lengths and considered to be among the finest cottons produced in the world. The remainder of the crop is comprised of long staple (LS) varieties such as Giza 86, Giza 87, Giza 89 and MS varieties Giza 83 and Giza 85. The government specifies certain varieties of cotton for each region and farmers are obliged to cultivate the varieties that are assigned to their respective areas since the MOA is the sole distributor of cotton seed.

The average yield per feddan in MY 1999/2000 was estimated at 7 Kentar per feddan (1 Kentar = 50 Kg), compared to 5.6 Kentar per feddan in MY 1998/99. Favorable weather conditions, i.e. a modest heat during the last part of the growing season have enhanced both yield and quality of the MY 1999/2000 cotton crop.

Production

With this small area planted and provided normal growing conditions, total cotton production in MY 2000/2001 is forecast at about 3.7million Kentar (185,000 MT). This represents a decline about 19 percent in cotton production from the MY 1999/2000 crop. The production of ELS cotton in 2000/2001 is projected to be about 425,000 Kentar (21,250 MT).

Egypt has a considerable amount of ginning capacity, estimated at 10 million Kentar, more than sufficient to process all local lint production. There are about 60 operating gins, many of which have been modernized and now practice pressing universal density (UD) bales for exports. In 1999, total Egyptian yarn production (cotton and blend) is estimated at about 200,000 MT compared to an average of 300,000 MT during the past three years. Total production of Polyester yarn is estimated at 20,000 MT with an average price of \$0.40/Lb. It is reported that the cost of raw materials for the Egyptian textile companies represents about 66 percent of total production costs, compared to about 42 percent in Brazil, India and Turkey. Most of the Egyptian textile companies are in difficult financial conditions with large debts, over employment and antiquated equipment. Som of these companies are operating at less than 10 percent of their total capacity. In addition, many of these companies use cotton with fiber properties above what is normally necessary for their products, in turn making their production relatively less cost effective.

Most of yarn production in Egypt is Ne 20/1 to Ne 30/1 (coarse count) for shirting, knitwear and towels, with smaller amounts of 60/1, 80/1 and 100/1. It is reported that the average cost per unit of Egyptian spinning and weaving companies is about 35-40 percent higher than that of India and Pakistan and many of these Egyptian companies produce inferior products that end up in carry over inventories rather than being sold. The production of fabrics, dying and finishing is also reported to have a lot of difficulties. Some foreign investors, however, have shown some interest in building their own facilities to produce quality products for exports. A large Italian company is currently building a new weaving factory with a capacity of 2000 MT/year in Burg EL Arab industrial city near Alexandria to produce for the export market.

Consumption and Utilization

Consumption of lint cotton by local mills has been declining in the past few years for several reasons including, high prices of domestic cotton, the increased use of synthetic yarn and an increased competition from cheaper imported yarn from India and Pakistan. For MY 2000/2001, domestic lint cotton consumption is forecast at about 3.6 million Kentar (180,000 MT), compared to 4 million Kentar (200,500 MT) in MY 1999/2000. For MY 2001/2002 domestic lint cotton consumption is forecast at 3.7 million Kentar (185,000 MT). This level represents a significant decline in Egypt's cotton consumption when compared with 6 million kentar which used to be the requirement of raw cotton just six years ago. Most of the decline in cotton consumption occurred in the ELS varieties. Total yarn consumption (cotton and blend) in 1999 is estimated at 160,000 MT of which 50,000 MT is imported.

Local private sector weaving and knitting mills are forced to substitute the expensive domestically cotton yarns (especially the coarse counts in Ne 20/1 to Ne 30/1 used for shirts, knitwear and toweling) with imported yarns. Textile and garment exporters are also obliged to import fabric from cheaper sources such as Pakistan, India and Syria under the temporary admission system of imports in order to be competitive in the international markets.

Stocks

The small cotton crop and increased exports during the last two years have led to a significant reduction in the carryover stocks, from 118,005 MT in MY 1998/99 to 75,748 MT in MY 1999/2000. A further decline to 23,700 MT is expected for MY 2000/2001. It is reported that the unused quantity of imported U.S. cotton, originally purchased in 1995/96 at LE 460 per kentar, were finally sold to local mills at a much of reduced price of LE 220 per kentar. The significant decline in the carry over stocks during the last two years will force many Egyptian companies to rely on import once again to provide their cotton requirements.

Policy

A- Production and Price Policy

In order to encourage farmers to cultivate cotton, the government of Egypt continues to provide some assistance to cotton farmers to help with the cost of production such as land preparation (LE 50/feddan), pesticide costs (LE

140/feddan) and 50 percent of planting seed cost (LE 40/feddan). It is estimated that on average, the government will provide cotton farmers with a total support equivalent to LE 230 per feddan in MY 2001/2002.

There are two sets of prices that determine the direction of the cotton market in Egypt in any given year. One is the farmer's price and the other is export price. In MY 2000, in order to encourage farmers to plant cotton the government announced that the minimum guaranteed price will be LE 40 per kantar over the last year's minimum price. The nominal level of farm floor prices for all varieties will be calculated based on indicative export prices to be set by the Alexandria Cotton Exporters Association (ALCOTEXA) after deducting fobbing and preparation costs. Export prices are calculated and updated weekly by ALCOTEXA board of directors which consists of 5 public sector and 6 private sector companies. The average sale prices to local mills in MY 2000 were LE 386/Kantar for ELS varieties compared to LE 365/Kantar the year before and LE 333/Kantar for the LS varieties compared to LE 300/Kantar the year before.

B-Privatization Policy

As part of its economic reform policy, the GOE continues to privatize certain public sector companies. At the present time, there are 74 ginning mills owned by 5 companies, 2 of which have been totally privatized. The other three ginning companies were scheduled for privatization by the end of 1999. However, due to an over valuation of the companies and the provision that prohibits the sale of the mill's land, these companies did not find buyers.

The privatization of other textile sector companies (spinning and weaving) also continue to be sluggish. To date, out of the 31 government companies scheduled to be privatized by the year 2000, only five companies were sold, including those considered to be the most attractive companies to investors. A South Korean textile group contracted with the GOE in 1999 to lease and manage the textile company ESCO for ten years. The government is currently exploring similar arrangements with some textile groups from India, Pakistan and Italy.

Trade

A-Exports

Following the change in government policy to link farmers' prices to export prices, Egyptian cotton exports bounced back during the last two seasons. With 97,284 MT of cotton exported in MY 1999, total exports reached the second highest export level since MY 1993/94. This increase was mainly attributed to the competitive export prices and the to additional incentives that were given to importers such as cancellation of storage expenses and the grant of 2% discount for early shipments. For MY 2000, cotton exports are expected to reach 105,000 MT, of which about 10,000 MT to the U.S., compared to 4,920 MT in MY 1999.

In 1999, Egypt exports of cotton yarn totaled 31,617 MT, valued at \$ 141 million compared to 48,267 MT valued at \$220 million in 1998. The declining trend in cotton yarn exports is expected to continue for MY 2000, due to low product quality and a strong competition from Pakistan and India. The decline in Egyptian exports was also significant in

other textile products. For example, in 1999 exports of textile and netting products totaled 6,812 MT valued \$32 million, compared to 8,825 MT valued at \$47 million in 1998. Egypt has an export quota for yarn and textile products to the European Union (EU), 55,000 MT of yarn and 20,000 MT of fabrics, and to the U.S., 12,000 MT of yarn and 100 million Sq. meter of fabrics. Due to the lack of price competitiveness, however, only about 20 percent of these quotas were fulfilled.

B- Imports

With the expected small cotton production and the large export commitments in MY 2000/2001, Egypt will be forced to import cotton for the second consecutive year. In 1999, Egypt imported about 16,000 MT of short staple cotton from Greece at reported price \$0.54 per lb/CIF. It also imported 12,850 MT of a low grade cotton from Sudan, used mostly in upholstery at a reported price LE 215/ CIF per Kentar. In May 2000, the Holding Company for Spinning and Weaving issued a tender to import 20,000 MT of short staple cotton from all origins. The projected industry demand situation indicates that some spinning mills would prefer to make a shift in consumption from ELS cotton to LS and MLS varieties. According to industry officials, about 70,000 MT of imported cotton is needed to satisfy the local mills requirements and to free some Egyptian cotton to cover exports commitments in MY 2000/2001.

With the renewed interest in importing cotton from various sources, the Ministry Of Agriculture issued new plant quarantine regulations (PQ) regulations in April 1999 stipulating import requirements as follows:

- Importers must obtain import permission from the Agricultural Quarantine office before contracting.
- Shipping of imported cotton must be made directly from the country of origin and take place outside the cotton planting period (January - February).
- In the case of importing from countries where vacuum fumigation is not available, shipments should not exceed 5000 bales and must be re-fumigated under vacuum with Methyl Bromide in Egyptian ports under the supervision of Egyptian Agricultural Quarantine.
- Visits by Egyptian PQ officials to potential cotton exporting countries will be arranged to review the pest and disease status in these exporting countries.

Total Egypt yarn imports in 1999, were estimated at 40,000 MT compared to 60,000 MT in 1998. Egypt's total polyester imports were estimated at 70,000 MT in 1999, compared to 100,000 MT in 1998. The current price for imported polyester yarn is about \$0.48/LB CIF, compared to the prices of locally produced yarn from Egyptian cotton of \$.80/LB.

C-Factor Affecting U.S. Cotton Exports

For over 20 years, U.S. cotton from California and Arizona were the only cotton allowed to be imported into Egypt.

California/ Arizona was also the only region certified by Egyptian Plant Quarantine to be free of Boll weevil. No exports from other countries were allowed in Egypt until two years ago when the change in Egyptian import regulations took place. Opening of the Egyptian cotton market to exports from other countries such as Sudan, Syria and Greece has reduced the price competitiveness of U.S. cotton. However, the availability of GSM-102 program and other export credit programs may help increase the competitiveness of U.S. cotton exports .

PSD Table						
Country:	Egypt					
Commodity:	Cotton					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		08/1999		08/2000		08/2001
Area Planted	275100	273000	273000	224700	0	268800
Area Harvested	275100	273000	273000	224700	0	268800
Beginning Stocks	118005	118005	118005	73748	0	20748
Production	233730	229677	225000	185000	0	224000
Imports	20000	28850	21000	50000	0	70000
TOTAL SUPPLY	371735	376532	364005	308748	0	314748
Exports	95730	97284	80000	103000	0	100000
USE Dom. Consumption	185000	200500	201705	180000	0	185000
Loss Dom. Consumption	5000	3000	5000	2000	0	2200
TOTAL Dom. Consumption	190000	203500	206705	182000	0	187200
Ending Stocks	86005	75748	77300	23748	0	27548
TOTAL DISTRIBUTION	371735	376532	364005	308748	0	314748

Export Trade Matrix			
Country:		Units:	
Commodity:			
Time period:			
Exports for	1998		1999
U.S.	3,844	U.S.	4,920
Others		Others	
Italy	30,987	Italy	27,493
India	17,172	India	14,398
Turkey	12,115	Turkey	12,837
Japan	7,605	S.Korea	7,501
South Korea	6,138	Japan	3,948
Germany	5,571	Germany	2,478
Greece	3,413	Greece	3,660
Japan	3,424	Thailand	3,107
		Portugal	2,372
		Brazil	2,027
Total for Others	86425		79821
Others not listed	4,731		12,543
Grand Total	95000		97284