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COTTON ANNUAL REPORT 1999

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Report Highlights:

Egyptian cotton area, production and carryover stocks continue to decline. Most of the production decline is occurring in the ELS varieties. With a noticeable reduction in export prices for some varieties, Egyptian cotton exports significantly increased in MY 1998/99, but a large quantity of ELS stocks still remained unsold due to over pricing. An expected increased demand for cheaper LS and MLS cotton by local mills increases the possibility of cotton import by Egypt in MY 1999/2000.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Area Planted and yield

Egypt's total area planted to cotton continues to decline. In MY 1999/2000, the area planted is estimated to be 620,000 feddan (260,400 HA), or about 7 percent lower than the area planted in MY 1998/1999. This decline is mainly due to farmers reluctance to plant cotton following the disappointing return of the cotton crop in the year before. The average return of the 1998 crop was low due to three reasons: first, the average price farmers received was about LE 380 per Kentar, compared to LE 500 per Kentar in MY 1997. Second, there was a significant decline in the average yield per feddan in that year. Third, there was increase in the production cost following the GOE implementation of the new land reform law which allows land owners to set their rents at market prices instead of government controlled rents, in addition to the elimination of the pesticide subsidy.

In MY 1999/2000, area devoted to extra long staple (ELS) cotton varieties has decreased drastically to 70,000 feddan, compared to 203,000 feddan in 1998/99. The decline in the ELS area is mainly attributed to the large carryover stocks of ELS varieties from the previous year. The main ELS varieties currently cultivated in Egypt are Giza 45, Giza 76, Giza 70, Giza 77, Giza 87 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. In the northern part of the Delta, apart from the rice zone, cotton cultivation is considered the most profitable summer crop because the only alternative to farmers is to grow corn which does not give good yield in this area. Some farmers, however, are switching to growing vegetables and corn in the southern part of the Delta and around cities.

The average yield per feddan in MY 1998/99 is estimated at 5.6 Kentar, compared to 7.5 Kentar per feddan in MY 1997/98. Unfavorable weather conditions, i.e. a long heat wave during the last part of the growing season, have negatively affected both yield and quality of the MY 1998/99 cotton crop. In addition, there was a higher percentage of non-matured cotton.

Production

With the decline in area planted in MY 1999/2000, provided there are normal growing conditions, total cotton production is forecast at about 4.2 million Kentar (218,000 MT). This represents a decline about 4 percent in cotton production from the MY 1998/99 crop. The production of ELS cotton in 1999/2000 is projected to be about 28,000 MT, while the production of LE cotton is projected at 190,000 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. Egyptian yarn production, however, continues to decline due to increased carry over stocks and high cost of raw materials. In 1998, cotton yarn production dropped to 130,000 MT compared to 160 MT in 1997. Total production of Polyester yarn is estimated at 20,000

MT and with an average price of \$0.40/LB. It is reported that the cost of raw materials for Egyptian textile companies represents about 65-67 percent of total production costs, compared to 41-49 percent in Brazil, India and Turkey. Most of the Egyptian textile companies are in poor financial condition with large debts, over employment and antiquated equipment. 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.

The majority 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 reported to have a lot of difficulties. The production of fabrics, knits and, ready made garments declined by 25 percent in 1998.

Consumption and Utilization

Consumption of lint cotton by local mills has been declining in the past few years for several factors 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 1999/2000 total lint cotton consumption is forecast at 3.7 million Kentar (185,000 MT), compared to 4.1 million Kentar (205,275 MT) in MY 1998/99. This 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 five years ago. Most of the decline in cotton consumption occurred in the ELS varieties. For example, total consumption of ELS cotton dropped from 54,150 MT in 1993/94 to 13,300 MT in 1997/98. Total yarn consumption in 1998 is estimated at 170,000 MT of which 60,000 MT is imported.

Local weaving and knitting mills are forced to substitute the higher priced domestically produced 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 mainly from Pakistan, India and Syria under the temporary admission system of imports in order to be competitive in the international market.

Stocks

The small cotton crop and the increased exports have led to a significant reduction in the carryover stocks, from 195,275 MT to 118,005 MT in MY 1998/99. Almost all of the stock is ELS varieties, mostly Giza 70. The large volume of the ELS stocks, especially Giza 70, indicates that a significant price reduction is required in order to make Egyptian ELS cotton more competitive in the export market. Egyptian stocks are projected to further decline to about 86,000 MT in MY 1999/2000 due to the small crop expected this year. About 70 percent of stocks from MY 1998/99 is considered to be of poor quality, specially the ELS varieties. Cotton stocks are kept either by government trading companies or processing mills.

Included in the carryover stocks, there was an unused quantity of imported U.S. cotton originally purchased in 1995/96 at LE 460 per kentar. With the accumulated storage charges and bank interest, this imported U.S. cotton now costs about LE 1000 per kentar. This year, in order to cut the storage charges and reduce the amount of stocks, the GOE decided to sell this cotton to local mills at LE 220 per kentar.

Policy

A- Production Support: Following the decline in cotton return in MY 1998/99 and in order to encourage farmers to cultivate cotton, the government has re-instated a production assistance program to provide farmers with help in the cost of production such as land preparation (LE 50/feddan), two-third of 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 of support equivalent to LE 230 per feddan.

B-Price Policy: 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 1999, and for the second consecutive year, the government did not announce a minimum guaranteed price in advance of the planting period. The nominal level of farm floor prices for all varieties will be calculated based on the 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 current average sale prices to local mills are LE 386/Kentar for ELS varieties and LE 300/Kentar for LE varieties, compared to the LE 500 minimum guaranteed price to farmers in MY 1996/97.

C-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 are scheduled for privatization by the end of 1999. The ginning Companies are easier to privatize than spinning companies because they are relatively more efficient and are located in areas where the land value is very high. Many of the private gins are currently making profits and are pressing 480 LB UD bales for exports.

The privatization of other textile sector companies (spinning and weaving) has been 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. In addition, a South Korean textile group has recently contracted with the GOE to manage and lease 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

For the last several years, Egyptian cotton exports have been on a roller coaster and the fluctuation of supply edged them closer to losing their place in the international markets. In MY 1998/99, following the change in policy to link farmers' prices to export prices, Egyptian cotton exports bounced back with an increase of 35 percent over the previous year. With 109,000 MT of committed export contracts, total exports are forecast to reach the second highest export level since MY 1993/94. This success was mainly due to the competitive export price of Giza 86 which represents more than 60 percent of total commitments.

Under the current prices of ELS varieties, most exporters feel that Giza 70 was priced too high compared to other ELS and Pima. Egyptian exports could significantly increase if ELS varieties are priced competitively with

U.S. Pima. The government however, is still hesitant to take such step, feeling that Egypt cotton should be more valuable.

In 1998, Egypt exports of cotton yarn totaled 48,267 MT valued at \$220 million, down from the 62,642 MT and valued \$275 million in 1997. The declining trend in cotton yarn exports is expected to continue for 1999, due to low product quality and severe competition from Pakistan and India. The exports decline was more significant in other textile products. In 1998, exports of textile and netting products totaled 8,825 MT valued at \$47 million, compared to 19,345 MT valued \$90 million in 1997. 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. However, due to the lack of price competitiveness, most of these quotas go unfulfilled. In addition, the EU has accused Egypt of dumping some of its textile products into the European markets and selling them below production costs.

B- Imports

With the expected small production in 1999/2000 and the large export commitments in 1998/99, there is a possibility that Egypt will import cotton in MY 1999/2000. 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. In January 1999, the Textile Industry Holding Company announced a tender for the importation of 18,000 MT of lint cotton from all origins. A contract was reportedly signed to buy a total of 14,500 MT of cotton from Greece with fiber length between 1.3/32 and 1.5/32 inch at price of \$0.57-0.58 per Lb/CIF Alexandria. Due to GOE recent restrictions on imports, this contract was not implemented. Some industry sources, however, say there was never a signed contract in the first place. The last imported cotton from the U.S. into Egypt was a 20,000 MT shipment in MY 1995/96. A smaller shipment of Sudanese cotton (4,000 MT) was imported in MY 1997/98 to be used by mills located outside of the cotton production areas. The imported Sudanese cotton is of a low quality, used mostly in upholstery.

In 1998, total Egypt imports of yarn were estimated at 60,000 MT (equivalent to 1.2 million Kentar of cotton). Egypt's total polyester imports were estimated at 100,000 MT in 1998, compared to 84,000 MT in 1997. The current prices for imported polyester yarn from Saudi Arabia are between \$0.30 and \$0.35/LB CIF, compared to the prices for locally produced yarn from Egyptian cotton of equivalent counts are between \$.70 and \$.80/LB

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 countries.

C-Factor Affecting U.S. Cotton Exports

With the renewed prospects for importing cotton into Egypt, the recent changes in cotton import regulations may provide some opportunities for U.S. cotton exports from states other than California/Arizona that were previously denied because of PQ reasons, particularly the vacuum fumigation. Cotton from other parts of the U.S. is not particularly well known in Egypt, and some market promotion would be needed. The availability of GSM-102 export credit program has been a factor in marketing U.S. cotton in Egypt in the past but is not expected to be very important in the future.

| | | | | | | |
|------------------------|---------|---------|--------|---------|-----|---------|
| PSD Table | | | | | | |
| Country: | Egypt | | | | | |
| Commodity: | Cotton | | | | | |
| | | 1997 | | 1998 | | 1999 |
| | Old | New | Old | New | Old | New |
| Market Year Begin | | 08\1997 | | 08\1998 | | 08\1999 |
| Area Planted | 3736820 | 373602 | 332000 | 281400 | 0 | 260400 |
| Area Harvested | 3736820 | 373602 | 332000 | 281400 | 0 | 260400 |
| Beginning Stocks | 157825 | 157825 | 215545 | 195275 | 0 | 118005 |
| Production | 337450 | 333450 | 300000 | 228000 | 0 | 218000 |
| Imports | 0 | 4000 | 0 | 0 | 0 | 20000 |
| TOTAL SUPPLY | 495275 | 495275 | 515545 | 423275 | 0 | 356005 |
| Exports | 50000 | 70000 | 65000 | 95000 | 0 | 80000 |
| USE Dom. Consumption | 224730 | 225000 | 205270 | 205270 | 0 | 185000 |
| Loss Dom. Consumption | 5000 | 5000 | 5000 | 5000 | 0 | 5000 |
| TOTAL Dom. Consumption | 229730 | 230000 | 210270 | 210270 | 0 | 190000 |
| Ending Stocks | 215545 | 195275 | 240275 | 118005 | 0 | 86005 |
| TOTAL DISTRIBUTION | 495275 | 495275 | 515545 | 423275 | 0 | 356005 |

| | | | |
|---------------------|--------|-------------|--------|
| Export Trade Matrix | | | |
| Country: | | Units: | |
| Commodity: | | | |
| Time period: | | | |
| Exports for | 1997 | | 1998 |
| U.S. | | U.S. | 3,844 |
| Others | | Others | |
| Italy | 17,847 | Italy | 30,987 |
| India | 11,019 | India | 17,172 |
| Turkey | 12,340 | Turkey | 12,115 |
| Japan | 5,954 | Switzerland | 7,605 |
| South Korea | 2,946 | S.Korea | 6,138 |
| Germany | 2,262 | Germany | 5,571 |
| Greece | 2,203 | Greece | 3,413 |
| Portugal | 1,740 | Japan | 3,424 |
| Taiwan | 2,279 | | |
| Spain | 1,387 | | |
| Total for Others | 59977 | | 86425 |
| Others not listed | 10,023 | | 4,731 |
| Grand Total | 70000 | | 95000 |
| | | | |