

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Voluntary Public

Date: 5/9/2016

GAIN Report Number: ET1613

Ethiopia

Post: Addis Ababa

Drought Has Minor Impact on Ethiopia's Cotton Production

Report Categories:

Cotton and Products

Biotechnology - GE Plants and Animals

National Plan

Approved By:

Michael G. Francom, Agricultural Counselor

Prepared By:

FAS/Addis Staff

Report Highlights:

After a small decline in MY15/16 (Aug-Jul) because of the drought, cotton production is forecast to more than recover, reaching 207,000 bales (45,000 metric tons) in MY16/17. Meantime, due to the insufficient supplies of local cotton and the growing demand from the textile and apparel sector, cotton imports are forecast to hit a record of 64,000 bales (14,000 metric tons) in MY16/17, of which 18,000 bales (4,000 metric tons) is expected to come from the United States.

Production:

Cotton production in MY16/17 (Aug-Jul) is expected to increase from the previous year to 207,000 bales (45,000 metric tons). This forecasted increase is based on the assumptions that improved weather conditions will prevail and that cotton acreage will expand. For MY15/16, post is lowering its production estimate to 175,000 bales (38,000 metric tons), down from the USDA official estimate of 188,000 bales (40,000 metric tons). This minor reduction is largely attributed to the El-Niño drought which led to lower cotton yields and fewer acres being both planted and harvested. In contrast to the anticipated drop in national cotton production, some growing areas in the country with access to irrigation, such as commercial farms in Afar and SNNP regions, experienced improved yields. Table 1 summarizes cotton production statistics for the last several years.

Cotton is produced in six regions in Ethiopia, with most production concentrated in the Rift Valley and western Amhara. Close to 65 percent of the country's cotton comes from medium and large-scale commercial farms, which use both rain-fed and irrigated production systems. Smaller farmers often do not have access to irrigation. About one-third of Ethiopia's cotton is grown on 15,000 hectares of irrigated land, which accounts for a little more than 20 percent of the total land area planted in cotton. Yields vary based on access to irrigation. For example, the yields on irrigated farms are around 2.6 metric tons per hectare, while the yields on rain-fed farms are about half. See figure 1 below.

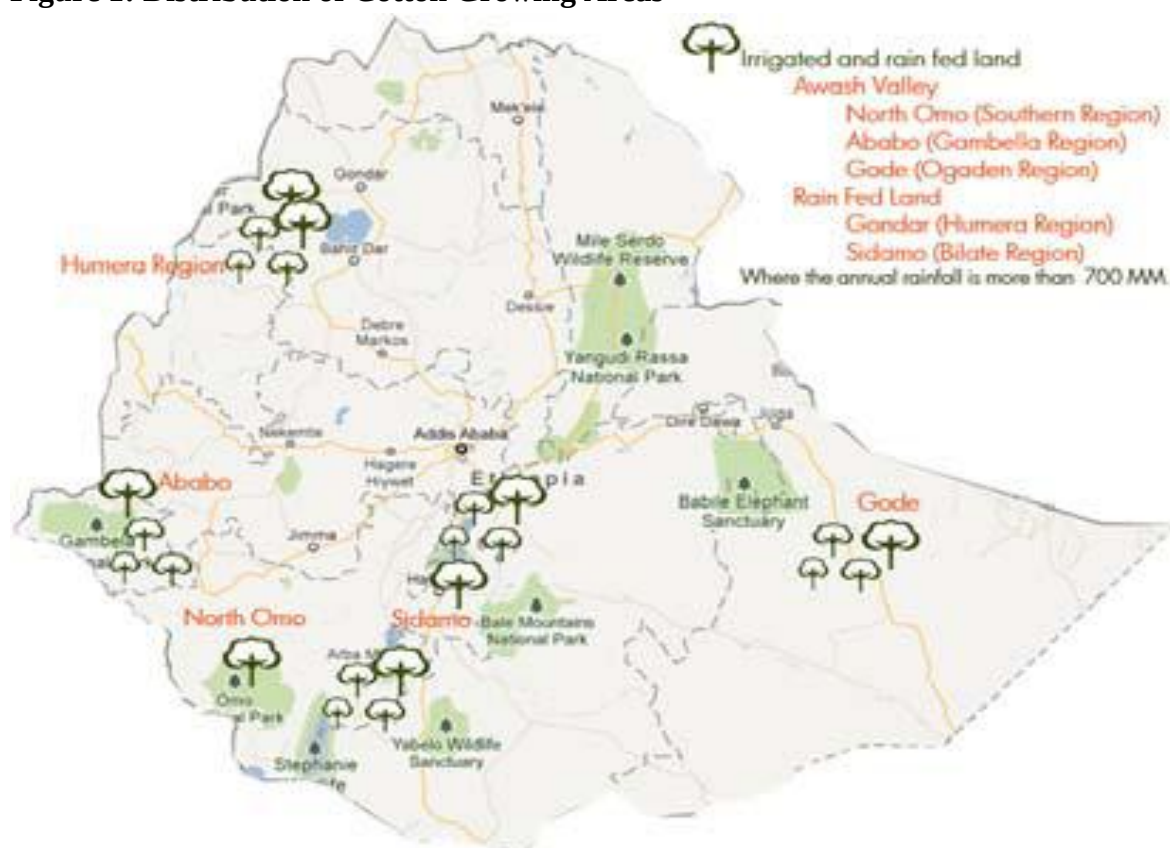
According to government studies, Ethiopia reportedly has about 3.0 million hectares of potential land that is considered suitable for cotton cultivation. Refer to table 3 for details. Of these 3.0 million hectares, less than 100,000, or 3 percent, are currently being used to grow cotton. Over time, more of this land will likely end up being used for cotton production to meet rising local demand. However, for the foreseeable future, post believes that only a fraction of the 3.0 million hectares will be used for cotton because of challenges associated with land ownership rights, finance, conflict, water and irrigation, as well as competition with sugarcane production.

Table 1: Area, Production Volume, and Yield of Cotton					
Crop Year	Area (Ha)	Production Volume (MT)		Year-to-Year Variation (Lint Cotton)	
		Seed Cotton	Lint Cotton	Absolute	%
2010/11	99,000	149,000	55,000	-	-
2011/12	93,000	167,000	62,000	7,000	13%
2012/13	85,000	122,000	45,000	(17,000)	-27%
2013/14	57,000	75,000	28,000	(17,000)	-38%
2014/15 *	98,000	108,000	40,000	12,000	43%
2015/16 *	65,000	102,000	38,000	(2,000)	-5%
2016/17 *	82,000	121,000	45,000	7,000	18%

Source: TIDI and Own Forecast

*Production figures are FAS Addis Ababa forecast

Figure 1: Distribution of Cotton Growing Areas



Source: Cotton Background Study, ECX 2012 (Unpublished).

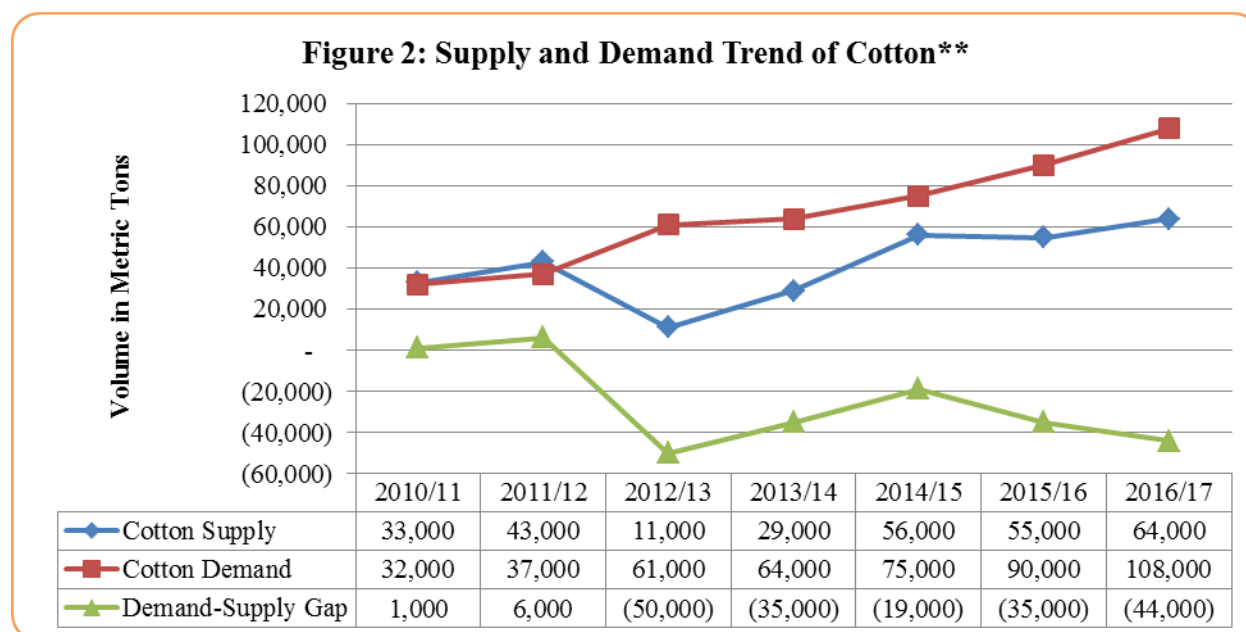
Consumption:

Cotton consumption for MY16/17 is forecast to increase to 285,000 bales (62,000 metric tons), an increase of 55,000 bales (12,000 metric tons) over the previous year's newly revised estimate. This increase is attributed to growing cotton demand from the rapidly-expanding textile and apparel sector.

The demand for cotton continues to outstrip supplies of locally-produced and imported supplies of cotton. The demand for cotton ranges between 414,000 bales (90,000 metric tons) and 460,000 bales (100,000 metric tons). However, a sizeable portion of this demand goes unmet, causing factories to stand idle or operate at reduced capacity. Therefore, actual consumption is noticeably lower than demand. While imported cotton is an option to close this gap between supply and demand, there are difficulties accessing sufficient levels of foreign exchange to purchase the required volumes. See figure 2 for a graphical representation of this supply and demand gap.

Going forward, cotton consumption is expected to continue its upward trend as foreign investors in the textile and apparel sector come to Ethiopia to take advantage of inexpensive labor and electricity, as well as other government-provided support options. One of the ways the Government of Ethiopia (GOE) is attracting this investment is through its massive industrial park project.

According to the Ethiopian Textile Industry Development Institute ([TIDI](#)), there are currently 18 cotton ginning factories, 51 garment producers, 13 weaving and knitting plants, and 22 integrated textile factories. As alluded to above, the number of these factories is expected to climb in the future.



Source: data from TIDI and own forecast

* Supply figures for MY 2014/15 thru 2016/17 are FAS Addis Ababa estimates.

** Supply = (Production + Stock+ Import) – Export

Trade:

Imports of cotton are estimated at a record 64,000 bales (14,000 metric tons) in MY 2016/17, up from the previous year's newly revised estimate of 46,000 bales (10,000 metric tons). This increase is

attributed to the growing demand from the textile and apparel sector. Again, as was noted earlier, demand is higher than actual consumption. Imports of U.S. cotton during this period are forecast to increase from the previous year to 18,000 bales (4,000 metric tons). See table 5 for cotton trade data.

Since its formation in January 2015, the Ethiopian Industrial Inputs Development Enterprise (EIIDE) has been managing the local procurement, importation, and distribution of cotton as well as sugar and edible oil for market stabilization purposes.¹ In MY15/16, EIIDE plans to purchase a total of 69,000 bales (15,000 metric tons) of cotton from local and international sources. From July to April, the enterprise had purchased and sold 41,000 bales (9,000 metric tons), most of which was imported, to local end users on a credit basis. Meantime, companies may import cotton abroad on their own, but must receive prior approval from TIDI and the Ministry of Industry.

EIIDI is also responsible for creating market linkages between local cotton growers and the textile and apparel industry. A formal contractual arrangement between both parties is now in place. As part of the conditions of the contract, the cotton is sampled, inspected and graded based on established quality specifications (Grade A, B, and C). The sampling and grading is done by the Quality Inspection Unit under TIDI and as a fallback the Ethiopian Conformity Assessment Enterprise (ECAE). After sampling and grading, the cotton is offloaded at one of the three EIIDI warehouses in Addis Ababa, Melka Sedi and Kombolcha. Afterward, textile factories purchase this warehoused cotton based on their desired specifications.

The local price of EIIDE-traded cotton is set based on the grade of the cotton and international market prices. The enterprise uses Indian, Chinese and U.S. cotton markets for price a benchmark and periodically adjusts the local trading price based on these reference markets. EIIDE supplies imported and locally-procured cotton to textile and garment factories on credit arrangement with a 9.5 percent interest rate. Currently, the proposed local buying price for Grade A, B, and C cotton respectively stands at Birr 33,000 (\$1,530) per metric tons, Birr 31,000 (\$1,438) per metric tons, and Birr 30,000 (\$1,391) per metric tons. See table 7 for cotton quality specifications, grading and buying price for locally produced cotton.

Policy:

As part of the second five-year (2016-20) phase of the country's growth and transformation plan (GTP II), the government plans to accelerate its efforts to increase the production and quality of local cotton. In particular, the plan envisions expanding the area of land planted in cotton by nearly 2.5 times, from 200,000 hectares to 490,000 hectares. (Note: Area harvested in MY15/16 is forecast at 65,000 HA.) With this added acreage and the use of improved inputs, production is supposed to skyrocket from

¹ EIIDE was set up following the restructuring of the former state-owned Merchandise Wholesale Import and Trade Enterprise (MWITE). MWITE started operation in 1993 after a merger of two previous trading corporations, Ethiopian Domestic Distribution Corporation (EDDC) and Ethiopian Import –Export Corporation (EIEC).

759,000 bales (165,000 metric tons) to 3.5 million bales (762,000 metric tons) by the end of 2020. While production will increase in the coming years, post believes that these GTP II production targets are overly ambitious. Furthermore, production is not expected to keep pace with demand, making imports necessary. Even the GTPII acknowledges the supply and demand gap, as well as the need for imports. See table 6 for details.

Complementing GTP II production targets, the government has placed the textile and garment industry as one of the top priority sectors for growing the economy, attracting FDI, generating foreign exchange, and creating jobs. In an effort to encourage FDI in this sector, the GOE is constructing new industrial parks in several locations across the country, including Hawassa, Kombolcha, Dire Dawa, and Mekelle. These parks are in addition to the existing facilities in Bole Lemi, Eastern Industrial Zone, and Kilinto. See figure 3 below for the location of these industrial park sites.

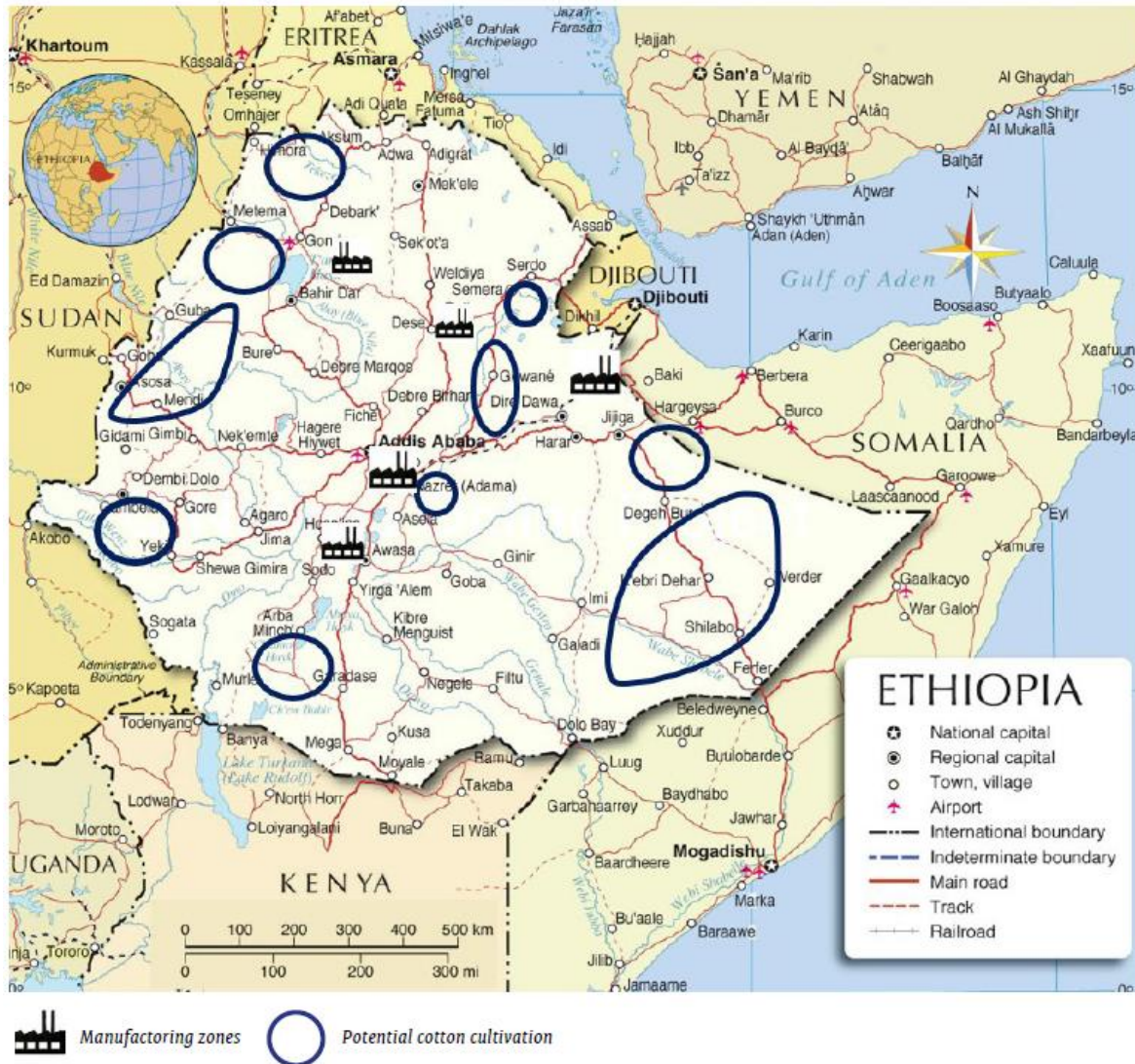
The government continues to move ahead with its plans to adopt biotech cotton. Last August, the President signed into law an amended biosafety proclamation that is intended to give farmers the option of using higher-yielding biotech cotton seed. In accordance with the newly-revised law, the Ministry of Environment established a National Biosafety Committee to revise the proclamation's underlying directives which regulate how the technology is to be used. While the directives are being revised, the Ethiopian Institute of Agriculture Research, under the Ministry of Agriculture, is laying the groundwork to conduct a confined field trial once everything is in place.

Post continues to work to introduce USDA's GSM-102 export credit guarantee program in Ethiopia. This program, if implemented in the country, would help facilitate sales of U.S. cotton.

Stocks:

Given tight supplies and strong demand, stocks are forecast to be fairly small. Post estimates stock levels at 23,000 bales (5,000 metric tons) in MY15/16. Ending Stocks for MY 2016/17 are expected to slide down to 9,000 bales (2,000 metric tons).

Figure 3: Industrial Parks and Potential Cotton Cultivation Areas



Source: Business Opportunity Ethiopia, Textile and Apparel Industry, 2015

Table 2: Ethiopia, Commodity Cotton, PSD						
Cotton	2014/2015		2015/2016		2016/2017	
Market Begin Year	Aug-14		Aug-15		Aug-16	
Ethiopia	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Planted	0	0	0	0	0	0
Area Harvested	130	98	130	65	0	82
Beginning Stocks	23	37	47	32	0	23
Production	175	184	188	175	0	207
Imports	30	37	60	46	0	64
MY Imports from U.S.	0	5	0	14	0	18
Total Supply	228	258	295	253	0	294
Exports	5	0	0	0	0	0
Use	195	225	245	230	0	285
Loss	0	0	0	0	0	0
Total Dom. Cons.	195	225	245	230	0	285
Ending Stocks	28	32	50	23	0	9
Total Distribution	228	258	295	253	0	294
1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA						

Table 3: Available Size of Acreage ('000 Ha) for Cotton Cultivation by Region					
S/N	Region	High Productive Land	Medium Productive Land	Total Available Land	% Share from Total
1	Tigray	209	60	269	9%
2	Amhara	544	135	679	23%
3	SNNP	385	216	601	20%
4	Oromia	205	202	407	14%
5	Gambella	263	54	316	11%
6	Benshangul Gumuz	80	223	303	10%
7	Afar	150	50	200	7%
8	Somalia	150	75	225	7%
	Total	1,987	1,014	3,001	100%

Source: TIDI

Table 4: Cotton Harvested Area and Production Volume by Growing Region
(Area in '000 Hectares and Production in '000 metric tons)

Region	2011/12		2012/13		2013/14		2014/15 *		2015/16 **	
	Ar ea	Prod uc.	Ar ea	Prod uc.	Ar ea	Prod uc.	Ar ea	Prod uc.	Ar ea	Prod uc.
Amhara	29	20	33	20	29	6	25	13	24	15
Tigray	16	9	13	6	2	1	29	18	3	1
Benshangul Gumuz	2	1	5	3	3	2	5	3	15	7
Gambella	6	3	7	3	3	2	5	3	7	4
Afar	31	24	22	11	12	10	13	12	6	7
SNNP	9	4	6	3	8	6	22	16	9	8
Oromia	0.5	0.4	0.6	0.4	-	-	-	-	-	-
Total	93	62	85	45	57	28	99	66	65	43

Source: TIDI

*TIDI revised total production at 60,000 metric tons and FAS estimated the figure at 40,000 metric tons.

**FAS forecasts total production to stand at 38,000 metric tons.

Table 5: Trend of Cotton Production, Supply and Demand

Descriptions	2010/1 1	2011/1 2	2012/1 3	2013/1 4	2014/15 *	2015/16 *	2016/17 *
Cotton Production	55	62	45	29	40	38	45
Cotton Demand	32	37	61	64	75	90	108
Beginning Stocks	N/A	N/A	N/A	N/A	8	7	5
Cotton Export	22	20	35	-	-	-	-
Cotton Import	0.3	0.7	1	0.9	8	10	14
Net Supply of Cotton	33	42	11	29	56	55	64
Demand-Supply Gap	1	6	(50)	(35)	(19)	(35)	(44)

Quantities in '000 Metric Tons

*Production and import are estimates of FAS Addis Ababa

Source: TIDI and own estimates

Table 6: Estimated Cotton Production, Demand & Manufacturing Capacity in GTP II

Particulars	2015/16	2016/17	2017/18	2018/19	2019/20
Expected Acreage ('000 Ha)	200	260	318	396	489
Seed Cotton Production ('000 MT)	360	520	700	999	1,370
Yield/Ha	1.80	2.00	2.20	2.52	2.80
Cotton Production ('000 MT)	133	192	259	370	507
Cotton Demand ('000 MT) ²	165	208	305	478	762
Cotton Production Vs. Demand Gap('000 MT)	(32)	(16)	(46)	(108)	(255)
Expected Manufacturing Capacity					
Ginning Capacity ('000 MT)	79	82	83	90	95
Spinning Capacity ('000 MT)	95	135	177	238	313
Weaving Capacity (million m ²)	290	377	468	599	758
Knitting Capacity ('000 MT)	69	89	110	142	180

Source: TIDI

Table 7: Cotton Quality Specifications, Grading and Local Trading Price

S/N	Specifications	Grade		
		A	B	C
1.	Staple length	28.5mm and above	27mm –	25mm –
2.	Micronaire	3.5 - 4.2	4.3- 4.9	3.2 - 3.4 and 5-
3	Strength	≥ 29 GPT	26-28.9 GPT	25-25.9 GPT
4	Average point of sticky point	0-10	11-20	21-32
5	Short fiber content	≤ 10%	11%-12%	13%-14%
6	Trash content	Less than 3.5%	3.5%-4.5%	4.6%-5.0%
7	Moisture content	≤ 8%	≤ 8%	≤ 8%
8	Maturity Ratio	≥ 85%	81%- 84%	75%- 80%
9	Length uniformity Ratio	≥ 83%	81%- 82%	76%- 80%
10	Color	11-1 up to 21-4	31-1 up to 31-	41-1 up to 51-4
11	Contamination	≤ 5 grams/ bale	5-10 grams	10-15 grams
Proposed buying price of Lint cotton (Birr³ per kilogram)		33.00	31.00	30.00

Source: TIDI

² Projected demand of cotton in GTP II is higher than TIDI estimated figures for MY 2015/16 and MY 2016/17.³ One USD exchange rate equals 21.42 Birr. Thus, buying price for Grade ‘A’ cotton equals \$1.54 per kilogram.

