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Annual Cotton Report

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Report Highlights:
Ethiopia's cotton production, which has remained fairly flat in recent years, is estimated at 184,000 bales (40,000 metric tons) in MY14/15. Due primarily to the gradual expansion of acreage planted, production is forecast to expand slightly in MY15/16 to 200,000 bales (43,500 metric tons). Meantime, consumption is forecast to outstrip domestic cotton production in large part due to the demands of the rapidly-expanding textile/apparel industry. Thus, it is anticipated that imports, some of which will likely come from the United States, will fill this gap. Imports are estimated at 37,000 bales (8,000 metric tons) in MY14/15 and 55,000 bales (12,000 metric tons) in MY15/16.

Production:

At present, the Government of Ethiopia (GOE) does not appear to be maintaining official cotton production statistics. One possible reason for this absence of data could be the recent transfer of the cotton production[1] unit from the Ministry of Agriculture to the Ministry of Industry. Nonetheless, GOE and industry sources generally agree that production is insufficient to keep pace with rising demand. Similarly, these sources agree that MY14/15 (Aug-Jul) production is between 40,000 to 50,000 metric tons, which is the equivalent to 184,000 to 230,000 480 lb. bales.[2] According to data provided by the Textile Industry Development Institute (TIDI), there are seven ginning operations with a collective capacity of at least 276,000 bales (60,000 metric tons).

Taking this into consideration, post forecasts total MY14/15 production at 184,000 bales (40,000 metric tons), up nearly 10,000 bales from the official USDA estimate for this period. For MY15/16, production is expected to climb slightly to 200,000 bales (43,500 metric tons). These expected increases are primarily attributed to the gradual expansion in the acreage of land planted in cotton, which is currently estimated at 130,000 and 135,000 hectares for MY14/15 and MY15/16. Again, since there are currently no official estimates for area planted in cotton, post is extrapolating from the GOE's earlier-reported statistics.

While production appears to be on an upward course, cotton output in previous years has been relatively flat, thereby keeping the country from reaching its production targets, as outlined in the five-year Growth & Transformation Plan (GTP), spanning from 2010/11-2014/15. (Note: the second GTP, which will cover the next five years, 2015/16-2019/20, is expected to be released soon.) There are three primary reasons underlying this stagnation in production.

First, the GOE has placed considerable emphasis on ramping up sugar production with the intent of making the country one of the world's top ten sugar producers. The Tendaho cotton farm, which previously was one of the country's largest cotton producing farms, was converted to sugar several years ago. In addition to Tendaho, several other smaller cotton operations have switched to sugar production. At present, however, this practice of switching from cotton to sugar production seems to have slowed and the GOE has been actively courting foreign investment in the textile and apparel sector, including opening large tracts of land where these new companies can grow cotton with which to supply their operations. For example, the Ethiopian Investment Agency put together an Investment Opportunity Profile for Cotton Production & Ginning in Ethiopia, which among other things discusses the cotton production situation, including climate, ideal farm locations, soil health, and incentives for investing. The GOE's outreach has shown to be effective, with a number of Turkish and other foreign firms setting up in Ethiopia over the last five years. The arrival of these foreign firms and the rapid expansion of the textile and apparel sector seem to suggest that the country's cotton production will

[1] When the term cotton is used in this report, unless otherwise stated, it refers to cotton lint (HTS 5201).
[2] All figures reported in bales refer to bales weighing 480 lbs each.

gradually begin to expand to meet the growing demand.

Second, the limited availability of quality inputs, including seed and fertilizer, and pest challenges have restricted the potential expansion in cotton production. Land tenure rights as well as natural disasters, such as floods, especially along the Awash River have also negatively impacted growth in cotton production. According to industry sources, the cotton seed that is currently being used are varieties (e.g. California and Delta) that were sourced from the United States more than 20 years ago. In the last several years, however, the GOE has allowed foreign firms, many of which are Turkish, to introduce new seed varieties on their local cotton farms. Meanwhile, the cotton bollworm is one of the pest challenges farmers struggle to manage.

In order to limit pest damage and boost yields, the GOE is considering introducing Bt cotton. Currently, the GOE is in the process of amending the country's Biosafety Proclamation to make this a reality. At the moment, the Ministry of Agriculture and the Ministry of Environment & Forest are reportedly working to reach a consensus on a couple of outstanding provisions whereupon the draft will be sent to Parliament for adoption. The widely held expectation is that the draft amendment to the Proclamation will likely be approved in the next several months. After its approval, the GOE is then expected to begin revising the underlying directives governing the use of the technology. Considering the length of time it might take to complete these revisions and the time for the GOE to conduct the relevant safety assessments of Bt cotton, it appears that it still could be at least a couple of more years before biotech cotton could be officially approved for planting and in the ground.

The third oft-cited reason for stagnation in the country's cotton production is the previous restriction from 2010-12 on exporting surplus cotton along with the fact that other crops, like sesame, were more profitable to grow. For more on the decision to lift the export ban, please see GAIN ET1204. As a consequence of the export restrictions, farmers planted less cotton, opting for the more profitable sesame or other cash crops, because they feared they would be unable to sell their cotton, and even if they were able to sell, it would have been at a steep discount. This argument, however, now appears somewhat outdated because of the rising cotton demand from the textile and apparel sector and the reported lifting of the export restrictions. In fact, as was previously mentioned, cotton demand is outstripping local supplies. This trend will likely attract some farmers in the coming years to begin to grow more cotton.

Most of the cotton grown in the country is in and around the Awash Valley, with some smaller amounts being grown in Gambella, the Omo Valley, Humera and Metema. The majority of the cotton is grown on large farms, some of which are irrigated, and is mostly picked by hand. The cotton from these larger operations is ginned locally and is mainly used for the local manufacture of textiles and garments. In addition, smallholder farms grow a limited amount of cotton for traditional spinning and weaving.

Consumption:

According to industry sources, cotton demand is around 460,000 bales (100,000 metric tons), if not higher. However, a large chunk of this demand goes unsatisfied and some textile and apparel

manufacturers have to reduce consumption and/or stand idle until cotton becomes available either through domestic or import channels. Actual consumption, therefore, is lower than demand because of the tight supplies of local cotton and the challenges of importing cotton from abroad. Taking this into consideration, cotton consumption is estimated at 235,000 bales (51,000 metric tons) for MY14/15 and 270,000 bales (59,000 metric tons) for MY15/16. In the future, cotton consumption is expected to climb upward, especially as the GOE continues its work to attract foreign investment in the textile and apparel sector. This growing pattern of consumption is expected to spur cotton imports, some of which are expected to come from the United States.

According to information on TIDI's website, there are seven listed ginning companies, nine spinners, 35 garment manufactures, and about 15 integrated textile factories. These numbers are expected to grow as outside investors continue to set up shop in Ethiopia.

Trade:

Given the rising demand from the local textile and apparel sector and limited local production, the demand for imported cotton is expected to expand in the coming years. This trend is expected to continue until such time that Ethiopia's production can catch up with demand which could take several years, if not more. Taking this into consideration, imports for MY14/15 are estimated at 37,000 bales (8,000 metric tons), almost double from the USDA estimate at 20,000 bales. For MY15/16, imports are expected to grow to 55,000 bales (12,000 metric tons). Some of this imported cotton will come from the United States and India, among other cotton-exporting countries. Post estimates imports of U.S. cotton could reach 5,000 bales (1,000 metric tons) in MY14/15 and 23,000 bales (5,000 metric tons) in MY15/16.

Some firms, especially the larger foreign companies, are expected to buy foreign cotton on their own. Meantime, the government, through its state-trading arm, Ethiopia Domestic Distribution Corporation (EDDC), will make consolidated purchases on behalf of local cotton buyers. The EDDC will reportedly make these purchases based on the specifications provided by the end user. In fact, according to a recent press report, the GOE is planning to purchase 16,000 bales (3,500 metric tons) of U.S. cotton. While the exact timing and details of this planned purchase are not yet known, the bulk of this anticipated purchase will likely arrive in MY15/16.

With the exception of insignificant amounts of informal cotton trade along the borders, all commercial trade goes through the port of Djibouti. In some cases, product that, according to official trade sources, shows a final destination as Djibouti is actually being forwarded on to end users in Ethiopia. Post estimates that around 5,000 bales (1,100 metric tons) of cotton, which appears earmarked for Djibouti, is coming to Ethiopia.

Ethiopia is not expected to export cotton in the foreseeable future given the burgeoning local demand.

Prices:

In early 2015, the GOE announced that it was going to resume price controls on cotton in order to minimize the mark ups charged by middlemen. The farm gate price for cotton is 30-38 birr per quintal, while the textile and apparel firms were purchasing it for 50-60 birr per quintal. The price will be set by a government committee made up of the Ministry of Agriculture, the Textile Industry Development Institute (TIDI) and the Ministry of Trade.

Policy:

As was mentioned above, the GOE's policy towards cotton is largely focused on attracting foreign investors, some of whom have vertically-integrated operations in place where they grow, gin, spin, and use the cotton for their local textile and apparel manufacturing business. These investors are seen as the lynchpin for driving the cotton production by investing in seed, fertilizer, pesticides, tractors and technology, etc. The GOE will help facilitate this investment by providing these investors with a variety of incentives, such as land and electricity at reasonable rates, tax dispensations, duty exemptions, and capital financing.

In addition, the government-run Textile Industry Development Institute (TIDI) plays a leading role in developing the country's textile sector. Specifically, the mission of TIDI is: "Enabling the Ethiopian textile industry competent in the global market by providing sustained investment promotion, consultancy, training study and research, laboratory and marketing support and services."

Marketing:

Much of Ethiopia's textile and apparel industry is made up of Turkish companies that have relocated to Ethiopia. (Note: TIDI maintains a list of these firms, including ginners and spinners, and garment manufacturers.) Many of these Turkish firms, when they were operating in Turkey, were using the GSM-102 export credit guarantee program. They would like to again use GSM-102. However, at present, there is no bank in Ethiopia approved to handle GSM-102 transactions. In the future, there's a possibility that an Ethiopian bank could be approved, which could in turn help facilitate sales of U.S. cotton to Ethiopia.

Stocks:

The volume of stocks is expected to be relatively small given tight local supplies and strong demand. Post, therefore, is lowering its stock estimate for MY14/15 to 30,000 bales (6,500 metric tons), down by nearly 25,000 bales from the official USDA estimate. Likewise, ending stocks for MY15/16 are expected to continue their downward slide, falling to 15,000 bales (3,300 metric tons).

Cotton	2013/2014		2014/2015		2015/2016	
Market Begin Year	Aug 2013		Aug 2014		Aug 2015	
Ethiopia	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Planted	0	0	0	0	0	0
Area Harvested	120	120	125	130	0	135
Beginning Stocks	28	28	23	44	0	30
Production	170	170	175	184	0	200

Imports	5	20	30	37	0	55
MY Imports from U.S.	0	0	0	5	0	23
Total Supply	203	218	228	265	0	285
Exports	15	0	5	0	0	0
Use	165	174	195	235	0	270
Loss	0	0	0	0	0	0
Total Dom. Cons.	165	174	195	235	0	270
Ending Stocks	23	44	28	30	0	15
Total Distribution	203	218	228	265	0	285
1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA						