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2018 Cotton and Products Annual

Egyptian Cotton on the Rise

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Report Highlights:

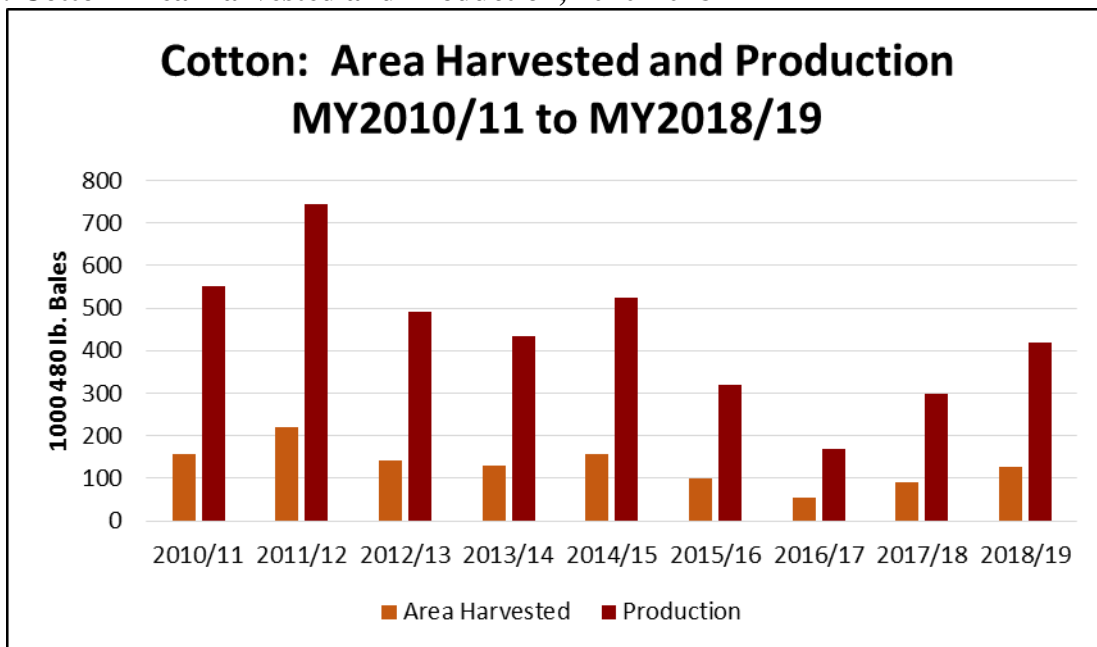
After years of declining production, Egyptian cotton is again on the rise. A currency devaluation, new policies to increase yields and improve quality, and high farm-gate prices are encouraging farmers to expand cotton area and increase production. Under this new economic environment, cotton exports are expected to rise during the coming years, while imports decrease marginally. FAS Cairo expects MY 2018/19 production to reach 420,000 bales, a near 40 percent increase over MY 2017/18.

Production:

Since early 2017 the Government of Egypt has been actively taking steps to protect the cotton industry from further decline. The Egyptian Ministry of Agriculture and Land Reclamation (MALR) is now directly overseeing cottonseed quality and handling seed distribution. Additionally, the government increased their reported *indicative price* for cotton by over EGP 400 (\$22.72) over the previous season. The indicative price for extra-long staple cotton produced in the Nile Delta increased to EGP 2700 per kantar (\$743.42 per bale), while the indicative price for medium and short staple increased to EGP 2500 per kantar (\$688.35 per bale). [Note: 1 kantar ≈ 45.02 kg lint cotton. End note.]

With the policy shifts and higher prices, planted area and yields are expected to increase in the coming years. As such, FAS Cairo is increasing area harvested in MY 2018/19 by 35,000 ha to 126,000 ha. On increasing yields and expanded acreage harvested, post expects MY 2018/19 production to reach 420,000 bales, up from 300,000 in MY 2017/18.

Figure 1: Cotton Area Harvested and Production, 2010-2018



Source: FAS Data

High Prices Driving Up Production

In MY2017/18, farmers were able to sell the extra-long staple varieties grown in the Delta Region at EGP 3,200 per kantar (\$881.7 per bale). This is 18.5 percent higher than the government-announced indicative price of EGP 2,700 per kantar (\$743.42 per bale). Varieties grown in the delta are extra-long staple varieties such as Giza 45, Giza 96, Giza 87, Giza 88 and Giza 92, or long staple varieties such as Giza 94 and Giza 86. Short and medium staple varieties (Giza 90 and 95) are grown in Upper Egypt. The short and medium staple varieties sold for EGP 2,700 per kantar (\$743.4 per bale) in MY 2017/18. This is eight percent over the indicative prices announced by the government of EGP 2,500 per kantar (\$688.35 per bale).

In November 3, 2016, the Egyptian government floated the Egyptian pound, leading to a strong currency devaluation. Within days the pound slid from EGP 8.88 per U.S. dollar to EGP 18 per dollar; a

decrease of over 100 percent. It has since risen to EGP 17.60 per U.S dollar. While much of the country has suffered from the inflationary impacts of the devaluation, exporters have benefited as their products are now more competitive on international markets. Cotton exporters saw the value of their product, in Egyptian pound terms, double in MY 2016/17.

Efforts to Save the Famous Egyptian Cotton

In the past years, the government has taken control over the production and distribution of cottonseed, which was previously handled by the private sector, in an effort to restore seed purity and cotton quality. The government was forced to intervene as Egyptian cotton's reputation and quality had deteriorated significantly, due to seed companies' lack of effective quality assurance systems that resulted in inferior, mixed variety output. This development has increased the demand and the prices for Egyptian cotton in the local and international markets and is expected to continue in MY 2018/19.

The quality and the physical properties of the MY2017/18 cotton harvest improved significantly and are expected to improve again in MY2018/19. Analysis released by the Central Arbitration and Testing General Organization (CATGO) on the physical fiber properties of Egyptian cotton varieties confirms this improvement.

Cotton Production Policy Revised

In early 2017, the government announced a new policy that aims to reverse Egypt's cotton industry's decline. The policy, which consists of 19 steps, was implemented during the 2017 planting season. The adoption of the same policy continues with the 2018 planting season. This includes:

1. Encourage contract farming to solve marketing bottlenecks.
2. Provide high quality seeds to increase yields and quality.
3. Identify the areas suitable for each cotton variety.
4. Enforce the ban on prohibited varieties and implement an awareness campaign to educate farmers on the specifications and requirements of each variety.
5. Develop the local spinning and weaving industries.
6. Tighten control over the transfer of seeds between governorates to prevent seed mixing.
7. Apply good agricultural practices.
8. Coordinate with the relevant ministries to agree on an indicative price before the planting season commences to encourage farmers to grow quantities needed by the local industry and traders.
9. Ensure that regulatory agencies crack down on black market trade in cotton with unfair prices.
10. Prepare annual economic studies that determine the production area needed based on the industry's need.
11. Encourage the spinning industry to use Egyptian long-staple cotton to reduce imports.
12. Develop new varieties to increase the yields.
13. Intensify promotion of Egyptian cotton in international markets, protect Egyptian cotton, and define the role of the concerned authorities that work in planting, trading, and cotton-related industries.
14. Limit the growing of cotton seeds for plantations to certain farmers based on contracts with government.
15. Provide urgent solutions to farmers facing seed shortages, especially for those growing long-staple varieties.

16. Apply punitive measures to certified seed farmers who decide to sell their crop to traders, including failure to provide seeds or deliver the seeds to the central administration for seed production.
17. Stop all agricultural services to seed farmers that violate the contract terms with MALR.
18. Establish seed distribution and collection centers by MALR's Central Administration for Seed Production, identifying selling and buying prices.
19. Maintain MALR's Central Administration for Seed Production as the sole responsible entity for inspecting and certifying seed production.

A great deal of political capital has been spent in creating and implementing policies designed to protect Egyptian cotton. The policies have wide support across government and private industry. Farmers, and the cotton industry more broadly, are responding positively to these efforts and FAS Cairo expects production to reflect those successes in the coming years.

MY2017/18 Subsidy Regime

Previously, the government provided cash payments to the textile industry, which allowed them to pay a government-announced price for Egyptian cotton. Following the reform of that system, the government now announces an indicative price before the planting season commences. The indicative price is a subtle attempt to urge the textile industry to buy cotton from farmers at set prices. While there is no obligation for industry to use the announced price, it is generally used as a farm-level base price.

Before the planting season of 2018 commenced, on February 28th, 2018, the Government of Egypt set a new indicative price for the cotton produced in the Delta at EGP 2700 per kantar (1 bale = 4.85 kantar) or \$743.42 per bale and EGP 2500 per kantar or \$688.35 per bale for the medium and short staple varieties grown in Upper Egypt.

To avoid seed mixing, on February 14, 2017, Ministerial Decree Number 1340/2016 was published in Egypt's Gazette regarding cottonseed to be used for next year's crop. The decree stipulates that seed cotton production is only permitted to farmers who signed contracts with the government based on the Ministerial Decree 277/2016, which stipulates areas eligible for growing cotton varieties. Under the decree, MALR's Central Administration for Seed Production will sign contracts with eligible farmers. Prices will be announced two months before the harvest.

Cotton Varieties Planted

The Central Arbitration and Testing General Organization (CATGO) identifies ten different varieties of cotton that come under two categories: extra-long staple cotton and long-staple cotton. Long-staple cotton is divided into lower-long staple varieties that grow in the Delta region and upper-long staple varieties that grow in Upper Egypt. However, traders and industry identify and market the upper-long staple cotton as medium and short staple cotton. These varieties are used to produce the same type of yarns as short and medium length varieties, like Upland and Greek cotton.

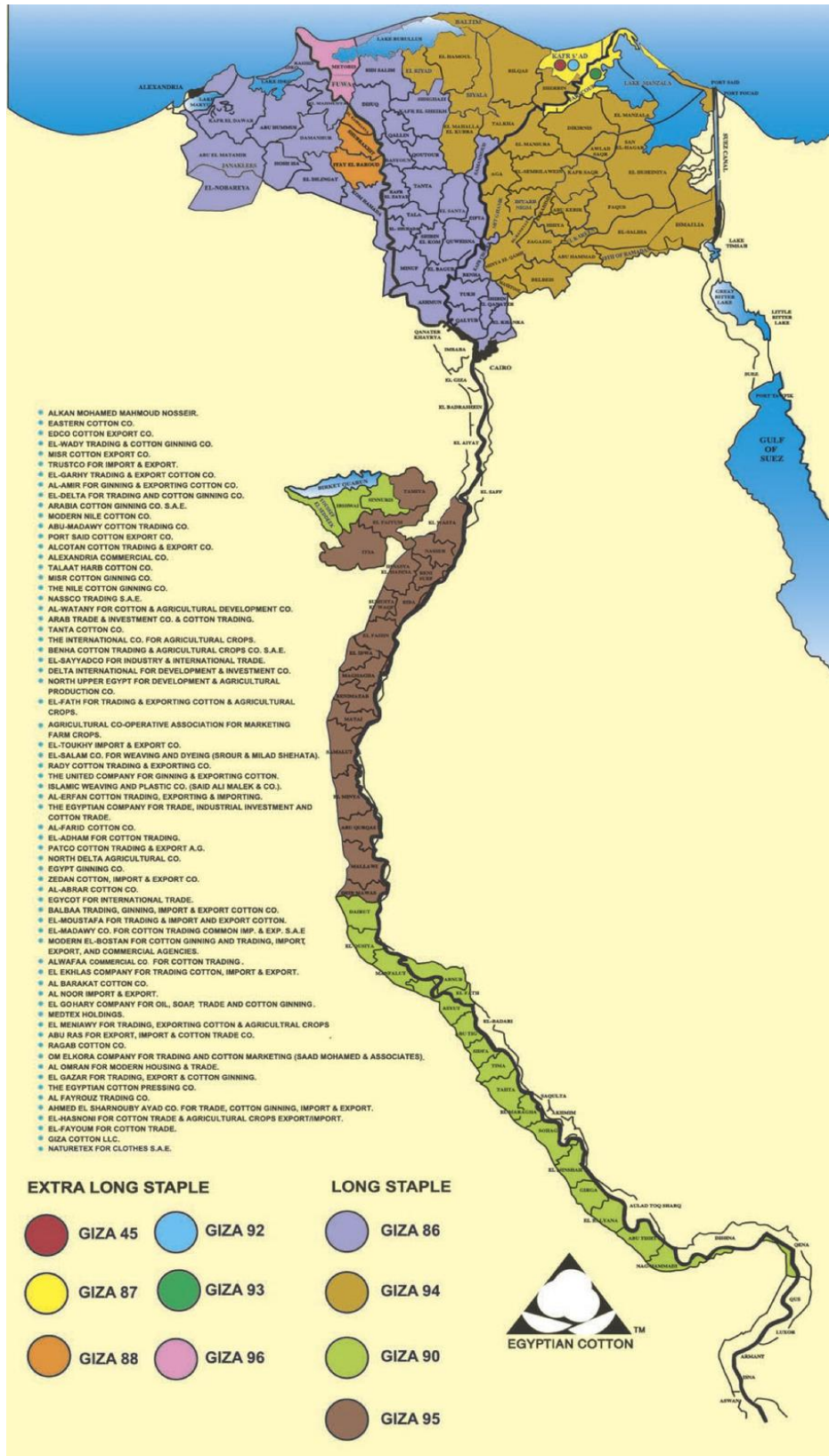
Every year, two months before the onset of the planting season, the Minister of Agriculture issues a decree that identifies the varieties that are allowed for planting by region, as each variety must be grown in the specified areas. In MY2017/18, the minister issued Ministerial Decree 95/2017, identifying the cotton varieties allowed for the season's planting and the areas for each variety. The varieties of extra-long staple cotton include Giza 45, 87, 88, 92, 93 and 96. The varieties of long-staple cotton include

Giza 86, 94, 90 and 95. Giza 86 and 94 are the long-staple varieties that grow in the delta region while Giza 90 and 95 are the long-staple varieties grown in Upper Egypt and are equal to the medium and short-staple varieties.

Of the extra-long staple varieties, Giza 87 is the most widely grown, accounting for three percent of Egypt's total cotton production in MY2017/18. The long staple varieties grown in the Delta and Upper Egypt represent the most planted cotton varieties in the 2018 season (Figure 2).

In CY 2018 the Ministry of Agriculture's Cotton Research Institute announced plans to plant 1260 ha of cotton in the western corner of the Minia Province. This new initiative is part of the government's program to reclaim 1.5 million acres in collaboration with three private sector companies. The Cotton Research Institute will provide the seeds of Giza 95 cotton variety for the companies. The Egyptian textile industry needs yarn produced from short and medium staple cotton to produce most of its garments such as denim, t-shirts, jeans, and other products. Finer Egyptian cotton is used for bed sheets and more expensive clothing.

Figure 2: Egyptian Cotton Production



Consumption:

In MY 2018/19, FAS Cairo forecasts local consumption of lint cotton up 30,000 bales, to 620,000 bales. The consumption estimate for MY 2017/18 remains unchanged at 590,000 bales, in line with USDA's official estimate. Post attributes MY 2018/19 increase in local consumption to growth in cotton production and surging demand from local spinners. Local spinners continue to benefit from the high return of yarn exports after the devaluation of the Egyptian pound and the strengthening global demand for Egyptian cotton. In MY 2016/17 local spinning mills were the main consumers of Egyptian cotton, consuming half of domestic production or about 27,500 metric tons of Egyptian lint cotton.

The majority of cotton consumed locally is short and medium-staple varieties, whether Giza 90 and 95 produced locally or imported from Greece, Burkina Faso, Benin and Sudan. Some spinners use Egyptian extra-long and long-staple varieties, while others depend on imported U.S. Pima cotton upon requests from their international buyers.

Trade:

Imports:

As the Egyptian government pushes farmers to plant more cotton and domestic production recovers, import volumes are slowing. In MY 2017/18, FAS Cairo expects imports to reach only 500,000 bales, down five percent from MY 2016/17. This trend is expected to continue into MY 2018/19 when imports are forecast to reach only 420,000 bales, a decrease of 16 percent from the previous season. In addition to increased domestic production, a weakened Egyptian pound further discourages imports of cotton.

Continued increases in local cotton production, from 300,000 bales to 420,000 in MY 2018/19 will add downward pressure on domestic cotton prices. This will encourage traders and yarn manufacturers, especially those using extra-long and long-staple varieties, to source their needs from the local cotton industry. However, yarn manufacturers who are dependent on short and medium-staple varieties will maintain their import levels to meet their domestic and international needs.

HS Code	Product	CY2015		CY2016		CY2017	
		Value	Qty	Value	Qty	Value	Qty
5201009000	CT,NT PMA,>28.58	32,013	83,523	23,869	56,676	29,243	69,000
5201002030	PIMA,ETC,>28.58	5,701	7,564	9,604	14,354	6,105	9,186
5201001090	CT,>25.4,<28.58	2,301	6,799	0	0	608	2
Total		40,015	97,886	33,473	71,031	35,956	78,188
Quantities in U.S. bales		Values in Thousands of Dollar				Source: GTIS	

*GTIS: Exports as reported by US

In 2017, U.S. cotton exports to Egypt increased seven percent, or \$2.48 million, to reach \$35.96 million. Export volumes increased by 7,157 bales, or ten percent over their 2016 levels (Table 1). In MY 2017/18, Greece, the United States, Sudan, Burkina Faso, and Benin remained the largest suppliers of cotton to Egypt. The United States replaced Burkina Faso as the second largest supplier of cotton to Egypt in 2017. Figure 3 lists the largest cotton suppliers to Egypt.

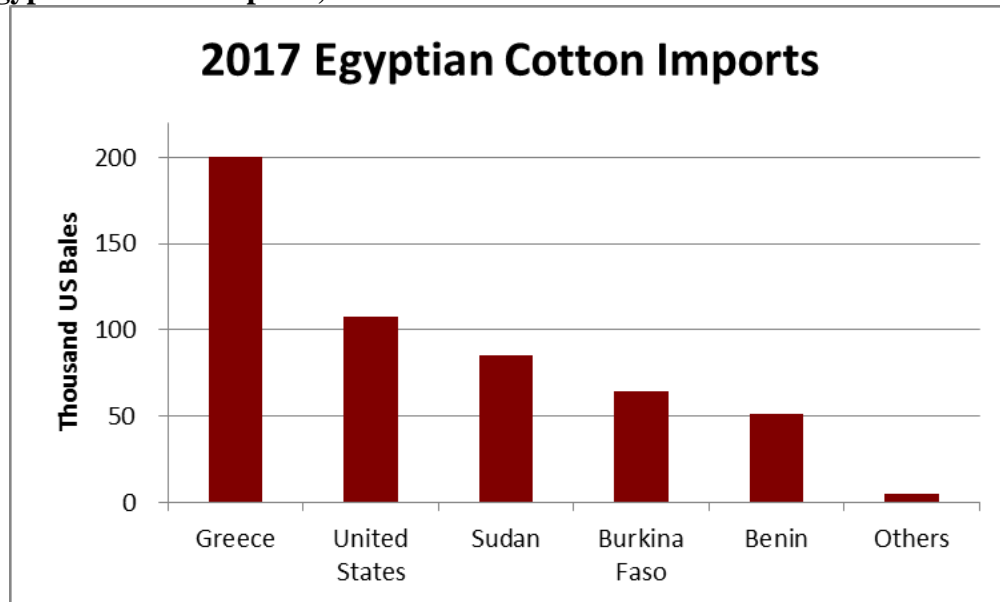
Notably, there is some discrepancy between U.S. exports as reported by the United States and imports from the U.S. as reported by the Egyptian Central Agency for Public Mobilization and Statistics

(CAPMAS). The total import volumes as reported by CAPMAS are in line with FAS Cairo estimates; however, the Egyptian agency reports shipments from the United States higher than U.S. sources.

According to CAPMAS data, Greek cotton shipments to Egypt in 2017 reached 200,382 bales, around 39 percent of total shipments. The United States accounted for around 21 percent of Egyptian imports. Shipments from Sudan and Burkina Faso made up 17 and 13 percent respectively.

Local traders and yarn manufacturers appreciate the quality of U.S. Pima and upland cotton. One of the biggest yarn manufacturers told post that even with the high prices of imported Pima cotton, his yarn importers in Europe are requesting yarn produced from Pima cotton and are willing to pay the extra cost due to its high quality. However, for upland cotton, the high shipping costs of this U.S. variety has led traders and yarn manufacturers to source their needs from neighboring countries like Greece and Sudan and from West Africa.

Figure 3: Egyptian Cotton Imports, 2017



Source: GTA/CAPMAS

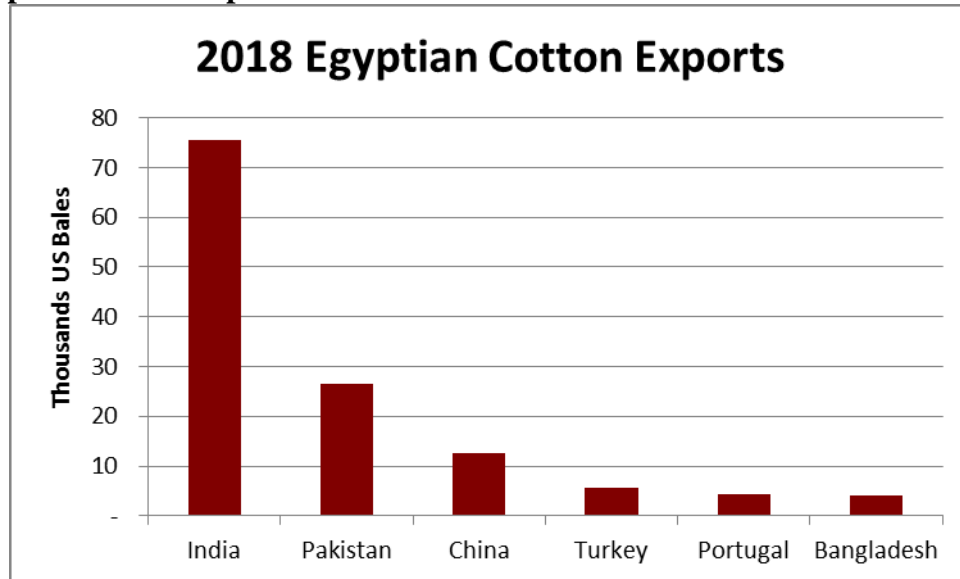
Exports:

With domestic production on the rise and a weak Egyptian pound, FAS Cairo expects an increase in Egyptian cotton exports. For MY 2017/18, FAS Cairo is revising upward USDA’s export estimate from 175,000 bales to 220,000. In MY 2018/19, FAS Cairo forecasts a continued increase in Egyptian exports, up to 250,000 bales, or 14 percent over the previous year.

In November 3, 2016, the Egyptian government floated the Egyptian pound following years of pegging it to the U.S. dollar. The swift devaluation that followed brought the currency from EGP 8.88 per U.S. dollar down to around EGP 18 per dollar. While that policy shift negatively impacted some sectors, as well as many consumers, Egyptian exports have thrived in the devalued environment. Since the initial devaluation, the Egyptian pound has recovered only around three percent and notable strengthening is not expected in the coming year. Under these macroeconomic conditions, in conjunction with expanding production, exports are likely to continue to grow.

In MY2017/18, FAS Cairo estimates Egypt’s total lint cotton exports at 220,000 bales. India, Pakistan, China, Turkey, Portugal, and Bangladesh were Egypt’s top export destination in MY2017/18 and are expected to remain so in MY2018/19. India is the main importer of Egyptian cotton varieties, sourcing over 50 percent of Egypt’s total lint cotton exports (Figure 4).

Figure 4: Egyptian Cotton Export Destinations



Source: GTA/CAPMAS

For the second year in a row, Egypt exported short and medium-staple varieties grown in Upper Egypt. According to CATGO, from September 2017 to late February 2018, Egypt had total export commitments of 207,289 bales of Giza 90 and 95. This represents around 94 percent of all Egyptian cotton exports.

The Egyptian Ministry of Industry and Trade (MoIT) and the Alexandria Cotton Exporters’ Association (ALCOTEXA), owners of the trademarked Egyptian Cotton logo (Figure 5), formed the Cotton Egypt Association (CEA). The purpose of the CEA is to improve the marketing and image of Egyptian cotton through the licensing of their logo. The licensing of the logo is intended to certify the authenticity of Egyptian cotton through DNA analysis in an effort to prevent fraud and ensure consumers that they are purchasing genuine Egyptian cotton products.

To accomplish this, CEA established a monitoring system covering the entire supply chain of their licensees. CEA monitors the quantities purchased and sold by each licensee, mapping their sales and establishing a traceability system. CEA verifies and ensures that quality and standards in using the logo are met, conducting random auditing visits to licensee premises. Moreover, CEA checks websites that promote Egyptian cotton products and works to notify them of their proper usage. CEA regularly collects samples of products that are promoted as Egyptian cotton from retailers, tests them, and follows up with the manufacturers and retailers if issues arise.



Figure 5: Egyptian Cotton Logo

Trade Policy:

Importers must apply for an import permit from the MALR’s Central Administration for Plant Quarantine (CAPQ), which is valid for one year. Egypt imposes zero import tariffs on raw cotton or cotton lint (HS: 520100) and 5 percent import tariffs on carded or combed cotton (HS: 520300).

According to CAPQ regulations, importers should request import permits at least one month before importation, identifying the port of entry and date of arrival in order to reserve the equipment required for fumigation. In addition, the shipment must be accompanied by a fumigation certificate from the quarantine authorities at the port of origin and less than three months should have elapsed from the date of issuance to the date of arrival. If the three-month validity period is exceeded, the shipment must be returned to its origin, and the fumigation should be repeated, or the product needs to be re-exported to a third destination.

Egypt’s cotton import regulations stipulate that imported cotton should be free from whole or broken seeds or foreign materials (Article 51 of the Egyptian Plant Quarantine Rules & Regulations: Ministerial Decree number 3007/2001). When a shipment is found to have whole or broken seeds (even if one seed is found in the baled cotton) it will not be released. The importer can either destroy it under the supervision of CAPQ or re-export it to another destination or its country of origin. If the importer decides to re-export, he will receive a certificate from CAPQ addressed to the destination stipulating the reason for its rejection.

Egypt also requires that cotton exported to Egypt be fumigated at the country of origin using methyl bromide, magtoxin or phostoxin at specified concentrations found in the import permit. Fumigating the shipment at country of origin does not exclude it from being fumigated at Egyptian ports, if necessary. The following statement must be in the certificate: “The cotton is free from boll weevil *Anthonomus grandis*”. The government also recommends an optional pre-shipment inspection at origin. If done, two CAPQ inspectors travel and inspect the shipment prior to its departure from port of origin. Although pre-shipment inspection is optional, some importers prefer to bear the cost which serves as an insurance policy of sorts and send inspectors to avoid delays at the port of entry.

Value-Added Cotton:

In CY 2017, Egyptian exports of cotton yarn increased 44 percent, or 13,684 MT, to reach 44,823 tons. Similarly, exports of cotton fabric increased by 28 percent, or 7,048, to reach 21,783 tons. In both fabric and yarn exports, the 2017 sales are a return to their 2015 levels, following an unusually low 2016. Turkey is by far the largest importer of both Egyptian yarn and fabric. Other top importers include Italy, Nigeria, Portugal, Saudi Arabia, Tunisia, and Morocco.

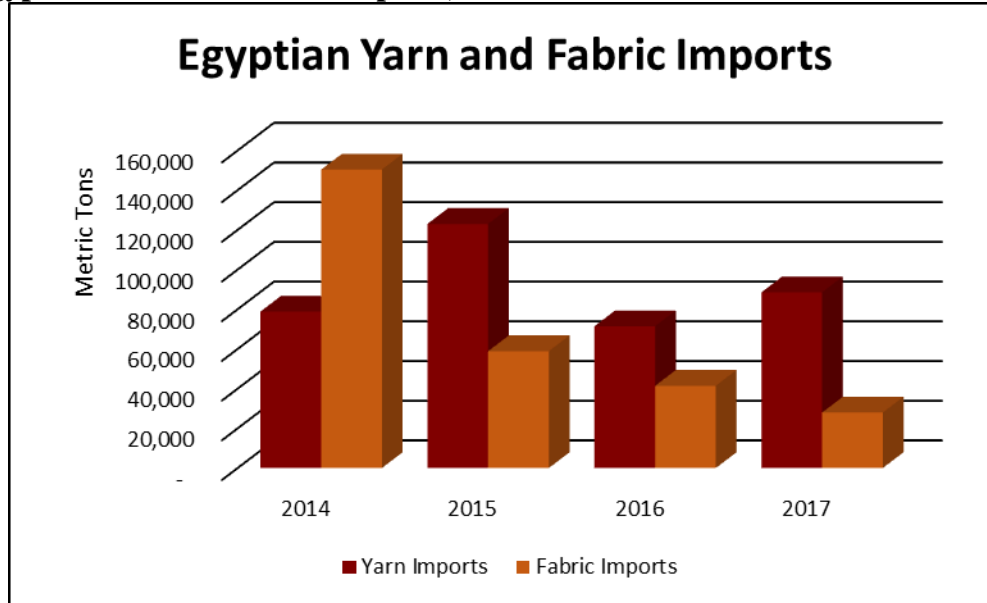
Figure 6: Egyptian Yarn and Fabric Exports, 2014-2017



Source: CAPMAS-GTA

Egyptian imports of yarn also increased in CY 2017, reaching 88,500 metric tons. This is an increase of 17,064 tons, or 24 percent, over the 71,436 tons imported in 2016. Converse to yarn imports, fabric imports are in decline. Fabric shipments destined to Egypt fell 13,500 tons, or 33 percent in 2017. China is by far the largest supplier of woven cotton fabric to Egypt, followed by Pakistan and Turkey. India, Turkey, and Syria are the largest suppliers of cotton yarn to Egypt.

Figure 7: Egyptian Yarn and Fabric Imports, 2014-2017



Source: CAPMAS-GTA

Egypt has a total of 2,525 textile plants. Of these, 25 are government owned and 2,500 are privately held. The 25 government-owned companies are affiliated with the Holding Company for Spinning, Weaving, and Textiles (HCSWT), and most of them are working in spinning and weaving. Their approximately 65,000 employees produce around 35 percent of Egypt’s textile production. The 2,500 private companies are small-to-medium operations, mostly involved in garment manufacturing. The private companies employ around 1.135 million workers and account for the remaining 65 percent of Egypt’s textile production.

Egypt’s textile industry has been in decline over much of the last 30 years. Much of the industry and the government-owned segment in particular, suffer from lack of renovation, high input prices and limited skilled labor. The industry lacks the modernization needed to increase productivity. Most of the 25 government-owned companies are equipped with the same machines they were fitted with back in the 1960s.

In an effort to renovate the textile industry, in late 2015 Egypt signed a deal with U.S.-based Werner International, a management consultancy firm to the textile, apparel and fashion industries to restructure the 25 state-owned textile companies. According to the Egyptian government, Werner, in cooperation with another Egyptian consultant, will conduct a study on ways to develop and restructure the companies.

Table 2: Statistical Position of Egyptian Cotton, 2017/2018 (kantar)

Variety	Beginning Stock at Season 2107/18	Expected Crop Season 2017/18 (kantar)	Total Supply Season 2017/18	Distributed		Total Distributed	Remaining in 2/25/2018	Shipping Season 2017/18 Until 24/2/2018 (kantar)
				Mills Deliveries commitment 2017/2018 until 2/21/2018	Export Commitment Season 2017/18 until 2/24/2018			
Giza 45	170	236	406	11	55	66	340	10
Giza 70	11		11	1015	12370		7575	3234
Giza 87	8674	12286	20960		5500	13385		
Giza 88	3033	2714	5747	7577	13490	5500	247	2550
Giza 92	4584	30536	35120	263	25110	21067	14053	11014
Giza 96	1550	29737	31287			25373	5914	20090
Total Extra Long	18022	75509	93531	8866	56525	65391	28140	36898
Giza 86	92289	317473	409762	126818	228160	354978	54784	109390
Giza 94	31042	733600	764642	87093	516226	603319	161323	293894
Total Delta	123331	1051073	1174404	213911	744386	958297	216107	403284
Giza 90	5269	39488	44757	507	33000	33507	11250	32200
Giza 95	1029	127800	128829		125220	125220	3609	96800
Total Upper Egypt	6298	167288	173586	507	158220	158727	14859	129000
Total Long Staple	129629	1293870	1347990	214418	902606	1117024	230966	532284
Total	147651	1293870	1441521	223284	959131	1182415	259106	569182
Mixed		10000	10000		1000	1000	9000	1000
Grand Total	147651	1303870	1451521	223284	960131	1183415	268106	570182

Table 3: PSD

Cotton	2016/2017		2017/2018		2018/2019	
	Aug 2016		Aug 2017		Aug 2018	
Market Begin Year	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Egypt						
Area Planted	0	0	0	0	0	0
Area Harvested	55	55	91	91	0	126
Beginning Stocks	179	179	154	154	0	144
Production	170	170	300	300	0	420
Imports	525	525	500	500	0	420
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	874	874	954	954	0	984
Exports	130	130	175	220	0	250
Use	580	580	580	580	0	610
Loss	10	10	10	10	0	10
Total Dom. Cons.	590	590	590	590	0	620
Ending Stocks	154	154	189	144	0	114
Total Distribution	874	874	954	954	0	984
Stock to Use %	21.69	21.69	25.03	18	0	13.26
Yield	673	673	718	718	0	726
(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)						

