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Egypt

Cotton and Products Annual

Egyptian Producers Cut Production on Higher Stocks and Lower Prices

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Report Highlights:

In MY 2019/20, cotton area harvested is forecast to drop by almost 31 percent to 97,000 ha, from 141,000 ha in MY 2018/19. Post expects production to decrease to 337,000 bales, down from 489,000 bales last season; a 31 percent decrease. The Office of Agricultural Affairs attributes the decrease to the low price of cotton in 2018. High carryover from the previous season decreased prices and discouraged farmers from planting cotton in 2019. In MY 2019/20, imports are forecast to increase by 2.0 percent to 510,000 bales, while exports are forecast to decrease by 24 percent reaching 220,000 bales as prices rebound.

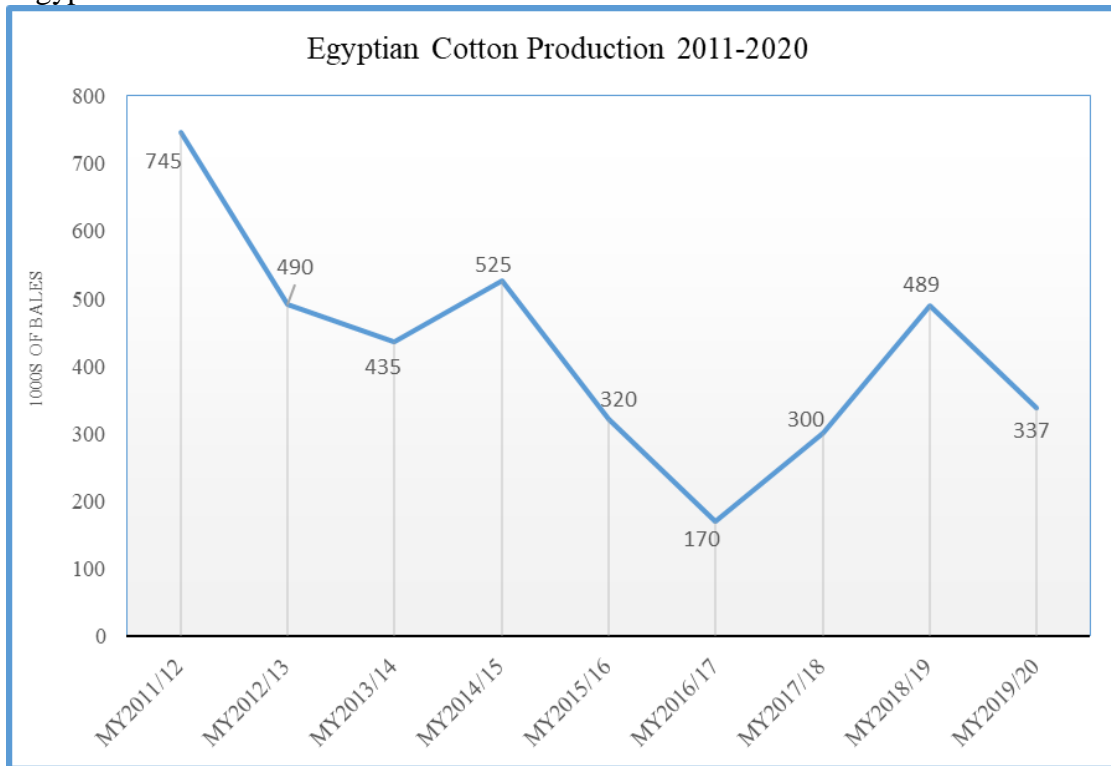
Production:

Cairo’s Office Agriculture Affairs forecasts MY 2019/20 cotton area harvested to drop by almost 31 percent to 97,000 ha, from 141,000 ha in MY 2018/19. With decreased area, production will decrease to 337,000 bales, compared to 489,000 last season, a 31 percent decrease. Post attributes the decrease to low prices fueled by high production in the previous season.

Both expanded area and increased yields created surplus production in MY 2018/19. Improved cottonseed varieties pushed yields upward while, during the same period, area harvested increased to 141,000 ha. This is compared to just 55,000 ha in MY 2016/17. The improved seed varieties produced an extra two *quintar* per *feddan*, or 0.17 bales per hectare. [Note:1 *quintar* equals 50kg of lint cotton.] As a result, supply outstripped demand, decreasing the prices to 2050 LE (\$117) per *quintar* (\$567 per bale) in March 2019. As a result of the low prices, farmers and industry are expected to decrease production to raise cotton prices and save the industry’s reputation as a supplier of high quality cotton.

Post is revising up area harvested estimates from 135,000 ha to 141,000 hectares. Post attributes the increase to the restrictions imposed by the government on planting rice, which encouraged farmers to substitute with cotton. Post is also revising MY 2018/19 production estimates upward to 489,000 bales instead of 450,000. The increase in production is not only attributed to the increased area harvested, but also to the increased yield. Improved cottonseed is the most important cause of increased yield; however, good weather, the delayed cultivation, and improved pest control also helped to boost yields.

Figure 1: Egyptian Cotton Production

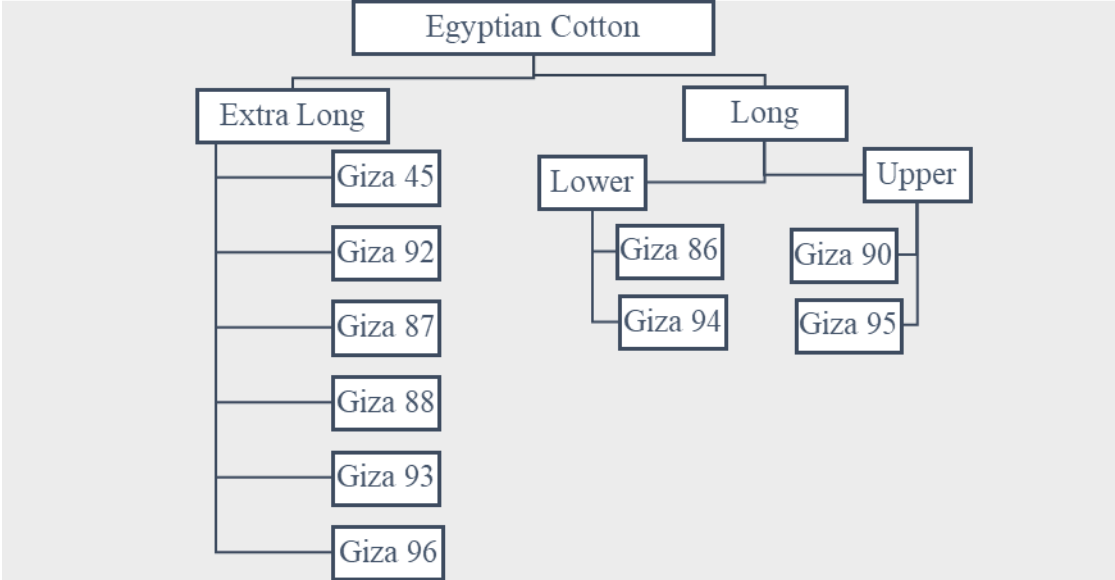


Egyptian Cotton Varieties

Only three percent of the total world cotton production is Extra Long Staple (ELS) cotton. Egypt, the United States, Israel, and Turkmenistan are the only countries producing ELS. Egypt produces ELS and long staple cotton.

The Cotton 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 staple cotton, as it is used to produce the same type of yarns that short and medium length varieties, like Upland and Greek cotton, produce. Figure 2 demonstrates the different Egyptian cotton varieties.

Figure 2: Egyptian Cotton Varieties



Source: FAS Cairo office research

Every year, two months before the onset of the planting season, the Minister of Agriculture issues a decree that identifies the cotton varieties allowed for planting by region. According to this decree, each variety must be grown only in the specified areas. The varieties of extra-long staple cotton include Giza 45, 87, 88, 92 and 93. 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 upper-long staple varieties grown in Upper Egypt – Figure 3 shows image of the Egyptian cotton varieties.

Figure 3: Egyptian Cotton Varieties



Source: FAS Cairo office research

The Egyptian government is initiating a research project in Shark El-Owainat (East Owainat) to cultivate trials of medium and short staple upland cotton. Ministry of Agriculture leadership chose the area due to its remoteness and isolation from existing cotton cultivations, in order to prevent seed mixing.

Reduced Prices Discourage MY 2019/20 Cultivation

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 the indicative price; however, it is not a price support or commitment from the government to buy the crop.

In MY 2018/19, the government announced indicative price for Giza 86 and 94 was 2800 L.E. (\$160) per *quintar*, or \$776 per bale. The announced price for Giza 90 and 95 was 2700 L.E. (\$154) per *quintar*, or \$747 per bale. As the crop was harvested and farmers began to market their product, prices dropped intensely. Prices for Giza 86 and 94 fell to 2300 L.E. (\$131) per *quintar*, while the price of Giza 90 and 95 dropped to 2200 L.E. (\$125) per *quintar*. The drops were around 18 percent less than the government announced price. Currently prices are even less, in February 2019 the prices dropped to 2150 L.E. (\$122) for Giza 86 and 94 and L.E. 2050 (\$117) per *quintar* for Giza 90 and 95.

Post anticipates that farmers will respond to lower returns with a reduction in area harvested and production. Table 1 illustrates the prices changes from MY 2017/18 to MY 2018/19.

<i>Table 1: Cotton Prices in MY 2015/16 and MY 2016/17 and Percent Change</i>			
	<i>MY 2017/18 Price per Bale in EGP</i>	<i>MY 2018/19 Price per Bale in EGP</i>	<i>Percentage Change in EGP</i>
<i>Extra-Long Staple Varieties</i>	<i>13,338</i>	<i>10,912</i>	<i>-18%</i>
<i>Long-Staple Varieties</i>	<i>13,086</i>	<i>10,670</i>	<i>-18%</i>

Surplus Supply

In MY 2018/2019, production increased to 489,000 bales, an increase of 63 percent over the 300,000 bales produced in MY 2017/18. The MY 2018/19 production levels were 190 percent above MY 2016/17 production. The increase reflects farmers' reaction to the high indicative price of 2800 L.E. per

quintar announced by the government. The high announced price came at the same time as greater restrictions on rice cultivation, further pushing farmers toward expanding cotton acreage. Additionally, enhanced varieties of cottonseed distributed by the government drove up yields per hectare. The reported ending stocks in February 2019 was 362,000 bales, an increase of 218,000 bales or 150 percent, over the previous season. The surplus supply added significant pressure on prices; some contacts indicate that product is now being sold at cost. Low prices will lead to decreased area planted in the forecast year.

Government Efforts to Improve Cotton Quality are Paying Off

In the past three years, the Egyptian government has taken control over the production and distribution of cottonseed, which used to be handled by the private sector. The change was made 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.

The government efforts are paying off. The quality and the physical properties of the MY 2018/19 cotton harvest improved significantly and are expected to improve again in MY 2019/20. Analysis released by the Cotton Arbitration and Testing General Organization on the physical fiber properties of Egyptian cotton varieties confirms this improvement. The length, strength, firmness, color, trash count and maturity have all improved in cotton produced in MY 2018/19 (see [Physical Properties of Egyptian Cotton Season 2018/19](#)) compared to cotton produced in MY 2017/18 (see [Physical Properties of Egyptian Cotton Season 2017/18](#)). This development increased the demand for Egyptian cotton in the local and international markets and is expected to continue in MY 2019/20.

Cotton Production Policy Revised

In early 2017, the government announced a new policy that aimed to reverse the Egyptian cotton industry's decline. The Egyptian Ministry of Agriculture implemented the 19-step plan beginning in the 2017 planting season. More information on the reform efforts is available [here](#). The Ministry's efforts are now paying off. Specifically, the plan has:

- Provided high quality seeds to increase yields and quality: The quality and the physical properties of the MY 2018/19 cotton harvest improved significantly and are expected to improve again in MY 2019/20. Analysis released by the CATGO on the physical fiber properties of Egyptian cotton varieties confirms this improvement. The length, strength, firmness, color, trash count and maturity all improved in cotton produced in MY 2018/19. The better quality seeds were also reflected in the increased yield per area cultivated.
- Developed the local spinning and weaving industries: The government is developing the public spinning and weaving industries. Industry contacts indicated that the government used the expertise of a foreign consulting agency to conduct a feasibility study and provide recommendations on means to develop spinning and weaving facilities. The recommendations include vertical integration of spinning and weaving, as well as updating existing equipment.
- Helped to encourage the use of good agricultural practices.
- Prepared annual economic studies that determine the production area needed based on demand. The Ministry's decision to decrease the planted area in MY 2019/20 is a response to this effort, given the decrease in prices in MY 2018/19.
- Developed new varieties to increase the yields. The new variety developed most recently is Giza 97, which will be distributed for commercial use.

Cotton Varieties Quantitates and Area Planted:

In MY 2018/19, there was no cultivation of Giza 87. This is in contrast to MY 2018/17 when Giza 87 was the most widely grown. Egypt produced equal areas of Giza 96 and 92, each accounting for three percent of total cotton production in MY 2018/19. Of the lower long-staple varieties grown in the Delta region, Giza 94 is the most widely grown accounting for 58 percent. Giza 86, accounting for 26 percent of Egypt’s total cotton production, is the second most produced. Of the upper-long staple varieties grown in Upper Egypt, which are generally used as medium staple cotton, Giza 95 is the most widely grown, accounting for eight percent of Egypt’s total cotton production, followed by Giza 90 accounting for two percent of Egypt’s total production (See Figure 4).

Figure 4: Percentage of Cotton Varieties Planted

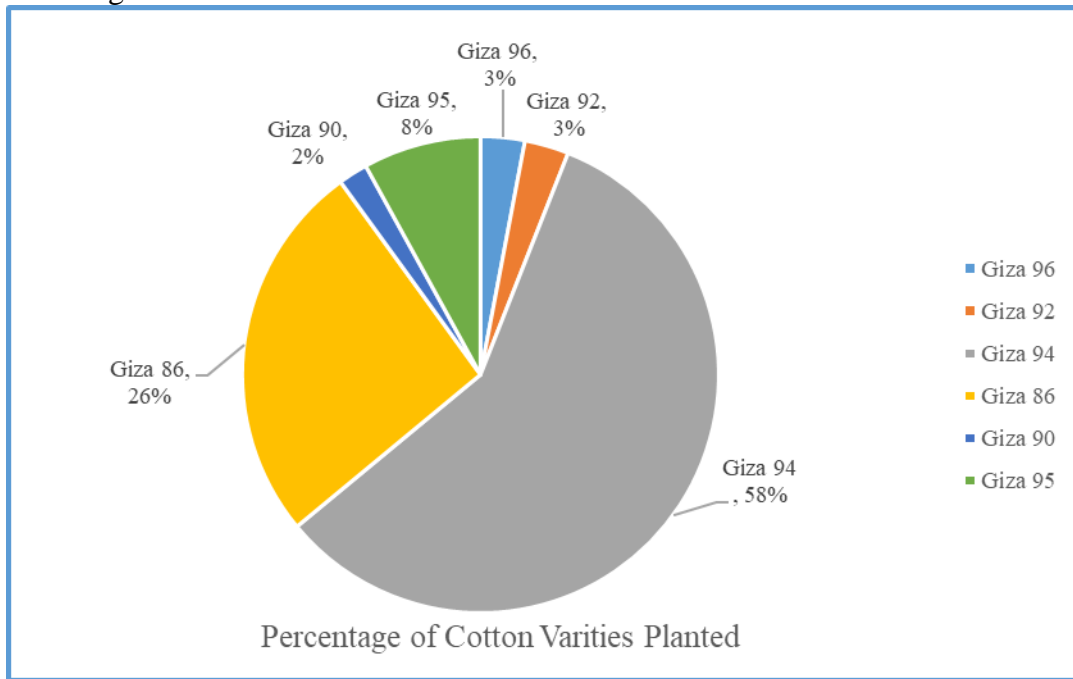
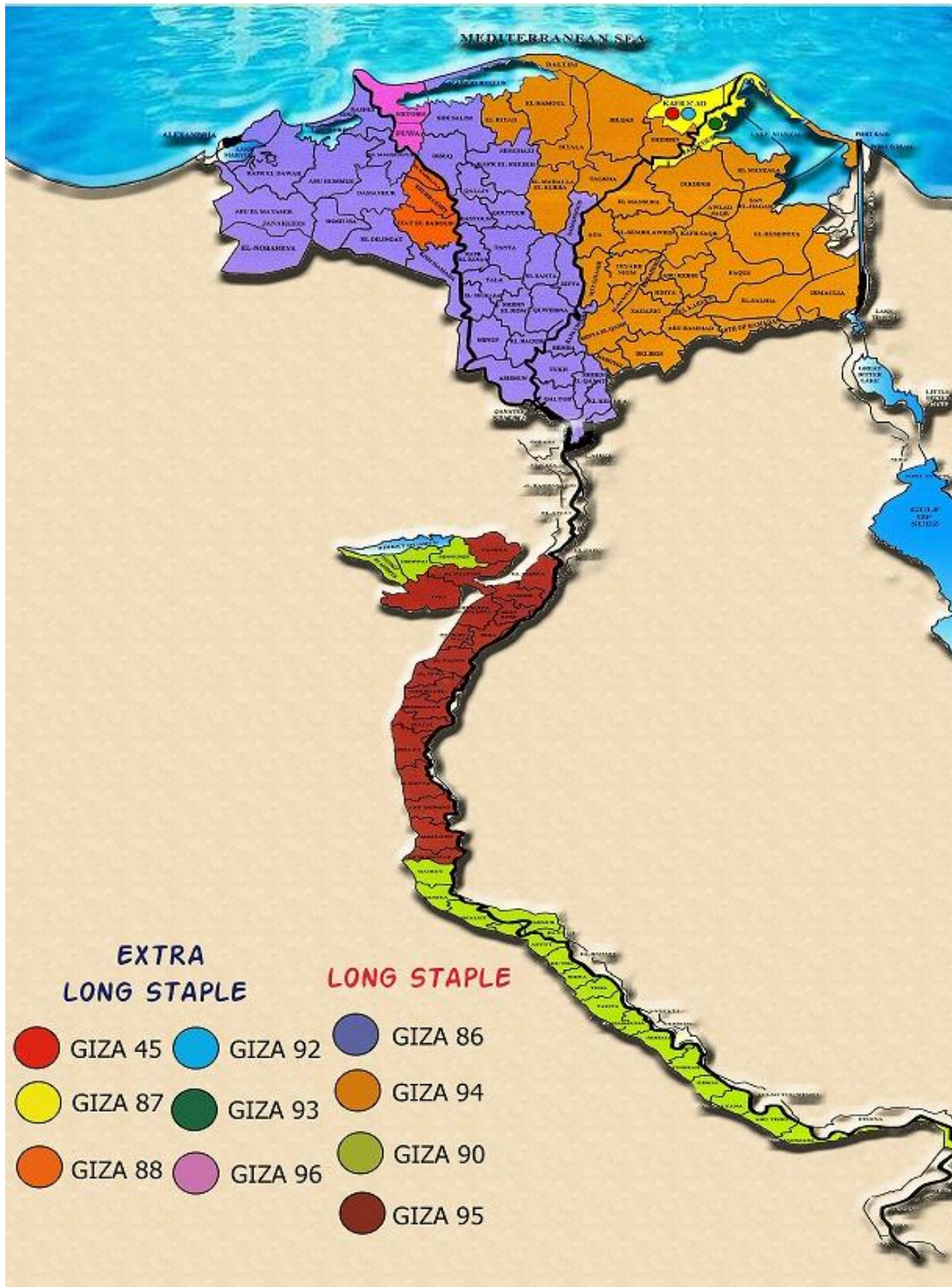


Figure 5: Cotton Map 2018/19



Source: CATGO

Consumption:

Post is revising up MY 2018/19 consumption estimates to 655,000 bales, an increase of 20,000 bales. The upward revisions are explained by high production and low prices. With low input costs, most spinners were able to operate at full capacity, which increased the domestic consumption. Post forecasts

MY 2019/20 consumption, to decrease by 10,000 bales to 645,000 bales, a drop of 1.5 percent over last year. Post attributes the slight decrease in local consumption to the decrease in demand from local spinners as prices increase on lower production.

The majority of cotton consumed locally is long 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:

The Office Agriculture Affairs adopts USDA import estimates of 500,000 bales in MY 2018/19. In MY 2019/20, cotton imports are forecast to increase by two percent to 510,000 bales, up by 10,000 bales from MY 2018/19 imports of 500,000 bales. Post attributes this slight change to an expansion in domestic processing capacity.

Imports do not always depend on local production volume as the physical characteristics of the Egyptian and imported cotton varies. The local cotton production is high even with decreased area harvested in MY 2019/20, which will ease local 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.

Table 2: U.S. Exports of Cotton to Egypt

HS Code	Product	2016		2017		2018	
		Value	Qty	Value	Qty	Value	Qty
5201009000	CT, NT PMA, >28.575	23,869	61,855	29,244	70,103	43,325	94,845
5201002030	Pima, >28.575	9,604	49,484	6,105	61,855	10,801	12,371
5201001090	CT, >25.4- < 28.575	0	0	608	0	1290	4,123
		33,473	111,339	35,957	131,958	55,416	111,340
Quantities in U.S Bales		Values in Thousands of Dollar				Source: GTIS	

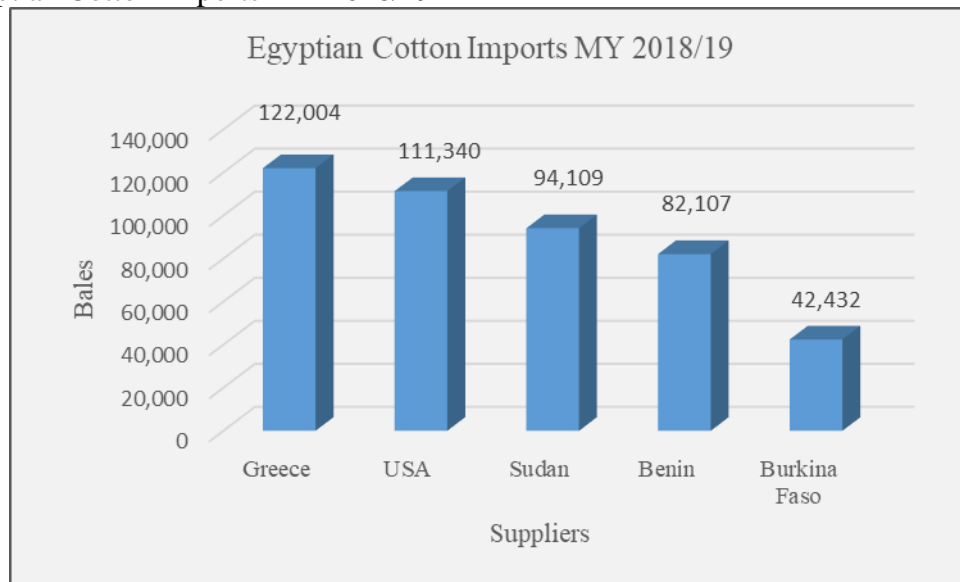
Yarn manufacturers who are dependent on medium staple varieties will maintain their import levels to meet their domestic and international needs. Industry sources confirm that yarn producers can use the Egyptian long staple cotton in-lieu of imported short and medium staple cotton, if the prices of local cotton are more competitive than imported cotton. In 2018, U.S. exports of lint cotton to Egypt increased by 54 percent or \$19,460 million to reach \$55.4 million compared to \$34 million in 2017. Volume increased by 37 percent, or 41,237 bales, to 111,340 bales compared to 70,103 bales in 2015. The increase in U.S. cotton exports was a result of the full capacity of yarn and garment manufacturers.

In MY 2018/19, Greece, the United States, Sudan, Benin, and Burkina Faso were Egypt's main cotton suppliers and are expected to remain so in MY 2019/20. According to the Egyptian Ministry of Agriculture's Central Administration of Plant Quarantine (CAPQ), in 2018, Greek exports were 122,000 bales, representing 31percent of Egypt's total cotton imports. The agency estimated the United States'

exports to be 111,340 or 25 percent; Sudan’s exports to be 94,100 bales, or 20 percent; Benin’s exports to be 82,107 bales, or 18 percent; and Burkina Faso’s exports to be 78,803 bales, or 9.0 percent of the total.

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, as well as West African suppliers.

Figure 6: Egyptian Cotton Imports MY 2018/19



Source: GTA/CAPQ

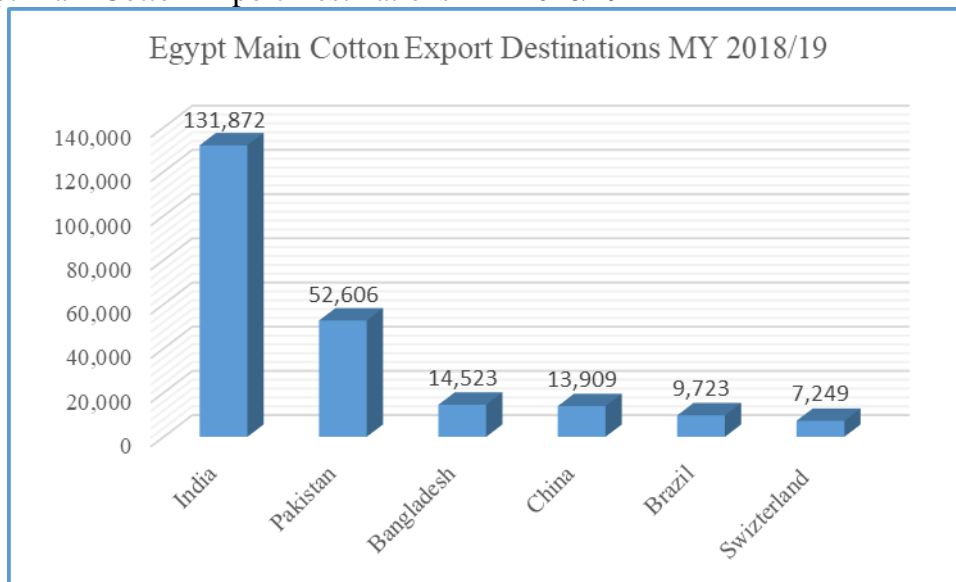
Exports:

In MY 2019/20, FAS Cairo forecasts Egypt’s total lint cotton exports to decrease by 24 percent or 70,000 bales to reach 220,000 bales. Post attributes the decrease in Egypt’s total lint cotton exports to the relative decrease in local production compared to the previous year. Post expects decreased international demand for Egyptian cotton as prices return to normal levels. In MY 2018/19, exports increased due to the lower prices that were associated with surplus production.

Post is revising up MY 2018/19 exports to 290,000 bales instead of 250,000. Post attributes this increase to the low prices of the Egyptian cotton and improved quality. Egyptian cotton exporters indicated that in February and March 2019, Indian companies were buying Egyptian cotton stocks at very low prices. The companies were warehousing stocks, given the comparatively lower prices.

In MY 2018/19, post estimates Egypt’s total lint cotton exports at 290,000 bales. India, Pakistan, Bangladesh, China, Brazil and Switzerland were Egypt’s top export destination in MY 2018/19 and are expected to remain so in MY 2019/20. India is the main importer of Egyptian cotton varieties, sourcing around half of Egypt’s total lint cotton exports Figure 7.

Figure 7: Egypt Main Cotton Export Destinations MY 2018/19



Source: GTA/CAPMAS

This year, for the first time ever, Egypt was able to export short and medium staple varieties grown in Upper Egypt. According to CATGO, from September 2016 to March 2017, Egypt had total export commitments of 16,709 bales of Giza 90 and 95; this represents 58 percent of Egypt's total production of these varieties. Out of these commitments, Egypt shipped a total of 10,074 bales of which 6,274 bales were Giza 90 and 3,800 bales were Giza 95.

The Egyptian Ministry of Industry and Trade (MoIT) and the Alexandria Cotton Exporters' Association (ALCOTEXA), owners of the trademarked Egyptian cotton logo (Figure 8), 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. The organization monitors the quantities purchased and sold by each licensee, mapping their sales and establishing a traceability system. They verify and ensure that quality and standards in using the logo are met, conducting random audits 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 follow-ups with the manufacturers and retailers if issues arise.



Figure 8: Egyptian Cotton Logo

The contract signed by MoIT and ALCOTEXA with CEA that gave the latter the sole rights to market with the Egyptian cotton logo will end in June 2017. Sources at ALCOTEXA expressed concerns over renewing the contract. ALCOTEXA's concerns surfaced after CEA licensed the Egyptian cotton logo to an Indian company that was caught falsely labelling its products under the guise of being 100 percent Egyptian cotton.

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 5.0 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 may 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 3007/2001). When a shipment is found to have whole or broken seeds, even if one seed is found in baled cotton, it will not be released. The importer can either destroy it under the supervision of CAPQ, re-export it to another destination, or return it to the country of origin. If the importer decides to re-export, CAPQ will issue a re-export certificate 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. 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 the port of origin. Although pre-shipment inspection is optional, some importers prefer to bear the cost, which serves as an insurance policy of sorts, to avoid delays at the port of entry.

Table 3: Statistical Position of Egyptian Cotton

Table 2 Statistical Position of Egyptian cotton								
Variety	Beginning Stock at Season 2106/17 until October 19, 2015	Estimated Crop Season 2016/17	Total Supply	Distributed		Total Distributed	Remaining in March 12, 2017	Shipping Season 2016/17 until March 11, 2017
				Mills Deliveries Season 2017/2018 until 2/21/2018	Export Commitment Season 2017/18 until			
Giza 45	3,50	2,85	6,35				6,35	4,50
Giza 70	0,55		0,55				0,55	
Giza 87	364,10		364,10				364,10	
Giza 88	30,00		30,00				30,00	
Giza 92	176,70	2736,75	2913,45	221,70	201,00	422,70	2490,75	838,00
Giza 93								
Giza 96	216,75	2859,80	3076,55		64,00	64,00	3012,55	164,00
Giza 86	2928,00	27206,90	30134,90	971,85	3147,40	4119,25	26015,65	10310,80
Giza 94	1067,85	66087,65	67155,50	11805,90	11805,90	14252,35	52903,15	39276,00
Giza 90	41,40	1330,85	1372,25	23,10		23,10	1349,15	200,00
Giza 95	161,00	9525,20	9686,20	5,50	202,00	207,50	9478,70	1375,00
ET		250,00	250,00		113,00	113,00	137,00	193,00
Grand Total	4989,85	110000,00	114989,85	3668,60	15533,30	19201,90	95787,95	52361,30

Table 4: PSD

Cotton	2016/2017		2017/2018		2018/2019		2019/2020	
Market Begin Year	Aug 2016		Aug 2017		Aug 2018		Aug 2019	
Egypt	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0	0	0
Area Harvested	55	55	91	91	135	141	0	97
Beginning Stocks	179	179	154	154	194	144	0	188
Production	170	170	300	300	450	489	0	337
Imports	525	525	500	500	500	500	0	510
MY Imports fm US	0	0	0	0	0	0	0	0
Total Supply	874	874	954	954	1144	1133	0	1035

Exports	130	130	175	220	275	290	0	220
Use	580	580	580	580	625	645	0	635

Unit	Equivalent
1 Quintar	50 Kg of lint cotton
1 US bale	480 lbs
	217.724 Kg
	<i>Quintar/4.85</i>
1 Feddan	0.42 Hectares
1 L.E.	0.058 USD

Loss	10	10	10	10	10	10	0	10
Total Dom. Cons.	590	590	590	590	635	655	0	645
Ending Stocks	154	154	189	144	234	188	0	170
Total Distribution	874	874	954	954	1,144	1133	0	1035
Stock to Use %	21.69	21.69	25.03	18	26	13.26		
Yield	673	673	718	718	726	726		
(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)								

Table 5: Unit Conversions