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GAIN Report

Global Agricultural Information Network

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Ethiopia

Post: Addis Ababa

Ethiopia Cotton Production Annual

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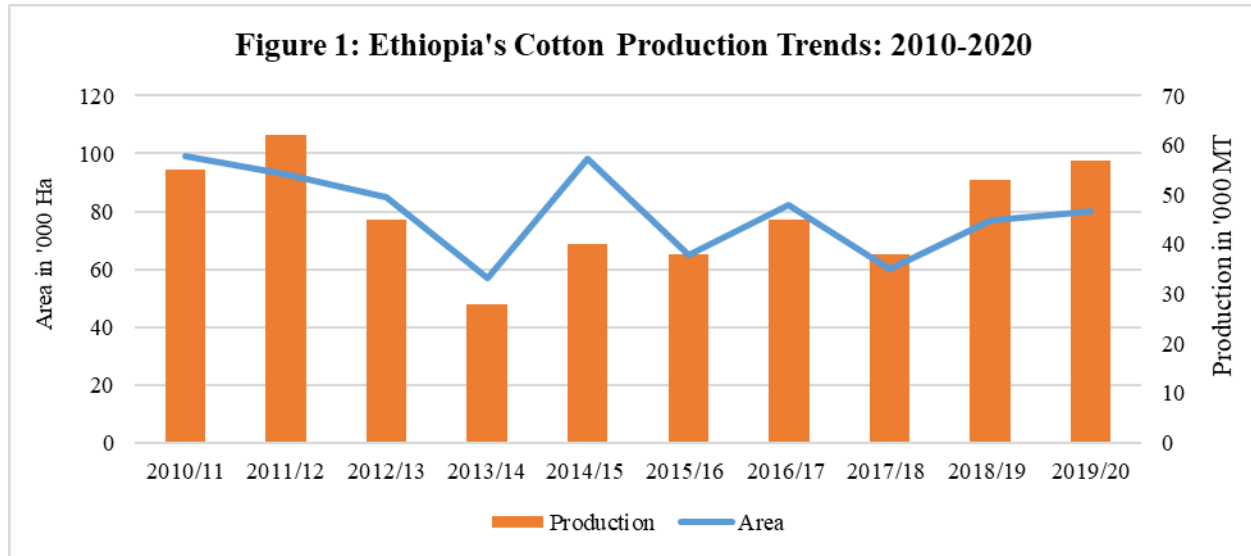
FAS Addis Ababa

Report Highlights:

Cotton production for MY2019/20 is forecast at 262,000 bales (57,000 metric tons), eight percent higher than the previous year. The increase in production is due to an increase in area harvested. Attractive domestic prices coupled with a growing textile and apparel industry, and recent approval of Bt cotton seed varieties for commercial cultivation all add a positive stimulus to expand local production. Consumption is forecast to increase to 295,000 bales (64,000 metric tons) with thriving investments in the textile industry. While, imports are forecast at 38,000 bales or 8,000 metric tons. Imports in the short-run are expected to be marginal as the country struggles to maintain its depleting foreign exchange reserves.

Production

MY 2019/20 cotton production is forecast at 262,000 bales or 57,000 metric tons, up by eight percent from the previous year's production estimate. The forecast is based mainly on anticipated expansion of cotton area harvested from 77,000 hectares to 80,000 hectares. The current attractive domestic market prices, approval of Bt cotton seed varieties for commercial cultivation, and thriving textile industrial parks will encourage existing and new commercial farms to boost cotton production.



Cotton plantings in 2018/19 were delayed in the Southern and Amhara regions due to a late rain onset. Cotton farmers reported incidence of pests between end of August and mid-September. In addition, frost occurred in the southern and northwest regions though it had minimal impact on production.

As the price of sesame seed plummeted on the international market, producers showed stronger preferences to plant cotton mainly in the northern and northwest regions. Many farmers switched to production of cotton with expectation of better price returns. In addition, large-scale commercial farms in the Tigray region planted sunflower seed and green mung beans for crop rotation purposes as well as better profit margins instead of cotton.

Despite good harvests in 2018/19, farm labor availability has continued to pose serious challenges to private commercial cotton farms. Several large-scale cotton farms in Amhara, Benshangul Gumuz, Gambela and Afar regions were hit by severe shortage of labor and were unable to collect their harvests on time. Industry contacts revealed that about 40% of the cotton harvest was not picked on time. This year, the labor problem deteriorated as the country has been in turmoil due to ethnic and tribal conflicts across regions. This situation has resulted in erratic security problems, road blockages, and delayed harvests. According to industry contacts, a large-scale private cotton farm alone requires 2,000-3,000 daily laborers to collect cotton during the main harvest season. Besides labor, the cotton farming sector also faces multiple challenges such as land right issues, access to finance, improved seeds, agro-chemicals, farm machinery, spare parts, and outdated ginneries among others. Cotton production has a considerable potential to increase if the existing flawed market conditions are improved. Among these, reliable market information and proper market linkages between cotton producers (smallholder, large-scale commercial farmers, coop unions), ginneries and textile mills. Current efforts to advance contract farming and out-grower initiatives would allow farmers to obtain

relatively better access to domestic market, improved seeds, agro-chemicals, and technical trainings on agronomic practices and farm management.

Consumption:

For MY2019/20, post forecasts total consumption levels to slightly increase to 295,000 bales (64,000 metric tons), up 20,000 bales or 4,000 metric tons compared to previous year. The increase is based on growing demand from existing and newly installed spinning mills and increased number of textile industry parks. The traditional handloom subsector is projected to show vibrant growth although the subsector mostly consumes cotton produced by smallholder farmers.

Looking ahead, consumption is projected to rise significantly in the coming years due to the demand from the newly opened and planned textile and apparel industrial parks. At the same time, according to the Ethiopian Textile Industry Development Institute (TIDI), there are at least a dozen spinning mills in the pipeline to address some of the expected demand for yarn. These planned facilities, plus the 15 existing spinning mills currently operating, will bring the country's installed annual processing capacity of lint cotton to 200,000 metric tons. It should be noted that the existing facilities are operating at about half capacity due to different constraints, such as insufficient access to finance and forex, power outages, logistical challenges, among other factors. As the textile and apparel industry grows, Post expects many of these constraints will be resolved over the longer term and demand for cotton will continue to outstrip domestic production capacity.

Trade:

MY2019/20 cotton imports are forecast at 38,000 bales (8,000 MT). Persistent and severe foreign exchange problem have significant downward pressure on the ability to import.

MY2019/20 exports are estimated at 10,000 bales (2,000 MT), down slightly from the previous year. Attractive local market prices, small export margins, and price/quality competitiveness suggest future exports will remain small. For the past two years, cotton producers have obtained a window of opportunity to export markets after the government eliminated the cotton export ban, which was in effect for almost seven years. Despite current local market prices being attractive, some commercial growers still look to exports in order to earn foreign currency.

Stocks:

MY2019/20 ending stocks are forecast at 30,000 bales or 6,500 metric tons. Most of these stocks are expected to be held at large-scale commercial farmers, farmers' cooperative unions and the Ethiopian Industrial inputs Development Enterprise (EIIDE). Post adjusted MY 2017/18 beginning stocks to reflect a revised carry-over balance. Unlike other countries, the Ethiopian textile mills do not hold significant volume of stocks due to shortage of working capital and capacity constraints.

Prices:

There are two benchmark prices on the local market for lint cotton. The first one is a price setting mechanism by which EIIDE buys cotton from local producers at fixed price. EIIDE sets fixed prices based on lint quality specifications for Grade A, B, and C. Current local market prices for lint cotton at EIIDE ranges between \$1.65-1.72 per kilogram. The second benchmark price is taken from cotton transactions between local producers and textile factories. The latter benchmark shows the season-average price on the local market ranged between \$1.72-1.89 per kilogram, which is higher than EIIDE

price. In both cases, the season-average domestic market prices for lint are still higher than international market prices (\$1.54-1.56 per kilogram). Local cotton quality specifications are found in Table 4.

Policy:

Growth and Transformation Plan (GTP II): as part of country’s five-year economic plan (2015-2020), the government is making considerable investments to develop the textile and apparel sector. The GTP II sets ambitious targets to create 140,000 new jobs in this sector, with export revenues reaching \$1 billion by the end of 2020. Beyond the GTP II, the government envisions making Ethiopia the textile and apparel manufacturing hub of Africa with annual exports of \$30 billion by 2025. From Post’s perspective these export targets seem out of reach in such a short time as current export figures are around \$100 million.

New Cotton Development Strategy (NCDS): the government launched the NCDS, which laid out its plans for the coming 15 years (2017-2032) to make Ethiopia one of the world’s top cotton producers with annual cotton lint production of 1.1 million metric tons. To realize this vision, the NCDS proposes establishing the Ethiopian Cotton Development Authority to oversee and implement plans to make the cotton sector more competitive. From Post’s perspective, the NCDS production target seems out of reach in such a short time. See Table 3 for detailed NCDS targets.

Industrial Parks Development: the GOE is investing considerable resources to build textile and industrial parks around the country, while at the same time working to attract potential international investors. Foreign investors from the United States, China, Korea, India, Sri Lanka, Bangladesh, and others are setting up shop in these parks to take advantage of inexpensive labor and electricity costs, as well as other incentives. Currently, there are 21 textile and apparel manufacturers operating in the industrial park. See Figure 2.

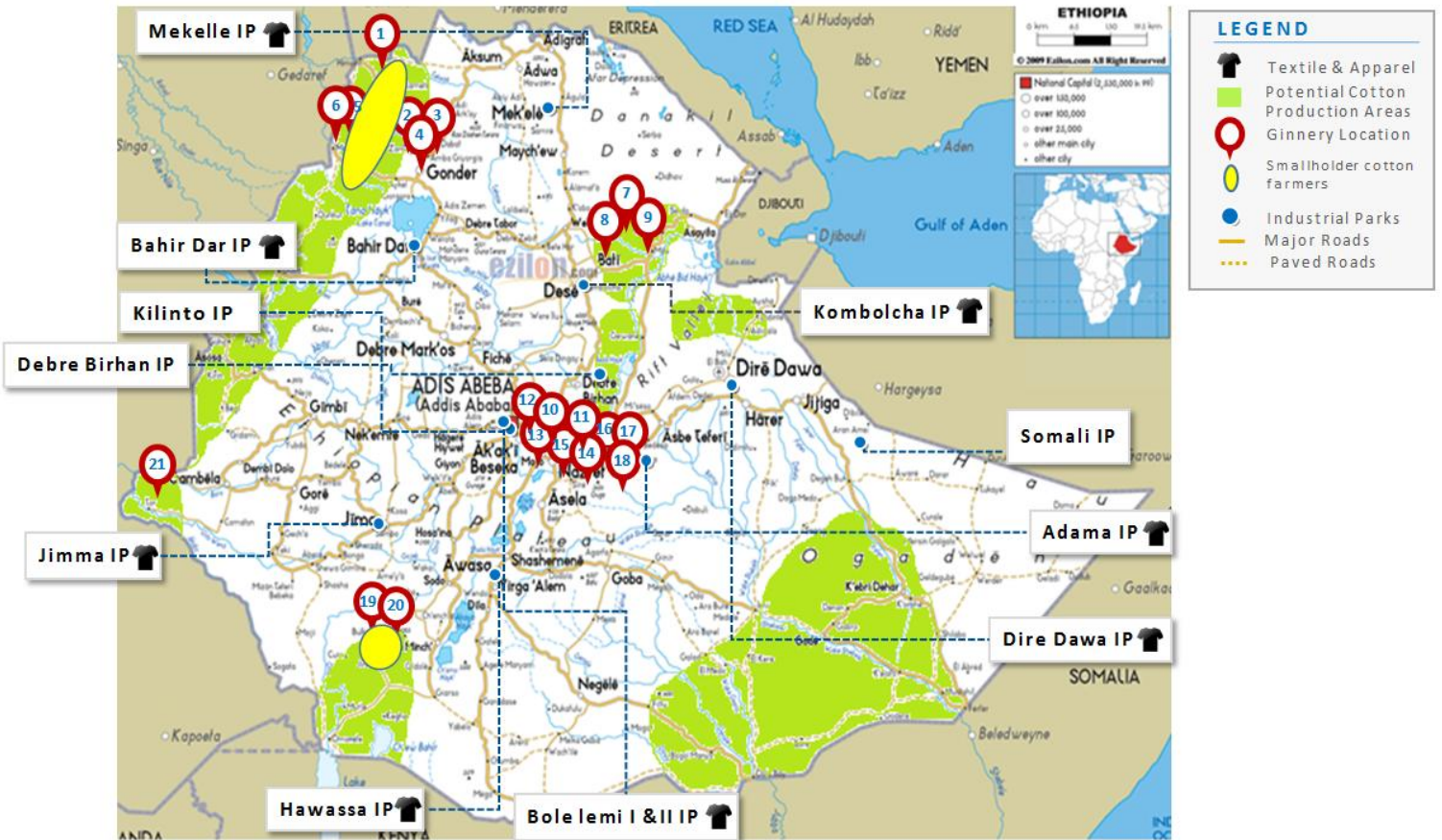
Biotechnology: Ethiopia approved commercialization of Bt cotton in order to boost yields and production. Last year, the GOE approved two different varieties of Bt cottonseeds (JKCH 1050 and JKC 1947) for commercial cultivation. There is an on-going preparation to import the Bt cottonseeds from India for upcoming planting season. About 800 hectares of land is planned for Bt cotton plantings as a trial production. More details can be found in our Biotechnology Annual Report [ET1901](#).

Marketing:

The Ethiopian Industrial Input Development Enterprise (EIIDE) is a state-owned organization that plays a market stabilization role. EIIDE has a government mandate to bridge the supply and demand gaps of industrial raw materials, including cotton, sugar, and other inputs. The state-run enterprise sources local and imported cotton, most of which is from India, to supply on favorable credit terms to local textile factories. Some of the larger textile factories also have the option of directly buying local or imported cotton.

Cotton producers can also directly supply to textile factories where price is set through negotiations. Almost all large-scale cotton producers prefer to deal directly with the textile factories and sell their cotton at better-negotiated prices.

Figure 2: Distribution of Ethiopia’s Industrial Parks (IPs), Potential Cotton Growing Sites, and Ginnery Locations



Source: TIDI, Overview of the Ethiopian Cotton Sector 2017

Table 1: Ethiopia, Commodity Cotton, PSD

Cotton	2017/2018		2018/2019		2019/2020	
	18-Aug		19-Aug		20-Aug	
Market Begin Year	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Ethiopia						
Area Harvested	60	60	65	77	80	80
Beginning Stocks	98	54	93	45	88	35
Production	175	176	175	243	200	262
Imports	50	71	60	30	50	38
MY Imports from U.S.	0	0	0	0	0	0

Total Supply	323	301	328	318	338	335
Exports	0	15	0	8	0	10
Use	230	241	240	275	250	295
Loss	0	0	0	0	0	0
Total Dom. Cons.	230	241	230	275	250	295
Ending Stocks	93	45	88	35	88	30
Total Distribution	323	301	328	318	338	335

1000 HA, 1000 480 lb. Bales

Source: FAS Addis Ababa

Table 2: Area and Production Volume of Lint Cotton

Crop Year	Area Harvested (Ha)	Production		Year-to-Year Variations	
		Metric Tons	Bales (480 lb.)	Absolute (MT)	%
2010/11	99,000	55,000	253,000	-	-
2011/12	93,000	62,000	285,200	7,000	13%
2012/13	85,000	45,000	207,000	(17,000)	-27%
2013/14	57,000	28,000	128,800	(17,000)	-38%
2014/15	98,000	40,000	184,000	12,000	43%
2015/16	65,000	38,000	174,800	(2,000)	-5%
2016/17	82,000	45,000	207,000	7,000	18%
2017/18	60,000	38,000	175,600	(7,000)	-16%
2018/19	77,000	53,000	243,000	15,000	39%
2019/20	80,000	57,000	262,000	4,000	8%

Source: TIDI and FAS Addis Ababa Forecast

Production figures (2014/15-2019/20) are FAS Addis Ababa estimates

Table 3: Targets of Ethiopia's National Cotton Development Strategy (2017-2032)

	2017	2020	2025	2032
Cultivated Area (ha):				
Smallholder rainfed	26,000	48,000	260,000	290,000
Smallholder irrigated	1,000	2,000	5,000	10,000
Large farms rainfed	33,000	100,000	200,000	350,000
Large farms irrigated	20,000	100,000	200,000	350,000
Total	80,000	250,000	665,000	1,000,000
Productivity (kg seed cotton/ha):				
Smallholder rainfed	1,500	1,600	2,000	2,200

Smallholder irrigated	2,400	2,600	3,000	3, 300
Large farms rainfed	1,500	1,600	2,000	2, 200
Large farms irrigated	2,400	2,600	3,000	3, 300
Average	1,736	2,008	2,308	2, 596
Production (MT seed cotton):				
Smallholder rainfed	39,000	76,800	520,000	638,000
Smallholder irrigated	2,400	5,200	15,000	33,000
Large farms rainfed	49,500	160,000	400,000	770,000
Large farms irrigated	48,000	260,000	600,000	1,155,000
Total	138,900	502,000	1 ,535 ,000	2 ,596, 000
Ginning outturn (%)	37%	39%	42%	43,0%
Lint Cotton Production (MT)	51,393	195,780	644,700	1,116,280
Yield (kg lint/ha)	642	783	969	1,116
Lint classed by instrument (%)	5%	20%	50%	100%
Share higher grades (%)	10%	25%	50%	75%
Identity/sustainable cottons (%)	5%	25%	50%	100%
Domestic mill use (MT lint Cotton)	40,000	100,000	350,000	600,000
Exports (MT lint cotton)	11,393	95,780	294,700	516,280

Source: TIDI

S/N	Specifications	Grade		
		A	B	C
1	Staple length	28.5mm and above	27mm – 28.4mm	25mm – 26.9mm
2	Micronaire	3.5 - 4.2	4.3- 4.9	3.2 - 3.4 and 5-5.2
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 31-4	41-1 up to 51-4
11	Contamination	≤ 5 grams/ bale	5-10 grams /bale	10-15 grams /bale
Current Local Market price of lint cotton (US \$/Kg)		1.65	1.68	1.72

Source: TIDI