

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Egypt

Cotton and Products Annual

Cotton Loses its Attraction

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Report Highlights:

Post forecasts total area planted in 2012/2013 to decrease by 30% to 154,000 HA versus 220,000 HA in 2011/2012. Farmers are reluctant to grow cotton after many were unable to sell their 2011/2012 production in a timely manner and at a high enough price. Production of lint cotton is forecast to decrease by 27% at 550,000 bales versus 745,000 bales in 2011/2012. Total domestic consumption is forecast at 630,000 bales compared to 535,000 bales in 2011/2012. Imports are forecast to increase to 560,000 bales versus 200,000 bales in 2011/2012 season. Imports in 2011/12 were impacted by the ban on cotton imports from October 2011 through March 2012. Exports are forecast to increase to 440,000 bales versus 400,000 bales during the 2011/2012 season.

Commodities:

Cotton

Production:

Production of lint cotton is forecast to decrease during the 2012/2013 season by 27% to 550,000 bales from 745,000 bales in the 2011/2012 season. The decrease in production is due to the drop in total area planted by a forecast 30%. Farmers are reluctant to grow cotton (planting season starts in April) after many were unable to sell their 2011/2012 production and were disenchanted with the relatively low prices as compared to last year. As of late March, almost 412,000 bales out of total production of 745,000 bales remained stored by farmers and traders. Reports from the different governorates, especially in Beheira, the largest cotton-growing governorate, indicate that many farmers shifted to other crops especially rice instead of cotton for the 2012/2013 season as rice is returning better profits.

Farmers are shying away from cotton due to the cotton marketing crisis that caused problems in 2011/2012. The crisis started when the government announced, before the planting season, the prices that farmers could expect for the cotton crop for marketing year 2011/2012 based on the prevailing prices in 2010/11, which were at record levels. This encouraged farmers to increase the area planted by 37% (220,000 HA versus 157,000 HA in 2010/2011) in order to earn increased profits. Consequently, the total production increased from 557,000 bales in 2010/2011 to 745,000 bales in 2011/2012. The increase in local lint cotton production was accompanied by improved world cotton production and reduced world demand. The announced prices were far higher than the international prices prevailing at harvest time. The lingering effects of the world wide economic crisis and the absence of sound government's policies to market the crop locally and internationally were additional factors affecting prices.

Egypt produces three different varieties of cotton, the Extra Long Staple (ELS), the Long Staple (LS) and the Medium and Short Staple cotton. The Extra Long Staple cotton has different sizes (Giza 45- Giza 70- Giza 87- Giza 88- Giza 92) but the predominant variety is "Giza 88". It represents 20% of Egypt's total production and is grown in the northern part of the country. The second staple variety is the Long Staple cotton or "Giza 86" which represents 70% of Egypt's total cotton production and is grown in the Nile Delta area. The third variety is the Short and Medium Staple or "Giza 80 and Giza 90" which represents only 10% of Egypt's total cotton production and grows in the Upper Egypt area (Table 2 for total production of each variety).

Consumption:

Total lint cotton domestic consumption is likely to increase to 630,000 bales during the 2012/2013 season versus 535,000 bales in 2011/2012. Spinners used to be the main consumer for the locally

produced cotton using almost two thirds of the total crop every year. In recent years, spinners demand decreased due to the higher prices and the different imported varieties required by industry. Today, spinners depend on imports of medium and short staple cotton varieties which are needed by the industry. Spinners usually import 53% of their needs and buy 47% from the local supply. In 2011/2012 the total amount of lint cotton delivered by traders to local spinning mills (thru March 15, 2012) was 132,000 bales which represent 26% of their consumption.

In 2011/12, out of the total lint cotton delivered by traders to local spinning mills, State owned spinning mills received 47% (or 63,000 bales) while private and investment spinning mills received 52% (or 69,000 bales). Also, out of total lint cotton delivered to local spinning mills, state owned trading companies provided 34% (45,000 bales) while private and investment trading companies provided 66% (87,000 bales).

The lower consumption by local spinners in 2011/2012 season was due to four reasons;

- The cotton imports ban imposed by the GOE in October 2011 and cancelled in March 2012. The import ban prevented the local spinning mills from importing their needs of the short and medium staple varieties needed for industry.
- The high prices of locally produced cotton that was too high for the local spinning mills to afford.
- Sources report that 45-55% of the spinning mills are not operating at full capacity due to regular workers' strikes and lack of financial liquidity.
- The Government's inability to provide the promised funds of LE 300 million (USD 50 million) to subsidize the public sector holding companies that are engaged in the spinning and weaving industry in order to subsidize their purchase of local cotton.

All have negatively affected the spinning industry during the 2011/2012 season and consequently reduced their consumption.

Trade:

Imports are forecast to increase at 560,000 bales in 2012/2013 season versus 200,000 bales for 2011/2012. Sources in the trade estimate the total amount of imported cotton to date at 133,000 bales and expect it to increase to 200,000 bales, now that the import ban is lifted. ([Gain Cotton Update](#)). On March 18th, the Minister of Agriculture and Land Reclamation (MALR) signed Decree 438 cancelling Decree number 1864 dated October 25, 2011 ([GAIN Cotton Update](#)) thereby permitting the importation of cotton from all origins.

The cotton import ban hindered the access of U.S. upland cotton to the Egyptian market. U.S. exports of upland cotton to Egypt totaled some 36,000 bales valued at over \$45 million in MY 2010/2011

versus zero so far this year. The increased U.S. exports to the Egyptian market are due to the needs in the local spinning mills for US upland cotton.

Exports are forecast to increase to 440,000 bales in 2012/2013 season versus 400,000 bales in 2011/2012. Thru March 18, 2012, total export commitments for the 2011/2012 season were 272,000 bales of which only 158,000 bales have been shipped. Total export commitments include 68% or 183,802 bales for Giza 86 and 32% or 86,495 bales for Giza 88. The leading importers were China (25%), Pakistan (18%) and India (14.5%).

Stocks:

Ending stocks for 2012/2013 are estimated at 110,000 bales versus 70,000 bales in 2011/2012. Sources report that some traders were intentionally reluctant to sell their cotton in 2011/2012 due to low prices and expectations of shortages in local production during the 2012/2013 season. Some traders expect an increase in local cotton prices due to low production and plan to sell their cotton in the coming season at a higher price.

Policy:

Government's Policies

Policies enacted by the Government of Egypt (GOE) to market locally produced cotton

- On October 25, 2011, the GOE banned the importation of cotton from all origins (Decree number 1864 for 2011) in an effort to increase the demand for locally produced cotton.
- In late November 2011, the GOE announced the allocation of LE 150 million (US\$ 25 million) to support the purchase of 1.5 million qintars of local cotton from farmers (each qintar will be supported by LE 100). Due to the economic and financial problems that Egypt faces as a result of the January 25th, 2011 revolution, the government was unable to provide these funds.
- On November 22, 2011, under criticism from the industry and the cotton exporting countries, the GOE announced a new decree that slightly eased the cotton import ban. It allowed cotton imports under five specific cases, 1) those shipped before the date of the decree according to the date of the bills of lading, 2) shipments that opened a letter of credit in one of the banks operating in Egypt before the date of entry into force of the decree, 3) shipments whose payment had totally or partially been transferred via a bank, 4) incoming shipments for the spinning factories established in the free zones and 5) shipments for processing and re-exportation. This proved unworkable in many cases.
- On December 2011, the state-owned holding company for Spinning, Weaving and Textile submitted a complaint to the Anti-Dumping, Subsidy and Safeguard Department at the Ministry of Industry and Foreign Trade against the dumping of imported yarn. The company

had requested that the Ministry impose anti-dumping measures on Egypt's imports of cotton yarn as it harms – according to the company – the local yarn industry. After an investigation, the Minister of Industry and Foreign Trade announced that all imported cotton yarn would be subjected to anti-dumping duties equal to LE 3,330 (US\$ 555) per ton.

- On January 7th, 2012, the new Prime Minister Dr. Kamal EL-Ganzoury increased the amount of funds allocated to subsidize farmers and purchase the locally produced cotton from LE 150 million (US\$ 25 million) to LE 200 million (US\$ 33.33 million). The funds were to be allocated by the Ministry of Finance to the farmers. He also announced another allocation of LE 300 million (US\$ 50 million) to subsidize the public sector companies that are engaged in spinning and weaving industry in order to encourage them to buy locally produced cotton. The funds were to be provided by the Principal Bank for Development and Agricultural Credit (PBDAC) and the LE 200 million is to be granted by the Ministry of Finance.
- On March 18th, 2012 the Minister of Agriculture and Land Reclamation (MALR) signed Decree number 438 cancelling Decree number 1864 dated October 25, 2011 ([GAIN Cotton Update](#)) thereby permitting cotton imports from all origins.

Marketing:

Prices

Prices for long staple cotton varieties are higher than short and medium staple varieties by 15-20%, while prices of extra long staple cotton varieties are higher than short and medium staple local or imported varieties by 25-30%.

The GOE used to announce the future prices for seed cotton in order to encourage farmers to grow it. The announced prices are usually higher than world prices and imported prices. Before planting the 2011/2012 crop, the government announced prices for the short and medium staple seed cotton (Upper Egypt cotton Giza 80 and Giza 90) at LE 1000/qintar (1 qintar of seed cotton = 157.5 kg) (USD 166.6/qintar), LE 1200/qintar (USD 1200/qintar) for Giza 86 and LE 1400/qintar (USD 233/qintar) for Giza 88. The GOE only announces the future prices and no longer purchases cotton therefore the prices have no market impact. The actual market prices were less than the announced prices. Farmers sold their medium and short staple seed cotton with prices ranging from LE 800/qintar (USD 133/qintar) to LE 850/qintar (USD 141/qintar).

It is expected that prices of local seed cotton will increase during the 2012/2013 season. This increase is due to less local production accompanied by 70,000 bales of cotton on the stocks which farmers and traders will try to sell at prices higher than those offered during MY 2011/2012.

Table (1): Average Export Prices (Cent/lb) FOB Alexandria Port		
Variety	Average Price From March 4 to March 10, 2012	Average Price From March 11 to March 17, 2012
Giza 87	185	
Giza 88	147	150
Giza 92	146	202
Giza 86	129	131
Source: ALCOTEXA		

Table (2): Cotton Situation till March 18, 2012

Variety	Beginning stock at September 1st 2011	Production season 2011/2012	Total Supply season 2011/2012	Spinning deliveries till March 15, 2012	Commitments Season 2011/2012 until March 17, 2012	Total Distribution	Remaining in March 18, 2012	Shipments Season 2011/2012 until March 17, 2012
Giza 45	119	0	119	0	0	0	119	0
Giza 70	2,793	0	2,793	0	41	41	2,752	41
Giza 78	351	0	351	0	309	309	41	309
Giza 88	16,297	143,694	159,991	5,810	86,495	92,305	67,686	51,476
Giza 92	25	1,277	1,301	0	260	260	1,042	0
Giza 86	34,436	530,795	565,232	86,484	183,802	270,286	294,945	105,592
Giza 80	32	18,840	18,872	9,954	0	9,954	8,918	0
Giza 90	3,499	50,020	53,519	29,430	0	29,430	24,089	0
Other under trials	3	0	3	0	0	0	3	0
Mixed Export's Type (E.T)	2,138	0	2,138	0	895	895	1,243	792
Grand Total	59,692	744,626	804,319	131,679	271,802	403,481	400,838	158,210

Data: in 480 lb. Bales

Source: IDC/CATGO

Production, Supply and Demand Data Statistics:

Cotton Egypt	2010/2011			2011/2012			2012/2013			
	Market Year Begin: Aug 2010			Market Year Begin: Aug 2011			Market Year Begin: Aug 2012			
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	
Area Planted	0	0	157	0	0	0			0	(1000 HA)
Area Harvested	155	155	157	220	210	220			154	(1000 HA)
Beginning Stocks	270	220	220	307	53	60			70	1000 480 lb. Bales
Production	600	580	557	800	765	745			550	1000 480 lb. Bales
Imports	575	570	570	400	550	200			560	1000 480 lb. Bales
MY Imports from U.S.	0	0	0	0	0	0			0	1000 480 lb. Bales
Total Supply	1,445	1,370	1,347	1,507	1,368	1,005			1,180	1000 480 lb. Bales
Exports	425	505	425	400	500	400			440	1000 480 lb. Bales
Use	700	800	850	650	808	522			620	1000 480 lb. Bales
Loss	13	12	12	13	10	13			10	1000 480 lb. Bales
Total Dom. Cons.	713	812	862	663	818	535			630	1000 480 lb. Bales
Ending Stocks	307	53	60	444	50	70			110	1000 480 lb. Bales
Total Distribution	1,445	1,370	1,347	1,507	1,368	1,005			1,180	1000 480 lb. Bales

Note: Post is not including cotton yarn and fabric information at this time but will report it in an upcoming cotton update report.

