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Egypt

Cotton and Products

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Report Highlights:
Cotton area in MY 2006/07 is expected to decrease by 7 percent in Egypt. Total production is expected to drop 5 percent to 200,000 MT. Egyptian cotton exports in MY 2006/07 are expected to decrease 31 percent from 2005/06 level.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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PSD Table

Egypt Cotton (Hectares)(MT)						
		2004		**2005**		**2006**
	Old	New	Old	New	Old	New
Market Year Begin		**08/2004**		**08/2005**		**08/2006**
Area Planted	307000	307000	273000	273121	0	252000
Area Harvested	307000	307000	35660	273121	0	252000
Beginning Stocks	130854	1000	167649	35660	0	5000
Production	290012	280000	206840	211550	0	200000
Imports	87091	92000	114306	102450	0	120000
TOTAL SUPPLY	507957	**373000**	488795	**349660**	0	**325000**
Exports	130636	130000	119750	145000	0	100000
USE Dom. Consumption	206840	205340	217727	198160	0	215500
Loss Dom. Consumption	2832	2000	2828	15000	0	2500
TOTAL Dom. Consumption	209672	207340	220555	199660	0	218700
Ending Stocks	167649	35660	148490	5000	0	7000
TOTAL DISTRIBUTION	507957	**373000**	488795	**349660**	0	**325000**

Area Planted and Production

The total cotton area in MY 2006/2007 is forecast to be 600,000 feddans (252,000 HA), compared to 650,000 feddans (273,121 HA) in MY 2005/2006. This decrease mainly occurred in ELS area due to decrease in yield, a decrease brought about as a result of mixing ELS seed varieties (especially Giza70). As a result, export prices for ELS varieties were down. In addition, the prolonged price increases for local corn and rice influenced farmers' decisions to plant those crops rather than cotton, particularly in Upper Egypt and the Delta. Although total cotton area is expected to be down by 7.7 percent, industry sources estimate that cotton production will increase by 4 percent compared to MY 2005/2006. This is a result of an expected increase in average yield as area for LS varieties increases and area for ELS decreases.

In MY 2006/2007, approximately 26 percent of the total Egyptian cotton crop is expected to be extra long staple (ELS) varieties (staple lengths of 1 3/8 inches and above). This represents a one percent decrease from the MY 2005/2006 level. This is mainly due to the decreased demand for ELS cotton varieties by the export market. Major ELS varieties are Giza 45, Giza 70 and Giza 88. These three varieties are considered to be among the finest cottons produced in the world. The remainder of the crop is comprised of long staple (LS) varieties (staple lengths of 1/4 inches): Giza 80, Giza 83, Giza 85, Giza 86, Giza 89 and Giza 90. Every year the government specifies certain varieties of cotton for each growing region, and farmers are obligated to cultivate those varieties according to their respective areas. The Ministry of Agriculture continues to be the sole distributor of cottonseed. In order to encourage early cultivation to conserve water, the Egyptian government continues to provide some assistance to cotton farmers who cultivate cotton before March 31 (not many farmers cultivate cotton before March 31) tohelp with the cost of production such as land preparation, pesticide and planting seeds. It is estimated that the government will provide cotton farmers total support equivalent to LE 250 per feddan in MY 2005/2006 (one feddan equals approximately one acre).

Overall, cotton lint yields for the MY 2005/2006 crop averaged 6.5 Kentar lint cotton per feddan (1 Kentar = 50 Kg) compared to 7.6 kentar per feddan in MY 2004/2005. Yields for the MY 2006/2007 crop are expected to be 7.4 kentar per feddan.

Consumption and Utilization

The consumption of local cotton has been declining in the past few years. Until a few years ago, the textile industry's annual requirement of raw cotton averaged between 5.5 and 6 million kentars (275,000 to 300,000 MT). The downward trend in cotton consumption is attributed mainly to the higher price of domestic cotton, in addition to financial difficulties that most textile companies face. Local consumption in MY 2005/2006 is expected to decrease slightly from the MY 2004/2005 level and total 199,660 MT, as a result of an increase of Egyptian cotton exports and a decrease in production. Approximately 60 percent of total cotton consumption is imported cotton, mainly from Greece and Sudan. Imported cotton is used in the production of course count fabrics (Ne 20/1 to Ne 30/1), which are used for shirts, knitwear and toweling. Textile and garment exporters also import fabric from cheaper sources such as Syria, Pakistan and India. This is done under the temporary admission system of imports which allows manufacturers to import their inputs duty free provided that the end products are exported.

For MY 2006/2007, total consumption is projected at 218,000 MT. The increase is attributed to an expected increase in cotton imports, which are expected to reach 120,000 MT as compared to 102,450 MT in MT 2005/2006.

Prices

The indicative level of farm prices set by a committee consists of the Minister of Trade, a representative from ALCOTEXA and a representative for farmers. The indicative farm prices for all varieties are calculated based on indicative cost of production plus profit margin. Market prices for the 2005/06 season were reported at LE 830 for Giza 86, LE 1,100 for Giza 70, LE 995 for Giza 88, and LE 640 for Giza 89 (prices are per kentar of 50 kg). This is compared to LE 590 for Giza 86; LE 620 for Giza 70; LE 610 for Giza 88 and LE 550 for Giza 89 varieties, in the 2004/05 season. Although 2005/06 prices were higher than 2004/05 prices, farmers received less revenue in 2005/06 for their cotton. Local traders received the balance between the indicative prices and the actually price paid to farmers. As a result, area for 2006/07 is projected to decrease by 7.7 percent. In order to satisfy local mills' requirements, and due to an expected tight local supply, imports of cotton are expected to increase. Industry experts do not foresee a government announcement of a subsidy program for the 2005/06 cotton crop. It is expected that mills will continue to import lower priced cotton mainly from Greece and Sudan. Alexandria Cotton Exporters Association (ALCOTEXA) no longer set export prices for Egyptian cotton. Export prices are now a private matter between the Egyptian exporter and the buyer. Also, domestic cotton prices will be determined according to supply and demand. Private sector companies continue to assume control of ALCOTEXA. Six members of the 26 member board representpublic sector companies, and the remaining members are from private sector companies. This will continue until the next board election, scheduled for October 2006.

Government Policy

The Government of Egypt (GOE) continues to privatize certain public sector companies, albeit slowly. To date, of the 31 government textile companies that were scheduled to be privatized by the year 2000, only five companies have been privatized. They are Unirab, Alexandria Spinning and Weaving, KABO, Arabia Ginning and the Nile Ginning Company. A South Korean textile group contracted with the GOE to lease and manage the textile company ESCO for ten years. Similar arrangements with other Egyptian textile groups are currently underway for three textile companies (Delta Spinning and Weaving company, Shipen EL- Kom Spinning and Weaving Company and Kom Hamada Spinning and Weaving company). The process of privatizing the textile sector has been extremely difficult for the government. Most of the targeted companies are in poor financial condition and thus unattractive to potential investors. Problems include large bank debts, antiquated equipment and over employment. The problem of what to do with redundant workers is not just an economic question, but also a political and social issue.

Trade

In MY 2005/2006, the private sector companies' share of total export contracts was 59 percent verses 41 percent for public sector companies. This reflected the ability to export cotton at flexible prices as the international market changes. Egypt's cotton exports in MY 2005/06, are expected to reach 85,000 MT, compared to 130,000 MT in MY 2004/05. Exports during the 2005/06 season are expected to decrease due to the drop in production. In order to promote the sale of Egyptian cotton, ALCOTEXA and the Ministry of Foreign Trade developed an Egyptian Cotton logo. ALCOTEXA and the Ministry of Foreign Trade own the logo. The logo is marketed by "Cotton Egypt" the Fiber Promotions Department of ALCOTEXA. The Logo is to be used on products made from 100 percent Egyptian Barbadense cotton. The logo is licensed in Egypt to cotton growers that follow specific growing instructions. Cotton traders, cotton grinners, cotton yarn spinners, fabric producers, cut and saw manufacturers, and retailers both inside Egypt and around the world can apply for the license.

In MY 2005/2006, Egypt imported a total of 102,450 MT of short staple cotton, mostly from Greece at a reported price $0.5950 per LB C&F, including fumigation at the loading port. Egypt also imported Acalla cotton from Sudan at a reported price of $0.50 per LB and Barakat at $.70 per LB. Imports for MY 2006/2007 are expected to increase to 120,000 MT due to a decrease in production and increasing demand for cotton for use by local mills. Until July 2004, imports of U.S. cotton were permitted only from California and Arizona as they were declared free from boll weevil. However, a team of Egyptian scientists visited the United States and determined that the ginning and baling process in practice in the United States was adequate to eliminate any possible insect contaminations. U.S. cotton from any source is allowed to be imported into Egypt under the following Egyptian plant quarantine regulations:

- Cotton import shall only be confined to countries free from the American boll weevil (Anthonomus grandis). No lint imports shall be contracted except after the approval of

Central Administration of Plant Quarantine CAPQ). (Note: The U. S. is now treated as if it were boll weevil free as a result of the above-mentioned visit.)

- In countries where no vacuum fumigation is applied, the shipment shall be fumigated under plastic sheets at the port of shipment at a dose of 100 gm/m 3/36 hours, to be followed by ventilation for 12 hours. Cotton bales under treatment abroad shall be stacked at a height of one bale. They shall be vacuum re-fumigated at the port of arrival using methyl bromide at a dose of 128 gm/m3, for three hours under 66 cm of continuous pressure at 20 C if temperature is below 20C the dose must be increased to 144 gm/m^3.

- In countries where vacuum fumigation is applied the shipment shall not be re-fumigated under plastic sheet at the ports of arrival in Egypt.

- Bales must be free from cotton seeds or parts thereof.

- Containers and vessels must be checked for cleanliness and freedom from plant waste especially cotton seeds. Containers must be also intact and tightly closed.

Trade Matrix

Egypt Cotton (MT)			
2004		**2005**	
Exports to			
U.S.	5,535	U.S.	7,076
Others		Others	
India	34,673	India	42,053
Pakistan	23,074	Pakistan	28,463
Switzerland	19,592	China	12,440
China	9,488	Italy	10,338
Italy	6,281	Turkey	7,782
Turkey	5,397	Switzerland	6,845
S. Korea	3,402	Thailand	4,683
Japan	3,086	S. Korea	4,368
Emirates	2,677	Japan	4,241
Thailand	2,431	Indonesia	3,400
Total for Others	110,101		124,613
Others not listed	14,364		13,311
Grand Total	130,000		145,000

Stocks

With decreased cotton crop production and imports in MY 2005/06, stocks are expected to reach 10,000 MT as compared to 15,660 MT in MY 2004/05. However, the expected increase in both production and imports coupled with stagnation in consumption in 2006/07, stocks are projected to increase to 12,000 MT.

Factors Affecting U.S. Exports

Until a few years ago, most Egyptian cotton imports originated from the U.S. (California and Arizona), as the GOE considered only these two states to be free of boll weevil. Egypt requires that all imported cotton be grown in areas free of pests (e.g. boll weevil) and diseases that are, or could be harmful to domestic production. However, Egypt changed its import requirements and began allowing imports from other suppliers including Greece, Syria, Sudan and Ethiopia. This reduced the price competitiveness of U.S. cotton mainly due to the freight differential. However, the new regulations offer an opportunity for U.S. cotton exports to regain a competitive position. In addition, the availability of the GSM-102 export credit program and other export credit programs may help increase the competitiveness of U.S. cotton exports to Egypt.