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Egyptian Producers Continue to Cut Production on Lower Prices

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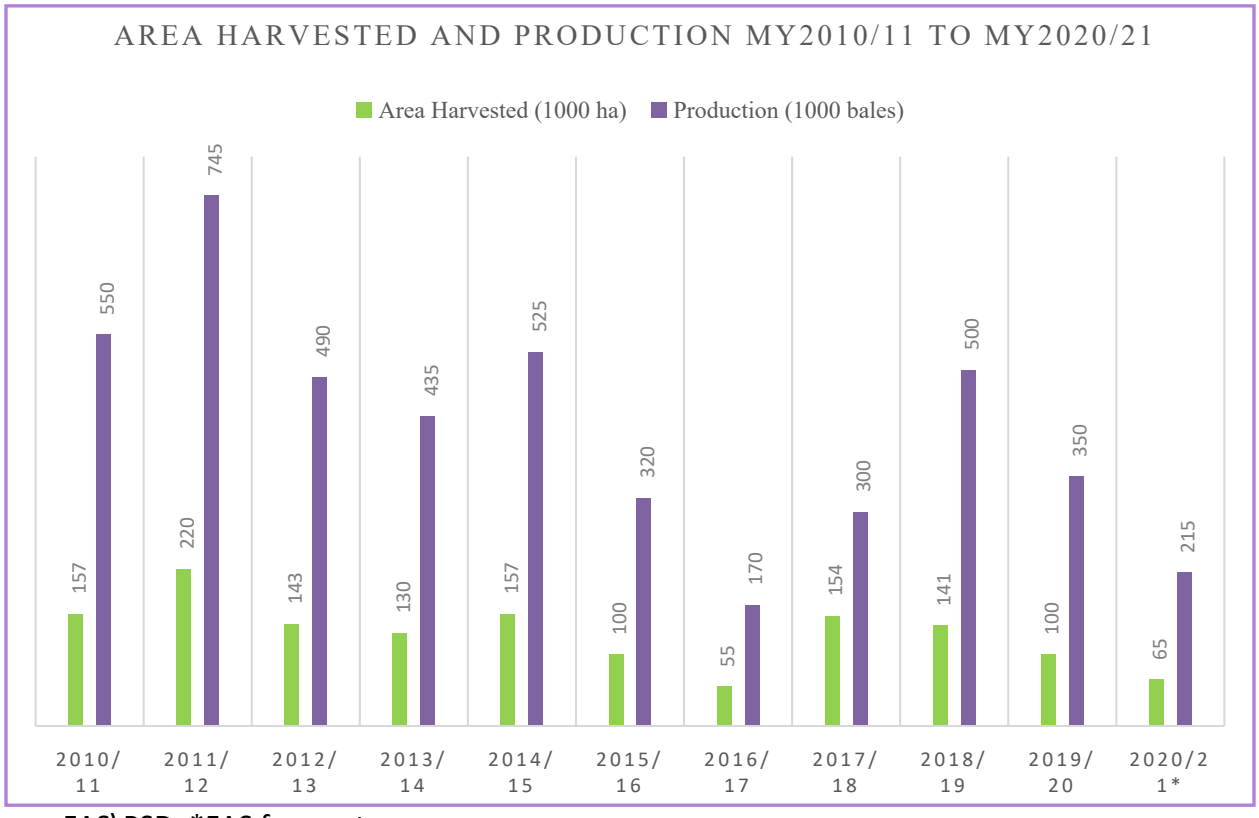
Report Highlights:

In market year (MY) 2020/21, cotton area harvested is forecast to drop by almost 35 percent to 65,000 hectares (ha), from 100,000 ha in MY 2019/20. In MY 2020/21, FAS/Cairo (Post) forecasts the production to drop by 90,000 bales to 215,000 a decrease of 30 percent compared to MY 2019/20. The Office of Agricultural Affairs attributes the decrease to the low price of cotton in 2020. High carryover from the previous seasons lowered prices and discouraged farmers from planting cotton in 2019. In MY 2020/21, imports are forecast to rise by 23 percent to 630,000 bales, up by 118,000 bales from MY 2019/20 imports. Post attributes this increase to lower yields on area cultivation reduction that is unable to meet domestic demand.

Production:
FAS/Cairo (Post) forecasts MY 2020/21 cotton area harvested to drop by almost 35 percent to 65,000 ha, from 100,000 ha in MY 2019/20, and adopts USDA official data for area harvested. Post revises down production of MY 2019/20 to 305,000 bales compared to expected production of 337,000 bales. The revision is due to the reduction of yields due to lower quality of seeds and losses due to whitefly infestation. Reportedly, farmers mixed the cultivation of cotton with tomato and this encouraged the infestation of whitefly in both crops. If uncontrolled, whiteflies can reduce cotton yields and affect cotton quality. Immature whiteflies infest the underside of the leaves and secrete honeydew, which is a sticky, sugary solution. This can be a serious issue in terms of fiber quality or the spinnability of fibers when it is ginned. Industry contacts report that some producers did not safely dispose infested tomatoes and instead dumped them in irrigation canals which increased infestation.

In MY 2020/21, post forecasts the production to drop by 90,000 bales to 215,000 a decrease of 30 percent compared to MY 2019/20. Post attributes the reduction to the decreased area harvested as a result of low prices fueled by high carry over in the previous seasons.

Figure 1: Area Harvested and Production

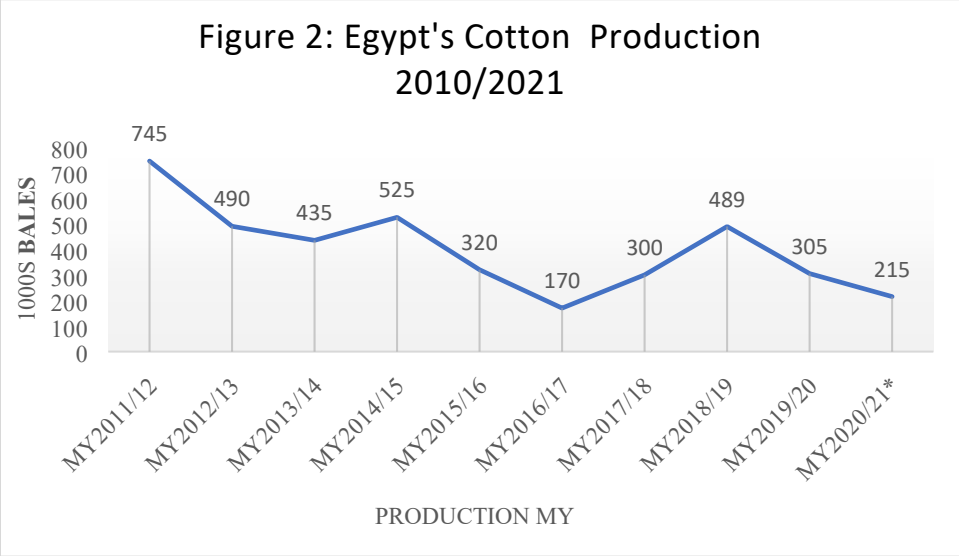


Source: FAS\PSD, *FAS forecast

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 EGP/*quintar* ($567/bale) in March 2019. As a result of the low prices, farmers and industry decreased production to raise cotton prices to preserve the industry's reputation as a supplier of high-quality cotton. Although, area and yields decreased in MY 2019/20, the prices were still low. Price averages are 2100 EGP ($133) – 2300 ($146) EGP for extra-long varieties and 1900 EGP ($120) – 2100 ($133) EGP for long-medium staple cotton.

Figure 2: Egyptian Cotton Production



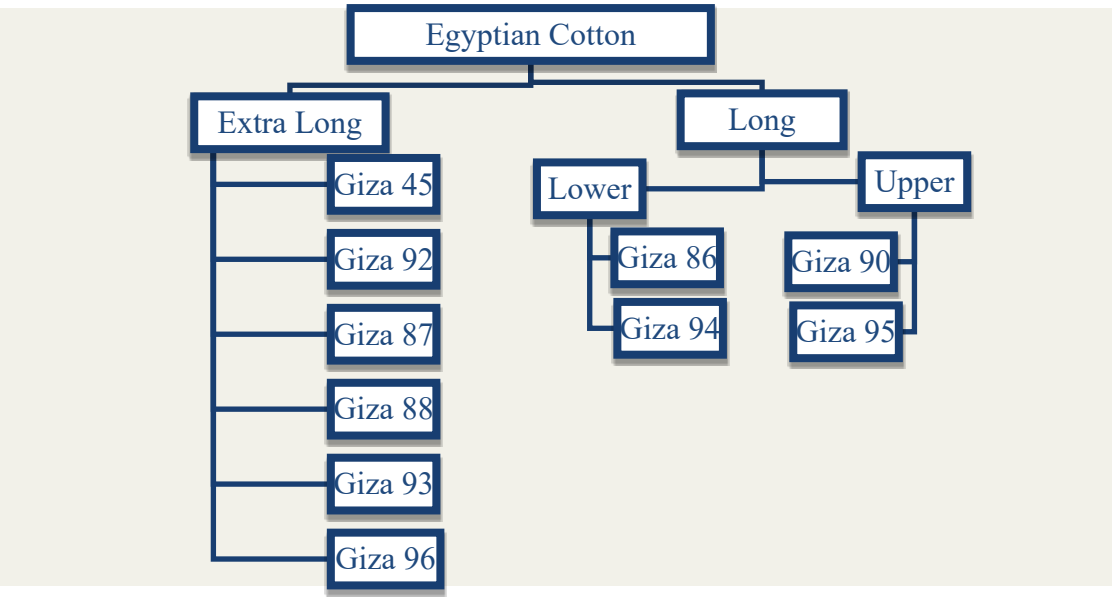
Source: FAS\PSD, *FAS Forecast

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) which is affiliated with the Egyptian government 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 3 demonstrates the different Egyptian cotton varieties.

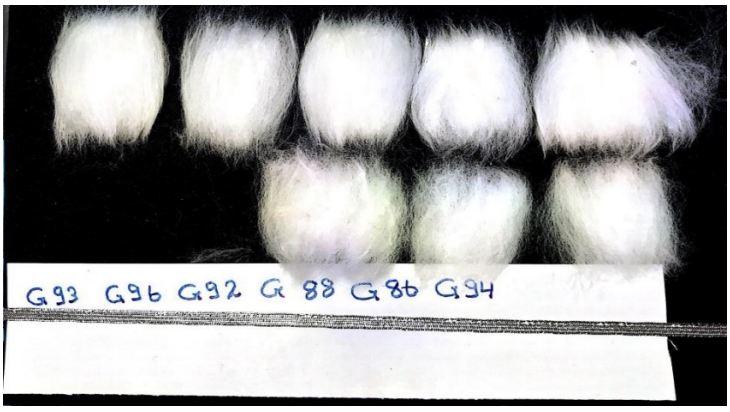
Figure 3: Egyptian Cotton Varieties



Source: FAS Cairo

Typically, 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 4 shows image of the Egyptian cotton varieties.

Figure 4: Egyptian Cotton Varieties



Source: FAS Cairo office research

The Egyptian government is still conducting a research project in Sharq 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, as to avoid seed mixing.

Reduced Prices Discouraged MY 2019/20 Cultivation and This May Continue into Next Season:
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 2019/20, for the first time the government did not announce indicative prices which will have adverse effects on MY 2020/21 cultivation. In MY 2019/20, the prices are still low even with the drop in production. Price averages are 2100 EGP ($133) – 2300 EGP ($146) for extra-long varieties and 1900 EGP ($120) – 2100 EGP ($133) for long-medium staple cotton.

In MY 2018/19, the government announced indicative price for Giza 86 and 94 was 2800 ($160) EGP/*quintar* or $776/bale. The announced price for Giza 90 and 95 was 2700 EGP ($154)/*quintar*, or $747/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 EGP ($131)/*quintar*, while the price of Giza 90 and 95 dropped to 2200 EGP ($125)/*quintar*. The decrease was approximately 18 percent below the government-announced price. Prices were even less at the end of last season, which had dropped to 2150 EGP ($122) for Giza 86 and 94 and 2050 EGP ($117)/*quintar* for Giza 90 and 95.

Post anticipates that in MY 2020/21 farmers will respond to lower returns by discouraging cultivation resulting in a reduction in area harvested and production. Table 1 illustrates the price changes from MY 2018/19 and MY 2019/20.

Table 1: Cotton Prices in MY 2018/19 and MY 2019/20 and Percent Change

	MY 2018/19 Price per Bale in EGP	*MY 2019/20 Price per Bale in EGP*	*Percentage Change in EGP*
Extra-Long Staple Varieties	*10,912*	*9,579*	*-12%*
Long-Staple Varieties	*10,670*	*8,708*	*-18%*

Deficient Supply
In MY 2019/20, unexpectedly, the yields dropped not only because of the decreased area cultivated, but also due to the use of lesser quality seeds compared to last season. In MY 2018/19, yields were two *quintar* more than normal or about nine *quintar*/*feddan*. This season, yields are five *quintar* less than last season, or four – five *quintar*/ *feddan*. The yield also was affected by the infestation of whitefly, which caused losses.

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 indicated that product was sold at cost. Post's forecast on decreased area planted in 2019/20 at low prices was precise.

Government Efforts to Improve Cotton Quality

Since 2017, the Egyptian government has taken control of the production and distribution of cottonseed, which was handled by the private sector in the past. 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 were obvious. 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 have all improved in cotton produced in MY 2019/20 (see Physical Properties of Egyptian Cotton Season 2019/20) compared to cotton produced in MY 2018/19 (see Physical Properties of Egyptian Cotton Season 2018/19).

Cotton Production Policy Revised

In early 2017, the government announced a new policy that aimed to reverse the Egypt's 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 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 for the first time 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 Quantities and Area Planted

In MY 2019/20, of the six extra-long staple varieties, only three varieties were cultivated. Giza 96 was the dominant variety planted 7,369 Ha or 96% of the total ELS cultivation. Giza 45 production and Giza 87 were cultivated on a very small scale, 207 Ha and 79 Ha respectively.

Of the lower long-staple varieties grown in the Delta region, Giza 94 is the most widely grown accounting for 63 percent or 365,714 ha. Giza 86, accounting for 18 percent of Egypt's total cotton production or 102,420 ha and 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 12 percent of Egypt's total cotton production a total area of 68,388 ha, followed by Giza 90 accounting for one percent of Egypt's total production of an area of 7,958 ha (See Figures 5 and 6).

Figure 5: Area of Cotton Varieties Planted for ELS Varieties

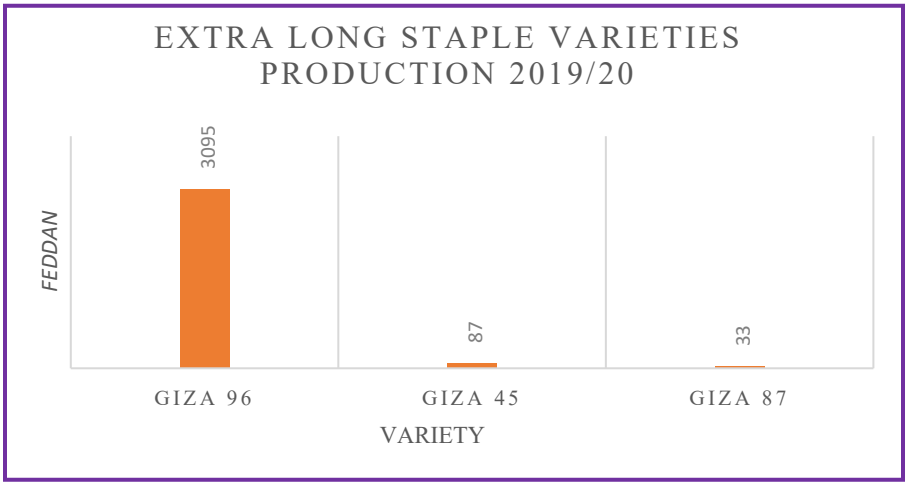


Figure 6: Area of Cotton Varieties Planted for LS Varieties

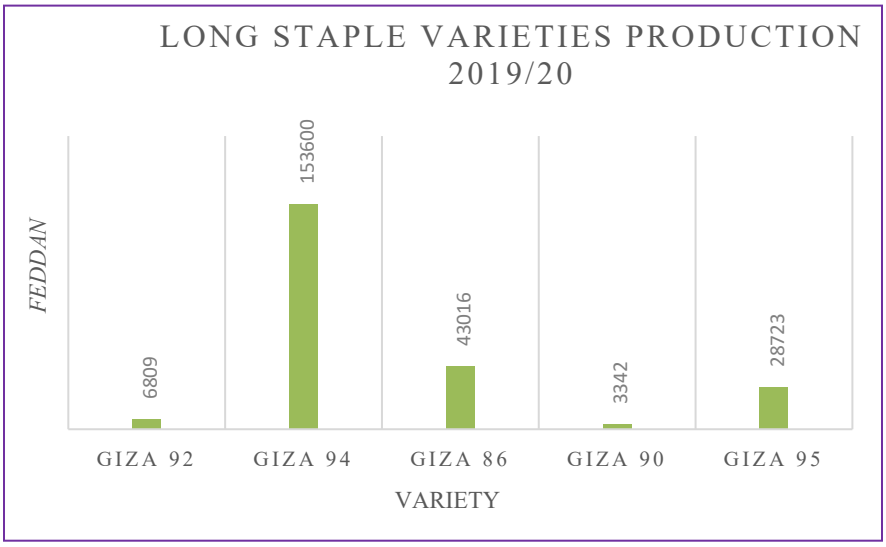
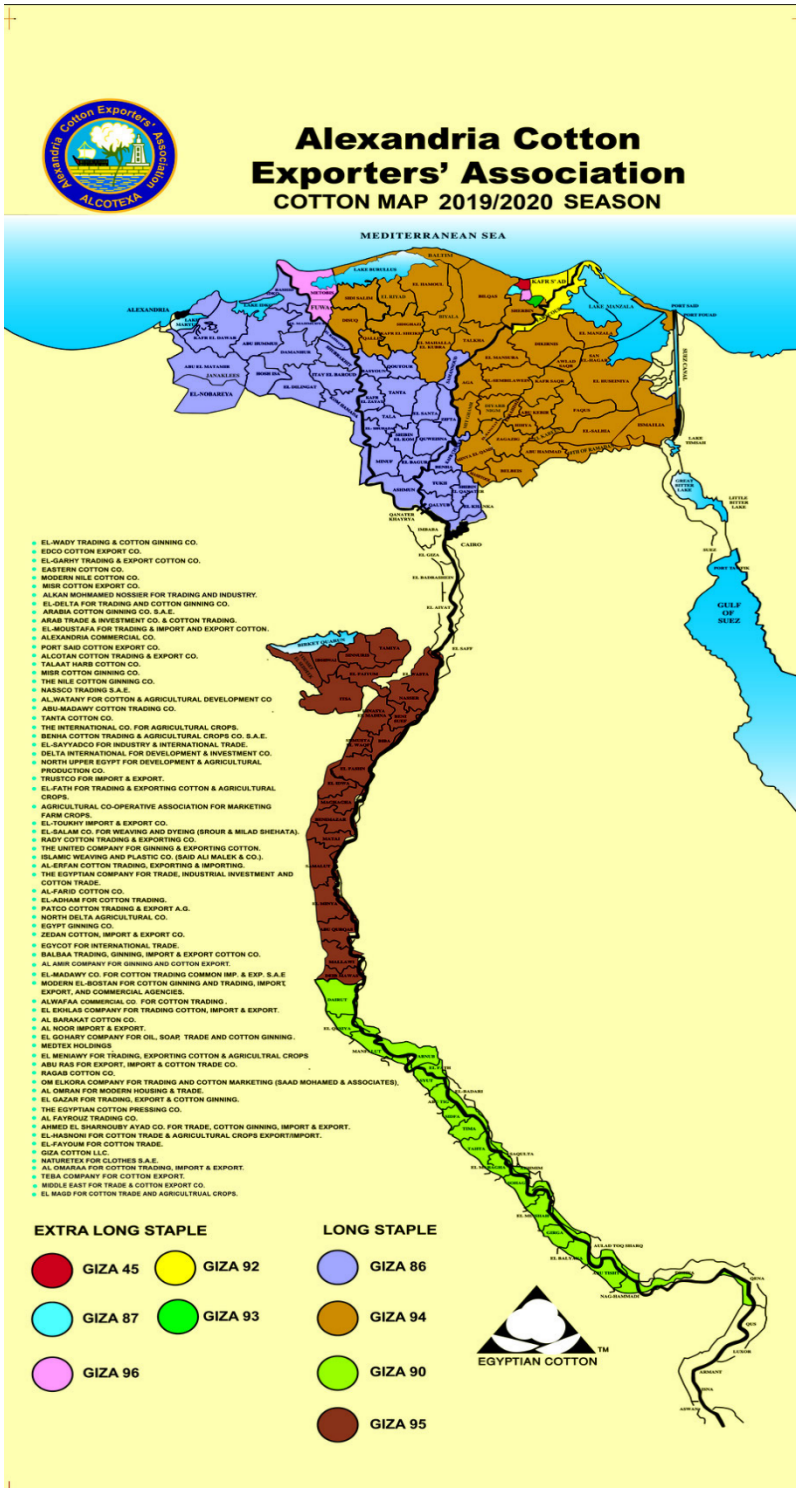


Figure 7: Cotton Map 2019/20



Source: ALCOTEXA

Consumption:

Post is revising down MY 2019/20 consumption estimates to 630,000 bales, a decrease of 15,000 bales. The revision is attributed to public spinners who were not operating at full capacity, which decreased domestic consumption. Post forecasts MY 2020/21 consumption to decrease by 5,000 bales to 625,000 bales, a drop of 1 percent over last year. Post attributes the slight decrease in local consumption to the decrease in demand from public spinners.

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:

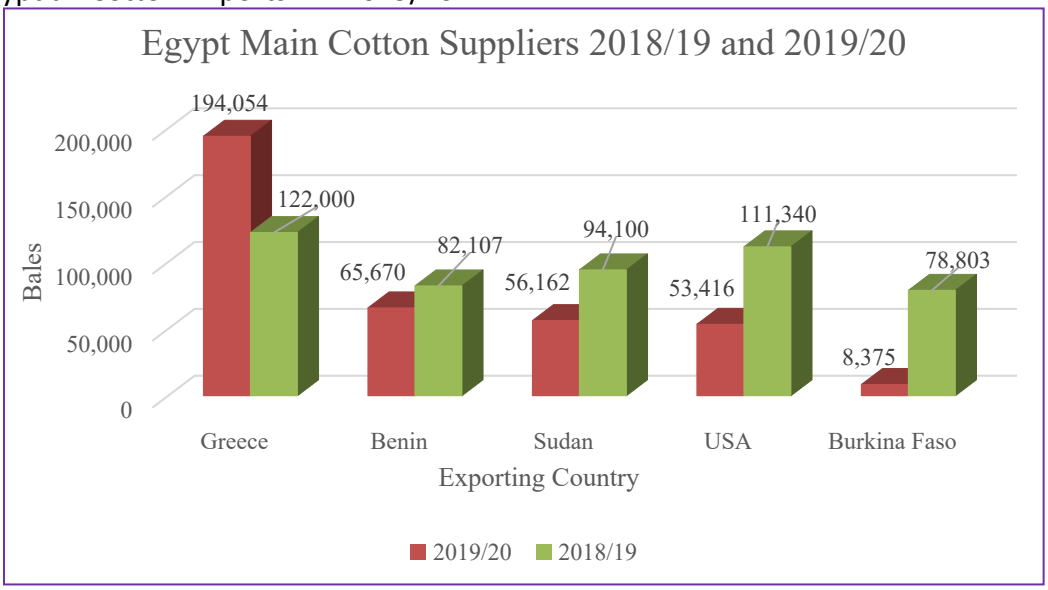
Imports

Post revised the MY 2019/20 imports from 510,000 bales to 512,000 bales. In MY 2020/21, cotton imports are forecast to increase by 23 percent to 630,000 bales, up by 118,000 bales from MY 2019/20 imports. Post attributes this increase to the steady domestic use and lower yields on area cultivation.

Imports do not always depend on local production volume as the physical characteristics of the Egyptian and imported cotton varies. This season, contacts reported that even with low prices of domestic cotton traders and yarn manufacturers prefer to source their needs from abroad.
Yarn manufacturers who are dependent on medium staple varieties will maintain their import levels to meet their domestic and international needs.

In MY 2019/20, Greece, Benin, Sudan, the United States and Burkina Faso were Egypt's main cotton suppliers and are expected to remain so in MY 2020/21.

Figure 8: Egyptian Cotton Imports MY 2019/20



Source: CAPQ

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.

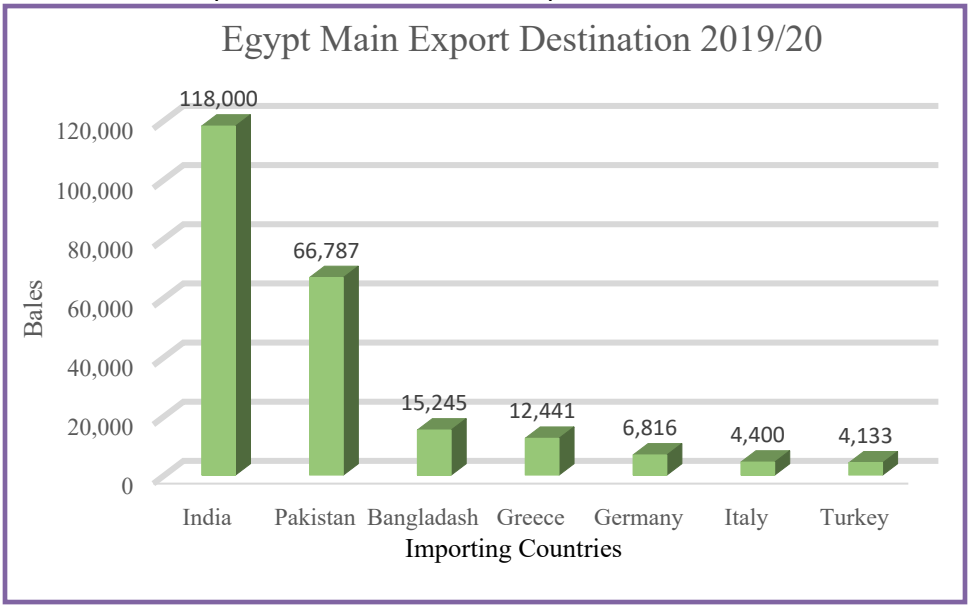
Exports

Post forecasts Egypt's total lint cotton exports in MY 2020/21 to increase by 14 percent or 30,000 bales to reach 250,000 bales. Post attributes the increase in Egypt's total lint cotton exports to the low prices. Post expects increased international demand for Egyptian cotton as prices are low and the decreased demand in domestic consumption.

In MY 2018/19, Egyptian cotton exporters indicated that in February through May 2019, Indian companies were buying Egyptian cotton stocks at very low prices. The companies were warehousing stocks given the comparatively lower prices.

In MY 2019/20, India remains the main importer of Egyptian cotton. Pakistan, Bangladesh, Greece, Germany and Italy are also Egypt's top export destination. India and Pakistan are expected to remain the same in MY 2020/21.

Figure 9: Egypt Main Cotton Export Destinations from September 2019 – March 2020



Source: ALCOTEXA

In MY 2019/20, Egypt mainly exported long staple varieties grown in lower Egypt in comparison to last two seasons where more upper varieties where exported. Out of the long staple varieties exported, 75 percent was Giza 94 and 19 percent Giza 86. Four percent of the total exports are extra-long staple, mainly Giza 92 and Giza 96.

The Egyptian Ministry of Industry and Trade (MoIT) and the Alexandria Cotton Exporters' Association (ALCOTEXA), owners of the Egyptian Cotton trademark 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, conduct 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 the Egyptian Cotton logo ended 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 accused of misusing Egyptian cotton label. It is not clear if MoIT will renew the contract with the CEA, though it is in favor of its renewal as it feels that the licensing of the Indian company was a prudent business decision.

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 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) Annex 15: of the Egyptian Plant Quarantine Rules & Regulations: Ministerial

Decree 562/2019 attached, annex1). 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 issues to the importer a certificate stipulating the reason for its rejection, which would need to be presented to authorities at final port of destination.

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 this is electected, two plant quarantine inspectors travel and inspect the shipment and supervise fumigation 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.

Better Cotton Pilot Project Launches in Egypt

The United Nations Industrial Development Organization (UNIDO) has launched a multi-stakeholder pilot project in Egypt to train cotton farmers on the Better Cotton Initiative's holistic approach to sustainable cotton production. The pilot comes as part of a renewed drive in the country to increase sustainability and improve conditions for Egyptian cotton producers.

Funded by the Italian Agency for Development Cooperation, the project is implemented by UNIDO in collaboration with the Ministry of Trade and Industry, the Ministry of Agriculture and Land Reclamation as well as with local and international textile private sector stakeholders. The Better Cotton Initiative (BCI), in coordination with selected Implementing Partners, supported UNIDO on the activation of the pilot in select areas in Egypt during the 2018/19 cotton season. BCI provided guidance, shared knowledge, developed materials and provided relevant agricultural and cotton experts.

Approximately 5,000 smallholder cotton farmers will be involved in the initial pilot project, receiving training on the Better Cotton Principles and Criteria. By adhering to these principles, existing (licensed) BCI Farmers around the world produce cotton in a way that is measurably better for the environment and farming communities. Once the pilot is complete, and in coordination with relevant Egyptian governmental entities and private sector stakeholders, UNIDO and BCI will explore the possibility of supporting the start-up of a direct BCI Program in Egypt.

Table 2: Statistical Position of Egyptian Cotton

Table 2 Statistical Position of Egyptian cotton Season 2019/2020 From beginning of season until March 3, 2020								
				Distributed				
Variety	Beginning Stock at season 2019/2020	Estimated Crop 2019/2020 (ton)	Total Supply 2019/2020	Mills Deliveries Season 2019/2020 22-10-19 to 10-03-20	Export Commitment Season 2019/2020 until 14-03-20	Total Distributed	Remaining in March 15, 2020	Shipping Season 2019/2020 until March 14, 2020
Giza 45		26,85	26,85		0,5	0,5	26,35	0,5
Giza 70	0,55		0,55				0,55	
Giza 87		12,85	12,85				12,85	
Giza 88								
Giza 92	555,65	2080,55	2636,20	577,75	1750,00	2327,75	308,45	924,40
Giza 93	1,10	8,70	9,80	1,55	7,25	8,80	1,00	7,25
Giza 96	2084,90	1163,55	3248,45	150,65	990,25	1140,90	2107,55	404,95
Giza 86	3064,25	12573,25	15637,50	2412,95	10403,70	12816,65	2820,85	3092,85
Giza 94	2130,95	46540,50	48671,45	2276,65	42751,25	45027,90	3643,55	22898,35
Giza 90	1893,50	551,50	2445,05		200,00	200,00	2245,05	
Giza 95	8827,00	8399,40	17226,40	2601,50	3029	5630,50	11595,90	1760,00
ET	1723,75	1376,05	3099,80				3099,80	
Grand Total	20281,70	72750,00	93031,70	8031,20	59131,95	67163,15	25868,55	29088,30se

Table 3: PSD

Cotton	2018/2019		2019/2020		2020/2021	
Market Begin Year	Aug 2018		Aug 2019		Aug 2020	
Egypt	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	141	141	100	100	0	65
Beginning Stocks	194	144	254	188	0	155
Production	500	489	350	305	0	215
Imports	520	500	500	512	0	630
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	1214	1133	1104	1005	0	1000
Exports	350	290	250	220	0	250
Use	600	645	630	620	0	615
Loss	10	10	10	10	0	10
Total Dom. Cons.	610	655	640	630	0	625
Ending Stocks	254	188	214	155	0	125
Total Distribution	1214	1133	1104	1005	0	1000
Stock to Use %	26.74	13.26	24.32		0	
Yield	772	726	762		0	
(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)						

Table 4: Unit Conversions

Unit	Equivalent
1 *Quintar*	50 Kg of lint cotton
1 US bale	480 lbs
	217.724 Kg
	Quintar/4.85
1 *Feddan*	0.42 Hectares
1 L.E.	. 0.064USD

Attachments:

Ministerial Decree 562.2019, Annex 15, Article 24 - Importation and Treatment Controls for Importing Cotton Products.docx