



# **Cotton - Textile - Apparel**

## **Value Chain Report Egypt**

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## 1.0 INTRODUCTION

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This study aims to provide data and information on the cotton and textile sector as an input to the RATES/COMESA/EAC/SADC effort of developing a trade policy framework, in support of regional and extra-regional trade in cotton and textiles from the ESA region.

Egypt is one of the 11 countries in COMESA, EAC and SADC countries targeted for the regional baseline study on cotton and textile. Together these countries account for over 90% of traded cotton and textile.

Egyptian cotton is one of the best cottons in the world. It is the Extra Long Staple (ELS) and long staple (LS) variety. Egyptian LS and ELS cotton production has 50% of the world share in this variety. ELS and LS cotton only represent 3-5% of the world consumption in cotton. Productivity of cotton has been on the decline in the past 10 years due to lower demand in the local market and the inability of the Egyptian producers to market their crop abroad. Government regulations on imports, exports and local cotton trade did not help revert this trend.

This report discusses issues within the Egyptian cotton and textile industry as well as trade issues with the COMESA countries compared to the rest of the world. The specific objectives, which this study addresses, include the following: -

1. Documenting trends in production of: -
  - a) Seed cotton by volume and value for the period 1998-2004. Breakdown these figures by Extra Long Staple and Long Staple categories. Obtain, from the industry source(s) projection for the year 2005.
  - b) Cotton lint by volume and value for the period 1998-2004 Obtain, from the industry source(s) projection for the year 2005. Also provide information on Ginning Out Turn (GOT) and average bale weights
  - c) Yarn by volume and value for the period 1998-2004. Obtain, from the industry source(s) projection for the year 2005,
  - d) Woven fabric by volume and value for the period 1998-2004. Obtain, from the industry source(s) projection for the year 2005.
  - e) Knitted fabric by volume and value for the period 1998-2004. Obtain, from the industry source(s) projection for the year 2005
  
3. Identification of the ginning companies in the country and documenting the following: -
  - Installed and utilized capacity and planned expansion or reduction by type of gin installation (roller and saw).
  - Ginning Out Turn, for Extra Long Staple and Long Staple Categories.
  - Source of seed cotton (percentage sourced in the country; percentage sourced in the ESA region and percentage sourced from outside the ESA region).
  - Policies and investment incentives in support of the ginning sector.

- Policy and non-policy issues raised by Ginneries and cotton lint traders on export of cotton lint to the region and outside the region.
  - Proportion of lint sold in the domestic market and that exported, showing main export markets.
  - Create a directory-listing firm in the ginning sector, full contact details as provided in the attached template.
4. Identifying the spinning companies in the country and documenting the following:
- Installed and utilized capacity and planned expansion or reduction in terms of product output (quantity). If there is an underutilized capacity, provide reasons.
  - Using data for year 2003 provide amount cotton lint used in the spinning companies, showing the quantity sourced from domestic production, imported from ESA region and that imported from outside the ESA region. For cotton lint sourced from outside the ESA region, give a breakdown of country of origin. Obtain explanatory factors, from the industry, as to the choice of the source of cotton lint for spinning.
  - For imported cotton lint in 2003, give a volume breakdown by the staple group categories of: short staple, medium staple, long staple and extra long staple.
  - Policies and investment incentives in support of the spinning industry.
  - What is the position of spinning companies on the export of domestically produced lint?
  - Issues raised by spinning companies on sourcing of cotton lint from the domestic market or from the region,
  - Issues/Constraints faced by spinning companies regarding sale of yarn into the domestic market, export to the regional (ESA) market or outside of the region
  - Create a directory listing firms in the spinning sector, full contact details as provided in the attached template
5. Identifying the textile companies in the country and documenting the following: -
- The weaving installed and utilized capacity and planned expansion. If there is an underutilized weaving capacity, provide reasons.
  - The knitting installed and utilized capacity and planned expansion. If there is an underutilized knitting capacity, provide reasons.
  - Production of both woven and knitted fabric for the period 1997-2004 in volume and value and explanatory factors to the observed trend (causes for the increase or decrease).
  - Categorize woven and knitted fabric by product range and show the significance of each type by expressing as a percentage of total textiles produced.
  - Source of yarn by volume sourced in the country; that sourced in the ESA region and that from outside the ESA region.
  - For woven and knitted fabric sourced from outside the ESA region, give a breakdown by country of origin. Obtain explanatory factors, from the industry, as to the choice of the source country of origin.
  - Using year 2003 data, show the volume of fabric consumed/converted domestically and that exported within the ESA region and outside the region.

- Policies and investment incentives in support the production of fabric
  - What is the position of weaving/knitting companies on the export of domestically produced yarn?
  - Issues/Constraints faced by weaving/knitting companies on sourcing of yarn from the domestic market, the region or from outside the region,
  - Issues/Constraints faced by weaving/knitting companies regarding sale of yarn into the domestic market, export to the regional (ESA) market or outside of the region
  - Create a directory listing firms in the weaving and knitting sectors, full contact details as provided in the attached template
6. In the apparel sector, identifying: --
- Current demand of fabric (knitted and woven; and fabric type (e.g. denim, drills, poly/cotton blends etc) by the apparel Sector, in quantity.
  - Issues/Constraints faced by apparel companies on sourcing of fabric from the domestic market, the region or from outside the region,
  - Create a directory-listing firm in the apparel sectors, full contact details as provided in the attached template.
8. Providing a detailed analysis of trade flows (exports and imports) of cotton lint, yarn and fabrics using the attached data capture template for the period 1993-2003/04. The analysis should show intra and extra regional trade flows. The region refers to the COMESA, EAC and SADC trading blocks.
9. Providing detailed analysis of trade policies and trade related investments policies in the cotton and textile sector. The analysis is to include but not be limited to the following aspects of trade policies: - import tariffs (applicable tariffs to be documented using the attached template); non tariff charges, export/import requirements – e.g. mandatory licenses and approvals, quality standard requirements, export incentives scheme (such as Export Processing Zones, Manufacturing Under Bond Schemes, etc).
10. Providing details of current trade agreements/arrangements between the country and other countries (bilateral), regional institutions or multilateral trading systems and determine their implication on cotton and textile trade.
11. Through consultations with Export Processing Zones or Free Zones Authorities Document the volume of cotton and textiles produced under these Schemes in the year 2003.

**Methodology and approach applied:**

- Collecting data from various sectors in the cotton and textile industry in Egypt
- Analyzing the data and compiling it in report form to adhere with the study objectives
- Personal interviews with members of the textile industry community
- Personal interviews with members of the ginning industry

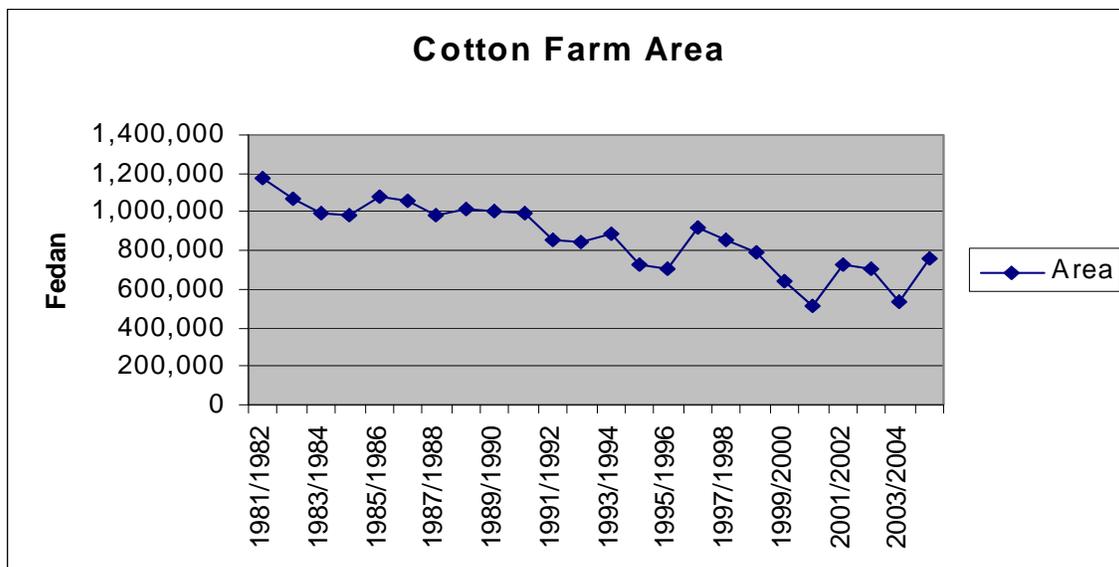
- Personal interviews with the cotton farming community
- Personal interviews with members of the research & development institutions of both the textile industry and the cotton farming
- Researching reports, government publications, periodicals and other regulatory sources to indicate the effect of the regulatory issues on the cotton and textile industries in Egypt with regards to the study objectives.

## 2.0 SUPPLY AND DEMAND ANALYSIS

### 2.1 Production trends in the cotton and textile sector

#### Cotton

Egyptian cotton is known all over the world for its superiority and quality. Egypt produces 50% of the world's production of long and extra long staple cotton. Egypt however has been having many problems in its cotton production due to control of exports of Egyptian cotton lint from the early sixties to the late eighties. Egyptian mills depended on the Egyptian cotton as its sole source of raw material and Egyptian farmers depended on the government-run textile industry as its only client. In 1994 the Egyptian government allowed exports of Egyptian cotton. However until the private sector started acquiring a larger market share (around 2000), the holding company controlled exports and maintained it to a minimum to keep the majority of the crop for the local mills. In some cases this has influenced the government in placing restrictions on exports of whole crops or specific varieties. This is based on interviews with members of the ginning community. The government priced cotton until the mid 90s when it placed a minimum guaranteed price to farmers and allowed them to sell at any price. It is to be noted that one Kantar is equal to 157 kg of Seed cotton and 50 kg of Lint cotton and it is the official Egyptian weight unit for measuring cotton.



Source: CATGO

A Fedan is 1.03 acres of land, and as can be seen on the above chart the area of cotton plantation has decreased from 1.2 million Fedans in 1982 to less than 600 thousand Fedans last season. The reason for this decline is largely due to the following reasons:

- Government regulations and pricing, which discouraged the farmers from

- planting cotton.
- Lack of local demand for high priced cotton and concentration on producing low value commodity end products instead of high value end products made from high quality fiber.
  - Lack of international demand for long staple cotton, basically because it is so scarce, mills had to find alternatives mainly in man-made fibers or short staple cottons. Control of Egypt exports did not help.
  - The availability of man made fibers and the decline of cotton demand in the world in general.
  - The American subsidy program for the competing Supima cotton, which reached 30 cents/pound in the 2003-2004 season.

<b>Production of Egyptian Cotton (Seed) classified by Variety In Metric tons.</b>								
Varieties	97/98	98/99	99/00	00/01	01/02.	02/03.	03/04.	04/05.
<b>Extra Long</b>								
Giza 45	4,008	4,475	3,244	74,732	203	820	2,120	1,959
Giza 76	13,215	2,920	-	-	-	-	-	-
Giza 70	165,373	148,733	76,471	82,217	119,939	146,946	107,927	150,564
Giza 77	45,944	20,826	-	-	-	-	-	-
Giza 84	-	-	-	-	-	-	-	-
Giza 87	64.37	26.219	-	-	-	-	-	-
Giza 88	82.425	46.472	1,670	14,961	16,761	58,884	75,670	76,062
<b>Sub Total</b>	<b>228,687</b>	<b>177,028</b>	<b>81,385</b>	<b>97,254</b>	<b>136,902</b>	<b>206,650</b>	<b>185,717</b>	<b>228,586</b>
<b>Long</b>								
Giza 75	242,901	-	-	-	-	-	-	-
Dandara	-	-	-	-	-	-	-	-
Giza 80	-	-	-	-	-	-	-	-
Giza 81	179,203	62,337	68,938	73,015	104,425	101,888	78,166	85,869
Giza 83	73,725	127,685	84,180	74,238	101,419	79,396	32,688	50,120
Giza 85	184,581	87,898	120,579	89,280	124,536	113,696	76,903	138,784
Giza 86	140,213	195,271	168,423	153,523	231,745	241,075	162,443	275,641
Giza 89	11,824	60,226	197,682	164,915	259,987	153,022	64,545	105,879
Giza 90	-	-	-	42,076	282	3,402	18,860	33,544
<b>Sub Total</b>	<b>832447</b>	<b>533,417</b>	<b>639,801</b>	<b>555,013</b>	<b>822,394</b>	<b>692,478</b>	<b>433,604</b>	<b>689,838</b>
Others	16.171	39.564	47.1	26.219	-	-	1,912	5,459
<b>Sub Total</b>	<b>16.</b>	<b>39.564</b>	<b>47.1</b>	<b>26.219</b>	<b>0</b>	<b>0</b>	<b>1,912</b>	<b>5,459</b>
<b>Total</b>	<b>1061150</b>	<b>710,485</b>	<b>721,234</b>	<b>652,293</b>	<b>959,297</b>	<b>899,128</b>	<b>621,233</b>	<b>923,882</b>
Scarto	12,825	10,726	9,160	7,349	10,826	10,734	-	-
<b>Grand Total</b>	<b>1073975</b>	<b>721,210</b>	<b>730,393</b>	<b>659,642</b>	<b>970,123</b>	<b>909,863</b>	<b>621,233</b>	<b>923,882</b>

Source: CATGO

As can be seen from the above table Egyptian cotton is made from 16 varieties called

Giza, divided into two groups of long and extra long staples. The extra long group includes 7 different varieties of cotton and 9 other varieties for the long staple group. The total production varied from 7 million Kantars (1 million tons) in 97/98 season to 4 million Kantars (620000 ton) in the 03/04 season. This means that over 6 seasons the production of seed cotton was fluctuating up and down as much as 40%.

The standard ginning outturn in Egypt for 1 Kantar of Seed Cotton is 1 Kantar of Lint Cotton. 1 Kantar of Seed Cotton is equal to 157 Kg. and 1 Kantar of Lint Cotton is equal to 50 Kg. The ginning outturn factor for Egypt varies between 1.1 and 1.2. The ginning outturn factor is multiplied by 50 Kg. (which is the lint cotton Kantar weight) to give the actual outturn of the cotton. For example if the ginning outturn is 1.2, the Kantar will be equal to 60 Kg. This factor varies depending on the cotton variety, the area, the grade and the season.

The official bale weight in Egypt is 320 Kg/bale and until privatized ginning companies installed their own presses, 100% of Egypt's bales were pressed in Alexandria to the official bale weight. However, when private sector companies installed their own presses they started pressing their bales to the Universal Density bale (UD Bale) weight of 480 pounds/bale or 220 Kg/bale. Some companies press their bales up to 280 Kg/bale in order to ship 25 Tone containers and reduce their shipping costs. However, almost half of Egypt's exports of cotton are still pressed in the official bale weight of 320 Kg/bale.

Production of Egyptian Cotton (Lint) classified by Variety In Metric tons								
Varieties	97/98	98/99	99/00	00/01	01/02.	02/03.	03/04.	04/05.
<b>Extra Long</b>								
Giza 45	1,275	1,423	1,032	23.764776	64.554	260.76	674	622.962
Giza 76	4,202	929	-	-	-	-	-	-
Giza 70	52,589	47,297	24,318	26145.006	38140.602	46728.828	34,321	47879.35
Giza 77	14,610	6,623	-	-	-	-	-	-
Giza 84	-	0	-	-	-	-	-	-
Giza 87	20	8	-	-	-	-	-	-
Giza 88	26	15	531	4757.598	5329.998	18725.112	24,063	24187.72
<b>Sub Total</b>	<b>72,722</b>	<b>56,295</b>	<b>25,880</b>	<b>30926.772</b>	<b>43534.836</b>	<b>65714.7</b>	<b>59,058</b>	<b>72690.35</b>
<b>Long</b>								
Giza 75	77,243	-	-	-	-	-	-	-
Dandara	-	-	-	-	-	-	-	-
Giza 80	-	-	-	-	-	-	-	-
Giza 81	56,987	19823.17	21922.28	23218.77	33207.15	32400.384	24856.788	27306.34
Giza 83	23,445	40603.83	26769.24	23607.684	32251.242	25247.928	10394.784	15938.16
Giza 85	58,697	27951.56	38344.12	28391.04	39602.448	36155.328	24455.154	44133.31
Giza 86	44,588	62096.18	53558.51	48820.314	73694.91	76661.85	51656.874	87653.84
Giza 89	3,760	19151.87	62862.88	52442.97	82675.866	48660.996	20525.31	33669.52
Giza 90	-	-	-	13.380168	89.676	1081.836	5997.48	10666.99
<b>Sub Total</b>	<b>264,718</b>	<b>169626.6</b>	<b>203456.7</b>	<b>176494.13</b>	<b>261521.29</b>	<b>220208</b>	<b>137886.07</b>	<b>219368.5</b>
Others	5	12.58135	14.9778	8.337642	-	-	608.016	1735.962
<b>Sub Total</b>	<b>5</b>	<b>12.58135</b>	<b>14.9778</b>	<b>8.337642</b>	<b>0</b>	<b>0</b>	<b>608.016</b>	<b>1735.962</b>
<b>Total</b>	<b>337,446</b>	<b>225934.2</b>	<b>229352.4</b>	<b>207429.17</b>	<b>305056.45</b>	<b>285922.7</b>	<b>197552.09</b>	<b>293794.5</b>
Scarto	4,078	3410.868	2912.88	2336.982	3442.668	3413.412	-	-
<b>Grand Total</b>	<b>341,524</b>	<b>229344.8</b>	<b>232265</b>	<b>209,766</b>	<b>308499.11</b>	<b>289336.43</b>	<b>197552.09</b>	<b>293794.5</b>

It is also to be noted that Egypt's official humidity level is 8.5%. The Cotton Arbitration monitors humidity levels and the testing organization (CATGO) is considered as one of the conditions governing the trade of cotton with Egypt.

### Textile Industry

The spinning industry in Egypt is divided into two sectors, the private sector and the government-controlled public sector. The private sector entered the spinning industry

only in the early nineties and until very recently the public sector controlled 90% of the spinning industry in Egypt. With the Egyptian government moving towards privatization of the public sector in the mid nineties, the private sector has been steadily gaining grounds.

### **YARN SPINNING AVAILABLE CAPACITY (This is actual production in metric tons)**

Year	Unit	Public Sector		Private Sector		Total	
		Quantity	Value (1000 \$)	Quantity	Value (1000 \$)	Quantity	Value (1000 \$)
1998 / 99	Ton	178423	2262147	16918	301908	195341	2564055
1999 / 00	Ton	155250	1773802	69746	71	224996	1773874
2000 / 01	Ton	151036	1789130	46773	395506	197809	2184636

Source: National Information Center (NIC)

\*This table refers to spun yarns manufactured in Egypt.

As can be seen from the table above the available spinning capacity in Egypt is around 200 thousand tons Spun yarns. In the year 98/99 the total capacity was 195 thousand tons, the private sector share of that was 17 thousand tons and the public sector 178 thousand tons. By the year 2000/2001 the total capacity was 198 thousand tons, which is almost the same as two years before. However, the private sector share increased to 47 thousand tons and the public sector share decreased to 151 thousand tons. This means that in 98/99 the private sector represented only 9% of the spinning industry and the public sector 91%. This changed completely in 2000/2001 with the private sector increasing its share to 23%. This is largely due to the establishment of new private spinning mills and the privatization of some existing public sector mills.

### **GARMENT AVAILABLE PRODUCTION CAPACITY Value in 1000 \$ US Dollars**

	Private Sector	Public Sector	Total
1998 / 99	312057.7429	1477123.162	1789180.905
1999 / 00	251613.3077	2111597.758	2363211.066
2000 / 01	218572.5751	1288041.841	1506614.416

Source: NIC

Because the Egyptian garment industry is so diversified, the volume of production can give the wrong indications. The production of one t-shirt cannot equal the production of a suit, for example. This is why in the above table the value of the manufacturing and not the value of the garment are represented. After discussing this subject with a number of individual manufacturers of the garment industry it is safe to state that in the years 2002/2003 the value of the garment manufacturing in Egypt has risen from 10% to 15%. This is mostly due to the devaluation of the Egyptian pound, which allowed the Egyptian manufacturers to be more competitive. There is a clear increase in garment production orders from the USA and Europe according to the manufacturers interviewed and this is causing a lot of people to increase their investments in this area to compensate for the increased demand, both in quantity and quality.

The above table represents the production value of the ready-made garment industry and

not the complete value of the garment. In the garment industry the situation is reversed. The private sector has a capacity of 1.3 billion LE while the public sector has a capacity of 276 million LE out of a complete 1.5 billion in the year 98/99. This means that the private sector represents 83% of the ready-made garment industry while the public sector has 17%. In the year 99/2000 the upsurge in production capacity is mainly due to the increase in the dollar exchange rate. It came back down in the following year. In the year 2000/2001 the public sector capacity had decreased to 14%.

## **2.2 Ginning sector (Cotton Lint)**

Ginning in Egypt is 100% roller ginning. The average age of the gins is 100 years. Most were installed in 1905. There are 64 gins in Egypt. In the early sixties these gins were nationalized by the government, which consolidated the 64 gins into five national companies. In the mid nineties, the Egyptian government adopted a privatization campaign for its national companies, which are referred to in this report as public sector companies. With the start of privatization, two gins per company out of the 64 were renewed (at total of 10 gins or 2 gins in each of the 5 companies were renewed) to encourage the privatization of these companies. Other than their real estate value, ginning companies were of little interest to investors.

In the past decade only two companies have been privatized. Very little technology has been added to the public sector gins, which are still working with the old technologies; while the privatized companies are making few new investments in supporting operations.

There is little or no research and development undertaken in the ginning area in Egypt. The technology that is used in the USA for the Pima cotton, which is the only cotton that compares to Egyptian, is completely different. Pima cotton is collected mechanically while Egyptian cotton is hand picked. Reason for that is that the average size of a farm in California is 3000 acres, while in Egypt the average size of a farm is 3 to 5 acres.

The Ginning outturn in Egypt varies according to the variety and to the season; however, the average ginning factor (or ginning out turn) is 1.2. In Egypt, the unit used for measuring cotton is the 'Kantar'. A Kantar of seed cotton weighs 157 kg. of seed cotton. A Kantar of lint cotton is 50 kg times whatever the outturn factor is. The average would be  $50 \text{ kg} * 1.2 = 60 \text{ kg}$ . The average weight of cotton lint bail is 326 kg. One tone of lint cotton is made up of 3.06 bales. The Cotton Arbitration and Testing House is a government organization that determines the ginning outturn factor for each variety, according to which the crop is priced.

The distribution of the available capacity of ginning factories in Egypt is as follows:

<b>Available Ginning Capacity</b>			
<b>Ginning Company</b>	<b># of Ginning stands (roller ginneries)</b>	<b># of factories</b>	<b>Status</b>
Arabia Ginning	804	13	<i>Private</i>
Misr Ginning	995	14	Public
Delta Ginning	1008	15	Public
Nile Ginning	722	9	<i>Private</i>
Al Wadi Ginning	688	12	Public
<b>Total</b>	<b>4217</b>	<b>63</b>	

Source: Alexandria Cotton Exporters Association. The accurate capacity is not known but 50 years ago the capacity below ginning stands was 12 million kentars and now it is 6 million kentars. This decline is due to the decrease in the planted area.

<b>Properties of Egyptian Cotton From Beginning of The Season 2003/2004 to 28/2/2004</b>											
	Variety Property		Extra Long Staple			Long Staple					
			Giza 45	Giza 70	Giza 88	Giza 86	Giza 89	Giza 85	Giza 80	Giza 83	Giza 90
Length	Upper half mean	mm	34.9	34.9	34.9	32.3	31.6	29.5	30.8	29.4	29
	Uniformity	Index	87	86	86	86	85	84	84	83	83
Strength	Strength	g/tex	42.9	44.3	44.3	43.1	39.8	38.2	38.3	34.3	34.3
	Elongation	%	6.5	6.1	5.9	6.2	6	6.6	6.5	6.8	6.7
Fineness	Micronaire	u/inch	3.16	3.94	3.66	4.54	4.1	3.9	4.07	4.11	3.83
Color	Reflectance	Rd %	73.5	73	66.4	76.2	75.3	75.1	62.3	66	66.2
	Yellowness	+ b	9.5	9.3	12.5	8.6	8	8.6	12.9	11.6	11.7
Trash	Trash Area	%	0.7	0.7	0.8	0.4	0.5	0.6	1.3	1	1
	Trash Count		39	35	43	19	28	28	76	62	59
SCI	Spinning Consistency Index		216	209	208	195	182	170	166	145	148
Micromat	Maturity	%	81	85	83	87	86	90	77	83	81
	Hair-Weight	millitex	119	147	138	168	152	143	170	158	154

Source: CATGO

Egypt sources all cottonseed internally. The Egyptian government is the sole buyer of the replanting seeds in Egypt. Egyptian farmers are free to plant any crop they want, but if they are planting cotton, the government specifies the areas for planting each variety of cotton. For example the extra long cotton Giza 45 is only planted in the north part of the delta. Giza 80 and 83 are planted in Upper Egypt, which is the southern part of the country. Most ELS is planted in the delta area. For reseedling, the government will pick the best crops and purchase the whole crop.

As can be seen from the table, the highest production of Egyptian cotton in the past eight years was in the season 97/98, when it reached almost 7 million Kantars. (1 Kantar = 157 Kg). The lowest season was last season  $\frac{3}{4}$ , with fewer than 4 million Kantars. This coming season, the production is expected to come back up to 5.8 million Kantars. There are a number of reasons for these fluctuations:

- Until 2000, the Egyptian government was the main buyer of Egyptian cotton when private exports of Egyptian cotton were allowed without restrictions leading to the creation of new sources of demand.
- The devaluation in year 2000 followed by the official flotation of the Egyptian Pound in 2003 resulted in the currency's loss of half its value creating an increased demand on Egyptian cotton by both local and international buyers. However, the lack of a proper information mechanism for farmers as well as low prices in 2002/2003 caused by an over supply (carryover of 2.5 million Kantars (table below) and a production of 5.8 million Kantars) encouraged farmers to plant other crops the following season.
- In 2003/04 with a shortage of supply (3.9 Million Kantar) and minimum carryover (15.000 Kantars) prices of raw cotton rocketed resulting in farmers return to cotton growing and an increase in planted area to almost 700,000 acres in 04/05.

**Carryover Of Egyptian Cotton (Unsold cotton left over from the previous season)  
On August 31<sup>st</sup>**

All cotton in the country pending export and under local consumption ( in metric Kanta

Varieties	1998	1999	2000	2001	2002	2003 *
Extra Long						
Giza 45	960	2,225	2,945	1,802	784	36.15
Giza 76	5,034	4,244	2,947	918	626	-
Giza 70	51,043	67,524	40,560	18,686	11,578	562
Giza 77	19,278	17,673	10,469	3,255	2,271	-
Giza 88	-	-	-	1,741	3,536	172
Giza 87	-	-	-	-	-	-
<b>Sub Total</b>	<b>76,314</b>	<b>91,666</b>	<b>56,920</b>	<b>26,403</b>	<b>18,795</b>	<b>771</b>
Long						
Giza 86	14,964	21,886	10,762	19,612	41,684	-
Giza 75	67,224	7,899	46.5	10.95	-	-
Dandara	-	-	-	-	-	-
Giza 80	13,745	3,481	4,236	7,083	4,601	-
Giza 81	0.35	338	-	-	-	-
Giza 83	9,912	7,626	2,311	5,300	6,347	-
Giza 84	16.75	16.8	16.75	6.5	126	-
Giza 85	21,100	7,604	7,132	4,379	17,285	-
Giza 89	1,520	2,975	16,983	14,603	33,395	-
Giza 90	-	-	-	-	-	-
<b>Sub Total</b>	<b>128,482</b>	<b>51,826</b>	<b>41,488</b>	<b>50,995</b>	<b>103,438</b>	<b>-</b>
Other Varieties	360	261	556	996	621	-
Scarto	47.6	105	165	67	7.2	-
Mixed & Low Mixed	3,127	2,112	824	772	580	-
<b>Sub Total</b>	<b>3,535</b>	<b>2,477</b>	<b>1,545</b>	<b>1,835</b>	<b>1,209</b>	<b>-</b>
<b>Grand Total</b>	<b>208,331</b>	<b>145,969</b>	<b>99,953</b>	<b>79,233</b>	<b>123,442</b>	<b>771</b>

\*Estimation of Carryover in the trading companies on 31.8.2003

Source: Central Agency for Public Mobilization and Statistics

As can be seen from the table, the carryover of cotton year 2003 was fifteen thousand Kantars only, while the previous years the carryover was in the millions.

### Exports of Egyptian cotton

The tables below show the top 8 countries importing Egyptian cotton and a complete table is available in the appendix.

**Exports of Egyptian Cotton Classified by top 8 countries**  
**(what product and what are the units?)**

(According to 02/03)(Lint Cotton Since Egypt does not export seeds., Units in Tons)

*In Egyptian bales about 6.53 m.c.  
net weight (Please convert this in  
order to ensure uniform units in this  
table( 326.5 KG)*

TONS \*

Country	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02 .	02/03 .	03/04 **
Japan	26,676.00	13,767.00	13,315.00	5,953.84	3,973.33	4,763.23	3,263.55	4,466.06	4,063.50	2,826.65
China	6,575.00	2,000.00	1,140.00	298.70	290.00	3,175.00	1,698.00	4,898.10	6,391.00	1,120.00
Turkey	25,592.00	6,262.00	15,765.00	12,340.39	13,443.07	12,385.32	6,826.11	6,216.43	6,028.50	1,504.00
S. Korea	24,828.00	12,894.00	16,123.00	2,946.37	7,873.98	7,560.00	3,301.50	7,786.90	13,955.33	4,065.00
U.S.A.	975.00	4,275.00	-	24.00	5,020.62	10,909.00	2,178.00	9,440.14	17,925.00	1,993.00
Pakistan	-	-	40.00	1,151.60	63.50	112.00	3,027.00	10,438.73	15,416.00	3,400.00
Italy	37,099.00	6,910.00	45,191.00	17,774.27	32,256.08	22,001.65	14,733.61	18,335.77	30,765.83	1,614.00
India	25,784.00	-	10,069.00	11,019.38	17,009.98	11,621.31	12,895.86	19,601.83	47,307.16	3,376.00

Source: Cotton International Trade Co.

Alexandria Cotton Exporters' Association as from 95/96

\* Each Ton = about 3.06 bales

\*\* Exports till 28.02.04

As can be seen from the table, historically, Italy and Japan were the major importers of Egyptian cotton up until the year 01/02. Asian manufacturers, India, Pakistan and South Korea became the leading importers of Egyptian cotton recently. This is due to these countries positioning themselves to become giant textile manufacturing countries, not only in low priced textile goods but also in all kinds of textiles. Their increased imports of Egyptian cotton reflects their investments in fine cotton spinning ability, which will challenge the European fine cotton spinners for market share.

## Exports of Egyptian Extra Long Staple Cotton Classified by top 8 countries

<i>In Egyptian bales about 6.53 m.c. net weight</i>		TONS *								
Countries	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02 .	02/03 .	03/04 **
Germany	968.00	-	3,634.00	1,045.02	1,208.32	3,457.50	3,243.52	1,953.29	2,955.50	362.00
Japan	18,986.00	13,767.00	13,167.00	5,363.81	2,667.31	4,161.83	3,263.55	3,753.06	3,239.50	2,193.75
China	500.00	2,000.00	366.00	298.70	290.00	3,100.00	1,698.00	4,216.10	4,017.00	580.00
Italy	11,614.00	6,910.00	8,057.00	1,372.06	4,411.60	6,046.65	14,733.61	3,740.19	4,578.33	264.00
Pakistan	-	-	-	-	-	12.00	3,027.00	3,564.10	4,593.00	860.00
Switzerland	7,238.00	1,200.00	1,008.00	-	253.45	4,740.00	2,367.64	1,638.00	4,629.50	600.00
S. Korea	5,812.00	12,894.00	7,605.00	1,062.17	2,228.66	3,909.00	3,301.50	3,177.20	5,194.00	1,801.00
India	19,201.00	-	3,626.00	3,155.67	4,165.13	5,275.38	12,895.86	9,779.11	16,211.50	2,551.00

Source: Cotton International Trade Co.

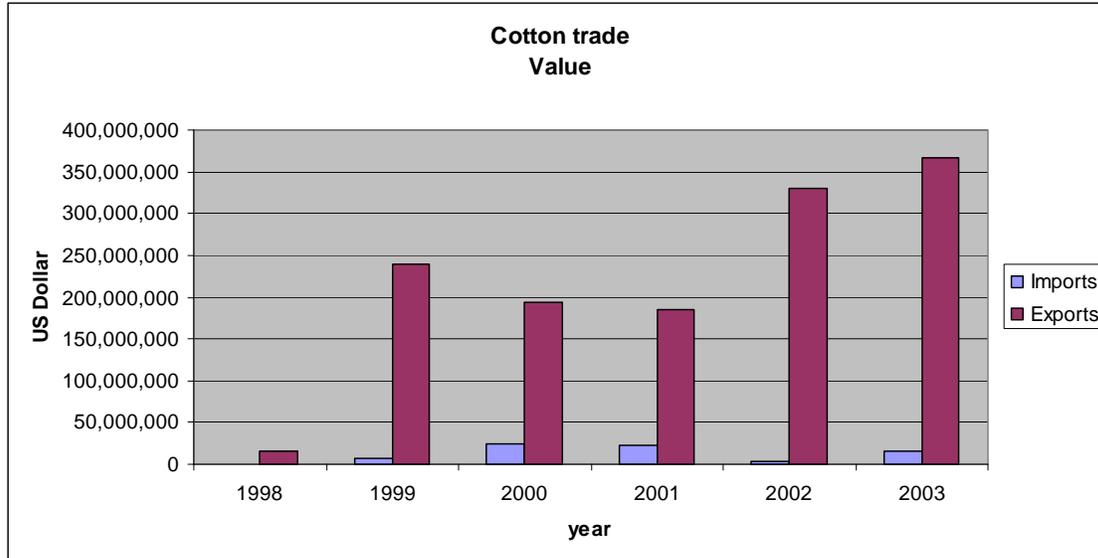
Alexandria Cotton Exporters' Association as from 95/96

Each Ton = about 3.06 bales

\* Exports till 28.02.04

### Imports

Although there has always been an international demand for Egyptian cotton, exports (in the past three decades) have been controlled by the government, until 1994 when the government privatized cotton trade. Around the same time the government gathered all the public sector mills into one holding company, which was responsible for purchasing the cotton for all the mills. Meanwhile, the growth in the private sector has driven public sector companies to produce mostly commodity items; their need for lower priced cotton was growing while the international demand for high quality long staple Egyptian cotton was driving the prices up. With the government restrictions on trade lifted, the Textile Holding Company started importing lower priced raw cotton. Sudan, Greece and Syria were the three supplying countries for Egypt's demand for alternative cottons. However, being a cotton-producing country, Egypt remains a small importer of raw cotton.



The above graph shows the increase in cotton exports from the year 1998, which - according to local demand - in some years led to an increase in imports to compensate for the resulting shortage of local supply.

Lint COTTON TRADE In Tons		
	IMPORTS	EXPORTS
1998/1999	0	108,482.04
1999/2000	17,000	107,146.06
2000/2001	26,500	69,532.57
2001/2004	6,300	106'954.53
2002/2003	6,000	180,427.65
2003/2004 *	40,000	26'765.65

Source: Alexandria Cotton Exporters Association  
\* Imports until 29/02/04 and Exports until 28/02/04

The table above shows the fluctuation in cotton imports over the years due to the fluctuation in production, economic conditions and the special textile industry needs discussed previously. Sudan is Egypt's major supplier of lint cotton and that can be seen in the table for the textile trade between Sudan and Egypt in the appendix. Syria is another major supplier of lint cotton to Egypt, mostly because of a free trade agreement between Egypt and Arab countries. The only buyer of Egyptian cotton from Africa is the Republic of South Africa. Other COMESA countries have very little trade with Egypt in cotton primarily because they lack the production facilities to produce fine count cotton yarns. Fine count spinning requires up to date technology and machinery as well as know how that is not always available in all COMESA countries.

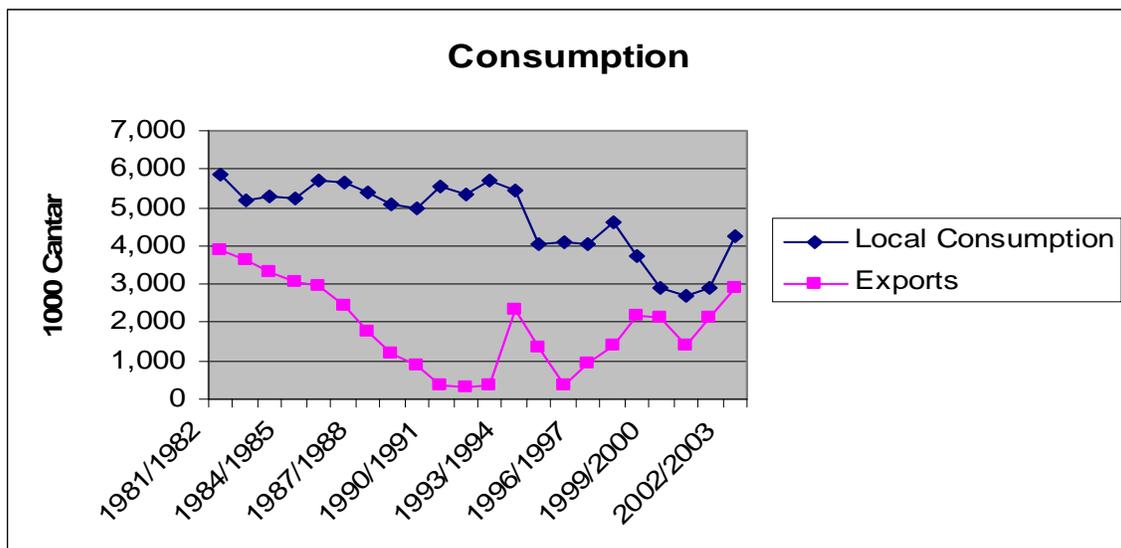
There are no direct investment incentives made by the government to support the ginning sector outside of its general investment incentives. The government is directing its efforts to support the export of Egyptian cotton and increasing the crop every year. Most

incentives are given to the farmers or the Textile Holding Company and spinners, which indirectly supports the ginning sector.

The Egyptian government controls and monitors all operations from the time the crop is picked to when the cotton is baled and exported or sold to a local mill. Each operation requires testing and classification, which adds to the cost of the ginning. The seeds are strictly monitored to ensure that they are not exported and sometimes the government regulates the prices of the seeds sold for oil extraction. There was only one bale press in Alexandria for export, which led to transportation problems. When some of the ginning companies installed their own bale presses, they were required to also pay for the extra cost of government employees moving into their gins to inspect and grade the cotton before and after baling.

Importing cotton from other countries is no easy matter in Egypt. The government requires that government employees in the country of export inspect the cotton before exporting to ensure it is free from diseases and pesticides. After that, the cotton must be fumigated in the country of export and fumigated again when it arrives to Alexandria. The importer carries all this cost. There are many contradictions within government whether to keep the non-tariff barriers or to reduce them so that the local industry can benefit from the more competitively priced imported cotton. The ministry of Agriculture insists that the Egyptian cotton is very valuable and all measures must be taken to protect it, while the Ministry of Industry sees that double fumigation is an unnecessary extra cost.

### Consumption of Lint Cotton



The graph above draws a very clear picture of the local consumption versus the export of the Lint cotton. Seed cotton is not allowed by law to be exported from Egypt. As can be seen, in the year 92/93 the gap between local consumption and exports was at its highest. Since 1997 however, the gap started to decrease with local consumption decreasing and exports increasing. The drop in the 02/03 season was because of the lack of supply that

year which was discussed in the production section of this report. It is expected that local consumption dropping even further next year and exports amounts exceeding the local consumption amounts. That is due to the fact that most of the local spinning mills are government owned and have not invested enough in their spinning manufacturing to continue spinning fine count cotton yarns at the required quality by the international textile markets. The local garment manufacturers are only interested in producing large orders of commodity items (like knitted sports wear and casual wear), so there is no local demand for fine count cotton yarns.

### 2.3 Cotton Yarn

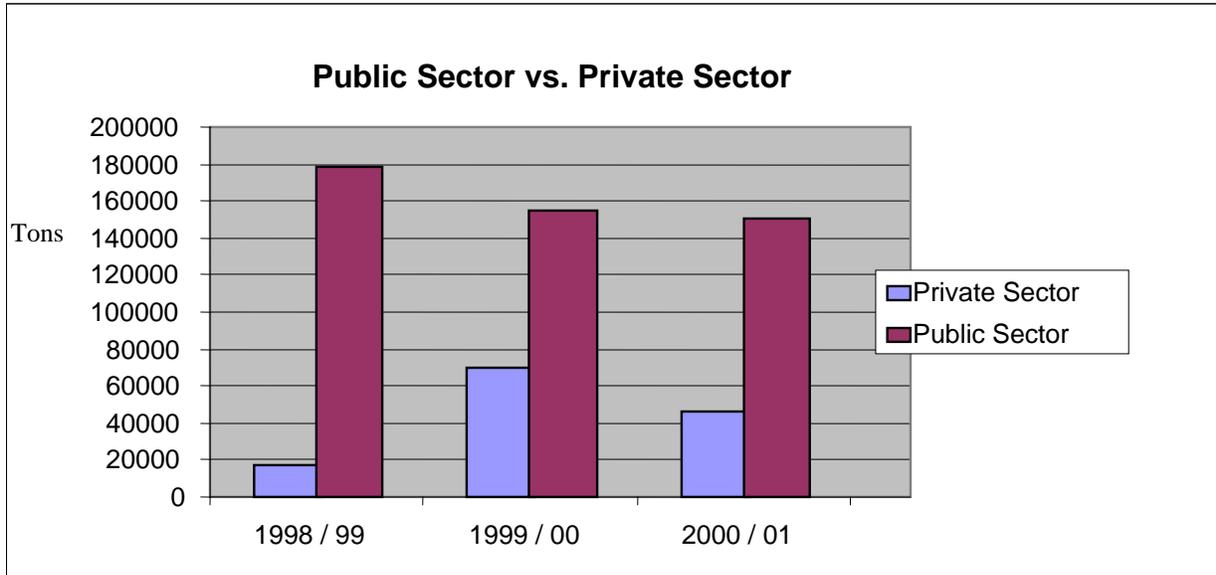
In the introduction section of this report a table for the available production capacity is provided. The following table indicates the available production YES capacity:

#### YARN ACTUAL PRODUCTION

Year	SPUN YARN Unit of Measure	Public Sector		Private Sector		Total	
		Quantity	Value US \$	Quantity	Value US \$	Quantity	Value US \$
1998 / 99	Ton	134654	1746588.406	16207	289727.4861	150861	2036315.892
1999 / 00	Ton	113065	1317880.203	50691	517246.7944	163756	1835126.997
2000 / 01	Ton	104706	1284692.023	41974	368877.8712	146680	1653569.894

Source: NIC

When comparing the two charts, the Yarn actual production and the Available spinning capacity, it is clear that the actual production is very close to the total available production. This is primarily due to the fact that Egypt has a very large textile industry that depends primarily on locally manufactured cotton yarns.



The spinning industry was controlled mostly by the public sector until recently when the Egyptian government started a move towards privatization. While most of the privatized and private sector spinning mills are geared towards exporting their goods, most of the local market for the cotton yarns is still in the hands of the public sector. The graph above shows the trend within the industry.

Today the Textile Holding Company is placing all the factories they own for privatization. Some factories are broken down into smaller units and leased or sold to local and international investors. The lack of new investment in public sector factories in new machinery and spare parts has greatly damaged these companies and is causing them to lose money year after year.

Until 1999, the Egyptian government was purchasing all the cotton from the farmers to supply the spinning sector and exported the rest. In 1994 the government lifted the ban on exports and imports of cotton and allowed the farmers to sell their cotton on the open market and also allowed the importing of cotton but with certain restrictions to protect the local crop, such as double fumigation and inspection in the port of export as well as in Alexandria on arrival.

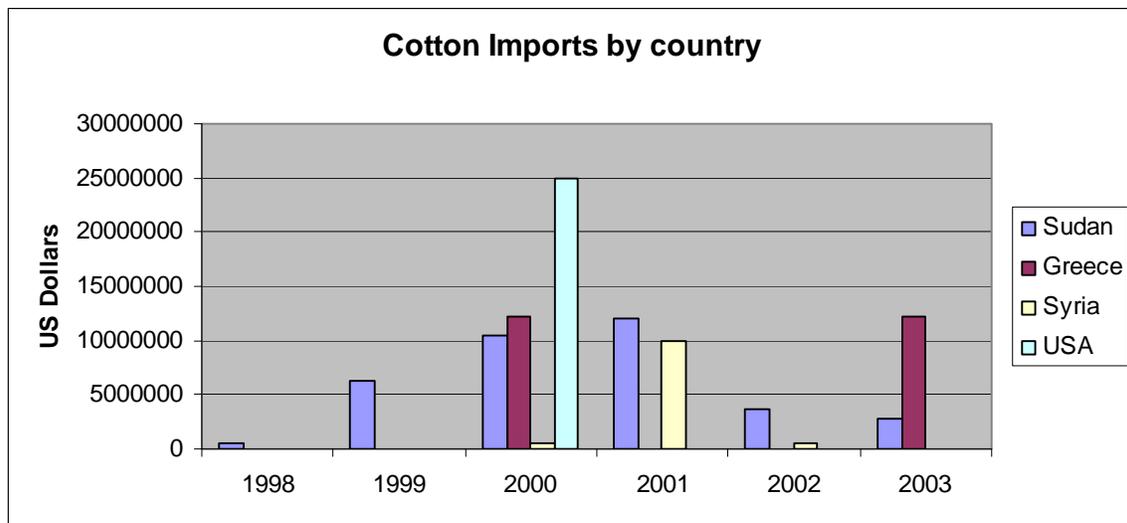
In the year 2003 Egypt imported cotton from Sudan and Greece. From Sudan 2.78 million dollars worth of cotton was imported and charged 4% customs duty. From Greece, Egypt imported cotton for the value of 12 million dollars and was charged 10% taxes. Egypt has imported cotton from Sudan, Greece, Syria and the USA over the past five years. Sudan gets the bigger share of Egypt's imports partly because of the close ties with Egypt and the quality of the Sudanese cotton. Sudan and Egypt have a bilateral trade agreement that allows free trade between the two countries. The close proximity between the two countries and the fact that they speak the same language has also helped trade between the two countries. Sudan's cotton is hand picked and is grown on the same

type of soil as Egypt, which makes it similar to Egyptian cotton. The Greek cotton was chosen because it is of medium size staple. It is not as short as the American upland for example. The American Pima is very close in structure to the Egyptian cotton and price, it was imported only once in 1999 and in a negligible quantity. Egypt has a free trade agreement with Syria, which encouraged the textile mills who are price conscious to work with Syrian cotton both as raw cotton and as yarns.

<b>Cotton Imports Lint cotton</b>						
<b>(US Dollars)</b>						
<b>Country</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Sudan</b>	552090	6350055	10452943	11992245	3635884	2783884
<b>Greece</b>			12155161			12273729
<b>Syria</b>			494125	9857146	521978	
<b>USA</b>			24887259			
<b>From other countries</b>	0	0	0	0	0	0
<b>Grand Total</b>	552090	6350055	47989488	21849391	4157862	15057613

Source: NIC

\*The gaps in the chart mean zero



\*Cotton lint imports

Egypt does not import any short staple cotton basically because the local mills are set up to work with the long staple cotton and mill operators lack the experience in spinning with short staple cotton. That is why most of Egypt's imports are from countries that produce medium and long staple cottons.

The Egyptian policy is to apply some protection to the spinning industry without totally closing the imports. The Egyptian government applies 12% customs duty on all yarn imports and a 10% sales tax on all yarns produced locally or imported. Some of the newly privatized public sector companies are given a tax holiday of between five and ten years, otherwise the spinning sector does not receive any other investment incentives. Investment incentives and schemes in Egypt are discussed in more details in another

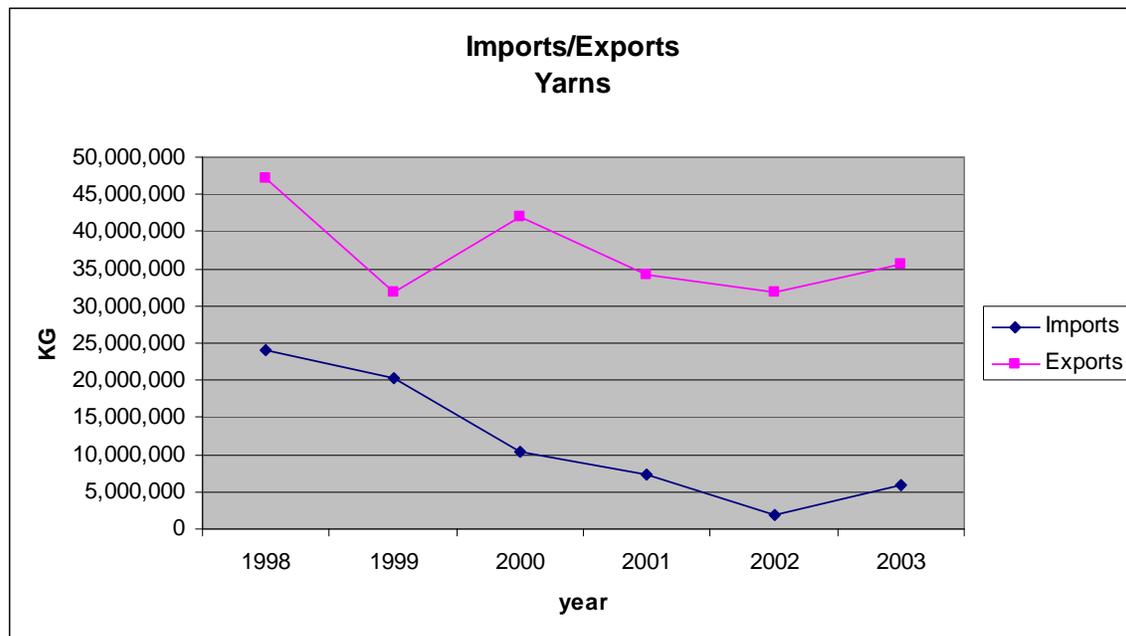
section of this report.

Egypt has been exporting cotton yarns since the early nineties, mostly due to the homegrown long and extra long staple cotton and in principal, spinners have no restrictions on the export of their products. The table below will show the imports and exports of cotton.

EGYPTS EXPORTS AND IMPORTS OF YARN				
Year	Imports		Exports	
	Value \$	Quantity Kg	Value \$	Quantity Kg
1998	84106277	24134521	223306205	47283260
1999	59494792	20333174	123408013	31832595
2000	24097470	10295587	147636057	41872223
2001	16443940	7428906	121941045	34195348
2002	4090368	1868611	107214378	31724618
2003	11575257	5837624	123968937	35525739

Source: NIC

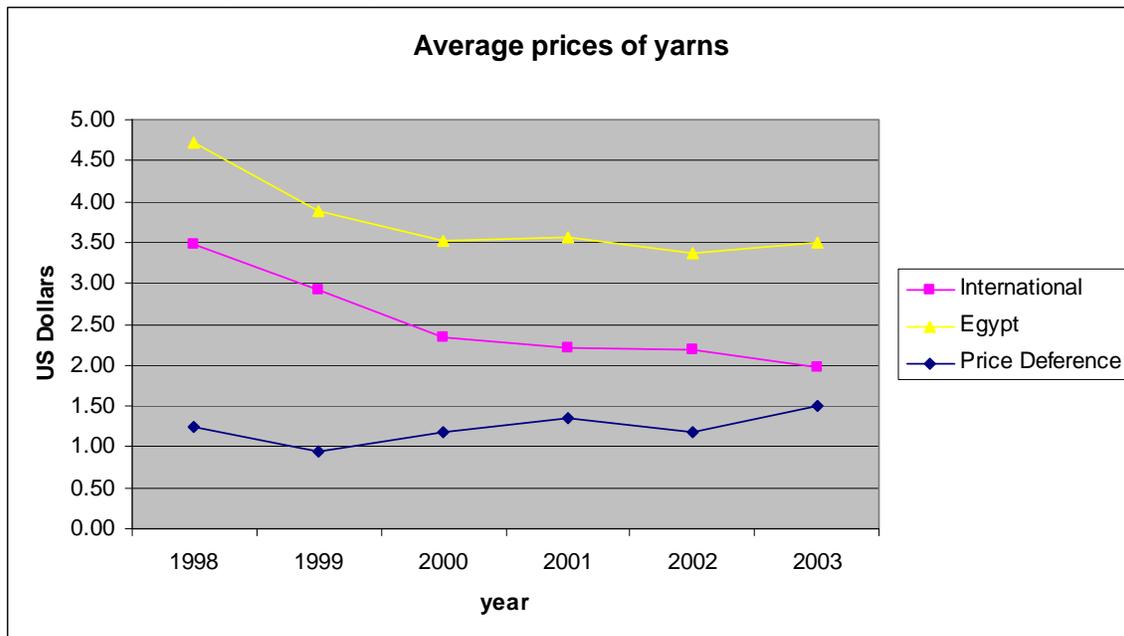
The graph below compares Egypt's exports and imports of cotton yarns.



The chart clearly shows Egypt's imports dropping from over 20 thousand tons in the years 98 and 99 to less than 10 thousand tons. This drop is due to the Egyptian pound devaluation. It is also clear that with the currency devaluation the exports have increased at the same time.

Egypt's main spinning production is of fine counts; this is why a majority of exporting mills chose to import the coarser counts. Also the 20's to 30's counts are made locally

from Egyptian long staple cotton and are sold above international prices, which naturally encourages imports. From the graph below the price difference between Egyptian yarns and international yarns is very clear.



The currency devaluation in the year 2000 caused the imports to drop but also raised the price of the local production of yarns. As can be seen from the graph in the year 2003 the imports of yarns increased again. From the graph above it can also be noted that the price difference increased again in 2003 to over \$1.50/kg. The table below gives a detailed comparison between average import and export prices of yarn in Egypt.

Average price /kg in US Dollars (Yarn)			
Year	Imports	Exports	Difference
1998	3.48	4.72	1.24
1999	2.93	3.88	0.95
2000	2.34	3.53	1.19
2001	2.21	3.57	1.35
2002	2.19	3.38	1.19
2003	1.98	3.49	1.51

Source: NIC

The lowest price differences were in the year 99 and 2000 and stood at 95 cents and 1.19 dollars respectively. This difference was based on official exchange rates, the black market rates would have made the differences much smaller and this is why there is a large drop in the yarn imports for these two years.

It is also to be noted that the price difference is attributed to the fact that majority of Egypt's imports of yarns is in the coarser, cheaper counts while its exports are in the finer

and more expensive counts.

The spinning sector has enjoyed government guarantees for raw cotton for many years. The government also guaranteed the cotton growers' crop was sold, either locally or exported. Which meant that the spinning mills did not send any effort to acquire good lint cotton at good prices and the farmers did not make any effort marketing their crop since the government bought everything. When the government lifted the ban on exporting and allowed the farmers to sell to the highest bidders, the prices went up very quickly leaving the spinning sector with no alternative but to import some of its raw cotton needs. The cotton growers then raised the issue of the contamination of their own crops and the government applied restrictions on the imported cotton discussed in earlier sections of this report. These restrictions increase the price of the short staple cotton to almost equal the price of the long staple cotton of much higher quality. The spinning sector would earn a lot more profits if it were allowed to import their cotton without restrictions, for example the double fumigation in the spinning sector's opinion is unnecessary extra cost. The traveling expenses of the government officials to inspect the cotton in the country of export forces them to import very large quantities in order to absorb the extra cost thus increasing the cost of finance.

A major issue for the textile companies in Egypt is that coarse count yarns are either unavailable or more expensive than international prices. Counts 24/1 and down are very hard to find in Egypt. Counts over 36/1 and finer are well priced in Egypt in comparison with the international markets.

## 2.4 Textile and apparel manufacturing

### Fabrics

The number of factories producing fabric in Egypt is over one thousand; however there is no official figure for the exact number. The data available in this particular sector is not classified by knitted and woven fabric production. The units used are sometimes in kilograms and other times in meters but mostly there are no units at all. In order for this data to give any real indications we are forced to deal with the value of production only.

Table Fabric Production and Capacity by Value

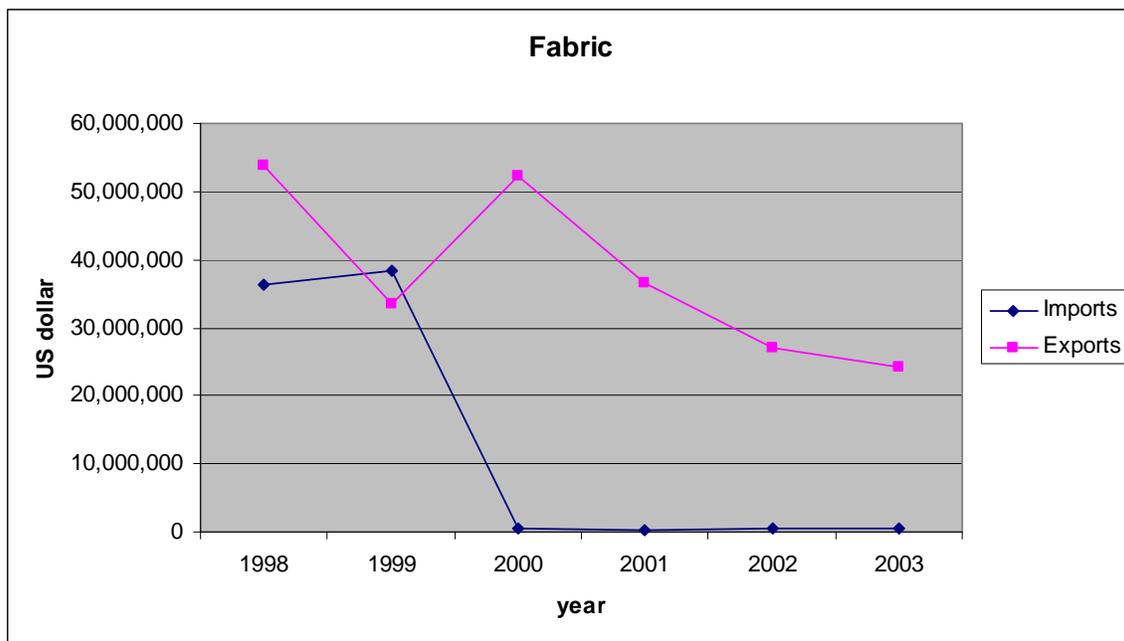
Product Name	Year	Value of Capacity in US \$	Value of Production in US \$
Fabric	1998/99	68131.1215	60296.47931
	1999/00	50500.27875	45909.45101
	2000/01	41711.9729	37920.02756
	2001/02	106472.5675	96793.22034

As explained earlier, Egypt is a major textile manufacturing country and import and export of fabrics is a major part of the textile economy of Egypt. Below is a table that shows the trade of fabrics.

Year	FABRIC IMPORTS & EXPORTS Value in US Dollars	
	Imports	Exports
1998	36,289,650	53,770,006
1999	38,395,258	33,377,986
2000	538,462	52,270,413
2001	294,038	36,532,991
2002	620,342	27,004,192
2003	489,234	24,136,929

Source: NIC

Most of the fabrics imported into Egypt were imported because of the price factor. The fabrics from the Far East are priced lower than the fabrics made in Egypt. Before the year 1999 the importation of fabric was allowed in compliance with the GATT rules that disallow the ban of imports.



In 1999 the Egyptian Manufacturers Federation complained to the government that the continued large imports of fabrics would cause them to close down the fabric manufacturing facilities. The government found a clause in the GATT treaty that allowed a country to take a three-year recess from the GATT commitment one time only, and the government used it and placed a ban on importing any fabrics. This ban was scheduled to stay in place until end of 2003, but the Egyptian government removed the ban in mid 2002, because it did not affect the market in any way. By that time the devaluation of the Egyptian Pound had made its own effect on the imported fabrics. The graph above clearly shows the effects and the time scale. Removing the bans early scored points for the Egyptian government with the WTO.

### Apparel and made-ups

The garment industry in Egypt is vastly diversified. Egypt produces all types of garments and home textiles from woolen suits to cotton handkerchiefs. In home textiles, Egyptian cotton towels have a worldwide reputation to be the best and most prestigious. Again the units used in measuring garments is very unclear in the data collected, therefore we are using the value as means of comparison. In assessing the production levels in ready-made garments in Egypt, note that the value in the table below is for the value of the cut and sew operation and not that of the complete garment.

<b>GARMENTS PRODUCTION</b>			
(VALUE IN 1000 US \$)			
<b>Year</b>	<b>Public Sector</b>	<b>Private Investment Sector</b>	<b>Total</b>
1998 / 99	68295.56058	396396.3552	464691.9156
1999 / 00	39373.80514	594621.5874	633995.3924
2000 / 01	30669.27146	301626.3631	332295.6345

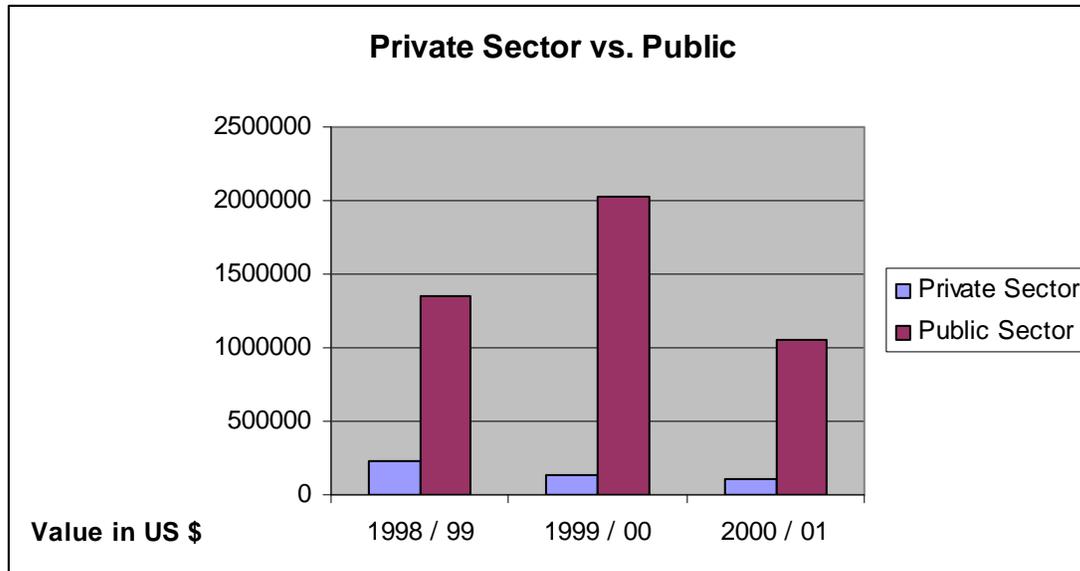
Source: NIC

<b>HOMETEXTILES PRODUCTION</b>		
(VALUE IN 1000 US \$)		
<b>Year</b>	<b>Actual Production</b>	<b>Available Capacity</b>
1998 / 99	23556.26453	25594.97269
1999 / 00	182431.9308	200576.0753
2000 / 01	126199.3581	138819.3572
2001 / 02	73489.30478	80838.18684

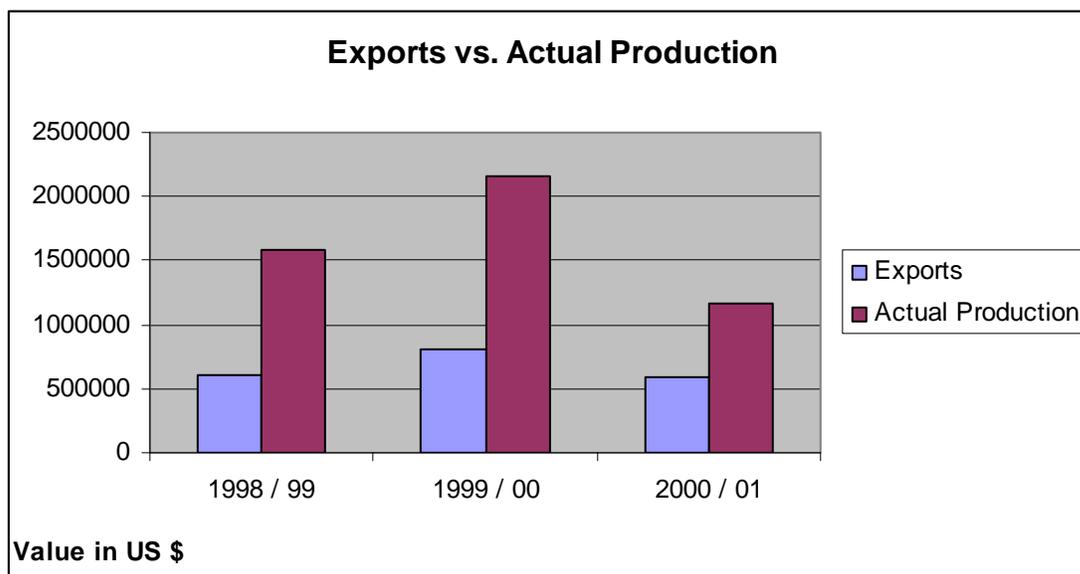
Source: NIC

This table includes the investment private sector and the public sector. Investment private sector companies are those that are located in industrial areas or the free zones, or are created under the new investment laws of Egypt that qualify for tax vacations. However, this table does not include the vast amount of private sector factories that are located within city limits nor does it include the large number of factories that are working unofficially without formal documents. These types of factories are impossible to account for; however, they are estimated to be in the thousands of factories all over the country.

Unlike the spinning sector, the garment-manufacturing sector is dominated by the private sector. The graph below shows the domination of the private sector in this part of the industry.



Ready-made garment exporting is a very important part of this industry. The ready-made garment capacity by far exceeds the local market needs and lots of factories are geared towards exporting only. The following graph gives a clear picture of the export situation.



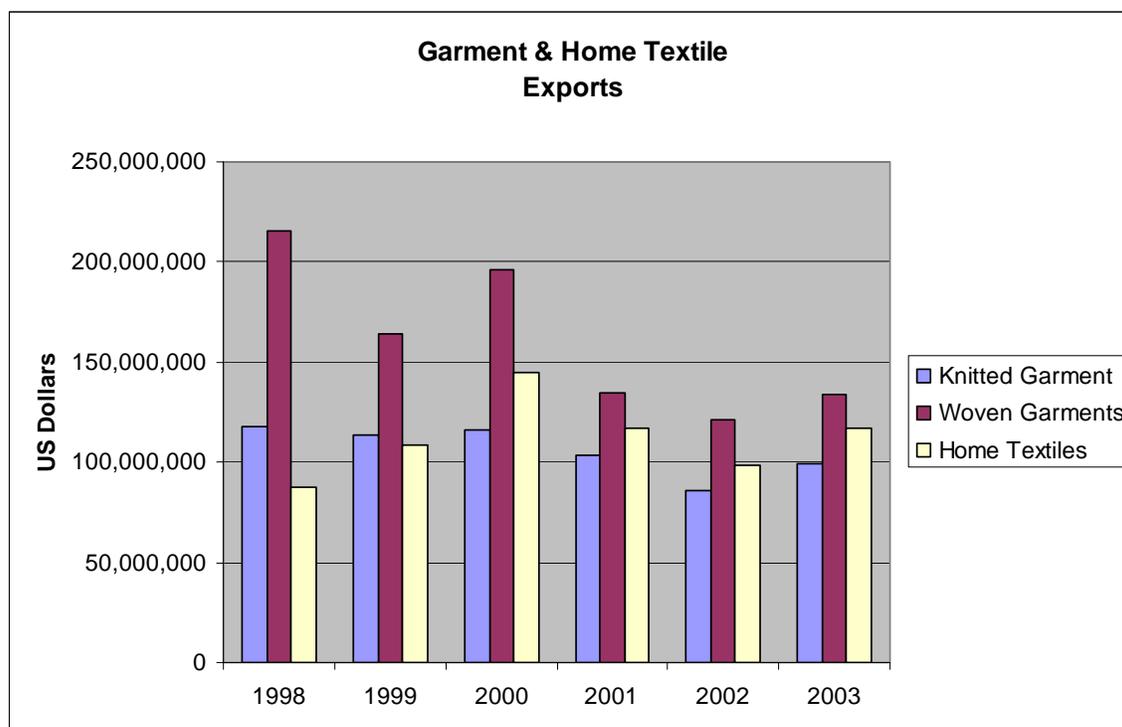
As can be seen in the graph the exported goods make up close to one half of the total production capacity available, and the total capacity is not completely utilized. Meaning there is still more capacity available for export.

Egyptian garment exports are divided into three classifications: knitted garments, woven garments and home textiles. The table below shows the imports and exports of each classification.

<b>Garments &amp; Home Textile</b>						
<b>(US DOLLARS)</b>						
<b>Year</b>	<b>Knitted</b>		<b>Woven</b>		<b>Home textiles</b>	
	<b>Imports</b>	<b>Exports</b>	<b>Imports</b>	<b>Exports</b>	<b>Imports</b>	<b>Exports</b>
<b>1998</b>	948,384	118,061,455	3,414,362	215,215,510	5,402,921	87,534,412
<b>1999</b>	721,258	113,507,934	3,644,490	164,535,639	4,365,316	108,863,098
<b>2000</b>	826,799	116,464,610	2,589,521	196,186,075	3,008,877	145,012,157
<b>2001</b>	949,758	103,586,404	840,663	134,295,958	1,653,548	117,079,913
<b>2002</b>	404,151	85,699,050	422,629	121,464,516	1,386,764	98,672,162
<b>2003</b>	351,851	99,353,558	1,175,050	133,646,903	1,043,439	116,936,250

Source: NIC

Although the imported garments constitute a small fraction of the exports on this table, it does not account for the amount of smuggled garments that enter the country. A small percentage of Egypt's exports go to COMESA countries (figures included in attached tables in the appendix). Most of the exports are to Europe and the USA. The graph below shows the distribution between the knitted garments, woven garments and home textiles.



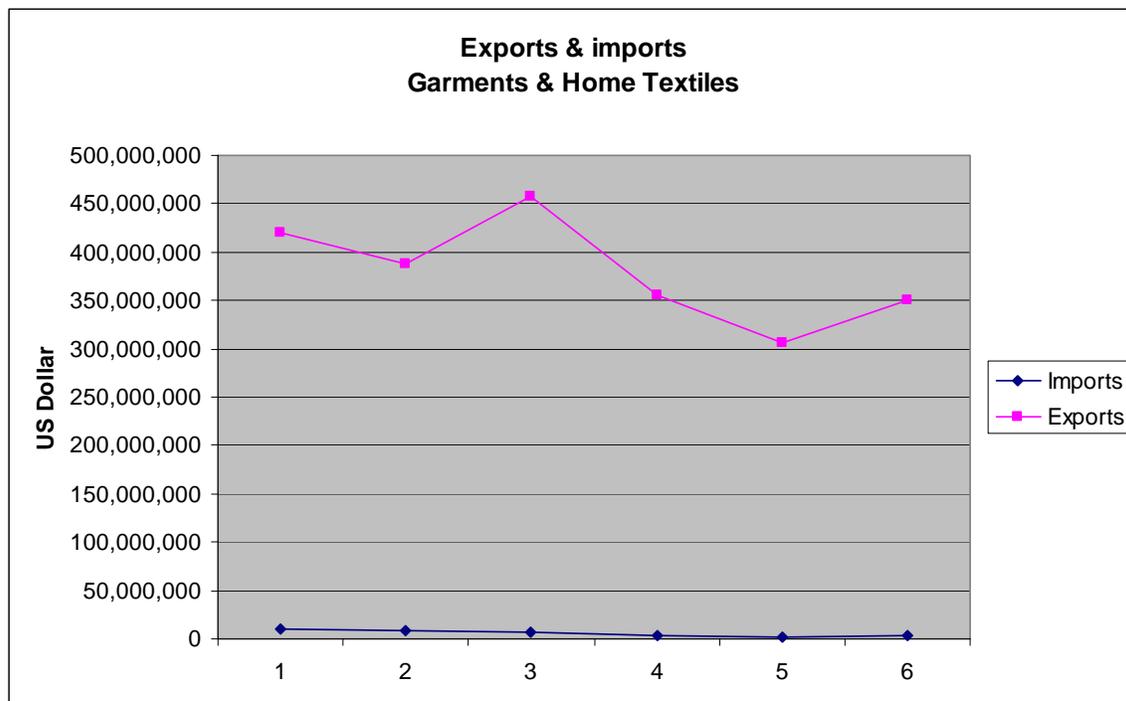
From the table it can be seen how the woven garments are decreasing over the years and this is mostly due to the changing trends in the fashion industry.

The following table shows the total exports of apparel and home textile.

<b>Garment &amp; HT</b> (US Dollars)		
<b>Year</b>	<b>Imports</b>	<b>Exports</b>
<b>1998</b>	9765667	420811377
<b>1999</b>	8731064	386906671
<b>2000</b>	6425197	457662842
<b>2001</b>	3443969	354962275
<b>2002</b>	2213544	305835728
<b>2003</b>	2570340	349936711

**Source: NIC**

Combined, the garment and home textile exports represent the largest value of Egyptian textile exports, ranging from 300 million to 450 million US Dollars per year. These figures are only seconded with the exports of raw cotton. The graph below reflects the difference between imports and exports.



The garment industry seems to be moving more and more towards the casual ware. Knitted fabrics and denim jeans fabric will be more in demand. Referring to the previous statement in the Spinning section of this report, Egypt's lack of competitiveness in the production of coarse count yarns (up to the 20's and 30's) creates a need for imports of both competitively priced denim and finished fabric, to supply the garment manufacturers. This is also the reason why a majority of garment manufacturers who are export-oriented rely on imported yarns and fabrics for re-exporting purposes to be priced

competitively.

The major constraint facing this sector of the industry is the protection the government places on each segment. The fabric producers, until 2002, could only purchase yarns from local yarn producers and were only allowed to import yarns for the purpose of re-exporting. The same situation applied to the garment manufacturers, who were forced to use fabrics manufactured locally or import fabric for the sole purpose of exporting the garments after manufacturing. The action of importing fabric or yarn for the purpose of exporting it is called “draw back”. The regulations, inspection and paperwork involved in the draw back scheme are very tedious and costly (contrary to the government claim that draw backs are free).

After the year 2002 the government lifted the ban on the import of fabric and yarns. Imported yarns are tagged with a 12% customs duty rate, Fabric is tagged with a 22% duty rate and ready-made garments are tagged with a 40% customs duty rate. The table of the duty rates is available in the appendix.

Most cotton yarns are imported from India, Pakistan, China and Syria. The first three countries have obvious strength in the spinning sector worldwide. Syria however, is a major exporter of yarns into Egypt because of the bilateral agreements between the two countries that exempt Syrian exports from all customs.

Fabric producers would like to import their raw material at no cost at all but that would place the spinning mills in great danger at this point because they must over pay for their imported raw cotton due to the rules and regulations placed to protect the Egyptian cotton crop. The garment manufacturers would also like to import their fabrics at no extra charge but again that would place the fabric manufacturers at a great disadvantage. So the different segments in the industry are all very strongly connected in an integrated chain. For any change to take place it must be done from the top of the chain and then all the way down.

There are no special investment incentives made for the garment and fabric manufacturers that are not available to all other companies. This will be discussed in more detail in a later section in this report.

## 3.0 TRADE PERFORMANCE

### 3.1 Trade Policies and Regulatory Environment

Egypt has signed several bilateral and multilateral agreements to promote and develop competitiveness of the Egyptian exports, support commercial activities, and improve its trade balance. The Ministry of Foreign Trade displays a summary of key agreements on this page of its website for the use and benefit of the Egyptian exporters: ([www.moft.gov.eg](http://www.moft.gov.eg)). The following agreements are currently in place.

#### Free and Preferential Trade agreements between Egypt and the Arab countries

- Tariff and Trade Agreement between Egypt and Libya (signed on 3 December 1990)
- Trade Agreement between Egypt and Syria (signed in 19 July 1991).
- Free Trade Agreement between Egypt and Tunisian Government (signed on 5 March 1998)
- Free Trade Agreement between Egypt and Moroccans Government (signed on 27 May 1998)
- The Executive program to support trade between Egypt and Lebanon (signed on 1 January 1999)
- The Executive program to support trade between Egypt and Jordan (signed on 10 December 1998)
- The Executive protocol to establish Free Trade Area between Egypt and Iraq (signed on 18 January 2001)

	Imports from Libya	Imports from Syria	Imports from Tunisia	Imports from Lebanon	Imports from Jordan	Imports from Iraq
<b>HS 5201 (cotton Lint)</b>	0	12%	12%	12%	12%	12%
<b>HS 5203 (yarn )</b>	0	12%	12%	12%	12%	12%
<b>HS 5204 ( yarn)</b>	0	12%	12%	12%	12%	12%
<b>HS 5205 (yarn)</b>	0	12%	12%	12%	12%	12%
<b>HS 5206 (yarn)</b>	0	12%	12%	12%	12%	12%
<b>HS 5207(Yarn)</b>	0	12%	12%	12%	12%	12%
<b>HS 5208 (Yarn)</b>	0	12%	12%	12%	12%	12%
<b>HS 5209, 5211, 5212 (Fabrics)</b>	0	22%	22%	22%	22%	22%
<b>Ready made Garments</b>	0	40%	40%	40%	40%	40%

Please note that starting January 2005 all tariffs are removed between Arab countries and Egypt.

### **COMESA Agreement**

The history of COMESA began in December 1994 when it was formed to replace the former Preferential Trade Area (PTA), which had existed from the earlier days of 1981. COMESA (as defined by its Treaty) was established 'as an organization of free independent sovereign states which have agreed to co-operate in developing their natural and human resources for the good of all their people' and as such it has a wide-ranging series of objectives which necessarily include in its priorities the promotion of peace and security in the region.

### **EU Partnership Agreement**

On 25 June 2001 the EURO Mediterranean Agreement was signed by Egypt and European Economic Community (EEC), however, it is still pending final approval for Egyptian People Assembly and the Parliaments of EU members. The agreement aims at establishing a Free Trade Area between Egypt and the EU members.

### **GATT**

Egypt is a member of the GATT since 1971; Egypt joined the GATS and the WTO in 1995. Egypt's commitments in GATS cover four main service groups: construction, travel and tourism, financial services, and maritime services. Egypt's well-established and accepted areas of comparative advantage have been oil, cotton.

## **3.2 Free Zone Areas in Egypt**

There are seven free zone areas in Egypt, provided with basic infrastructure and utilities. A public free zone is managed by a board of directors in addition to an administrative organ to provide technical, economical, and legal advice and offer all needed facilities concerning establishing projects and issuing the required licenses.

Land offered in exchange for usufructs (rent) as follows:

- 3.50 US Dollars per m<sup>2</sup> annually for industrial projects.
- 7.00 US Dollars per m<sup>2</sup> annually for in other projects (storage and services)
- A reduction of 50% on these rates granted to Ismalia Public Free Zone projects

### **Public Free Zone Areas:**

- 1) Nasser City Public Free Zone; Cairo
- 2) Alexandria Public Free Zone
- 3) Port Said Public Free Zone

- 4) Suez Public Free Zone
- 5) Ismalia Public Free Zone
- 6) Domietta Public Free Zone
- 7) Media Public Free Zone

Incentives: Companies located in the free zone area are exempt from all import duties and Taxes for the life of the company. A list of the companies operating in the free zone in the textiles sector is provided in the appendix of this report.

Almost all the companies are manufacturing garments for export. Most are located in the free zone in order to be able to import all their fabrics, accessories and raw materials from abroad without paying duties. This production is not allowed to be sold to the local market and is treated as an import subject to customs duties. Free Zone garment manufacturers make up for 25% of Egyptian garment exports.

### 3.3 Investment Incentives and industrial zones

Egypt has many investment incentive schemes ranging from tax vacations reaching up to 20 years to reduced land prices in industrial and new urban communities. There are several types of companies that can be established in Egypt depending on the investor's best interest. The table below describes each company type and the pros and cons.

Type of company	Minimum Capital LE	Minimum Number of partners	Tax exemption *	Advantages	Disadvantages
Partnership company	non	2	non	Easy to establish	1. May not be a Bank/Insurance co. 2. Partners are personally liable
Simple Commodity Partnership	non	1	non		
Joint Venture Co.	non	2	non	Hidden co. used for Limited periods	
Joint Stock co.	250,000	3	Law 8 / 97	1. Freedom to invest in any sector 2. Has a strong market presence 3. Partners have limited liability 4. 40% tax ceiling	1. Incorporation cost is almost 20,000 LE 2. Very difficult to make changes in activity once it is established
Joint Stock co. with shares	250,000	2	Law 8 / 97		
Limited Liabilities	50,000	2	Law 8 / 97		
<p>In addition to the above forms of companies, establishing companies under investment law 8 for year 1997 allows companies a 5 year tax exemption if the company is located within city limits, 10 years tax exemption if the company is located in industrial zone and 20 years if the company is located in an uninhabited area</p>					

\* Egypt does not have double taxation for any form of activity. Dividends and capital gains are tax exempted as well.

All the above schemes are used establishing companies in the Free Zone areas, but the Free Zone areas give lifetime tax exemption.

The Egyptian Government has invested into building several industrial areas and new urban communities to encourage industry and to ease off the old populated areas (see tables New urban communities & Industrial areas). Building a factory in any new urban area or industrial area qualifies the investor to tax vacations from 5 years to 20 years. The 20 years tax holidays are mostly in the south of Egypt, which is less developed economically. The tables below list the different industrial and new urban communities.

<b>Industrial Areas</b>		
<b>Serial</b>	<b>Area</b>	<b>Governorate</b>
1	Bear El Abd	North Sinai
2	El Nahda	Alexandria
	El Agamy El Betash	
3	El Hod El Samaky	Port Said
	Seen 7	
	East of the Canal	
4	Kantara East	Ismalia
5	Belbes	Sharkeya
6	Baltem	Kafr El Sheikh
	Motobs	
7	Asafra	Dakahleya
	South West Gamasa	
8	Wady El Natrun	El Behera
	Rashed	
9	Matruh-Alexandria Road kilo 26	Matruh
10	Industrial Mubarak 1,2,3	Munofeya
11	Abou Saabal-Khanka	Kalyubeya
12	Kom Aushem	El Fayum
	Kouta	
13	Bayad El Arab	Bany Sueif
	Kom Abou Rady	
	Industrial Area 1/31*	
	Industrial Area 2/31*	
	Industrial Area 3/31*	
14	El Matahra	El Menya
15	Arab El Awamer-Abnoub	Asyout
	El Safa	
	El Soraby-Abou Teeg	
	El Ghareb-Sahel Selim	
	Dashlout-Dayrout	
	El Badary	
16	El Kauthar	Souhag
	El Ahyawya East	
	West of Gerga City	
	Wast Tahta	
17	Fakat	Kena
	Howa-Nagaa Hamady	
18	Industrial Area in Shalal	Aswan
19	El Kharga	El Wady El Geded
	Mout-El Dakhla	
20	North West of Suez Gulf	Suez

New Urban Communities		
Serial	City	Governorate
1	10th of Ramadan	Sharkeya
2	15th of May	Cairo
3	Sadat	Mounofeya
4	6th of October	Giza
5	New Borg El Arab	Alexandria
6	North Coast	Marsa Matrouh
7	New Damietta	Damietta
8	Badr	Cairo
9	New Saleheya	Sharkeya
10	Obour	Kalyoubeya
11	New Menia	Menia
12	New Nobaria	Behera
13	New Banysouef	Banysouef
14	New Asyout	Asyout
15	Suez Gulf	Suez
16	El Sheikh Sayed	Giza
17	El Sheruk	Cairo
18	New Cairo	Cairo
19	New Teba	Kena

### 3.4 Customs

In the early sixties Egyptian trade was mostly directed towards the eastern block. Egyptian policy at that time was based on a closed protected market and customs and duty rates were very high on any item that was not strategically important to the country. In the mid seventies this policy was changed and the Egyptian government applied a more open approach towards imports, but the high duty rates continued. With the GATT agreement going into effect and Egypt being a member of the World Trade Organization (WTO), Egypt complied with all the GATT rules for customs and duty rates. Throughout its history, Egypt has complied with all agreements it ever signed. Below is a table of the duty rates for some textile products that has been recently changed to comply with GATT rules.

**Table xx: Import Duties on Cotton and Textiles**

	EU (as provided for the Egypt-EU FTA)	COMESA	South Africa (SADC)	Tariff on imports from other countries	Non tariff charges
<b>HS 5201 (cotton Lint)</b>		0	5%	5%	10 %TAV + 4% clearing charges
<b>HS 5203 (yarn )</b>		0	12%	12%	10 %TAV + 4% clearing charges
<b>HS 5204 ( yarn)</b>		0	12%	12%	10 %TAV + 4% clearing charges
<b>HS 5205 (yarn)</b>		0	12%	12%	10 %TAV + 4% clearing charges
<b>HS 5206 (yarn)</b>		0	12%	12%	10 %TAV + 4% clearing charges
<b>HS 5207(Yarn)</b>		0	12%	12%	10 %TAV + 4% clearing charges
<b>HS 5208 (Yarn)</b>		0	12%	12%	10 %TAV + 4% clearing charges
<b>HS 5209, 5211, 5212 (Fabrics)</b>		0	22%	22%	10 %TAV + 4% clearing charges
<b>Ready made Garments</b>		0	40%	40%	10 %TAV + 4% clearing charges

Products from COMESA countries have no duty applied in Egypt. Products from other countries (not bound by other treaties) pay 5% for lint cotton, 12% for yarns, 22% for fabrics and 40% for garments

### **3.5 Textile Community**

The Egyptian textile community has many associations, ministries, and federations that make up the policy of the industry. A full list of these organizations, contact details and addresses are appended to this report as annex 1.

## 4.0 RECOMMENDATIONS

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It is very clear that Egypt is a major textile country in Africa and although the export amounts are not as high as countries like Morocco and Tunisia, the Egyptian Textile industry has a lot of depth (from fiber to finished garment). Although Egypt's textile industry has been self-contained for a long time, it is clearly opening up its markets and there is room for establishing new trade links with Egypt. ESA countries and members of the COMESA are well situated to do exactly that. The following recommendations can be distilled from this report.

- **Egypt: a source of supply of fine yarns and fabrics**

With the exception of South Africa, Egyptian cotton is not traded at all in ESA countries. The new textile industry that is building itself up in Kenya and other AGOA countries, can take good advantage of Egypt's textile capabilities in fine count yarns and fabric. It can also benefit from the reputation that Egyptian cotton enjoys in international markets, especially in hometextiles and fine apparel.

- **A clear need in Egypt for coarse count yarns and low end fabrics**

Egypt's textile manufacturers can import their needs of coarse count yarns and fabrics from COMESA countries and benefit from the 0% duty rate the COMESA applies. The need for well priced knitted fabric and denim fabric in Egypt is expected to grow in the coming years and ESA countries can play a big role in this area. Additionally, shorter lead times than Far East countries – if available in COMESA countries – would be an increasingly attractive advantage for Egyptian mills.

- **Need to develop awareness among Egyptian textile mills of opportunities in ESA and COMESA countries**

The textile community in Egypt is not aware of any opportunities with other textile industries in the ESA region. A campaign to introduce the opportunities in the ESA region is necessary to kick off trade between these countries.

Additionally, there is a great need for organized and reliable statistics and market information regarding the different markets in terms of size of the demand and the general conditions that govern trade in those countries, to help Egyptian businessmen take the decision to address COMESA countries.

- **Identification and/or creation of a secure logistical and financial mechanism for trade between Egypt and other COMESA members**

A significant percentage of Egyptian businessmen across the various industrial sectors in Egypt are skeptical about conducting business with African countries. There is a general impression that:

- a. African banks are not secure
- b. African businesses could default on payments
- c. There are several challenges in transportation, logistics and warehousing
- d. High levels of corruption could affect fair competition

The existence of a secure and reliable financial and logistical mechanism that addresses the above concerns in put in place. Such a mechanism would encourage Egyptian businessmen to conduct business with other COMESA and ESA countries.

- **Need to include stronger and more dynamic economies in the COMESA**

The COMESA needs more countries with strong economies to join in like South Africa and Tanzania. Even though South Africa is not part of the COMESA, its trade with Egypt in the textile field alone exceeds all the ESA countries combined.

- **Need to create government awareness of the opportunities in establishing trade between COMESA countries**

There are two regulatory issues that must be addressed:

- Although Egypt has removed all its trade and tariff barriers with COMESA members (except for cotton) many member countries in the COMESA have not completely removed their import barriers. The faster these trade barriers and tariffs are removed the sooner trade will kick off between member countries.
- Egypt must also remove its non-tariff barriers on the cotton imports. Double fumigation is unnecessary and sending members of the government to inspect the cotton at the port of shipping is a pointless extra cost. The cotton is quarantined, inspected and fumigated on arrival, if at this point it is found to be contaminated beyond repair it can be destroyed or sent back at the cost of the importer.

It is imperative that any initiative to promote trade between COMESA countries should be endorsed by the relevant countries in order to remove both the tariff and non-tariff barriers that are hindering the development of commercial relationships between businesses in the COMESA.

Recent political changes in Egypt have put in place a more vibrant and open-minded government. The new cabinet has taken several decisions to promote a more open economy, removing several tariff and non-tariff barriers to trade with the world. These indications suggest that a campaign to address regulatory issues in the promotion of trade between COMESA members would be welcomed by the new cabinet and could result in immediate and effective solutions.

## **5.0 CHALLENGES AND CONSTRAINTS**

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During the execution of the assignment, several challenges and limitations have been identified. Below is a listing of the different restrictions experienced.

### **1. Limitation in available statistics**

Industrial statistics in Egypt are scarce and limited to specific key indicators. Some of the information required by this project is not available with any of the relevant authorities. Where applicable the lack of information was indicated and whenever possible substituted with other possible indicators. Below is a listing of all missing information:

- a. Weaving and Knitting available and utilized capacity in both value and quantity
- b. Projections for the year 2005 for all sectors except for Cotton production
- c. Separate value of production, imports and exports of Free Zones
- d. Planned expansion for all sub-sectors
- e. Current demand of fabric (knitted and woven; and fabric type) by the apparel Sector, in quantity

### **2. Large informal industry**

All the available statistics are based on the formal economy and legally established companies.

Due to the low entry barriers in the textile sector (limited investment and technical know-how requirements), weaving, knitting and sewing workshops are preferred alternatives for small entrepreneurs. A large portion of those workshops is operating without any legal documents and does not use formal channels (such as financial institutions or industrial chambers). Government and industrial agencies in Egypt do not hold accounts for the informal industry and therefore lack all statistics regarding their number, output volume or amount of employment.

### **3. Smuggled raw materials**

The Egyptian textile sector suffers from the illegal importation of raw materials and finished products. In the past few years the market has been flooded with smuggled products. The trade in illegally imported goods constitutes a significant portion of textile trade in Egypt; however, there is no official estimation of the size of this trade in Egypt, and therefore, this has not been addressed by this report.

It is to be noted that imports of smuggled fabrics are estimated to have decreased due to the devaluation of the Egyptian pound and the recent application of new customs regulations allowing the importation of raw material and finished products through legal channels; however, there is no account for this trade and therefore it has not been addressed in this report.

#### **4. Units of measure**

There are several challenges dealing with units of measure for some of the available statistics. Some or all of the following problems were experienced in a number of statistics collected:

- a. Variation in units of measure from one year to another for the same products
- b. Non-disclosure of the used unit of measure (i.e. In either Kg., Piece, Meter, etc.).

When faced with these challenges the consultants reverted to the use of value as a common denominator.

## Annex 1

### **1. General Organization for Industry (GOFI) Authorizes the establishment of companies in the free zone and is responsible for authorizing and following up on the tax vacations given to companies in the industrial areas**

Contact Person: Dr. Eng. Eid Hassan  
Contact Person Position: Deputy Chairman  
Address: 6 Khalil Agha St., Garden City, Cairo.  
Telephone: 354 4984, 354 0677, 354 4640  
Fax: 354 4984  
E-mail: [goi@idsc.gov.eg](mailto:goi@idsc.gov.eg)  
Web Site:

### **2. General Authority for Investment (GAFI)**

Contact Person: Dr. Ibrahim Fawzy  
Contact Person Position: Head of GAFI  
Address: 8 Adly St., City Center, Cairo  
Telephone: 390 0590, 391 5627  
Fax: 390 7315  
E-mail: [gafiqiddsc@mof.gov.eg](mailto:gafiqiddsc@mof.gov.eg)  
Web Site:

### **3. Ministry of Foreign Trade and Industry (MOFTI)**

Contact Person: HE. Rashid Mohammed Rashid  
Contact Person Position: Minister  
Address: 8, Adly St., Cairo, Egypt  
Telephone: (202) 391 89 55 // (202) 395 68 81  
Fax: (202) 390 30 29  
E-mail: [mof.gov.eg](mailto:mof.gov.eg)  
Web Site: [www.mof.gov.eg](http://www.mof.gov.eg)

### **5. Trade Point**

Government offices that assist Egyptian companies to export and that assist international buyers to find the right company to work with in Egypt. They have representative offices in some of the major Egyptian embassies abroad.

Contact Person: Mr. Tarek Abbas  
Contact Person Position: Minister Plenipotentiary Commercial  
Address: 96 Ahmed  
Oraby St.

Telephone: Mohandeseen,  
Cairo, Egypt  
012-247-4909  
Fax:  
E-mail: [tarekabbas49@homail.com](mailto:tarekabbas49@homail.com)  
Web Site:

#### **6. Cotton and textile holdings Co.**

Contact Person: Eng. Mohsen El Elgilani  
Contact Person Position: Chairman  
Address: 7, El Taher  
St., Fawalla  
Land, Abdeen,  
Cairo, Egypt

Telephone: 390 51 53 // 395 34 47  
Fax:  
E-mail: (must have email contact)  
Web Site:

#### **7. Expolink – Egyptian Exporters Association (Manufactured goods, services and agricultural goods.)**

Contact Person: Mr. Naguih El Fayoumi  
Contact Person Position: Managing Director  
Address: 90, 105 Street, Maadi, Cairo, Egypt  
Telephone: 527 10 10  
Fax: 527 10 15  
E-mail: [info@expolink.org.eg](mailto:info@expolink.org.eg)  
Web Site: [www.expolink.org](http://www.expolink.org)

#### **8. Alexandria Cotton Exporters Association (ALCOTEXA) (cotton lint exports only)**

Contact Person: Mr. Mohammed Zaki Montaser  
Contact Person Position: Chairman of the Board  
Address:  
Telephone: 03 480 86 15 // 03 487 07 51  
Fax: 03 487 30 02  
E-mail: [alcotexa@idsc.gov.eg](mailto:alcotexa@idsc.gov.eg)  
Web Site:

#### **9. Textile Consolidation Fund (TCF)(Doing research and development in textile**

**manufacturing and making this research available to the textile industry companies in Egypt.)**

Contact Person: Mr. Magdy El Aref  
Contact Person Position: General Manager  
Address: Gameela Bu  
Heraid St.,  
Seyuf,  
Alexandria,  
Egypt  
Telephone: (203) 505 16 74 // (203) 505 16 75  
Fax: (203) 505 16 73  
E-mail: [tcf2004@hotmail.com](mailto:tcf2004@hotmail.com)  
Web Site: [www.tcfegypt.org.eg](http://www.tcfegypt.org.eg)

**10. Cotton Consolidations Fund ( Research and development in cotton lint fibers working closely with Textile consolidation fund)**

Contact Person: Mr. Magdy El Aref  
Contact Person Position: General Manager  
Address: Gameela Bu  
Heraid St.,  
Seyuf,  
Alexandria,  
Egypt  
Telephone: (203) 505 16 74 // (203) 505 16 75  
Fax: (203) 505 16 73  
E-mail: [tcf2004@hotmail.com](mailto:tcf2004@hotmail.com)  
Web Site: [www.tcfegypt.org.eg](http://www.tcfegypt.org.eg)

**11. Industrial Modernization Center (IMC)**

Contact Person: Mr. Slim Tlatli  
Contact Person Position: Executive Director  
Address: 1195 Corniche El Nil, 2<sup>nd</sup> Floor.  
Telephone: 577 6914, 577 1617, 5770090  
Fax:  
E-mail: [info@imc-Egypt.org](mailto:info@imc-Egypt.org)  
Web Site:

**12. Commodity Board**

Contact Person: Mr. Nabeel Sheemy

Contact Person Position:  
Address:  
Telephone: +20101437789  
Fax:  
E-mail:does not have one  
Web Site:

**13. Fashion Center (Teaching fashion design to students, also manufacturing techniques like pattern making, cutting markers, supervising, maintenance, etc.)**

Contact Person: Eng. Fayzza Lattef Saad  
Contact Person Position: Manager Research and Fashion Dept.  
Address: El Tahrir St.,  
Abdeen, off  
(Opera Sq.),  
Textile  
Holding Co.  
Bldg, 2<sup>nd</sup>  
Floor

Telephone: 390 3238, 396 0375, 396 0376, 012 457 0483  
Fax: 396 0376  
E-mail:  
Web Site:

**14. Textile Technology Center**

Contact Person: Fatma El Zahraa  
Contact Person Position:  
Address:  
Telephone: 012 221 6347, 792 1202 Ext.: 750  
Fax: 794 7848  
E-mail: [fatma\\_o@hotmail.com](mailto:fatma_o@hotmail.com)  
Web Site: