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RETROSPECTIVE ASSESSMENT OF THE 1997/98 COTTON MARKETING SEASON

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Floor Price

There was widespread recognition in early 1997 that the floor price for cotton for the 1996/97 season had been excessive in relation to the market prices prevailing in the international market. The results of the high floor price for farmers were obvious to everyone: Farmers responded to the high prices by producing a large crop; however, private exporters could not pay farmers the floor price and make a profit exporting, and thus did not participate in the market. In the absence of private traders, Government had to set up a network of collection rings nation-wide to buy cotton through the state-owned trading companies. The state trading companies purchased almost all of the 1996/97 cotton crop at the high official prices. The total cost was over LE 3 Billion. Exports and domestic consumption were insufficient to absorb the 1996/97 crop. The season ended with a large carry over stock.

Nevertheless, the Government announced early in 1997 its intentions to maintain the floor price for the 1997/98 cotton crop at the same level as in the previous year. The explanations advanced for this decision were: Government had an implicit commitment to cotton farmers; and that if the floor price were set at less that 500 LE per seed kentar farmers might react by abandoning cotton production altogether.

The Government did attempt to reduce the floor price in real terms, while retaining the nominal 500 LE/SK benchmark for Giza-75, by (a) insisting that in 1997/98 it wanted introduce some "flexibility" to adjust the floor price according to the conditions of the international market, and (b) by raising the grade and ginning out-turn ratio at which the benchmark price was applied. Flexibility in the floor price was introduced through the implementation of a deficiency payment system for the purchase of 1997/98 cotton.

Adjustments to the Floor Price

The nominal levels of floor prices for all cotton varieties were maintained at the same level as in 1996/97. However, the grade and out-turn ratios used were changed. Thus for example, the floor price of Giza-75 in 1996/97 was

500 LE/SK for Grade Good and an out-turn ratio of 1.17, meaning 58.5 kg of lint per kentar of seed cotton. For the 1997/98 season, the floor price was still 500 LE/SK but for Grade Good-Fully-Good and an out-turn ratio of 1.20 or 60 kg of lint per kentar of seed cotton. The price for the reference grade and out-turn used in 1996/97 is only 465 LE/SK, a reduction of 7 percent. In real terms, after taking into account inflation in Egypt, the real reduction in floor prices for cotton might be over 10 percent.

For each cotton variety, the Government announced floor prices corresponding to specific out-turn ratios and grade Good-Fully Good. The new benchmark floor prices were issued by a Decree of the Minister of Trade. Detailed tables of all floor prices for every variety, disaggregated by grade and out-turn ratio, were prepared by the Cotton Marketing Supervisory Committee, but were not widely disseminated outside the small number of officials at the collection centers. Farmers therefore had little information regarding what actual price they were to receive for cotton of different grades and out-turns.

Differences in prices between grades were raised for the 1997 crop to L.E 56 per full grade, which is double the amount used for 1996/97. While this increase represents a positive trend, it is insufficient to induce farmers to produce higher grades by, for example, doing two or three picks. On the contrary, it seems that such small price differentials act as a reward for farmers to produce low quality cotton. To improve the quality of cotton produced the grade price differentials ought to increase to match the levels applied for export prices, so as to reward good farmers and reduce the cost of subsidising cotton producers.

Another positive change in the 1997/98 marketing season is that all cotton had been bagged in new jute bags, and use of plastic or propylene strings was forbidden to reduce sources of contamination with foreign matters.

Choice of Varieties

The major change observed in the selection of cotton varieties cultivated in 1997/98 in comparison to 1996/97 was the drastic reduction in the area planted to Giza-75, and the rapid expansion of area planted to Giza-86: Giza-75 area dropped from 419,000 to 387,000 feddans, while area in Giza-

86 was expanded from 4,652 to 42,286 feddans. Exports of Giza-75 in 1996/97 were disappointing, and the local spinning industry does not like to use Giza-75 to produce the coarse count yarns that constitute the bulk of its production. The inventory of Giza-75 continues accumulating. In contrast, export demand for Giza-86 had been very strong, thanks to its exceptional characteristics in strength, length, and fineness, and hence the Government decided to increase nine-fold the area planted to it. This promising variety of long staple cotton has turned out to be superior to Giza-75, the long-time flagship of Egyptian long-staple cotton.

Area planted to Giza-80 was also expanded in the Upper Nile Valley, in response to strong and persistent demand by local industry for cheaper and shorter staple cotton to produce yarn for the domestic market. Spinners can purchase Giza-80 for 80 c/lb grade Good Fully Good and even less for the lower grades that predominate. Ordinarily the two MLS varieties (Giza-80 and Giza-83) have greater contamination with trash and foreign matter than varieties grown in the Delta. Despite this, local spinners prefer these varieties to produce the low-count yarns required for the local market, which accounts for the bulk of their production. There were reports that quality of Giza-80 cultivated in Middle Egypt deteriorated noticeably during the marketing season 1997/98, possibly caused by seed mixing and contamination. Preliminary CATGO classification reports of seed cotton show better grades for Giza-80 than for Giza-83, the other popular MLS variety.

The area planted to Extra-Long-Staple varieties was increased by 60 percent to 160,000 feddans even though exports of those varieties had been disappointing, the domestic market has little or no use for ELS cotton. The largest increases were in area planted to Giza-70 (63%) and Giza-76 (80%). Exports of Giza-70 from the 1997/98 crop were also poor: less than 20 percent of production as of December 1997.

Deficiency Payment Program

The agricultural authorities felt compelled to live up to the promise to farmers that they will receive at least the floor price for their cotton, irrespective of world market conditions. Yet, the Government did not want to repeat the experience of 1996/97, when the market price fell below the floor price, thus forcing the Government to purchase the entire crop directly from farmers at the official price. That outcome imposed an important cash flow burden on the GOE, and led to a loss of about 800 million LE. The result was to exclude completely the private sector in 1996/97. With all cotton in the hands of state-owned companies, it is not possible for a free market to operate. All decisions regarding pricing and allocation of cotton became administrative decisions by various officials and agencies.

Government at the high levels was also committed in 1997/98 to have the private sector actively participate in marketing cotton. In order to enable private traders to purchase cotton from farmers while also ensuring that farmers get the floor price, Government instituted a deficiency payment program to cover the difference between the floor price and the market price. The cost to Government would be only the difference between the two prices, rather than the full cost at the official floor price. The system was codified in joint Ministerial Decree No. 931 of August 1997, issued by the Ministries of Agriculture and Land Reclamation, Trade and Supply, and Public Enterprises.

The deficiency payment program was designed by an ad-hoc committee under the leadership of PBDAC (Principal Bank for Development and Agricultural Credit). It established a network of 950 collection rings throughout the country, each one serving an area of about 1,000 feddans. The PBDAC assumed the principal administrative role for the collection rings. Farmers were free to sell cotton to private traders outside the rings, or to the buyer assigned to each ring. However, only cotton sold through the collection rings was entitled to receive the deficiency payment. The collection rings were to be assigned as much as possible to private traders, but by default if a particular ring could not be assigned to a private trader, a state trading company would take it over, to ensure that farmers have a buyer at the official floor price. Thus, Government was to be "the buyer of last resort".

Traders in charge of collection rings were to purchase cotton from farmers at the official floor price whenever market prices fell below floor prices. At periodic intervals Government was to refund traders in charge of collection rings for the cost of the difference between floor price and market prices. To determine the size of the deficiency payment, the "market price" was the farm-gate equivalent of the export price set by ALCOTEXA. Subsequent cotton transactions beyond the collection rings were to be conducted and sold at market prices. Strict supervision was necessary to ensure that cotton that left the collection rings could not be recycled to claim deficiency payments again. Private sector traders would thus bear the bulk of the cost of purchasing the cotton crop. That was, in theory, how the deficiency payment mechanism was intended to work.

To assure that farmers - and only farmers - receive the announced floor price and that farmers are the real beneficiaries of the deficiency payment system, the system was structured so that the floor price is paid only to farmers, and only for the quantity of cotton produced by each farmer. To ensure this, farmers are not paid by traders directly, but the trader is required to give the money to PBDAC and then PBDAC pays the farmer the floor price directly. Moreover, strict controls are kept by cooperatives and PBDAC on how much cotton was planted and produced by each farmer to prevent some farmers from buying cotton from other farmers and present it as their own.

Unfortunately, some key implementation features of the deficiency payment system led eventually to the domination by the public sector companies of buying cotton directly from farmers. First, Government allowed only one company or agency per ring, and in order to acquire a ring, private traders (but not state trading companies) were required to deposit with PBDAC the full amount of capital to purchase the cotton crop in the collection area, equivalent to nearly 300,000 LE per ring. This amount proved to be excessive for virtually all interested cotton traders. Secondly, Government could not provide sufficient reassurances to private traders either about when they would be reimbursed for the advances made to farmers for the deficiency payment, nor how the deficiency payment was to be computed. Moreover, collection ring holders were obliged to purchase all cotton brought in by farmers, regardless of quality. Under these circumstances – high down payment, the potential magnitude of losses and the high uncertainty involved – despite strong initial interest, only three private traders opted to participate in cotton marketing in the 1997/98 season.

Apart from 30 rings assigned to three exceptional private traders, the remaining 955 rings were allocated to the state-owned trading companies. Virtually no cotton was traded by farmers outside collection rings. Thus private traders got only 3 percent of the rings, but might have bought a slightly higher percentage of the 1997/98 seed cotton crop. The bulk of the crop ended up again in Government hands. State owned commercial banks were initially reluctant to lend funds (about 3 billion LE) to the state owned cotton trading companies to pay farmers for the cotton. Government intervened by paying off the 4 billion LE accumulated indebtedness of the trading companies to the banks, thus freeing those companies to borrow once again from the banking system.

The intended purposes of the deficiency payment program – to enable private sector participation in seed cotton marketing, and to enable market forces to determine prices – were not accomplished in 1997.

Cotton Lint Exports

Export sales of 1996/97 cotton were virtually non-existent in 1997: In the first eight months of 1997 (January-August) only about 7,000 bales were contracted for export, out of 196,000 bales contracted for the season, or less than 4 percent. Over 90 percent of exports of 1996/97 cotton were contracted in the first few weeks in October and November 1996, at the beginning of the 1996/97 season. Throughout the first half of the year there were mounting concerns about the accumulating stocks of cotton lint caused by the large size of the crop, the low demand by the domestic spinning industry, limited export demand, and decreasing prices of the competing American Pima long staple cotton.

Despite these concerns, ALCOTEXA, the Alexandria Cotton Exporters Association that is charged with responsibility for setting export prices, opted to maintain export prices for all cotton varieties fixed at the levels prevailing in January 1997. ALCOTEXA is simply not doing its mandated job of adjusting export prices according to international market conditions: while market prices vary each day, ALCOTEXA prices remain immobile for the entire year. Yet, the ALCOTEXA price committee meets every week, and has consistently decided not to change prices at all.

It is hard to understand the rationale for ALCOTEXA keeping fixed export prices for cotton lint, especially when Government faces prospects of enormous losses as a result. Most members of ALCOTEXA agree privately that Egypt needs to lower prices to increase exports of long staple cotton. However, as members of the association they find it impossible to take decisions that they fear will contradict the directives of Government. Government representatives sit in board meetings of ALCOTEXA. It seems that export prices are set high in an attempt to minimize the cost of the deficiency payment (the difference between the floor price and the market price). But, of course, this eventually results in unsold carry stocks, the costs of which are also borne by Government companies.

Some in ALCOTEXA advance other arguments for not reducing prices: "It would be unfair to those who bought early," as if those buyers would object to being charged less now. "Those who needed cotton, have already bought all they needed," even thought those buyers continue buying American Pima every week and make contracts a year ahead of harvest. "That price doesn't matter to those who buy fine cotton," as if there were no substitutes for Egyptian cotton, while competitors continue increasing their market shares.

Export prices and local prices to spinners are administratively linked. High export prices set by ALCOTEXA also result in high domestic prices for the domestic spinning industry. Local prices are calculated as the export price less "FOBing expenses" incurred in exporting. (These expenses are estimated at between 12 and 14 cents per libra, depending on the variety). Higher export prices thus reduce domestic demand as well as export demand for cotton lint. Domestic textile industries increasingly turn to using cheaper imported cotton yarns or artificial fibres to substitute for expensive domestic lint. This increases their competitiveness in the international market. Most export-oriented textile manufacturers do not use Egyptian cotton, but instead import duty free cheap coarse count yarns from India and Pakistan under "temporary admission" customs regime.

Various Ministries set various cotton prices. Floor prices for cotton varieties are set by the Ministry of Agriculture (MALR). Export prices are set technically by ALCOTEXA, but unofficially by the Ministry of Trade and Supplies(MTS). Cotton trading and spinning and weaving companies are under the Ministry of Public Enterprises (MPE). Prices of yarn for export are set by the Textile Consolidation Fund (TCF) which is under the Ministry of Industry (MI) and purchased by affiliated companies under MTS. This differentiation of roles and responsibility can and does result in uncoordinated decisions and contradictory results. Finally, the cost of the deficiency payment will be borne by the Ministry of Finance (MF).

MALR sets high floor prices to ensure a large crop. MTS sets high export prices to reduce the cost of the floor price to MF. This results in large unsold stock which are left in the hands of MPE-controlled companies. High lint prices also make the output from MPE spinning companies uncompetitive in the international market. Losses by the state owned trading and spinning companies are eventually borne by Government and taxpayers. Imports of textiles and garments are kept at bay only through the imposition of high tariffs and import bans. Polyester substitutes for cotton are produced by companies under the MI. Egyptian consumers end up paying higher than competitive market prices.

One important clause of the joint Ministerial decree issued by MALR, MTS, and MPE, in a commendable example of high-level policy coordination, declared that henceforth export prices announced by ALCOTEXA were "indicative prices," instead of "minimum export prices" in advance. In other words, private exporters could be allowed to export at prices below the price set by ALCOTEXA. Despite the clear meaning of the decree, ALCOTEXA has ignored its message and continues issuing weekly "minimum export prices." No contracts are approved at prices below those levels. ALCOTEXA views itself as a private business club, whose decisions are not bound by official ministerial decrees. Nevertheless, cotton lint exporters have to be members of ALCOTEXA, and shipments without explicit contract authorisation from ALCOTEXA are not allowed.

Export prices for 1997/98 cotton were announced at the end of August 1997 and the export marketing season started officially on September 1997. ALCOTEXA significantly reduced export prices for 1997/98. The reference price for Giza-75 grade Good-Fully/Good was reduced from 118 cents per libra to 100 cents per libra. Export prices for other varieties were set using Giza-75 as a reference. A grade-price differential of 12 cents per half grade was used in all varieties, i.e., the export price for grade Fully Good is always 12 cents over the price of Good Fully Good.

Fixing export prices hands a competitive advantage to Egypt's competitors. Two weeks after the announcement of the new export prices for Egyptian cotton by ALCOTEXA, the price of American Pima cotton dropped to match the new Giza-75 price, and was even below it for a few weeks. This clearly shows a shortcoming of the current Egyptian policy of announcing fixed prices in advance: its major competitors can then adjust their prices accordingly to sell their own cotton while Egypt is left holding inventories of unsold cotton. Prices of American Pima show great variability through the year, as the producers adjust their price expectations to changing market conditions. ALCOTEXA, on the other hand, changes prices once a year at the beginning of the marketing season, and keeps prices fixed for a whole year. Unlike Egypt's practice of officially opening the marketing season on a particular date, American Pima sells all year and begins selling a given year's crop several months in advance of planting. By September 1997 when Egypt began to sell 97/98 cotton, two-thirds of the Pima 97/98 crop was already sold. In November 1997, contracts for the 1998/99 Pima cotton were already being signed, six months before actual plantings begin.

In addition to minimum export prices, ALCOTEXA also establishes minimum exportable grades for each variety. For Giza-75 for example, traders are not allowed to export lint graded below Good+3/8. Of course, lower quality lint can be combined with higher quality lint to reach a blended mix of acceptable export grade.

Response to the new export prices for Egyptian cotton were favourable and immediate: Within four weeks after the start of the season, export volumes reached 46,959 tons roughly the same volume of exports during the entire 1996/97 season. Export contracts continued increasing steadily through the rest of the year and by December 31st, total commitments have reached 57,793 tons, a considerable improvement over 1996.

Over two-thirds of the lint exports are accounted for by a single variety, Giza-86. This variety has proved a life-saver for Egyptian cotton. International demand for Giza-86 has been strong and widespread among the principal buyers and has displaced Giza-75 as the standard-bearer of Egyptian long-staple cotton. Giza-86 alone accounts for 32,000 tons, or 58 percent of the total 55,000 tons contracted for export as of January 1998. Nearly the total crop of Giza-86 had been sold for export by the end of 1997, while less than 10 percent of Giza-75 production had been contracted for export. Taken together, exports of the four long-staple varieties (Giza-75, 86, 85, and 89) cover only 25 percent of 1997/98 harvest, which leaves 75 percent to be consumed by the domestic market, an unlikely prospect.

In the extra-long staple group (ELS), Giza-70 is the principal variety in terms of volume, followed by Giza-77. Production of Giza-45 is tiny in absolute terms, but over 70 percent was sold in a few weeks mainly to buyers from Japan. However, by the end 1997 only about 25 percent of the production of all ELS varieties had been committed for export. The domestic market would therefore need to absorb three-quarters of ELS production, another unlikely prospect.

The two medium-length-staple varieties -- Giza-80 and Giza-83 – have no problem in marketing, even though their exports are minimal. The domestic spinning and textile industry needs large quantities of the cheaper and shorter staple cottons to produce the coarse count yarns needed for the Egyptian consumer. Unfortunately, Government does not allocate sufficient area to produce these MLS varieties to satisfy local demand. Instead, it expects that the industry will compensate for the shortage by using the unsold stocks of the higher-priced long and extra-long staple varieties, and polyester fibre and filaments.

ALCOTEXA made two other major decisions in 1997. First it removed the mandatory requirement that export bales could only be 720 lbs, and second, bales do not have to go through "farfara," the process of mixing various grades into a larger homogeneous mass. Farfara is now "optional" for exporters, and it has not been used at all in the domestic market. In fact, only a few private exporters have access to ginning facilities and bale presses; the great majority still depend on buying Government owned cotton lint and having it blended and pressed at the only (state-owned) facility. In future years, however, it is expected that private exporters will set up their own gins and their own presses and would be able to export bales directly from the ginning mills. Two have already done so. Since the cost of "farfara" and re-pressing represent a significant portion of the 12-14 cents per libra in fobbing costs, removal of this unnecessary requirement could represent a major cost saving for exporters, and could increase their profits and international competitiveness significantly in the future.

Rewards for Poor Quality. Export prices announced by ALCOTEXA are higher for better grades than for poor grades of the same variety: 12 cents more per libra of Giza-75 grade Fully-Good than for grade Good/Fully-Good. Similarly, floor prices announced by Government for seed cotton are higher for better grades. Comparisons between grade price differentials in export prices and those in floor prices reveal that, in absolute terms, Government *subsidies are larger for poor quality cotton.* Floor prices do not provide sufficient incentive for good quality cotton. The structure of floor prices is such that farmers are encouraged to produce lower quality cotton by, for example, harvesting only once, thus including immature fibres, and picking carelessly including plenty of trash and foreign matter. Adoption of a flat payment for all grades and ginning out-turn ratios is recommended to correct this egregious anomaly.

On the other hand, export price differences between grades, as set by ALCOTEXA, might in fact over-estimate those of the international market. This would mean that exporters make greater profits selling lower grades of cotton, and negatively affects Egypt's quality image. Indeed, Egyptian cotton has reportedly developed a reputation for poor quality among international buyers, particularly in terms of trash content.

Foreign buyers and Egyptian exporters adjust to the structure of prices by trading in the lowest possible grades, and ALCOTEXA responds by setting minimum exportable grades. Exporters respond by mixing high-grade cotton with lower-grade cotton, to raise the grade of the mixture up to the minimum exportable quality. Hence the need for "farfara" or blending. All export contracts registered with ALCOTEXA are for the minimum exportable grade, even though ALCOTEXA continues issuing export prices for many higher grades for each variety.

Yarn and Textile Exports

Very little data is available on export and domestic markets for yarns and textiles. However, some general observations are possible.

The Textile Consolidation Fund (TCF) is the agency responsible for setting and enforcing domestic prices and export prices for yarns. The main determinant factor in setting yarn prices is the price of lint cotton which ALCOTEXA sets. TCF is therefore obliged to reflect the increase in lint prices in its own prices for yarn. The plight of the Egyptian spinning and weaving industry is in part attributable to the ever-higher prices charged by Government for lint cotton. Consumption of cotton by the spinning and weaving industries has declined steadily for several years, and its is expected to continue through 1997 and 1998. Part of the decline in cotton use has been compensated by increasing consumption of polyester fibre and filament.

Most of the yarn production goes to the domestic market, a market that requires low-count yarn which can be produced with the shorter staple cotton. Production of MLS cotton is insufficient because Government allocates only a small area to MLS varieties. The industry is then obliged to use the excess stocks of LS and ELS to produce coarse count yarns for the local market. Those varieties should be used only for fine count yarns, but the industry has so far found a limited market for those counts. Two initiatives are recommended: To promote aggressively Egyptian fine yarns abroad, and to allocate a larger area to MLS varieties to produce cotton that can be used competitively for the domestic market.

In the latter part of 1997, Government offered the carry over stock to the domestic industry at a price discount of 50 LE per kentar of lint cotton below the normal price. The spinning industry agreed to buy nearly 2 million lint kentars of the 1996/97 crop carry over, above their prior purchases. Accordingly, consumption of 1997/98 cotton by the local industry might be reduced proportionately.

The spinning and textile industry was very concerned about the potential impact of lifting the ban on imports of fabrics scheduled for January 1st, 1998 in keeping with Egypt's commitments with the World Trade Organisation, WTO. Government plans to replace the ban with a tariff of 54 percent, the maximum permissible. Many in the industry fear that despite such a high tariff, the local industry might not be able to compete with imported fabrics produced with cheaper types of cotton.

The fastest growth in the cotton and textile sector is taking place in the export-oriented garment industry. Knits and ready-made-garments have grown several fold in the past few years, and now account for greater export value than the combined exports of cotton lint and yarns. Export-oriented garment factories are taking advantage of (a) free zone status granted by Government to factories that locate in certain zones and cities, and (b) "temporary admission" customs regime that permits raw materials used for exports to be brought into the country duty-free and using simplified import procedures.

Unfortunately, the export garment industry uses almost exclusively imported cotton introduced under the "temporary admission" regime. Low-count yarns from India and Pakistan used in garment manufacture are much cheaper than local equivalent yarns which are made of expensive long-staple Egyptian cotton. It is ironic that Egyptian yarns are not competitive even in supplying quality materials for the export garment industry. Partly it is cost, but also because of quality: Importers complain that the quality of Egyptian low-and-medium count yarns is inferior to the Pakistani and Indian yarns made of short-staple cotton. Egyptian long-staple cotton is not well suited to produce high-quality low-count yarns.

Recommendations for 1998

1- *More MLS Cotton.* For many years the Egyptian spinning industry has pleaded for more MLS cotton, the shorter staple of the Egyptian varieties. MLS cotton is both cheaper and better suited to produce the coarse-count yarns that the industry produces for the local market and for export. Instead, the industry is forced every year to accept large volumes of LS and ELS that Government has failed to sell in the international market.

2- *Eliminate or Reduce Floor Prices.* Given the enormous inventories currently in the hands of Government trading companies, sufficient for several years of exports, Egypt hardly needs another large harvest of LS and ELS cotton. Lower floor prices, especially for the lower grades, will reduce the financial burden to Government of subsidising farmers to produce surplus cotton, and will reduce the cost of lint to spinning mills.

3- *Flat Payments to Farmers.* If the government feels that a floor price above the international price of cotton is required for the 1998/99 season, we recommend the introduction of some changes to simplify the system. The system of price deficiency payments failed to bring the private sector into cotton marketing because it required a high entry fee and there was much uncertainty on how payments were computed and when were paid. To gain credibility with private cotton traders, the scheme needs modifying to discard the complex system of payments by grade and ginning out-turn ratios and replace it with a simple flat payment announced every two-weeks. The size of the flat payment is the difference between the export equivalent price of seed cotton at the gin, and the floor price guaranteed to farmers at the gin. Any farmer will be eligible to receive this flat rate according to the amount of seed cotton delivered to any registered trader. The farmer will have to present a stamped receipt from the trader to receive his payment. The deficiency payment could be issued against this receipt at any government approved office: PBDAC, Post Office, Bank, etc.

4- *No marketing rings or Affordable Entry Fee for Marketing Rings.* The biggest impediment for private traders to enter cotton marketing in 1997 was the demand that they deposit the equivalent of $100,000 per ring, while state trading companies paid nothing. For the 1998 marketing season Government must reduce or eliminate the deposit required from private traders to be assigned marketing rings to a reasonably modest level. Preferably, Government could consider:

(i) having no assigned collection rings at all, allowing full competition among traders to purchase seed cotton from farmers, or

(ii) having multiple traders assigned to each marketing ring, so as to promote competition within the ring and thus better prices for farmers.

6- *Indicative Export Prices.* The policy of announcing in advance "minimum export prices" for Egyptian cotton has proved disastrous for Egypt. It allows all competitors to under-bid and sell their cotton, while Egypt continues to accumulate mountains of unsold cotton. Private traders should be able to sell their cotton at the best prices they can negotiate with their clients. Government should enforce its decision to have ALCOTEXA announce only "indicative export prices" in advance or actual average prices in the prior week. This means that private traders can export at their negotiated prices, whatever those may be.

7- *Pricing to Sell: Lower Export Prices.* The indicative export prices announced by ALCOTEXA serve as basis for computing the deficiency payments for raw cotton, and the price of lint sold by state trading companies to spinning mills and to the export market. ALCOTEXA prices should be calibrated to ensure that Egypt sells its production of cotton in the competitive world market, rather than trying to reflect some subjective judgement of how much the fine Egyptian fibre is intrinsically worth. Existing carry-over stocks of Egyptian cotton are depressing the market for fine cottons world-wide, and the larger those stocks become the harder it will be to dispose of them.

8- *Open Marketing Season.* Egypt cannot afford to handicap itself in the world market by imposing arbitrary dates on when sales can take place. Traders should be able to negotiate future commitments and register those contracts with ALCOTEXA all year round. By the time ALCOTEXA opened the 1997 marketing season for Egyptian cotton in September, the American Pima growers association had already sold two-thirds of their expected annual exports.

9- *Optional Farfara.* Exporters should be able to sell bales of ginned cotton directly out of the ginning mills, as it is ordinarily done in other cotton exporting countries. ALCOTEXA has already modified its by-laws to allow exports of bales of any weight, and exporters are not required to go through the farfara process, This is a unique procedure peculiar to Egypt's cotton exports but not even used in the domestic market. Nevertheless, since many exporters still sell cotton by "type" that requires mixing of grades and origins, the facilities for doing "farfara" must still be made available to those exporters who ask for it.

10- Pricing of Yarns. The Textile Consolidation Fund, TCF, is charged with setting prices for yarns for both the export and domestic markets. Until a private trade in cotton lint develops to allow market forces to play a role in determining yarn prices, TCF will continue to perform this function. Nevertheless, it should avoid the same mistake of ALCOTEXA, namely setting export prices so high that it discourages exports and consumption and making the downstream industries uncompetitive. Moreover, TCF needs to be careful not to set export prices below the prices charged to the domestic industry, for that could be construed by the European Community as prima-facie evidence of dumping behaviour by a state-controlled industry.

11- International Promotion of Egyptian Cotton. An umbrella organisation responsible for co-ordinating a campaign to improve the image abroad of Egyptian cotton is recommended. "Egyptian cotton sells itself" is often the motto among traders, and this has become an excuse for not promoting aggressively in a competitive international market. The ban on lint cotton exports imposed in 1995 gave Egypt a reputation as an unreliable supplier that is still prevalent among potential importers. Poor quality of cotton lint and yarns is a constant complain of buyers of Egyptian cotton. Competitors with lesser products have taken advantage of these negative factors to establish themselves as reliable suppliers year round of zero-contamination cotton at competitive prices. An umbrella organisation is proposed to orchestrate an international campaign to promote the merits of Egyptian cottons, and domestically to improve the quality cotton and ensure the sanctity of export contracts.