

**THE IMPACT OF FOREIGN GOVERNEMENT
MEASURES IN COTTON INDUSTRY ON
THE EGYPTIAN COTTON SECTOR
AND THE NATIONAL ECONOMY**

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**1- The Impact Of The Decline In The World Cotton Prices On The Local Cotton
Production And Income.**

TABLE (1)

SEASON	AVERAGE WORLD PRICE (INDEX A) CENT/LIBRA	PRICE OF EGYPTIAN COTTON (GIZA 70) CENT/LIBRA	CULTIVATE D AREA (THOUSAND FEDDANS)	PRODUCTION (THOUSAND HAIR COTTON LIBRA)
1998/99	58.9	114	778812	4525
1999/2000	52.8	100	645417	4603
2000/01	57.2	112	518319	4155
2001/02	41.8	105	-	-

Source: Egyptian Ministry of Agriculture.

- Table (1) above shows a comparison between the development in the world cotton price and that of the Egyptian cotton (Giza 70), indicating that the decline in world cotton price during the period from 1998/99 to 2001/02 has been reflected on the price of the Egyptian cotton, deriving it to decrease over the comparison period about 10 cent/libra
- It also sheds lights on the impact of such a decline in the world prices on both the local cotton cultivated area and the production figures. The cultivated area dropped dramatically from 778.8 thousand feddans in 1998/99 to 518.3 thousand feddans in 2000/01, a decrease in percentage of 33% over only a three-year period. The decrease in production over the same period amounted to about 430 thousand KENTAR, a decline of 8.2%.
- The connection between the world and local cotton prices could be established even more obviously by looking at table (2), which illustrates the dependence of the purchase price from farmers on the export prices for two main brands of the Egyptian cotton:

TABLE (2)

Price: Pound/ Kentar Zahr

	GIZA 70		GIZA 86	
	PURCHASE PRICE FROM FARMERS	EXPORT PRICE	PURCHASE PRICE FROM FARMERS	EXPORT PRICE
1998/99	448.41	448341	392.27	392.27
1999/2000	414.98	392.95	392.77	374.66
2000/01	461.98	455.54	424.38	441.19

(2)

- Since the purchase price from farmers is decided according to the export prices announced by The Egyptian Cotton Exporters Association (ALCOTEXA), and considering that export prices, in turn, follow world prices, the decline in world prices, as a result, negatively affects the expected net return from the Feddan of Cotton. Therefore, such a decline results in the aversion of Egyptian farmers from growing cotton and their turning to grow the relatively more profitable crops available in the other alternative crop cycles. Table (3) includes a comparison between the net expected return per Feddan of a crop cycle with cotton and another crop cycle with rice instead.

TABLE (3)

Value: Egyptian Pound.

	COTTON CYCLE			RICE CYCLE		
	1997	1998	1999	1997	1998	1999
Cost	2021	2047	2407	5113	5596	5879
Revenue	4536	3277	3693	3089	3000	5879
Net Return Per Feddan	2515	1230	1286	2596	2739	3140

* Source: Central Administration for Agricultural Economics, Egyptian Ministry of Agriculture.

Table (3) provides empirical evidence that net return per Feddan for the cotton cycle has dropped dramatically over the period from 1997 to 1999 in A PERCENT DECREASE OF 49%. The negative effect of such a plummeting net return on the feddan of cotton is aggravated by the percent increase in the net return on the other competitive crop cycles, such as the rice cycle, whose return per feddan has risen by 21% over the same period.

2- The Impact Of The Decline In World Cotton Prices On The Local Cotton Consumption.

Representing a strategic crop of utmost importance for the Egyptian economy, the cotton sector is directly connected with the spinning and weaving industry, which is one of the oldest Egyptian industries and plays a pivotal role in the development of the Egyptian economy. The shrink in local cotton production has brought about a serious shortage in the cotton supply available for use by the spinning and weaving sector. The fact that the purchase price of cotton from farmers by public mills and spinning and weaving companies is tied to export/world prices constitutes a hurdle to the recovery of local cotton prices, which could, otherwise, have occurred as a result of the shortage in local supply.

In other words, the need to protect the Egyptian spinning and weaving sector from the negative impact of a potential rise in local cotton prices due to the shortage in cotton supply, contributes to dismantling proper market mechanisms that could, otherwise, have led to introducing the needed price corrections to the cotton production sector.

(3)

3- The Impact Of The Decline In World Cotton Price On Cotton Export and Import.

The final result of the situation described in the pervious point is an increase in the cotton imports at the expense of local cotton production, a fact that manifests itself in table (4), which shows that **EXPORTS DROPPED BY 37% OVER THE PAST THREE YEARS.**

TABLE (4)

Quantity: Thousand Kentar

SEASON	EXPORTS
1998/99	2170
1999/2000	1980
2000/01	1368

* Source: Egyptian Exporters Association in Alexandria (AICOTEXA)

4- The Impact Of The Decline In World Cotton Price On The Other Local Industries Related to Cotton.

The plunge in local cotton supply has resulted in far-reaching negative repercussions on almost all industries connected to cotton through output-input relations, and on relevant production services sector, as well. One example is the shortage in cotton seeds suffered by oil and soap industry as a result of the insufficient local cotton production. Transportation sector is a good example of a service sector that received part of the spell-over of the deteriorated cotton situation.

5- Impact on Employment and Income.

As the cotton sector is receding, forced layoffs become commonplace, not only in the cotton sector, but also in all the other related industrial sectors. That dominos negative effect results basically from the compound effect cotton sector has in the Egyptian economy, which is a characteristic cotton sector has acquired over a long period of time that goes back to the time modern Egypt was established, when cotton growing was the leading sector for development. Labor layoffs and the decline in income in the cotton industry and the other related sectors constitute a serious challenge to the economic development and pose an alarming threat to the strenuous efforts exerted by the Egyptian government to check foreign reserves depletion by encouraging exports and recovering the growth inertia of the economic reforms of the early nineties. It has also its social impact on the Egyptian society due to the massive layoffs and closure of factories working in the related harmed sectors.

(4)

Last but not least, Egypt is supporting every effort that aims at eliminating government subsidies to cotton growers and exports, and would not hesitate to join forces with other developing countries to present their case in all relevant international and world fora to convince subsidy countries to take serious steps towards phasing out their subsidies. The fact that almost 55% of the world cotton production receive some sort of distorting government subsidies and that among the countries that generously give subsidies to its cotton sector are the leaders of the free world economy, such as the United States and the European Union, is really a stunning and disappointing reality. This entails immediate action by the developed countries to adopt within the ongoing negotiations of the WTO, corrective steps and measures in the cotton sector and the agricultural sector in general, so as to stop the harm caused to the developing countries by the current policies of providing export and production subsidies; and correct the distorting conditions prevalent in the world market of today.