



Ethiopian Investment Agency

**Investment Opportunity Profile
for Cotton Production and Ginning
In Ethiopia
(Updated)**

2010

Cotton Production and Ginning

1. Background

Ethiopia is believed to be one of the origins of cotton, and cotton cultivation is deep-rooted in the history of the country's agriculture. Cotton is one of the major cash crops in Ethiopia and is extensively grown in the lowlands under large-scale irrigation schemes. It is also grown on small-scale farms under rain-fed agriculture.

Cotton which can serve as an input for textile and garment industry, Ethiopia has enormous potential for the production of cotton. A recent study of the Ministry of Agriculture indicates that there is some 2.6 million Ha of land suitable for cotton production, which is equivalent to that of Pakistan, the fourth largest producer of cotton in the world. Pakistan harvests about 4.5-5.7 million MT of cotton annually from a total cotton area of 2.9 million Ha. Relatively, Ethiopia harvests only 77,000-84,000 metric tone from the area of 42, 371 Ha. This figure indicates that the country has far below utilizing the existing potential.

The low to mild altitude areas of the country are generally known to have an immense potential for the production of cotton subject to the availability of water. In terms of productivity, high yields are obtained in areas with an altitude ranging up to an altitude of 1000 meters above sea level. In the absence of hail, frost, and other unfavorable weather conditions, cotton production can also be extended into areas with altitude of 1500 meters above sea level.

Out of the total 2.6 million Ha of land suitable for cotton production, 1.7 million Ha or 65% is found in 38 high potential cotton producing areas and the remaining 0.9 million Ha or 35% is in 75 medium potential districts. Despite this immense potential, Ethiopia currently produces only about 77,000-84,000 MT of raw/seed cotton annually from a total cotton area of 42,371 Ha. Annual cotton area planted in Ethiopia accounts for about 3.6% of the total cotton area of eastern and southern Africa. Cotton is presently produced under both rain-fed and irrigated conditions by state farms, private commercial farms and smallholders.

The Country produces cotton both for the local and export markets. In 2007/08(CSA), the Country's textile industries used 52,936 tons of locally produced cotton as raw material. In the same year, export of cotton from the Country was 14,360 tons valued at US\$ 19 million.

2. Resource base

2.1 Altitude

Cotton is basically a crop of warmer climates. In Ethiopia, a good cotton yield is obtainable from areas varying in altitude from sea level to about 1000m. A large area of the Country particularly the Country's potential cotton growing areas such as

Omo-Ghibe, Wabi Shebele, Awash, Baro-Akobo, Blue Nile, and Tekeze river basins lie within this altitude range.

2.2 Temperature

The optimum temperature for cottonseed germination ranges between 19 °c and 30 °c. For early vegetative growth, bud formation and flowering, daytime temperature should be higher than 20 °c. Temperature between 27 °c and 32 °c are optimum for boll development and maturity. The potential cotton growing areas mentioned above satisfy these temperature requirements for cotton cultivation.

2.3 Soil

Typical cotton soils are heavy, dark, often cracking soils. Cotton crop also performs well on a variety of lighter soils such as loams. Since cotton is a fairly deep-rooted crop, deep soils of 180 cm or more are preferred. The Country's potential cotton growing areas have soils of these types.

2.4 Water and Land

With regard to water resources, Ethiopia is considered as the “water tower” of North-East Africa. A review of master plan studies and related river basin surveys show that the aggregate annual runoff from the nine river basins amounts to 122 billion cubic meters. The three largest river basins (Abby, Baro-Akobo and Omo-Ghibe) contribute 77% of the total runoff from catchments areas comprising 32% of the total area of the Country. As shown in the following table, the annual runoff from the six river basins which are suitable for cotton cultivation is 122 billion m³ and the potential area of irrigable land is 3.7 million hectares.

Table 1. Water and Irrigable Land Resources of the River Basins

| No | River Basin | Catchment area (km ²) | Annual runoff (BM ³) | Gross potential irrigable area ('000 ha) | Developed (irrigated) area ('000 ha) |
|--------------|--------------|-----------------------------------|----------------------------------|--|--------------------------------------|
| 1 | Abbay | 199812 | 52.6 | 815.58 | 13.98 |
| 2 | Awash | 112700 | 4.6 | 134.12 | 122.36 |
| 3 | Baro-Akobo | 74100 | 23.6 | 1019.52 | 1.32 |
| 4 | Genale-Dawa | 171050 | 5.8 | 1074.72 | 2.29 |
| 5 | Mereb | 5700 | 0.26 | 7.38 | 0.24 |
| 6 | Omo-Gibe | 78200 | 17.9 | 67.93 | 10.75 |
| 7 | Rift valley | 52740 | 5.6 | 139.30 | 21.90 |
| 8 | Tekeze | 89000 | 7.63 | 83.37 | 7.27 |
| 9 | Wabe Shebele | 200214 | 3.15 | 237.91 | 19.10 |
| 10 | Danakil | 74000 | 0.86 | 158.78 | 26.30 |
| 11 | Ogaden | 77100 | 0 | 0.00 | 0.00 |
| 12 | Ayisha | 2200 | 0 | 0.00 | 0.00 |
| Total | | 1136816 | 122 | 3738.60 | 255.49 |

Source: Ministry of water and Energy, 2010

Future plan, and production and productivity of cotton

table 4 cotton production by rain

| year | Areaof land/ha | Productivita ton/ha | Production /Ton |
|------------------------|----------------|---------------------|-----------------|
| 2001/02 (start) | 38000 | 2.2 | 83600 |
| 2002/03 | 41800 | 2.7 | 112860 |
| 2003/04 | 45980 | 2.8 | 128744 |
| 2004/05 | 50578 | 2.9 | 146676 |
| 2005/06 | 55636 | 3.0 | 166908 |
| 2006/07 | 61199 | 3.0 | 183597 |

table 4 cotton production by rain

| year | Areaof land/ha | Productivita ton/ha | Production /Ton |
|------------------------|----------------|---------------------|-----------------|
| 2001/02 (start) | 8127 | 1.6 | 13003 |
| 2002/03 | 8940 | 1.8 | 16092 |
| 2003/04 | 9834 | 2.0 | 19668 |
| 2004/05 | 10817 | 2.2 | 23797 |
| 2005/06 | 11899 | 2.4 | 28558 |
| 2006/07 | 13089 | 2.5 | 32723 |

potential area: In Ethiopia in all regional government there is more than 3 million hectare of land which is suitable for cotton.

2.5 Labour

With a population of over 80 million, Ethiopia has abundant, hard-working, inexpensive and easily trainable labour force. Wages and salaries vary depending on the size of enterprise, type of profession and level of skill required. They are determined by agreement between the employer and employee. Generally, the cost of labour in Ethiopia is low as compared to African standard.

3. Market

Cotton production is well integrated into the rest of the economy with large number of textile and garment factories relying on domestically produced cotton. There is also a reliable local demand of cottonseeds for edible oil extraction. The local demand for cotton especially by the growing textile industries producing cotton fabrics and apparel is expected to rise in the future.

In 2007, cotton was grown in 90 countries. In 2006/07, the four main producing countries were china, India, the USA and Pakistan and accounted for approximately three quarters of world output. If we added Uzbekistan and Brasil, six countries would account for 83% of world cotton production.

The main cotton production economies also account for a large part of consumption. According to ICAC data, China, the United States, India, and Pakistan as a whole have accounted for approximately more than 55% of global cotton consumption over the period 1980 to 2008. Their overall consumption has risen considerably in volume. For example, consumption multiplied by 3 in China and by more than 3 in India, Pakistan has had the largest increase in volume (which multiplied by 6 between 1980 and 2008) in order to respond to export-driven demand for textiles.

Generally there is adequate and growing domestic and world demand for cotton production in the Country.

4. Investment Incentives

To encourage private investment, the Ethiopian Government has developed a package of incentives under Regulations No.84/2003 for investors engaged in new enterprises and expansions, across a range of sectors. These incentives are available both to foreign and domestic investors and the said Regulations doesn't discriminate between a foreign and domestic investor or between foreign investors of different nationalities. The type of incentives that are available both to foreign and domestic investors are the following:

4.1 Customs Duty Exemption

- A 100 percent exemption from the payment of import customs duty and other taxes levied on imports is granted to investment capital goods and construction materials necessary for the establishment of a new enterprise or for the expansion or upgrading of an existing enterprise as well as spare parts worth up to 15 percent of the value of the imported capital goods;
- Investment capital goods imported without the payment of import customs duties and other taxes levied on imports may be transferred to investors enjoying similar privileges;
- Exemptions from customs duties or other taxes levied on imports are granted for raw materials and packing materials necessary for the production of export goods. Taxes and duties paid on raw materials and packaging materials are drawn back at the time of exports of finished products. The voucher system and bonded manufacturing warehouse facilities are also in place.

- All goods and services (except semi-processed hides and skins below crust level) destined for export are exempted from any export and other taxes levied on exports.

4.2 Income Tax Exemption

- Any income derived from an approved new manufacturing, agro-industrial, agricultural investment or information and communication technology (ICT) development is exempted from the payment of income tax ranging from 2-7 years depending upon export performance and the location in which the investment is undertaken.
- Income derived from an expansion or upgrading of an existing manufacturing, agro-industrial, agricultural investment or information and communication technology (ICT) development is exempted from income tax for a period of two years if it exports at least 50% of its products or services and increases, in value, its production or services by 25%.

4.3 Loss Carry forward

Business enterprises that suffer losses during the tax holiday period can carry forward such losses for half of the income tax exemption period, after the expiry of such period.

5. Remittance of Funds

Foreign investors are entitled to make the following remittances out of Ethiopia in convertible foreign currency at the prevailing rate of exchange on the date of remittance:

- Profits and dividends accruing from investment;
- Principal and interest payment on external loans;
- Payments related to a technology transfer agreement;
- Proceeds from the sale or liquidation of an enterprise;
- Proceeds from the transfer of shares or of partial ownership of an enterprise to a domestic investor;
- Expatriate employees may remit, in convertible foreign currency, unspent salaries and other payments accruing from their employment in hard currency.

6. Investment Guarantee and Protection

In Ethiopia both the Constitution and the investment Code protect private property. Ethiopia is also a member of MIGA, which issues guarantees against non-commercial

risks to enterprises that invest in signatory Countries. Besides, the Country has signed bilateral investment promotion and protection treaties with a number of Countries and is also in the process of signing such treaties with a number other Countries.