

Invest In Egypt

Textiles and Ready-Made Garments

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Textiles and Ready-Made Garments

Sector Overview

Egypt is home to the only fully vertically integrated textiles industry in the Middle East, with the entire production process — from the cultivation of cotton to the production of yarns, fabrics and ready-made garments — carried out domestically. The sector plays an extremely central role in the Egyptian economy. It is the second largest producing sector after agro-industry and the first in terms of jobs accounting for 30% of local employment in 2008. It accounts for 3% of the GDP, 27% of industrial output and around 14% of Non- Petroleum exports in 2009, according to the Central Bank of Egypt statistics.

There are more than 6,000 textile-related companies registered with the Industrial Development Authority. The power player within the sector is readymade garments (RMG), worth 75% of the textile and garment industry. The RMG subsector produced more than 313 million pieces in 2009, with global brands such as Marks & Spencer, GAP, Wal-Mart, Levi Strauss, Target and Calvin Klein sourcing from and investing in Egypt.

Of the 25% of the industry focused on textile production, home textiles constitute 12% of the industry, and cotton yarn 8%, while the remaining 5% is attributed to other cotton fabrics and textiles. The majority of spinning (50%), weaving (60%) and hemming (60%) capacity is owned by the public sector while 90% of garmenting capacity is private.

For the spinning and weaving industry, medium- to large-scale companies dominate the industry with a strong public sector presence in spinning and weaving. Egypt imports yarns from India, Turkey, Turkmenistan, Pakistan and other countries. Furthermore, gray and finished fabrics are imported from Turkey, India, Bangladesh, and other countries to feed the RMG industry.

The government's strategy is to boost exports to the European garment market by moving up the quality ladder in garments, vertically integrating the garment production value chain (e.g., use local extra long staple (ELS) cotton, improve design and patternmaking offering) and defending leadership in low-end garmenting by establishing strong brands at both country and supplier levels. Also on the agenda is restructuring the domestic textile industry by privatizing mills and leveraging on low cost and provided labor in addition to a large domestic supply of high-quality cotton.

Currently, the main markets for the sector were Arab countries with a growth rate of 38% in the year 2008, EU contributing with 15 % and USA with 0.38 %.

Competitive Strengths and Capabilities

Core Areas for Investment: Cotton production, yarn making, spinning, weaving, knitting, dyeing and ready-made garments

High Quality Raw Materials. Egypt's cotton is internationally prized and valued for its quality. Contracts of the Egyptian exports of cotton to world markets have increased during the cotton exporting season (2009-2010) reaching 1,245,690 kantars of the high quality varieties, to meet the needs of 23 countries - the expected value of these contracts is estimated at USD140.882 million.

In FY 2007/08, Egypt exported USD 82.9 million of raw cotton, versus USD 101.9 million of cotton yarn in 2008/09, according to the Egyptian central bank statistics.

Competitively Priced Skilled Labor. The textile industry is labor-intensive, and human resource costs can be a heavy burden on a large company. Wages in Egypt are among the most competitive and stable in the region - growing at 5% per year. Additionally, training programs and government initiatives continuously upgrade the skills of Egyptian laborers, improving their usefulness to textile manufacturers.

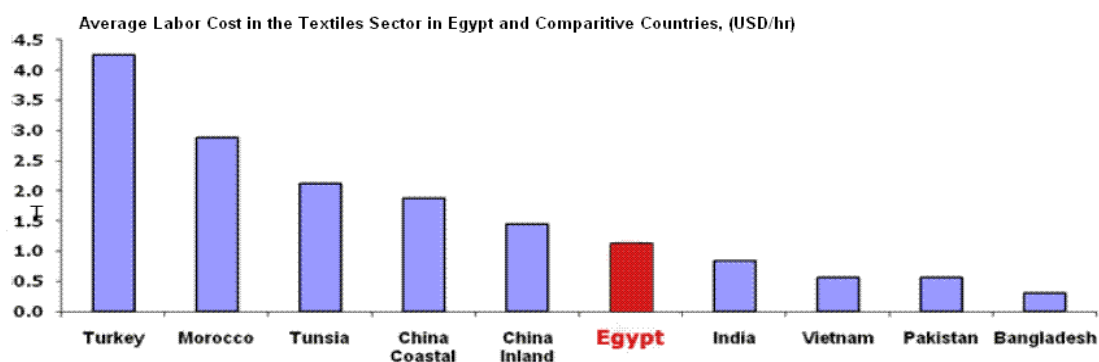
Strategic Location. The country's geographic location facilitates export to Asia, Africa and Europe; Egypt is also closer to the US than its competitors such as India and Indonesia. Egypt has 15 commercial ports to facilitate exports.

Free Trade Agreements. In addition to FTAs with the European Union, COMESA and the Arab World, Egypt's QIZ agreement with Israel and the United States gives local manufacturers both tariff and quota-free access to the US market on the condition that 35% of the commodity is manufactured in a qualifying zone, and a minimum of 10.5% of the product is from Israeli inputs.

Factor Costs and Logistics in Egypt and Comparative Countries

Item	Morocco	Jordan	Egypt
Labor cost / h (2007)	USD 2.62	USD 0.65	USD 1.02
20ft container to US East Coast	USD 1,460	USD 2,300	USD 1,300
Sailing time to US East coast (days)	25	23	21

Source: USAID



Source: Werner International Textile Industry (2008)

Strong Government Support for the Textiles Industry

The Egyptian government is actively looking to attract new private investments into the industry's upstream segments in order to sharpen the nation's competitive advantage in the global market.

The Ministry of Trade and Industry's Industrial Modernization Center (IMC) serves 3,764 of the 6,000 registered textile or RMG companies in Egypt. The IMC provides services that include training, technical assistance and export support, consulting in management and marketing, technical advice and training for individual companies.

The General Authority for Investment and Free Zones (GAFI) operates a One-Stop Shop that streamlines and expedites investor services — most businesses can incorporate in 72 hours.

As of February 2010, the textiles industry consisted of 3243 companies, of which 3029 companies operating inland and 214 companies operating in free zones with total investment of USD 3.2 billion.

Exports

Egypt exported more than USD 2.13 billion worth of textiles and ready-made garments in 2009, more than 55% of the exports consisted of RMG, followed by home textiles (23%) and weaving (21%).

The US is Egypt's single largest market for RMG, buying a USD 602.8 million worth in 2009, up 81% from USD 333 million in 2005. Exports to the EU are growing, increasing at 130% to USD 458.9 million in 2009 from USD 199 million in 2005. The next largest markets are Arab countries.

Government objectives are to continue current growth level (15%) to reach USD 10 billion in exports by 2020, with RMG remaining the dominant contributor. This level of activity will generate about 1 million jobs.

Attracting New Investment

RMG Offshore investment (Inland and free zones) has accounted for 30% of all investments in the sector from 1970 until February 2010, with 1849 firms and total investments of USD 955 million, according to GAFI sources.

More than 70 Turkish textile firms have invested USD 16.25 million in the sector, with many Turkish sourcing offices now active in Egypt.

In 2006, Egypt and China agreed to facilitate Chinese investments in the Egyptian textile and RMG industry through the establishment of a Chinese-Egyptian industrial zone. The two countries have also agreed to set up an Egypt-based Textile Technology Service Center to help upgrade processes and technology used by producers based in Egypt.

Sector Drivers	Egypt's Value Proposition	Investor Benefits
Feeder Industries	<p>Egypt has numerous feeder industries to serve the textiles industry. The established and growing agricultural industry is capable of supplying high-quality raw materials needed for textiles production.</p> <p>Numerous domestic manufacturers of such inputs as dyes, buttons, zippers and packaging (not to mention the textiles themselves) facilitate production in the RMG industry.</p>	Established feeder industries add value at all levels of the production process.
Support Industries	World class logistics and transportation companies are operating in Egypt and able to handle the in-country, import and export transportation and logistics needs of a globally competitive textiles industry.	Ease of transportation and import/export requirements facilitate global business needs.
Infrastructure	Egypt's Air Cargo Airport, located in Cairo, currently has five cargo terminals mainly dealing with textiles and vegetables. There are 15 commercial ports. In addition, the country has a well-established network of railways and roads.	Established and extensive infrastructure eases movement of raw materials and finished goods within the country and to export destinations around the world.
Skilled Labor Force	<p>In 2007/2008, 324.3 thousand Egyptian obtain university degree, of whom 64.5 thousand leave with commerce degree, 15.5 thousand with engineering degree, and over 4 thousand with IT Degree.</p> <p>In addition, government and private training programs are upgrading the skills of the estimated 1 million Egyptians will be working in the textiles industry.</p>	Large potential talent supply with the skill sets necessary to succeed at all levels of the textile industry.

High Marks for the QIZ

One of the biggest boosts to the Egyptian textile and RMG sector was the 2004 signing of the Qualifying Industrial Zones (QIZ) protocol between Egypt, Israel and the United States. Intended to foster peace in the Middle East, the QIZ protocol rewards economic cooperation between Egypt and Israel with duty-free access to US markets.

To qualify for customs-free entry to the US market, Egyptian products must contain 10.5% of direct and relevant inputs from Israel, which for textiles consist mainly of fabrics, chemicals, thread and zippers. The main exports under the QIZ protocol are denim — estimated at more than US\$ 100 million annually — and T-shirts, about US\$ 20 million annually. The protocol has had a significant impact: In 2004, just before the QIZ came into effect, Egyptian apparel exports to the US were around US\$ 61 million. In 2008, QIZ Apparel and Home Textile exports have increased annually at 6.5%, exceeding USD 900 Million, and growth of 83% compared to Egypt's apparel and home textile exports in 2003. The value of knitted apparel exports exceeded USD 310 Million in 2008, while home textile exports reached USD 160 Million.

The Port Said Public Free Zone, covering 100,000 square meters near Port Said Port, is one of the main textile investment clusters covered by the QIZ agreement. The free zone has the entire basic infrastructure (internal roads, water, networks, sewage system, electricity, telecommunication networks), and natural gas is being installed. To make it easier for companies to invest under the QIZ, the General Authority for Investment and Free Zones (GAFI) annexed two new locations (El-Drissa and El-Rasswa) to the Port Said Public Free Zone and is working on infrastructure projects to prepare them for new investment projects.

Egypt's Textiles Industrial Clusters

With the development of free zones and QIZ regimes, the textile industry has started to cluster in many areas.

Canal Region — Anchored by the Suez Canal, cities of Port Said and Ismailia, this area is dedicated to denim clothes production and imports of thick cotton yarns. The Suez Canal Container Terminal facilitates export traffic to Europe via the Mediterranean and to Asia via the Red Sea.

Alexandria Region — A number of RMG players have set up shops in Borg Al-Arab and Amreya, including several Turkish textile companies. Exporters are served by Alexandria's ports.

Greater Cairo Region — Industrial centers have been established in the Sixth of October City, El-Obour City, Tenth of Ramadan City, El Obour City, Badr City, Giza and many other areas in Cairo.

Middel Delta Region — Major textile companies already investing in Dakahleya, Damietta, Gharbeya and Monofeya governorate and new players are setting there companies in the region

The total number of qualified industrial zones under the QIZ agreement reached 20 zones, with 717 factories, of which 570 factories specialized in textiles and ready made garments.

Success Stories

Al-Arafa Investment and Consulting

Al Arafa is a leading investment textiles company operating through a strong vertically integrated platform at the local & international domain.

With over 100 years of history in the textile industry, Al Arafa has grown from a local Egyptian family owned textile manufacturer, to a vertically integrated global apparel manufacturer and retailer. There are more than 11,900 employees and stakeholders at every level within the company.

The company is divided into three distinct segments, each with a specific role in the production of apparel:

- The first segment, textiles, consists of two companies – Whitehead Spinning and Goldentex – which produce yarn and fabric used in the manufacturing process. This segment is a fully integrated textile manufacturing segment, producing over 3.5 million meters of fabric and 1,250 tons of yarn a year. The majority of its production is exported either via its sister companies in Arafa Holding or directly to companies like Valentino in Italy.
- Apparel and Tailoring is the second segment that includes Swiss Garments, Egypt Tailoring Company, Middle East Tailoring Company and Concrete Manufacturing. This segment manufactures high quality men's formal wear for leading brands, producing over 2.3m suits a year. Over 90% of its output is exported, either directly to Europe and the USA or through BMB, Querini and Concrete. Swiss Garments Company, considered to be the largest company within the apparel & tailoring segment, exporting 100% of its output.
- The third segment is retail, where Arafa operates five subsidiaries: Concrete, Euromed, Querini, BMB and MELKA. As a prominent retailer, they hold 22% of the UK suits market in addition to being the largest shareholder in Forall, owner of the prestigious Pal Zileri brand.



They are the largest apparel exporter in Egypt, accounting for 11% of the country's exports of ready made garments. Production includes men's formal and casual wear for some of the world's largest retailers including Macy's, JC Penny & Gap as well as some of the worlds leading luxury brands such as Valentino & Cerruti 1881.

For the fiscal year ending in January 31st, 2009, approximately USD 8.2 million of the textiles segment's revenues were generated from sales of fabrics to Arafa's Apparel & Tailoring segment, and USD 27.4 million of the Apparel & Tailoring segment's revenues were generated from sales to the Arafa's Retail segment.

Currently, approximately 50% of the suits sold through our UK retail operations are manufactured in Egypt with a target to increase this to 75%. While 26% of apparel & tailoring units sold are to our UK retail operations.

Revenues have grown at a compounded annual growth rate of 17% since March 2006 to reach US\$ 389 million for 10 months period ended January 2009.

Egyptian Spinning & Weaving Company (ESW)

Egyptian Spinning & Weaving Company (ESW), established in 2005, located in Sadat city. ESW is a private company owned by one of the leading group in the textile sector in Egypt. They are the producers and exporters of much different kind of yarns of Egyptian cotton.

ESW currently has a production capacity of 11 tons per day, and exports its products to Italy, Portugal, Spain, Switzerland, Germany, Brazil, Turkey, Bangladesh and the Middle East.



El-Nasr Clothes and Textiles (KABO)

El-Nasr Clothes and Textiles (KABO) is a vertically integrated manufacturer of apparel, with operations encompassing weaving, dyeing, knitting and RMG. The company's flagship product is the Jil brand, manufactured under license from Jil International. An Egyptian household name; Jil represents roughly 90% of the company's products.

KABO employs 4,600 employees and produces over 40 million garments each year, all manufactured from Egyptian cotton and marketed under brands including Jil, KABO and Super KABO.

KABO also manufactures on license for other trademark holders. The company exports a large portion of its production to Europe and Arab countries, particularly the Gulf. KABO subsidiaries include the Alexandria Spinning and Weaving Company and Wave Trading and Agencies Company.

In 2007, KABO acquired the Egyptian fashion retailer Wave in order to diversify its operations. In May 2008, the company signed a memorandum of understanding and a partners' agreement with the Turkish company Orma Tekstil to establish a new company to produce and export undergarments and clothing. KABO will have a 55% stake in the new company.

Saba Apparel

Saba Apparel is both the fifth largest Egyptian exporter and the fourth-fastest growing exporter in Egypt with a 436.8% growth rate in 2007. Saba Apparel, also known as Sheeba International Garments, was established in 1991 as a family-owned production facility and today has over 3,300 employees.

Sheeba ships 15% of its products to the US and 85% to Europe. With a total plant area of 33,650 square meters, Sheeba has 26 production lines with a monthly production capacity of 480,000 pairs of pants and shorts and 25,000 jackets. Their main customers are Calvin Klein, Hugo Boss and Romano.

Leading Textile and RMG Firms Operating in Egypt

Alexandria Spinning and Weaving (Spinalex)

www.spinalex.com

Al-Arafa Investment and Consulting

www.arafaholding.com

Delta Textiles Egypt

www.deltagalil.com

Dice Ready-Made Garments

www.dicewears.com

Giza Textiles and Weaving

www.gizaspin.com

El-Nasr Clothes and Textiles (KABO)

www.kabo.com.eg

Lotus Ready-Made Garments

www.lotus-garments.com.eg

El Nahr El-Khaled International Ready-Made Garments

Oriental Weavers

www.orientalweavers.com

Plaza Ready-Made Garments Industry

www.embeegroup.com

Setcore Spinning

www.setcore.com

Velocity Apparel

www.voguevelocity.com

Egyptian Spinning & Weaving Company ESW

www.egyptianspinning.com

CSA Textile Egypt

www.csatextileegypt.com/DefaultEN.aspx

Misr Helwan Spinning & Weaving Company

www.misrhelwantextile.com

SPINALEX

www.spinalex.com/home.htm

Panda Ready made Garment Co.

www.panda-egypt.com/index.php

Alkan Textile Company S.A.E. (Almatex)

<http://almatex.com/abo.htm>