



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 10/30/2000

GAIN Report #EG0032

Egypt

Dairy and Products

Annual

2000

Approved by:

Thomas Pomeroy

U.S. Embassy

Prepared by:

Ali Abdi & Sherif Ibrahim

Report Highlights:

Total milk powder imports reached a record level in 1999, accounting for about nine percent of Egyptian dairy products consumption. U.S. NFDM exports to Egypt more than doubled in 1999. However, the Ministry of Economy and Foreign Trade recently issued a new Decree authorizing the imposition of an additional 45 percent duty (safeguard measure) on milk powder imports for 200 days starting September 25, 2000. Consequently, milk powder imports are expected to decline significantly in the future.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Cairo [EG1], EG

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Cheese

PSD Table

| PSD Table | | | | | | |
|-----------------------------|---------------|---------|-----|---------|-----|---------|
| Country: | Egypt | | | | | |
| Commodity: | Dairy, Cheese | | | | | |
| | | 1998 | | 1999 | | 2000 |
| | Old | New | Old | New | Old | New |
| Calendar Year Begin | | 01/1998 | | 01/1999 | | 01/2000 |
| Beginning Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| Production | 350 | 380 | 385 | 380 | 0 | 370 |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Imports | 13 | 13 | 12 | 16 | 0 | 15 |
| TOTAL Imports | 13 | 13 | 12 | 16 | 0 | 15 |
| TOTAL SUPPLY | 363 | 393 | 397 | 396 | 0 | 385 |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Exports | 0 | 0 | 0 | 0 | 0 | 1 |
| TOTAL Exports | 0 | 0 | 0 | 0 | 0 | 1 |
| Human Dom. Consumption | 363 | 393 | 397 | 396 | 0 | 384 |
| Other Use, Losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Dom. Consumption | 363 | 393 | 397 | 396 | 0 | 384 |
| TOTAL Use | 363 | 393 | 397 | 396 | 0 | 385 |
| Ending Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL DISTRIBUTION | 363 | 393 | 397 | 396 | 0 | 385 |
| Calendar Yr. Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| Calendar Yr. Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 |

Production

Total Egyptian fluid milk production in 1999 is estimated at 3.2 million MT, or about 6.7 percent over the 1998 level. Egyptian milk production has been steadily increasing in recent years but still falls short of demand. Imported powdered milk provides about 9 percent of total consumption of dairy products. The recent increase in milk production, was mostly due to the expansion of modern dairy farms that utilize high producing imported cows. However, for the year 2000, fluid milk production is expected to fall to 3 million MT for primarily two reasons: (1) There was a break-out of a disease known as "three day fever" which affected high producing imported cows. This disease swept the country during June to July 2000. As a result, fluid milk production in large modern facilities which represent about 15 percent of Egypt's total milk production is expected to decline about 25 percent this year. Vaccination against the disease is available, but costly. Moreover, restrictions on U.S. dairy cattle imports will also

retard growth in production. (2) Fresh milk prices decreased during early spring to summer this year from LE 1 per liter to as low as LE.50 per liter partially due to the presence of nonfat dry milk imports. As a result, some small producers who couldn't reduce prices were forced out of the market.

About 50 percent of Egypt's total milk production as well as imports of nonfat dry milk (NFDM) are utilized in commercial cheese production while the rest is divided between fresh milk consumption, on farm cheese manufacturing and the production of UHT milk. The most important type of cheese produced in Egypt is feta. There are two types of feta cheese produced in Egypt depending on the raw materials used in the production. The first type is an inexpensive white cheese which is produced from imported NFDM and vegetable oil (palm oil). The second category is the production of more expensive white cheese which is produced from fresh milk. In 1999, feta cheese production, both commercial and homemade, represented about 75 percent of the cheese produced and consumed in Egypt. Egypt's total annual production of feta cheese in 1999 is estimated at about 285,000 MT, 85 % of which is produced by small unlicensed factories (about 5000 factories) from unpasteurized milk, despite an existing government standard (yet to be enforced) which prohibits the production of feta cheese from unpasteurized milk. The balance of cheese production is produced by fairly modern factories. The remaining balance of production is spread among hard romano (60,000 MT), processed cheese (30,000 MT), small but growing mozzarella cheese production, and very small amounts of blue and cheddar cheese. Total cheese production in 2000, is expected to be about 3 percent lower than the 1999 level due to the expected decrease in fresh milk production. Most of this reduction is expected to occur in the production of hard cheese, since the production of hard cheese relies more heavily on fresh milk. Last summer, fresh milk producers mounted pressure on the government complaining that they are unable to compete with milk powder imports which processors prefer due to price considerations.

On September 7, 2000, the Minister of Industry issued Ministerial Decree No 242, which require dairy factories to label their products indicating whether the product is produced from fresh or powdered milk or both. This labeling law would require processors to indicate the percentage of powdered milk in the mixture, calculated on the basis of its weight after restoration.

This law applies to the following products:

- Pasteurized milk
- All kinds of sterilized milk
- Ice cream
- All kinds of cheese
- All kinds of yoghurt

Producers were given three months to comply with the new law. Most of industry contacts are expecting a minimal impact of this new decree on the consumption of cheese because it is difficult for the government to determine the quantity of milk powder utilized by processors in their factories. Hence, authorities would have difficulty in enforcing this law.

Under the current economic reform policy, the government of Egypt continues to offer for sale the only remaining public sector dairy company (Misr Dairy which has 14 small plants) to private sector buyers. Recently, only one factory in Alexandria has been sold to a private sector investor. According to Ministry of Industry officials, only three factories out of the 14 factories are currently operating.

Consumption

Cheese is an important part of the Egyptian diet and many people eat some cheese at least with one meal a day. Most cheese is consumed either directly or with bread. Annual per capita consumption of cheese is estimated at around 6 kilograms. Feta cheese is both the most popular and least expensive type of cheese available. Egyptians also are fond of Romano and processed cheese. In 1999, imports of fancy cheese such as Parmesan, Camembert and Brie are estimated at about 400 MT compared to 320 MT in 1998. This increase is mainly attributed to the increased number of new supermarket chains in Egypt. Consumption of cheddar and mozzarella cheese (both natural and processed) is rising due to the increased number of fast food (pizza and hamburger) restaurants.

Prices

The average wholesale prices for Feta cheese ranged between LE 6-8 per Kg in 1999 , and the retail prices varied between LE 8 and LE 12 per Kg (depending on the type). The wholesale price of locally produced Romano cheese ranged between LE 12 to 14 per Kilo and it retailed for LE 16 to 20 per Kg. Imported cheddar cheese prices currently range between \$2,150 and \$2,200 per MT C&F compared to \$1,850 and 1,900 per MT during 1999 through July 2000. The current price of imported fancy cheese from Europe varies between \$5,000 and \$12,000 per MT C&F depending on the type of cheese. Gouda and Edam cheese are currently being imported at \$3,500 and \$3,200 per MT CIF, respectively, while retail prices range approximately between LE 20 and 24 per Kg, respectively. Imported fancy cheese such as Old Amsterdam, Parmesan and Camembert retail between LE 70 and LE 100 per Kg.

Trade & Tariffs

The European Union (EU) is by far, the major cheese supplier to the Egyptian market. Import demand for fancy cheese is generated largely by the more affluent segments of the population, while demand for other imports such as cheddar cheese is generated by growing domestic processed cheese manufacturers. According to Egyptian import statistics, cheese imports in 1999 amounted to 16,370 MT. Cheese imports are expected to decrease to 15,000 MT in 2000. The projected decrease in imports is expected to occur due to expected increases in import costs resulting from weak Egyptian LE against the Dollar, and higher FOB prices. The shelf-life for imported cheese is between 6 months and one year depending on the type of the product.

The current tariff rates for imported cheese are as follows:

All cheeses, packaged under twenty kilograms are subjected to a 30% tariff, while all cheese, packaged over twenty kilograms are subjected to a 10% tariff. There is an additional 3% customs service fee, and 1% sales tax. Most cheese imports are in 20 Kg packages.

Import Trade Matrix

| | | | |
|---------------------|-------|-------------|-------|
| Import Trade Matrix | | | |
| Country: | | Units: | MT |
| Commodity: | | | |
| Time period: | CY | | |
| Imports for | 1998 | | 1999 |
| U.S. | 100 | U.S. | 57 |
| Others | | Others | |
| France | 5,500 | New Zealand | 5,023 |
| Netherlands | 3,500 | Netherlands | 4,129 |
| New Zealand | 1,500 | France | 1,914 |
| Denmark | 1,000 | Australia | 1,894 |
| Australia | 1000 | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Total for Others | 12500 | | 12960 |
| Others not listed | 1,572 | | 3353 |
| Grand Total | 14172 | | 16370 |

Marketing

The European Union countries and New Zealand are the primary and traditional suppliers of cheese to the Egyptian market. Opportunities for U.S. cheese exports to Egypt exist but they are limited due to lack of price competitiveness. Although price is an important factor for cheese importers, there is a growing segment of consumers where quality comes before price considerations when buying cheese. The average Egyptian consumer is not aware of the different types of cheese available from the U.S. However, the availability of the DEIP program for U.S. cheddar cheese could be a very significant factor in expanding U.S. cheese exports (particularly cheddar cheese for manufacturing) in the Egyptian market.

Butter

PSD Table

| PSD Table | | | | | | |
|-----------------------------|---------------|---------|-----|---------|-----|---------|
| Country: | Egypt | | | | | |
| Commodity: | Dairy, Butter | | | | | |
| | | 1998 | | 1999 | | 2000 |
| | Old | New | Old | New | Old | New |
| Calendar Year Begin | | 01/1998 | | 01/1999 | | 01/2000 |
| Beginning Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| Production | 8 | 9 | 9 | 10 | 0 | 10 |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Imports | 52 | 40 | 40 | 43 | 0 | 45 |
| TOTAL Imports | 52 | 40 | 40 | 43 | 0 | 45 |
| TOTAL SUPPLY | 60 | 49 | 49 | 53 | 0 | 55 |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Domestic Consumption | 60 | 49 | 49 | 53 | 0 | 55 |
| TOTAL Use | 60 | 49 | 49 | 53 | 0 | 55 |
| Ending Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL DISTRIBUTION | 60 | 49 | 49 | 53 | 0 | 55 |
| Calendar Yr. Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| Calendar Yr. Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 |

Production

A very small amount of butter is produced in Egypt on a commercial scale. Most local production is produced by farmers for home consumption, with a small amount of this production marketed locally at weekly village markets. The lack of a significant domestic butter industry in Egypt is due to several factors. The most important factor is the rapid increase in the production of lower price ghee (shortening) produced from palm oil which has decreased the incentive to produce local butter. In addition, the lack of adequate refrigeration throughout the country makes the conversion of butter to butter oil and ghee a real necessity.

Consumption

Egyptians prefer butter made from buffalo milk to butter made from cow milk due to its distinctive flavor. They also have a preference for unsalted butter as opposed to salted butter. Only small quantities of butter is consumed in solid

form. This limited quantity is primarily sold at up-scale supermarkets. With pita style being the main type of bread used in Egypt, butter is rarely used directly on bread. Rather, butter is mostly used as an ingredient in baked goods, or in fried foods. Both locally produced and imported butter are melted and stored in the form of butter ghee. That allows it to be kept without refrigeration for as long as 9-12 months. Butter ghee is preferred to vegetable oil for cooking. Because imported butter oil tends to cost a bit more than imported butter, most people buy butter which they later convert to butter oil at home. Imported butter is available throughout the year. However, demand generally increases during holidays, especially during the fasting month of Ramadan where 20-30 percent of total annual demand is consumed.

Prices

The average import price for butter is currently about \$ 1,500 MT/CIF, which is about the same as in 1999. Reportedly, import prices are expected to decrease to about \$1,400 MT/CIF during October 2000. This is mainly due to the expected large exportable surplus from both Australia and New Zealand (major butter suppliers to the Egyptian market). According to importers, the current retail price for the 25 Kg carton has increased to LE 175 reflecting higher import costs. This is compared to LE 162 during the same period in 1999.

Trade & Tariffs

New Zealand and Australia are the major suppliers of butter to Egypt. In 1999, total Egyptian butter imports increased to 43,115 MT, as compared to about 40,000 MT in 1998. Most butter is imported in 25 kilograms blocks and then re-packaged for sale to grocers and supermarkets. There were no U.S. butter exports to Egypt in 1999. The absence of U.S. butter from the Egyptian market is mainly due to the absence of DEIP program and competition from New Zealand and Australia. Trade sources report that imports of butter and butter oil during 2000 are expected to remain similar to 1999.

The shelf-life for both imported and locally produced butter is 18 months while that of butter oil is two years. The current import tariffs on butter and other fats and oils derived from milk are as follows:

| | |
|-----------------------------|-----|
| 1-In containers up to 20 Kg | 15% |
| 2-Other | 5% |

In addition, there is a 3% customs service fee and 1% sales tax.

Import Trade Matrix

| Import Trade Matrix | | | |
|---------------------|--------|-------------|--------|
| Country: | | Units: | MT |
| Commodity: | | | |
| Time period: | CY | | |
| Imports for | 1998 | | 1999 |
| U.S. | 0 | U.S. | 0 |
| Others | | Others | |
| New Zealand | 15,000 | New Zealand | 15,638 |
| Australia | 15,000 | Australia | 3,957 |
| France | 4,500 | Czech | 2,297 |
| Canada | 3,000 | Netherland | 2,102 |
| Ireland | 2,500 | Brazil | 1,542 |
| | | Finland | 1,149 |
| | | Thailand | 1,090 |
| | | Canada | 1,034 |
| | | | |
| | | | |
| Total for Others | 40000 | | 28809 |
| Others not listed | | | 14,306 |
| Grand Total | 40000 | | 43115 |

Factors Affecting U.S. Exports

The absence of U.S. export program such as the Dairy Export Incentive Program (DEIP) was the main factor behind the drastic decline of U.S. butter exports to Egypt in recent years. Although Egyptian importers have a very favorable opinion of U.S. butter quality, they indicate that price is the most important factor that influences their import decision.

The EU countries maintained their butter export restitution and their market share. In addition to the lack of price competition of U.S. butter, Egyptian importers cited three other factors that lead them to import their requirements from elsewhere. Some importers say that U.S. packaging cartons tend to break and leak easily. Moreover, importers reported that U.S. butter has high moisture relative to that of competitors. Egyptian importers also reported that their clients have more preference for yellow color butter as opposed to U.S. white butter.

Nonfat Dry Milk

PSD Table

| PSD Table | | | | | | |
|-----------------------------|-------------------------|---------|-----|---------|-----|---------|
| Country: | Egypt | | | | | |
| Commodity: | Dairy, Milk, Nonfat Dry | | | | | |
| | | 1998 | | 1999 | | 2000 |
| | Old | New | Old | New | Old | New |
| Calendar Year Begin | | 01/1998 | | 01/1999 | | 01/2000 |
| Beginning Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| Production | 0 | 0 | 0 | 0 | 0 | 0 |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Imports | 30 | 28 | 10 | 43 | 0 | 30 |
| TOTAL Imports | 30 | 28 | 10 | 43 | 0 | 30 |
| TOTAL SUPPLY | 30 | 28 | 10 | 43 | 0 | 30 |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Human Dom. Consumption | 30 | 28 | 10 | 43 | 0 | 30 |
| Other Use, Losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Dom. Consumption | 30 | 28 | 10 | 43 | 0 | 30 |
| TOTAL Use | 30 | 28 | 10 | 43 | 0 | 30 |
| Ending Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL DISTRIBUTION | 30 | 28 | 10 | 43 | 0 | 30 |
| Calendar Yr. Imp. from U.S. | 0 | 5 | 0 | 11 | 0 | 5 |
| Calendar Yr. Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 |

Production

Dry milk powder is not produced in Egypt. Consumption of nonfat dry milk has increased significantly in 1999. Nonfat dry milk is used mainly for the production of feta cheese, yogurt, ice cream and recently in UHT milk production (one kg of powder milk makes 8 liters of fluid milk). There are also small quantities of NFDm utilized in the production of chocolate and pastries. Full fat dry milk is also imported and sold for direct human consumption.

Consumption

Full fat dry milk powder consumption has declined during the last three years, as a result of the expansion of UHT milk production. In recent years, the share of whole milk powder has declined to about 6 percent of total milk powder

imports as compared to about 15 percent in 1997. In contrast, the consumption of imported NFDN powder has increased during the last few years. This recent increase in the consumption of NFDN was primarily due to three reasons: First, the availability of low priced of NFDN imports stimulated feta cheese producers to substitute their fresh milk consumption with imports. Second, according to cheese processors, using NFDN gives them the ability to increase the percentage of lactose in their cheese production which gives the cheese a sweeter taste. Third, processors have also cited quality problems associated with souring local fresh milk. According to industry sources, a significant number of fresh milk producers (specially small producers) are unable to lower the bacteria count to acceptable levels. As a result, fresh milk prices have dropped to as low as LE .50 per liter or about 15 percent below the cost of production. Again, this led the producers to put pressure the government to limit NFDN imports. NFDN imports jumped from 28,000 MT in 1998 to a record level of 43,000 MT in 1999. On September 24, 2000 the Minister of Economy and Foreign Trade issued a new Decree 577 authorizing the imposition of an additional duty (safeguard measure) of 45% on milk powder imports for 200 days starting Sept 25, 2000. This decree is designed to protect local fresh milk producers from imports. Fresh milk producers have been mounting pressure against the government in recent months to act on their behalf against the tide of milk powder imports. Egyptian Milk Producers Association (EMPA), alleged that milk powder imports increased in volume by 89% in 1999 as compared to 10 % increase in 1998. This increase is seen as continuing through the first half of 2000. According to the EMPA, increased milk powder imports have caused a serious harm to the domestic industry, reflected sharp decline in selling prices, sales revenue and return on investment, as well as a significant decline in the profits of the domestic industry in the period from 1997 to 1999 and the first half of 2000. However, the quantity of milk powder imports have declined in recent months because prices have increased significantly. As a result, milk powder imports through the first half of 2000 amounted to 22,000 MT as compared to 35,000 MT during the same period in 1999. Milk powder imports from the U.S through the first half of 2000 amounted to 1,670 MT as compared to 4,111 Mt during the same period in 1999. As a result of these changes, fresh milk prices increased in September/October 2000 by 20 percent. According to milk processors, declining milk powder imports will have a negative impact on their production, since the availability of fresh milk is seasonal.

Trade & Tariffs

According to GOE official trade data, total imports of NFDN in 1999 increased to 42,596 MT or about 52% over the 1998 level. Imports are projected to decline to 30,000 MT in 2000, due to the expected impact of recent government policy changes (Decrees 577 and 242) which will restrict milk powder imports. NFDN imports could further decline, if processors are denied drawback rebates which they are currently receiving for re-exports. A further decline is expected for 2001, if this situation remains the same. At the present time, the United States, New Zealand and France are the main suppliers of NFDN to Egypt. Egyptian NFDN imports from the U.S. in 1999 amounted to 11,103 MT as compared to 5,311 MT in 1998. However, U.S. exports are expected to decline by about 50 percent this year. In 2000, all of U.S. NFDN sales were under the DEIP program. Similar to other dairy products, the milk powder import market is very price sensitive. The average import price for non-fat dry milk from EU origins is currently about \$2,000 per MT CIF as compared to about \$1,400 per MT CIF during September 1999. U.S. NFDN imports are currently priced at about \$2,350 per MT CIF. According to importers, NFDN imports from Russia are currently selling at \$1,600 CIF. Importers are expecting that NFDN import prices will decline to \$ 1,800 MT CIF by October 2000. The shelf-life for imported dry milk into Egypt is two years.

The Current import tariffs on NFDN are as follows:

A) Milk in powder, granules or other solid, of fat content, by weight not exceeding 1.5 % in containers not less than 20 Kg : 5% of CIF value.

B) Other: 20% of CIF value.

Import Trade Matrix

| Import Trade Matrix | | | |
|---------------------|-------|-------------|--------|
| Country: | | Units: | MT |
| Commodity: | | | |
| Time period: | CY | | |
| Imports for | 1998 | | 1999 |
| U.S. | 5,311 | U.S. | 11,103 |
| Others | | Others | |
| France | 4,878 | New Zealand | 3,974 |
| Poland | 4,190 | France | 3,851 |
| Australia | 1,845 | Denmark | 3,616 |
| Sweden | 1,697 | Australia | 3,315 |
| Finland | 1,628 | Bulgaria | 3,312 |
| Germany | 1,591 | Sweden | 2,273 |
| New Zealand | 1,466 | Germany | 2,273 |
| Ireland | 1,064 | Netherlands | 1,486 |
| Netherlands | 962 | | |
| Czech. Rep | 763 | | |
| Total for Others | 20084 | | 24100 |
| Others not listed | 2,605 | | 7,393 |
| Grand Total | 28000 | | 42596 |