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Report Name: Decline in Ukraine Wheat Imports Drives Egypt to Diversify its Suppliers

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Report Highlights:

After more than 100 days of the Russian-Ukrainian war, wheat prices have surged almost 60 percent globally, hitting their highest levels in 14 years. Egypt, similar to the rest of the world, has been affected by the impacts of this war, especially since 82 percent of its wheat imports over the last five years originated in Russia and Ukraine. Over the past three months, Egypt has been able to secure a stable wheat supply from diverse markets for its bread subsidy program via international tenders. As of June 18, 2022 the government of Egypt has thus far procured 4.1 MMT of wheat from a projected target of 5-6 MMT this season. No wheat, flour, or bread shortages have been observed in bakeries, local markets, or at commercial retail stores. Exploring new markets to purchase wheat represented a viable option for both public and private purchases despite higher prices. On June 5, 2022, Egypt received its first shipment of Indian wheat purchased by the private sector.

Wheat Prices Surge due to the War in Ukraine

When the war between Russia and Ukraine erupted, the impacts on global wheat export prices became clear. Russia and Ukraine account for nearly 30 percent of global wheat exports and both countries are significant suppliers to the Middle East and North Africa region.

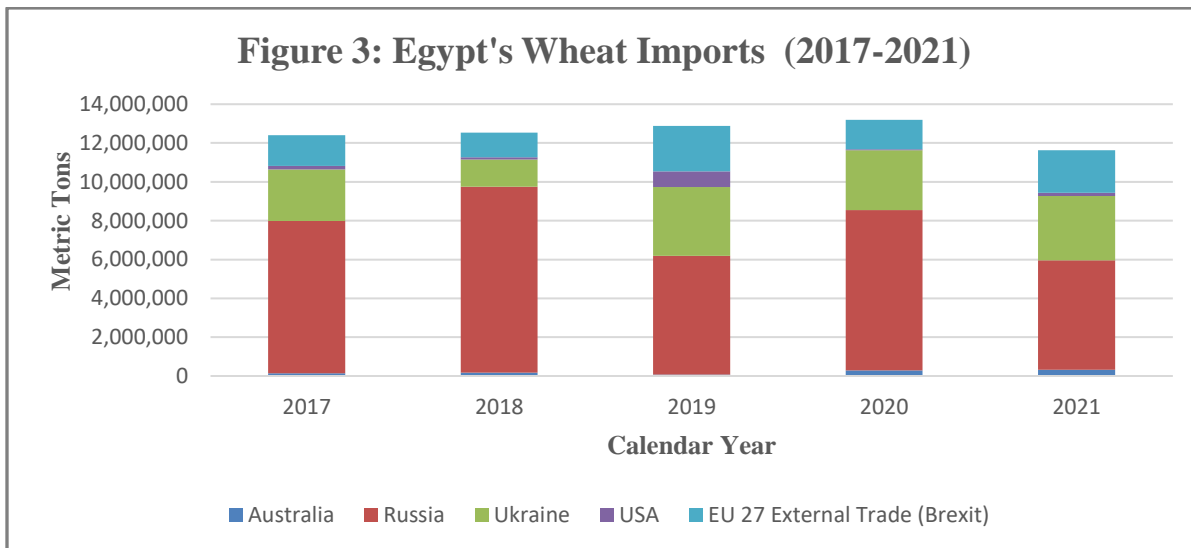
Russia's invasion of Ukraine has relentlessly disrupted international trade of wheat, pounding a global economy that had since been improving robustly from the COVID-19 pandemic. Already high wheat prices have risen even higher as a result. Egypt was not isolated from these catastrophic events, which is already significantly affecting its imports of wheat from Ukraine.

According to the United Nations Food and Agriculture Organization, global wheat prices spiked for a fourth consecutive month, up 5.6 percent in May, to average 56.2 percent above their value last year. This is only 11 percent below the record high reached in March 2008. The steep increase in wheat prices was in large part due to smaller production projections in Ukraine because of the war. In addition, wheat prices rose when India announced an export ban amidst concerns of a lower-than-expected upcoming wheat harvest, a spike in global wheat prices, and rising food inflation.

Egypt's Wheat Imports

Egypt's imports of wheat over the last five years amounted to 62.6 million metric tons (MMT) with 59.7 percent from Russia and 22.3 percent from Ukraine (82 percent combined), both major suppliers to the Egyptian market (Figure 1). Egypt relies on Russian and Ukrainian wheat due to competitive prices, lower freight costs, and less time reaching Egyptian ports compared to other origins.

Egypt's calendar year (CY) 2021 wheat imports from Russia and Ukraine amounted to almost 77 percent of total wheat imports. Private sector imports represented 60 percent of total imports and government imports were 40 percent. The Egyptian private wheat sector and private millers became major players in the wheat market in Egypt over the past five years, gaining more and more market share every year in the wheat trade.



Source: Trade Data Monitor LLC

Egypt's CY 2022 (Jan-May) wheat imports amounted to 3.32 MMT against 4.35 MMT in CY 2021 during the same period. The decline is attributed to the Russian war with Ukraine thus driving up wheat prices to an unprecedented levels and increasing market volatility.

The largest foreign suppliers to the Egyptian market in CY 2022 (Jan-May) included Russia (1.66 MMT), Romania (780,000 MT), Ukraine (518,000 MT), and Germany (118,000 MT). Other suppliers included France, Lithuania, India, Brazil, Bulgaria, and Australia. The largest foreign suppliers to the Egyptian market in CY 2021 (Jan-May) were Russia (2.4 MMT), Ukraine (870,000 MT), Romania (567,000 MT), and Australia (295,000 MT).

On June 5, 2022, Egypt received its first shipment of Indian wheat purchased by the private sector. The shipment met all the requirements and specification of the Egypt's Central Administration of Plant Quarantine. The Egyptian plant quarantine previously approved the Indian wheat origin as a supplier to Egypt on April 17, 2022.

The General Authority for Supply Commodities (GASC) is the government agency implementing wheat tenders for Egypt's bread subsidy program. GASC purchases amounted to 28 percent of Egypt's total wheat purchases in CY 2022 (Jan-May), while private sector wheat purchases amounted to 72 percent.

As of the last quarter in CY 2021, wheat prices increased by an average of \$100/MT. This translated to an additional cost of around \$760 million in the government budget allocated for the import of wheat for the bread subsidy program in the current fiscal year ending in June 2022.

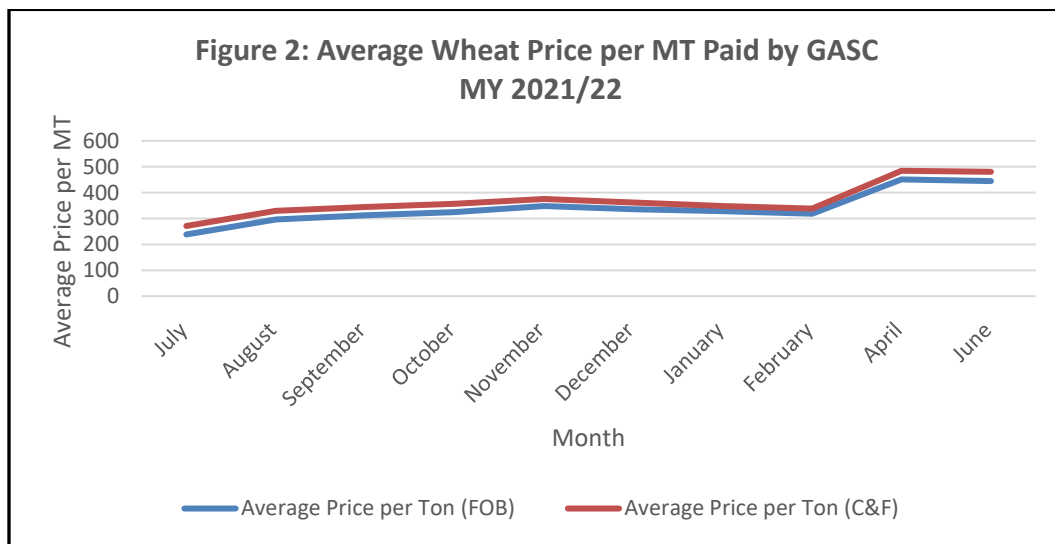
GASC had to cancel the two tenders it conducted on February 24 and 28 due to limited offers and very high prices offered by traders for French and U.S. Hard Red Winter wheat. Traders did not offer any wheat from the Black Sea during the two tenders amid the ongoing conflict between Russia and Ukraine, which generated uncertainties about Black Sea supplies.

GASC went to the international market with another tender on April 13, for wheat to be shipped between May 20 and 31. The tender was only for European origin wheat. GASC received 9 offers from 7 companies in that tender (6 offers of French wheat, 1 offer of Russian wheat, 1 offer of German wheat, and 1 offer of Bulgarian wheat). GASC purchased 350,000 MT in total (240,000 MT of French wheat, 60,000 MT of Russian wheat and 50,000 MT of Bulgarian wheat). The average cost and freight (C&F) price per metric ton stood at nearly \$484.50, up by around 43.1 percent than what GASC paid in its tender on February 17, before the war erupted. GASC purchased 180,000 MT of Romanian wheat and the average C&F price was \$338.50 per metric ton.

On June 12, the Egyptian Minister of Finance stated that higher global wheat prices would burden Egypt's budget with an additional \$1.5 billion in 2022/23(June-July), and burden the Egyptian private sector with additional \$1.5 billion as well.

On May 23, the Minister of Trade and Industry issued a decree to raise moisture levels of imported wheat from 13.5 to 14 percent for one year. Increasing the accepted moisture level encouraged more trade offers in GASC's latest tender.

GASC in its latest international tender conducted on June 1 purchased 465,000 MT of wheat from the international market. GASC received 19 offers from various origins and purchased 175,000 MT of Russian wheat, 240,000 MT of Romanian wheat, and 50,000 MT of wheat from Bulgaria. The average C&F price per metric ton stood at \$480. During marketing year 2021/22 (July-June) GASC purchasing price on free on board (FOB) basis ranged between \$238.50-\$451.10/MT, while the C&F price range was between \$271.30-\$484.50/MT (Figure 2).



Source: FAS Cairo Research

GASC has been working on diversifying its wheat origins, recently adding India as an accepted wheat import origin. Currently, there are 17 origins approved by GASC to participate in its international tenders – United States, United Kingdom, Canada, France, Australia, Germany, Argentina, Russia, Ukraine, Romania, Poland, Bulgaria, Serbia, Hungary, Paraguay, Kazakhstan, and India. Egypt’s Central Administration for Plant Quarantine is also now evaluating Mexico and Pakistan as sources for wheat imports.

Stocks and Local Harvest Purchases

Over the course of several years, Egypt raised its capabilities to store wheat from 1.6 MMT to 5.2 MMT, and as a result, increased its strategic stockpile of wheat from 3 to 6 months. This enables the government to deal with any rise in global commodity prices as this reserve secures food demand by the Egyptian market until prices resume a downward trend.

Currently, government wheat reserves for the bread subsidy program amount to 6 months, with additional wheat coming into the pipeline from the local harvest starting from April 1 until the end of August. With the government targeting an additional 5-6 MMT from farmers this season, Egypt’s wheat reserves for its bread subsidy program should last until the end of January 2023.

As of June 18, 2022 the government so far has purchased 4.1 MMT from local farmers, which includes 200,000 MT allocated for seeds and Pasta factories. The majority of wheat was purchased during the month of May.

Ahead of the procurement season and as the wheat purchasing season progressed, the government introduced several incentives to farmers to ensure delivery of their wheat to government purveyors. In addition, to ensure achievement of the wheat target purchase, the government also introduced a number of restrictions on wheat trade and movement across provinces.

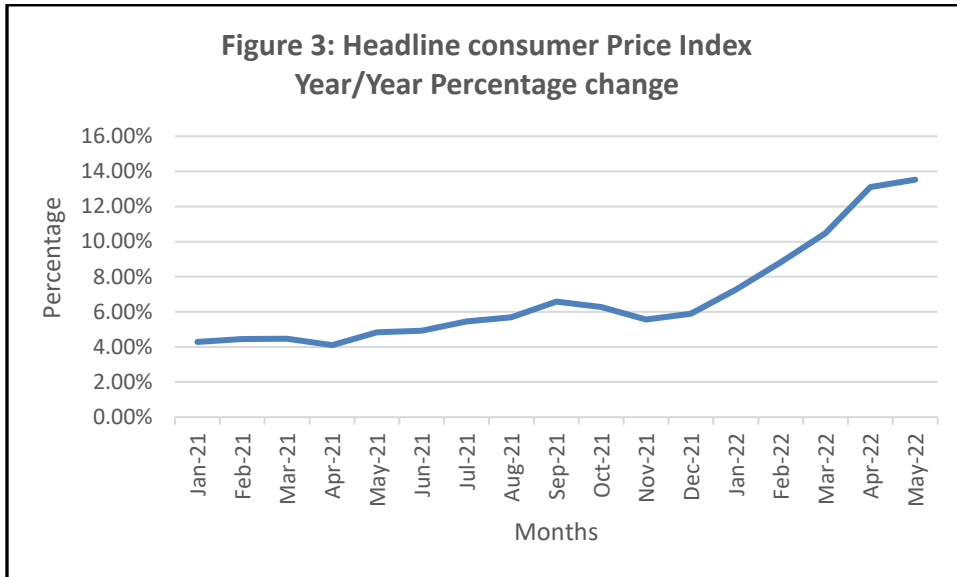
This season, climate conditions were very suitable for wheat production. Combined with the expansion of the number of certified seeds distributed to farmers, ideal sowing time, laser leveling techniques, and increasing areas of wheat raised bed cultivation to more than 520,000 hectares – these have made the largest contributions to increased wheat yields per unit area. Extension fields showcasing new varieties, good agricultural practices, and new irrigation techniques also contributed to increased yields and maximum benefit from each unit of water used to cultivate wheat.

Inflation

Egypt was not isolated from the global developments that caused unprecedented rises in inflation rates. Private mills produce a very fine flour known as the 72 percent extraction flour used in the production of European and flat white bread, as well as a variety of baked products, cakes, biscuits, wafers, croissants, and pastries. A week after the war erupted, some local markets witnessed a sharp rise in the price of this flour, ranging between 25-30 percent/MT. To put an end to the random price increases, the government of Egypt intervened and set a fixed price for the unsubsidized loaf of bread. This was in tandem to charging the Ministry of Supply and Internal Trade with providing the necessary flour to bakeries to inhibit the cost fluctuations. The measure was very successful in stabilizing the price of flat white bread produced by private bakeries.

Amid the Russian invasion of Ukraine, Egypt's headline annual inflation rate increased from 8 percent in January 2022 to 15.3 percent in May 2022, compared to 4.9 percent in the same month of 2021 according to the Central Agency for Public Mobilization and Statistics (CAPMAS). Egypt's headline annual inflation rate increased in April to 14.9 percent, up from the 12.1 percent noted in March and 4.4 percent in the comparable month in 2021.

As for urban inflation, it surged to 13.5 percent in May, compared to 10.5 percent in March (Figure 3). CAPMAS attributed the rise in the annual inflation rate to the increase in the prices of cereals and bread by 10.9 percent, fish and seafood by 5.3 percent, fruits by 2.3 percent, and dairy, cheese and eggs by 1.9 percent. A decrease in the prices of vegetables by 15.4 percent and meat and poultry by 0.4 percent were also noted. According to CAPMAS, food and beverage prices rose significantly, by 23.2 percent in March, 29.3 percent in April, and 27.9 percent in May of CY 2022 on annual basis respectively.



Source: Central Bank of Egypt (CBE)

To contain inflationary pressure and achieve price stability and affordability of food commodities, the CBE raised key interest rates by one percent in March followed by another two percent in May. Achieving low and stable inflation over the medium term supports real incomes and sustains the achieved competitiveness gains of the Egyptian economy.

The government of Egypt also initiated a number of arrangements designed to improve food security on both the production and consumption sides. Egypt has made the development of the agricultural sector a priority, ensuring sustained levels of investment.

The implementation of large, modern agricultural projects has increased the area available for production output as well as increased the yields of major field crops. Egypt also secured its food import needs from international markets and various origins, whether through tenders or contracts, to meet the needs of a growing population and ensure no food shortages. It is worth noting that Egypt's population has reached 103 million and projected to reach 190 million by 2050.

Most Egyptians receive food subsidies, which is the cornerstone of the country's social protection system. According to the CAPMAS, 88.5 percent of Egyptian families use the country's food subsidy system. In recent years, the government introduced several reforms to make the system more efficient and more technologically advanced.

The Egyptian government also launched several social programs within the National Strategy for Sustainable Development Goals 2030, the aim of which is to protect vulnerable households by improving their food security status and quality of life for the neediest villages across the country, especially in Upper Egypt.

Exports

In recent months, the government of Egypt has instituted a number of measures to ensure the availability and affordability of major food staples in the domestic market. On March 10, Egypt's Ministry of Trade and Industry (MTI) issued decree No. 141 of 2022, banning the exports of wheat, fava beans, lentils, pasta, green wheat, corn, all kinds of wheat flour, and all kinds of edible oils for a period of three months. This is to ensure adequate supplies in the domestic market and prevent price hikes.

On May 16, the MTI moved to exclude spaghetti pasta from the export ban decision No. 141 after several requests from industry. The Egyptian Food Export Council expressed its satisfaction with the decision as production capacities fully cover the local market and could fulfill growing export requests from neighboring Arab and African countries.

On June 1, the MTI also excluded durum wheat semolina flour from the export ban decision on the condition that exports are only allowed for the three factories in Egypt that produce this kind of flour.

On June 8, the MTI extended the export ban decision for three more months. The ministry would allow exports in excess of the local market's needs of these staples, but only after approval from the Ministry of Supply.

Concluding Remarks

Russia's invasion of Ukraine has adversely impacted the global economy, and Egypt too has felt the wave of effects. Inflated wheat prices as well as the rise of other commodity prices contributed to the country's rising inflation rate and added an additional burden on the State's budget to finance the already high wheat import bill. Despite these challenges, the Egyptian economy has shown great resilience in the face of price shocks through its continuation of smart fiscal and economic policies, and diversifying its wheat import origins.

Egypt is also engaging in constructive financing cooperation with major institutions to finance wheat imports and negotiating with private firms to hedge against high commodity prices. The long-term solution however, is to ensure sustained levels of investment in the agriculture sector, which the government and private industry are already implementing.

Attachments:

No Attachments.