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Report Name: Egypt Imposes Value Added Tax on Freight of Agricultural Commodities

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Report Highlights:

On July 16, 2020, the Egyptian Tax Authority signed a protocol with the Customs Authority and Alexandria Chamber of Shipping to set a mechanism to apply value-added tax (VAT) on the freight of agricultural commodities effective August 1, 2020. This stems from a 2016 law, which mandates the application of VAT on a wide range of products in-lieu of a general sales tax. The law exempts certain agricultural commodities from VAT. However, the government began enforcing VAT on the freight of agricultural commodities on August 1, 2020 without prior notice. This tax policy could disrupt U.S exports of soybeans, corn and corn bi-products to Egypt, and puts U.S exports at a competitive disadvantage in the Egyptian market which could potentially jeopardize the reliable, affordable supply of food, feed and agricultural products for producers and consumers especially at a time when the global economy is experiencing significant challenges.

Value Added Tax Law No. 67 of 2016

In calendar year (CY) 2016, the Government of Egypt (GOE) joined countries that apply value-added tax (VAT), replacing the General Sales Tax (GST) in an effort to increase tax revenues and address rising budget shortfalls following the devaluation of the Egyptian pound.

The introduction of the VAT law was a part of the GOE fiscal reform program that started in 2016 and was supported by international bodies such as the International Monetary Fund (IMF) and the World Bank. The Egyptian parliament approved the VAT law on August 31, 2016 and the law took effect on September 8, 2016.

The standard tax rate stipulated in the law was 13 percent and was increased to 14 percent starting from fiscal year (FY) 2017/18. The law exempted 56 goods and services that are considered essential by the government from VAT, including 18 essential food commodities such as wheat, corn, soybeans, and sugar.

Tax Law Amendments Proposed to Exempt Feed Additives and Concentrates from VAT

On June 5, 2020, the Egyptian Ministry of Finance completed draft amendments to the 2016 Tax Law for consideration by parliament. One of the proposed amendments seeks exemption of VAT on feed additives and concentrates in response to concerns raised by the poultry industry. Parliament discussed the amendments in mid-August 2020 and further discussion is expected to take place after parliamentary elections in December 2020.

On September 17, 2020, the Ministry of Agriculture on behalf of the Poultry Producers Union, submitted an official memorandum to the Ministry of Finance to exempt feed additives from VAT. According to industry estimates, the VAT on feed additives has so far contributed to a 1.5 percent price increase of poultry feed in the local market.

VAT Applied on Freight Services

On July 16, 2020, the Egyptian Tax Authority signed a protocol with the Customs Authority and Alexandria Chamber of Shipping to set a mechanism to apply a 14 percent (VAT) on advanced freight services (ADV FRI) on exempted goods including agricultural commodities such as wheat, corn, and soybeans.

According to the protocol, the Alexandria Chamber of Shipping will provide the Egyptian Tax Authority a quarterly indicative list containing average price values of the sea freight services performed on shipments received from all countries.

The VAT on freight was implemented as of August 1, 2020 on all private sector imports of soybeans, corn, and corn bi-products. VAT on freight of private sector wheat imports was cancelled.

Table 1: Indicative Ocean Freight Prices set by Alexandria Chamber of Shipping for Vessels (45,000-60,000 Metric Tons (MT))

| Destination | Average Freight Prices (USD/MT) | VAT (14%) (USD/MT) |
|-------------------------|---------------------------------|--------------------|
| Black Sea | 10-14 | 1.40-1.96 |
| North Europe | 16-18 | 2.24-2.52 |
| North America (Eastern) | 23-28 | 3.22-3.92 |
| South America (Eastern) | 19-23 | 2.66-3.22 |

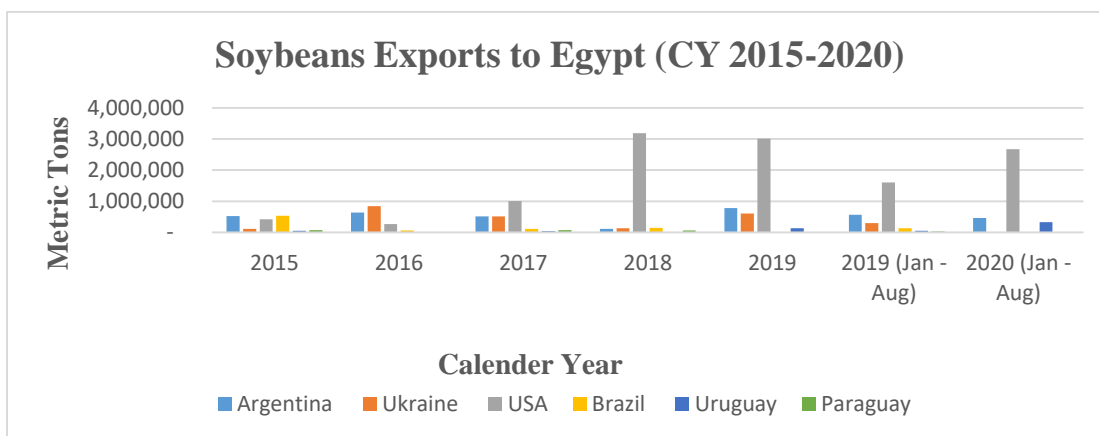
Source: Alexandria Chamber of Shipping, FAS Cairo office research.

Due to the difference in freight cost, the tax puts U.S. origin commodities at a competitive disadvantage relative to commodities that originate in countries that are geographically closer to Egypt. As an example, a 50,000 MT vessel of soybeans from the United States would pay approximately USD 94,000 more in taxes than the same 50,000 MT of the same product from the Black Sea, and approximately USD 31,500 more of the same product from South America. This would deny Egypt the opportunity to source supplies globally and make it captive to certain markets.

Egypt is a net importer of soybeans for food and feed and yellow corn for feed use. In CY 2019, Egypt imported 10 million metric tons (MMT) of yellow corn and 4.5 MMT of soybeans to meet the feed demand of its growing poultry, dairy, and aquaculture sectors. (Figures 1 and 2).

The total quantities of corn gluten meal and distiller's dried grains with solubles (DDGS) that entered Egypt during CY 2019 amounted to 270,273 MT. The vast majority of these are imported from the United States and are used in feed formulations by the poultry and dairy industry in Egypt.

Figure 1: Soybeans Exports to Egypt (CY 2015-2020)



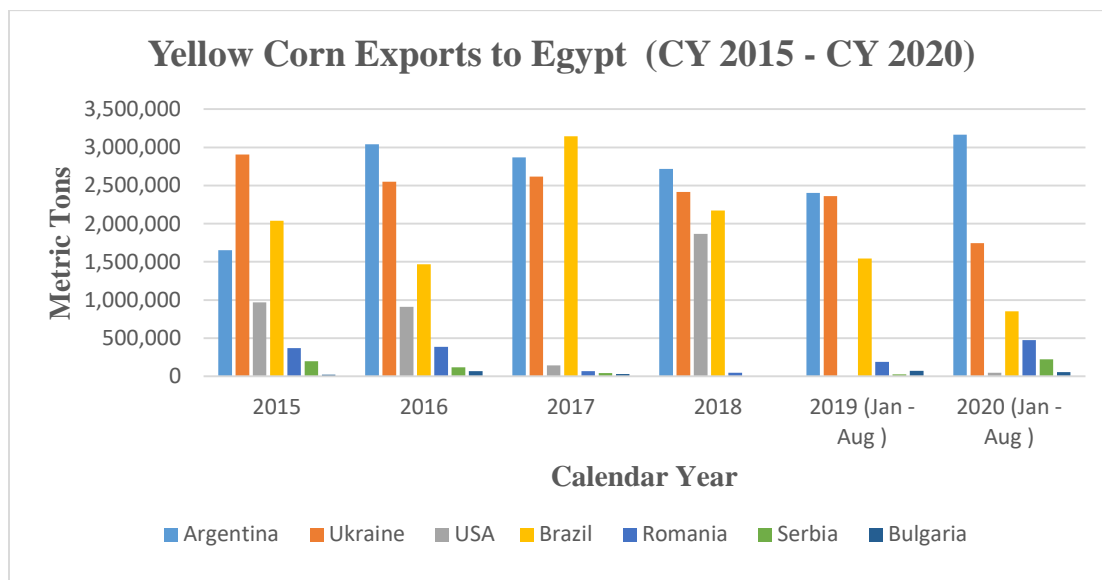
Source: FAS Cairo office research.

In CY 2018 and 2019, Egyptian traders, crushers, and feed millers turned to the United States as the most efficient, sustainable, and economical available source for soybeans as local industry seeks to

produce high-protein soybean meal for the feed industry as well as high-quality crude oil for the refining sector.

U.S. soybean exports to Egypt in CY 2019 were slightly higher than 3 MMT. Under this new tax regime, U.S. beans would have paid USD 10.7 million in additional taxes compared to USD 2.3 million from South America and USD 1 Million from the Black Sea. This scenario highlights the tremendous disadvantage that U.S. origin soybeans would be put under in this new tax regime.

Figure 2: Yellow Corn Exports to Egypt (CY 2015-2020)



Source: FAS Cairo office research.

Since CY 2016, Egypt has imported 3,151,000 MT of U.S. corn. Under this new tax regime, U.S. corn would have paid USD 5.6 million in additional taxes compared to the same corn out of Europe or the Black Sea. This development highlights the tremendous disadvantage that U.S. origin feed grains would be put under in this new tax regime.

Stakeholders are engaging with the government to advocate for the repeal of this policy as it stands to disrupt food imports and would cause significant economic damages to local and foreign food and agricultural companies that have been doing business and investing in Egypt for many decades—ultimately threatening the availability of an affordable food and feed supply leading to higher food prices.

Attachments:

No Attachments.