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## **Egypt**

### **Grain and Feed Update**

#### **Reforms to Baladi Bread System Expected To Markedly Affect Wheat and Corn Usage and Imports, While Rice Exports Are Newly Authorized.**

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**Report Highlights:**

This report contains major changes in wheat production, supply, and demand numbers. Most of these changes are the result of the Government of Egypt's (GOE) subsidy reforms. In April of 2014, the GOE instituted its new subsidized *baladi* bread program by eliminating wheat flour subsidies. The initial results have had the intended effect of curbing the leakage of subsidized flour. At the same time, a reduction in fuel and fertilizer subsidies will increase wheat production costs by close

to twenty-five percent.

Consequently, Post forecasts that MY2014/15 wheat production of 8.2 MMT, wheat imports of 9.0 MMT, and wheat consumption of 17.3 MMT. In MY 2013/14, U.S. corn made a remarkable comeback in the Egyptian market with 2.65 MMT, and is expected to increase slightly in MY2014/15 to 2.7 MMT. On September 1, the GOE lifted its export ban on rice; post expects that Egypt will be able to export 575,000 MT in MY2014/15.

## **Wheat**

### **Production**

Post is revising downward its MY2014/15(July-June) production forecast from USDA official estimates of 8.95 MMT to 8.2 MMT, a nine percent reduction. Post is also revising downward its production area forecast for MY 2014/15 from USDA official estimates of 1.4 million HA to 1.3 million HA, a seven percent reduction. The decrease is attributed to a 25 percent expected increase in production costs, resulting from the Egyptian Government's partial lifting of fuel and fertilizer subsidies in June and October of 2014. As a result of this de-subsidization, diesel prices have increased by 63 percent and the price of subsidized fertilizers by 33 percent.

MY2013/14 production is revised downward from USDA official estimates by five percent to 8.25 MMT as a result of a shortage of subsidized nitrogen fertilizers. The shortage occurred due to a reduction in energy supplied to some fertilizer plants, prompting the creation of a black market, in which fertilizer was selling at 42 percent above of its subsidized price; consequently, farmers reduced their fertilizer use.

Reduction in production in MY 2013/14 was also attributed to unexpected heavy rains before the harvest season on some of the most productive fields in the Delta that were planted with high yielding varieties such as the *Sakha*, *Gemmiza* and *Shandaweel* varieties.

### **Consumption**

MY2014/15 consumption has been revised downward from USDA official estimates of 19 MMT to 17.3 MMT a 9.8 percent reduction, and also MY2013/14 consumption from USDA official estimates by two percent to 18.5 MMT.

This significant reduction is the result of the government's new subsidized *baladi* bread program. Under the new program, bakeries purchase flour according to market prices thus creating only one price for flour, reducing the losses and leakages in the system, which, heretofore, has been estimated to be up to 35 percent of the subsidized flour, due to the differences between the subsidized price and the market price. The program incentivizes eligible Egyptians to limit consumption of subsidized *baladi* bread in order to purchase other products at less-than-market prices.

In the past, any consumer in Egypt could purchase unlimited quantities of subsidized *baladi* bread.

However, as of October 2014, individuals in 12 governorates - including Cairo and Giza governorates which consume 40 percent of the subsidized *baladi* bread - are required to use a smart card in order to get the subsidized bread at the rate of 0.05 LE (\$0.01)/loaf. Those not eligible for the subsidy pay the market rate of 0.35 LE (\$0.05)/loaf. Just the requirement that eligible consumers use the smart card does, by itself, reduce consumption relative to what it had been previously. Each individual with a smart card is allowed 150 loaves/month or 5 loaves/day. For example, a family of two adults and four children is eligible to receive 30 loaves/day or 900 loaves/month at the subsidized price of 0.05 LE/loaf.

In the event the beneficiary does not purchase the monthly limit of subsidized bread, he will be eligible to redeem the points saved (One point = LE 0.1) to purchase other food products available at privately owned grocery stores partnering with the Ministry of Supply and Internal Trade or at the publicly-owned consumer outlets run by the Holding Company for Food Industries.

Bakeries sell the subsidized bread to smart card holders at LE 0.05/loaf while the government reimburses bakeries for energy and flour costs in the amount of LE 0.337/loaf for bakers using diesel fuel in their bakeries, and LE 0.333/loaf for those using natural gas. The cash transfer to the baker's bank account occurs as soon as the baker swipes the customer's smart card into the automated machine for a given purchase of bread.

Initial results from the governorates of Port Said, Ismailia, and Suez flour, indicate that flour consumption decreased by 30 percent accounting for LE 300 million (\$42 million) in savings in the program's first six months, and 90 percent of ration card holders used their redeemed points for purchasing other food products. Additionally, the program was well accepted by the public, as most of the public interviewed by the media appears to be satisfied with the new system, despite some initial glitches with the smart cards.

Ministry of Supply officials indicate that losses and leakages occurring with the reformed bread subsidy system have not exceeded 3 percent compared to 25 percent leakages in the old bread distribution system. As a result one-third of the total budget allocated for bread subsidy was lost annually. The new program is likely to be implemented nationwide by the end of the year, and government officials are optimistically predicting a 30 percent decrease in wheat consumption given the efficiencies the new system has brought about.

## **Trade**

MY 2014/15 wheat imports are being revised downward to 9.0 MMT from USDA official forecast of 10.3 MMT, and a reduction of 13 percent from MY2013/14 imports. This reduction is driven by the changes in the subsidized *baladi* program, which will reduce the government's need to import wheat by more than 1.5 MMT. However, the reduction in flour usage by the public sector will be offset in part by an increase in the private sector's share of wheat imports, as well as an increase in corn imports as flour leakage in the form of mis-baked *baladi* bread into the feed industry will be reduced significantly.

After conducting 12 tenders, the total amount of wheat purchased by GASC from July 1, 2014

through October 2014 is 1.9MMT. Top suppliers include Russia with 710 TMT, Romania and France both with 540 TMT. GASC imported 1.91 MMT during the same period in 2013.

Some U.S. soft red and hard red winter wheat is being purchased by the Egyptian private sector for the Egyptian baking industry, which is growing by 13 percent annually. There is a substantial demand for high quality baked goods, biscuits and pastries which will drive private sector interest in high quality US wheat. Over time, the increasing private sector share of wheat imports bodes well for U.S. wheat export prospects.

Wheat Egypt	2012/2013		2013/2014		2014/2015	
	Market Year Begin: May 2012		Market Year Begin: May 2013		Market Year Begin: May 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,350	1,350	1,350	1,350	1,400	1,300
Beginning Stocks	6,698	6,698	4,601	4,608	4,312	4,319
Production	8,500	8,500	8,650	8,250	8,950	8,200
MY Imports	8,300	8,300	10,170	10,170	10,300	9,000
TY Imports	8,300	8,300	10,170	10,170	10,300	9,000
TY Imp. from U.S.	1,606	1,606	490	490	0	500
Total Supply	23,498	23,498	23,421	23,028	23,562	21,519
MY Exports	197	190	209	209	200	190
TY Exports	197	190	209	209	200	190
Feed and Residual	2,200	2,200	2,200	2,000	2,000	1,600
FSI Consumption	16,500	16,500	16,700	16,500	17,000	15,700
Total Consumption	18,700	18,700	18,900	18,500	19,000	17,300
Ending Stocks	4,601	4,608	4,312	4,319	4,362	4,029
Total Distribution	23,498	23,498	23,421	23,028	23,562	21,519
Yield	6.	6.2963	6.	6.1111	6.	6.3077
TS=TD		0		0		0

## Corn

### Production

MY 2014/15 corn production is forecast to total about 5.75 MMT, marginally less than MY 2013/14's output of 5.8 MMT, due to a slight reduction in planted area of 4,000 HA.

The bulk of domestic production is white corn for human consumption. However, yellow corn production area will increase by 30,000 HA to 200,000 HA from MY 2013/14 or 18 percent.

This is a result of the Ministry of Agriculture's efforts to increase feed corn production in order to cover a greater percentage of Egypt's feed demand through local production, by midwifing a contract farming agreement between the Union of Poultry Producers (UPP) and several farmer unions in the Delta. Under the agreement, the UPP would supply the farmers with seed, fertilizer, and extension services and would buy the corn production at the price of LE 2000/MT (\$279.72).

### Consumption

MY 2014/15 consumption forecast is revised upward to 13.9 MMT, slightly higher than USDA's official forecast of 13.8 MMT, and up by 700,000 MT from MY 2013/14. The increase in

consumption is connected to the new subsidized *baladi* bread program, as the program has effectively curtailed significant amounts of wheat flour leakage into the feed sector. Additionally, a growth in the poultry industry is increasing feed demand by approximately four-five percent year-over-year.

## Trade

MY 2014/15 imports are forecast at 7.5 MMT in line with USDA estimates, out of which 2.75 MMT will be of U.S. origin due to competitive prices in relation to South American and Black Sea corn.

In CY 2014, the United States thus far has been the largest exporter of corn to Egypt with almost 2.65 MMT, followed, by Ukraine with 2.45 MMT, Argentina with 1.49 MMT, and Brazil with 1.35MMT. MY 2013/14 imports are adjusted down to 7.25 MMT from USDA official estimates of 8.5 MMT. Post bases its number on interaction with traders, importers, and poultry producers who state that Egypt imported close to 7 MMT.

Nonetheless, MY2013/14 imports increased significantly by 43 percent from MY2012/13. The significant change in imports reflects the increase in corn consumption due to the reduction of wheat flour going into the feed sector as a result of the government's new subsidized *baladi* bread program, and the growth of the poultry sector by four-five percent. Egypt depends on imports of major feed ingredients used in poultry, animal feed and aquaculture feed production. As an aside, there has also been some re-shipping of imported corn to destinations like Syria.

Corn	Egypt	2012/2013		2013/2014		2014/2015	
		Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
		USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested		750	750	714	714	710	710
Beginning Stocks		2,220	2,220	1,069	1,369	2,159	1,209
Production		5,800	5,800	5,800	5,800	5,750	5,750
MY Imports		5,059	5,059	8,500	7,250	7,500	7,500
TY Imports		5,059	5,059	8,500	7,250	7,500	7,500
TY Imp. from U.S.		0	0	0	2,650	0	2,700
Total Supply		13,079	13,079	15,369	14,419	15,409	14,459
MY Exports		10	10	10	10	10	10
TY Exports		10	10	10	10	10	10
Feed and Residual		10,000	9,700	11,000	11,000	11,500	11,500
FSI Consumption		2,000	2,000	2,200	2,200	2,300	2,400
Total Consumption		12,000	11,700	13,200	13,200	13,800	13,900
Ending Stocks		1,069	1,369	2,159	1,209	1,599	549
Total Distribution		13,079	13,079	15,369	14,419	15,409	14,459
Yield		8.	7.7333	8.	8.1232	8.	8.0986

## **Rice**

### **Production**

MY 2014/15(May-April) production area is revised downward from USDA official estimates of 795,000 HA to 650,000 HA, and as a result, production has been revised downward six percent to 4.5 MMT from USDA official forecast of 4.9 MMT. The significant reduction is mainly attributed to the government's announcement that farms that are not part of the 462,000 HA that were specified for the MY2013/14 season, but which elect to produce rice, could face a fine of \$938/HA. The measure appears to have curbed illegal plantations, as data imagery from the Ministry of Irrigation and Water Resources indicate that there are about 650,000 HA of rice.

Additionally, rice farmers and traders have indicated that the government's export policy, lack of a procurement price at the onset of the planting season and farmer's knowledge of the availability of large stockpiles were factors that also influenced the reduction in planting area. In mid-September, the government announced a new crop procurement price of LE 2050 / MT (\$286 /MT) after rice market prices plunged to approximately LE 1600-1700/MT (\$223-\$238/MT).

### **Consumption**

Egypt consumes medium grain rice, and rice use is relatively constant, as consumers continue to prefer wheat-based products. Post is revising its forecast downwards from 4.1MMT to 4.0 MMT for MY 2014/15. A recent move by the Ministry of Supply and Internal Trade to improve the packaging and quality of subsidized rice, offering the product at a retail price of LE 3.75/KG (\$0.52/KG), seems to have priced out consumers accustomed to purchasing lower quality rice.

### **Trade**

On October 18, 2014, the Ministry of Trade and Industry issued a ministerial decree lifting the rice export ban until September 2015. Under this decree, traders are allowed to export rice provided they supply the government one ton of medium grain rice for every ton of rice they export. Exporters would also have to pay an export license fee of \$280/ ton exported, raising their export cost to approximately \$480/MT.

Under these conditions, Egyptian rice would be hard-pressed to compete in markets in the region and would have to be priced at around \$1,200/MT in international markets, which is unlikely to happen when prices are currently at \$900/ton. Traders are hopeful of doing some business - even under these conditions - between February and May 2015 when market prices of medium grain rice are likely to be more competitive.

Post's new forecast for rice exports in MY 2014/15, after lifting the export ban, will be 575,000 MT 34 percent less than USDA official estimates of 875,000 MT. It's expected that half of this amount will be broken rice. Major consumers of Egyptian broken rice are in the EU, mainly the UK and Belgium.

Rice, Milled	Egypt	2012/2013		2013/2014		2014/2015	
		Market Year Begin: Oct 2012		Market Year Begin: May 2013		Market Year Begin: May 2014	
		USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested		770	770	790	770	795	650
Beginning Stocks		487	487	427	462	532	937
Milled Production		4,675	4,675	4,880	4,750	4,900	4,500
Rough Production		6,775	6,775	7,072	6,884	7,101	6,521
Milling Rate (.9999)		6,900	6,900	6,900	6,900	6,900	6,900
MY Imports		15	50	25	25	60	25
TY Imports		19	50	25	25	60	25
TY Imp. from U.S.		0	0	0	0	0	0
Total Supply		5,177	5,212	5,332	5,237	5,492	5,462
MY Exports		700	850	800	300	875	575
TY Exports		700	850	800	300	875	575
Consumption and Residual		4,050	3,900	4,000	4,000	4,100	4,000
Ending Stocks		427	462	532	937	517	887
Total Distribution		5,177	5,212	5,332	5,237	5,492	5,462
Yield (Rough)		9.	8.7987	9.	8.9403	9.	10.03
TS=TD			0		0		0

