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Egyptian Retail Beef Liver Prices Increase

Report Categories:

Livestock and Products

Agriculture in the Economy

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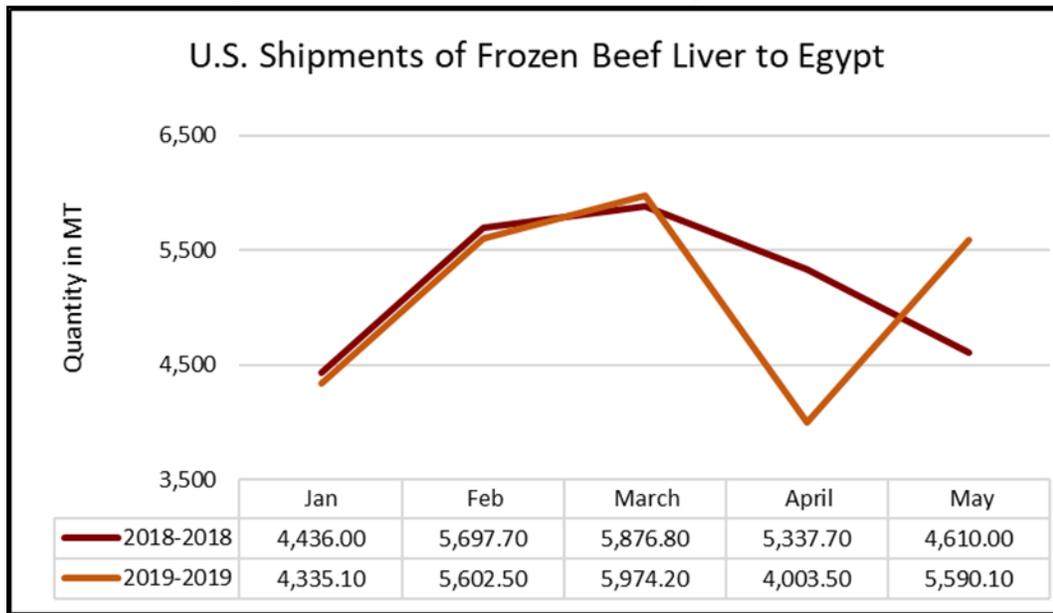
Report Highlights:

Egypt has long been one of the leading buyers of U.S. beef offal, primarily liver. Shipments of U.S. liver to Egypt decreased to 54,000 MT in 2018, as high inflation and other factors changed Egyptian consumption patterns. The United States accounted for 82 percent of Egypt's liver imports from all sources in 2018, down from 89 percent in 2017. In recent months, retail prices of frozen liver have increased sharply, though overall inflation is slowing. These price increases may be associated with policy changes impacting halal certification procedures effective May 1, 2019. See [GAIN EG19007](#) for more details on the policy change.

Egyptian Beef Liver Imports in 2019

Volumes of U.S. frozen beef liver shipments to Egypt are down 2 percent from January to May 2019 as compared to the same period last year. From January to May 2019, the United States shipped 25,958 MT compared to 25,505 MT during the same period in 2018. Shipments from the United States showed the largest decrease in the month of April, recovering in May. Though monthly trade data is somewhat limited, Brazil reported export sales of around 500 MT in both April and May, more than offsetting the United States’ decrease. Figure 1 compares U.S. beef liver shipments to Egypt for the period January to May during both 2018 and 2019.

Figure 1: U.S. Shipments of Frozen Beef Liver to Egypt (MT)



Source: U.S. Census Data via <https://apps.fas.usda.gov/gats/ExpressQuery1.aspx>

Inflation and Exchange Rates

Since the devaluation of the Egyptian Pound in November 2016, Egypt has struggled to rein in inflation. The floating of the Egyptian Pound and removal of subsidies, most notably fuel subsidies, put upward pressure on prices across most all product categories. The Central Bank of Egypt reported that May 2019, year-over-year, core inflation rate reached 7.8 percent. Table 1 lists month-over-month official inflation rates during May and June 2019.

Table 1: Inflation Rates – Month over Month

| | Headline CPI | Core CPI | Regulated Items | Fruits & Veg |
|-----------|--------------|----------|-----------------|--------------|
| May 2019 | 1.117% | 1.241% | 0.527% | 1.296% |
| June 2019 | -0.798% | 0.272% | 0.093% | -6.158% |

Central Bank of Egypt

In late January 2019, the Egyptian Pound began to gain strength against the U.S. dollar, moving from 17.92 LE per dollar on January 22, to 16.67 LE per dollar on July 1. As the Egyptian Pound has strengthened, inflation rates have also moderated. Core inflation rates reached 6.4 percent in June 2019,

while month-over-month reached their lowest point of 2019.

The Cost of Doing Business

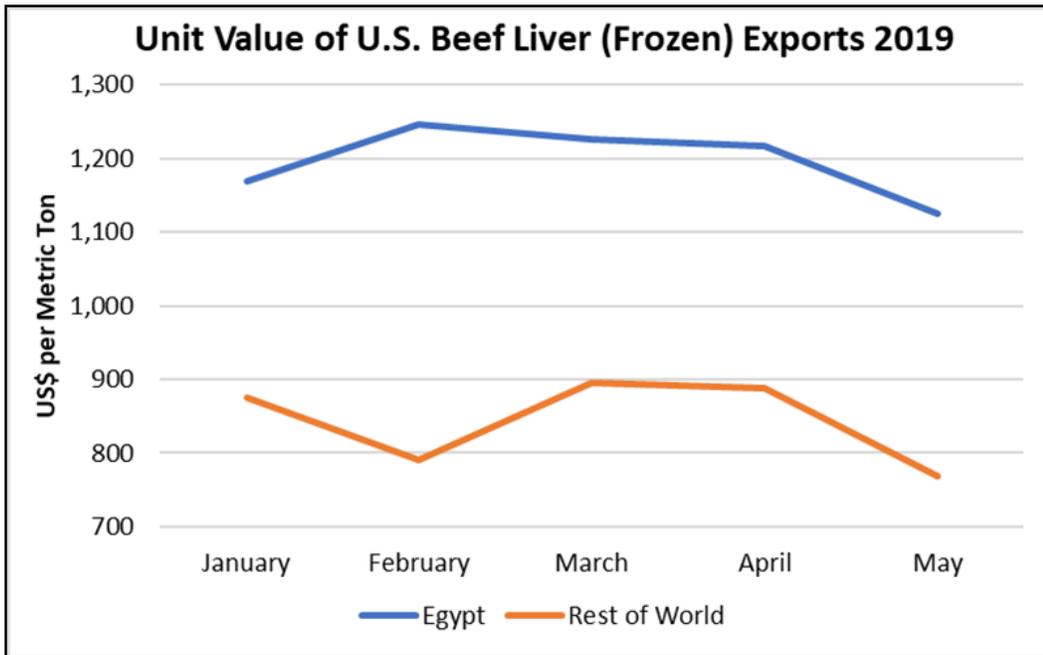
Importers and exporters of U.S. food and agricultural products to Egypt frequently lament the added costs of shipping products to the Egyptian market. For many years, Egypt has required 100-percent testing at port for food products. Many food standards adopted by Egypt are not in line with international norms, leading to higher than normal rejection rates. Extra testing and atypical standards create delays in port clearance and additional costs, which are generally borne by importers and consumers. In a few cases, product has expired while awaiting customs clearance. Egyptian government contacts recently noted that average port clearance times are around 30-days.

Specific to beef and beef product shipments, Egypt maintains a zero-tolerance for certain veterinary drugs approved by Codex and used in the United States and other countries. The presence of one such drug, ractopamine, frequently causes the rejection of U.S. beef offal. Higher rejections equate to lower supply and more upward pressure on prices. Port delays, extra testing, and atypical food standards are not new. While they clearly have a price impact, Egyptian importers and consumers have long absorbed the higher prices. Anecdotally, importers report lower rejection rates for U.S. beef products in May and June 2019; however, data on current rejection rates is unavailable.

The United States continues to support Egyptian regulators and private sector firms to seek out efficiencies to help mitigate the additional costs these issues create. Improving customs clearance times will facilitate trade and decrease costs to Egyptian consumers.

U.S. Beef Liver Exports to Egypt: Unit Values Fall as Beef Prices Decline

Figure 2: Unit Value of U.S. Beef Liver Shipments to Egypt versus the Rest of World

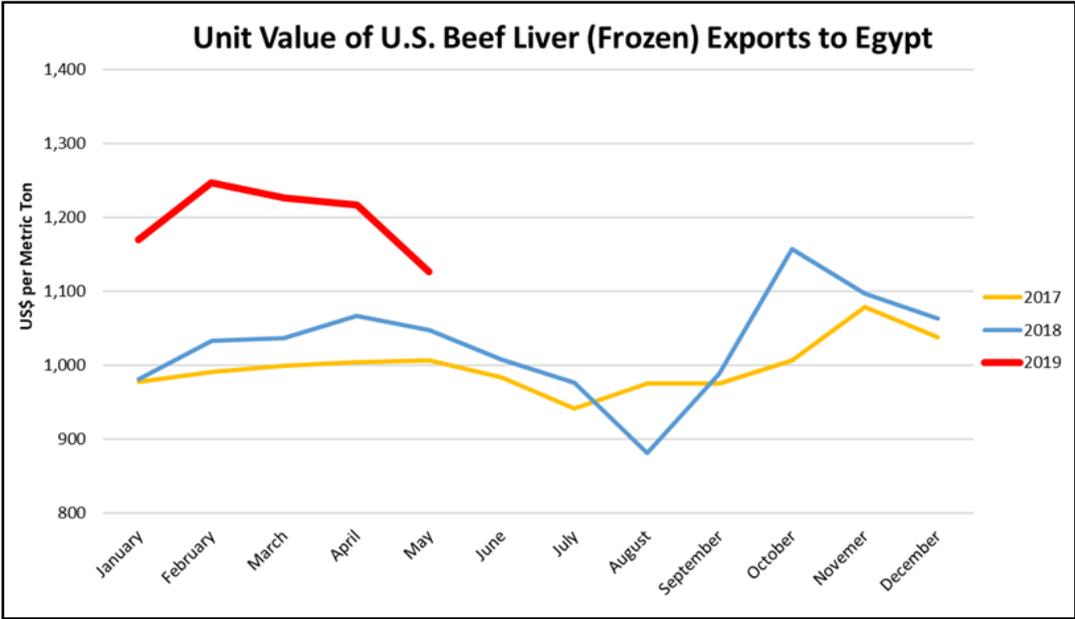


Source: U.S. Census Data via <https://apps.fas.usda.gov/gats/ExpressQuery1.aspx>

The unit value of a product is derived from export volumes and known shipment values, and is generally representative of the sales price at origin. In 2019, the unit values of U.S. frozen beef liver (HS 02062200) to Egypt were mostly stable, though they trended downward from February to late May. The values in May 2019 were at their lowest point of the calendar year, indicating that the price of frozen beef liver shipped to Egypt in 2019 has decreased. Unit values at origin in the United States were down 9.7 percent from February to early June 2019. Though the price in 2019 is decreasing, it remains elevated compared to the same period in 2017 and 2018. Given year-to-date export values, Egyptian retail prices would be expected to remain stable or trend downward slightly.

The unit values of U.S. beef liver shipments to Egypt have not strictly followed the trend of the unit values of shipments to the rest of the world. In fact, the average unit value of one metric ton of U.S. frozen beef liver exported to the rest of the world remained relatively unchanged at \$839 during both January to May 2018 and January to May 2019. However, average Egyptian unit values fared differently. From January to May 2019, the average unit value of one metric ton of U.S. frozen beef liver exported to Egypt rose 16 percent to \$1,197, as compared to \$1,034 during the same period in 2018. This differential supports the notion that firms may be inflating prices to account for high rejection rates and delayed customs clearance. Product from other sources, such as Australia and New Zealand, show similar price trends.

Figure 3: Unit Value of U.S. Beef Liver Exports to Egypt



Source: U.S. Census Data via <https://apps.fas.usda.gov/gats/ExpressQuery1.aspx>

Egyptian Retail Survey of Imported Frozen Beef Liver

Beginning on May 1, 2019, FAS Cairo began to track the prices of frozen beef liver at the retail level in greater Cairo. Staff surveyed eight distributors of imported frozen beef liver on a weekly basis. Of the markets sampled, two were public sector companies and the remainder were private sector. The private sector companies included both local chain supermarkets and individually owned *mom-and-pop* markets. An additional two local chains were excluded from the sample, as they did not consistently have the product in stock. Domestic product was not included in the survey.

Egyptian Retail Prices for Imported Beef Liver Increasing Sharply

Public Sector:

Prices at public sector distributors were the most stable of the survey, increasing only one time per month during the two-month period:

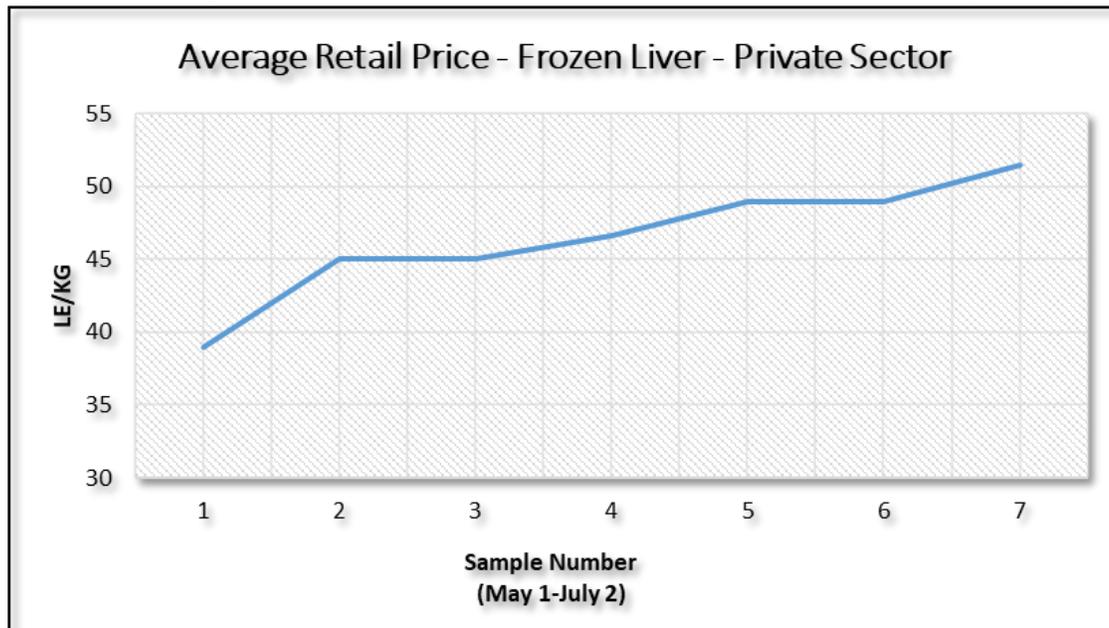
- May: Frozen liver prices during the month of May were consistently 35 LE (\$2.08) per kilogram at both public sector retailers.
- June: Frozen liver prices increased to 40 LE (\$2.38) per kilogram, an increase of 14.3 percent over the surveyed period.

Private Sector:

Prices at private sector distributors varied much more compared to the public sector.

- Frozen beef liver prices ranged from 35 LE (\$2.08) per kilogram on May 1, to 54 LE (\$3.21) per kilogram on July 2.
- On average, prices increased from 39 LE (\$2.32) to 51.5 LE (\$3.07) per kilogram. This is an increase of 12.50 LE (\$0.74) per kilogram or 32.1 percent, over the two-month survey period.
- During a similar survey in 2018, retail prices for frozen beef liver were around 28 LE per kilogram. Figure 4 lists average retail prices obtained from the survey.

Figure 4: Average Retail Frozen Liver Price Observed in Greater Cairo, May 1- July 2



FAS Cairo Price Survey

Two distinct trends are notable in this analysis:

- First, unit values of U.S. frozen beef liver to Egypt in 2018 and 2019 are higher than unit values for the same product shipped to other markets. While unit values of frozen beef liver to the rest of the world were stable, firms increased the price for product shipped to Egypt. The additional cost over world price is either driven by unusually high demand, or it implies a risk premium added to Egypt-bound cargos. This trend is observable across years and is not attributable to a definable policy shift or market change.
- Second, since February 2019 unit values of frozen beef liver in the United States have decreased, which should equate to lower prices at Egyptian distributors. Additionally, a strengthening Egyptian Pound and overall lower inflation rate should further limit price increases. In spite of these facts, retail prices of frozen beef liver in Egypt increased markedly in May and June 2019. Factors that have historically increased prices, such as port delays, food standards and rejection rates, have remained mostly unchanged during the last years. Export volumes from the U.S. are down 2 percent year-to-date but are more than offset by exports from other suppliers, meaning that limited supply is not driving price increases. With all other market factors remaining mostly unchanged, increased fees or other direct costs may be driving the price hike.

Elevated Consumer Prices Come on the Heels of Changes to Halal Certification

On April 24, 2019, the Egyptian Ministry of Agriculture announced their decision to name a single halal certifier to oversee ritual slaughter in the United States. This move delisted the multiple firms that had previously provided these services to U.S. slaughterhouses, essentially creating a monopoly on the service. See [GAIN EG19007](#) for more details. Since May 1, industry representatives report that the new certifier increased fees for certification services drastically, over ten-fold in some cases.

FAS Cairo previously estimated that the increase in halal certification fees would raise beef prices to Egyptian consumers by around 4.00 LE per kilogram. Those calculations assumed steady import volumes and certification fees increasing to ten cents per pound, or \$220 per metric ton. In practice, industry contacts report that new halal certification costs are \$5,000 per consignment, regardless of consignment size. In cases where the consignment is a full container (~50,000 lbs.), the previous estimates would be accurate; however, many consignments are smaller, which would increase the halal certification cost per kilogram. For example, under the new certification system, a shipment of 15 metric tons would be charged \$333 per ton, or around 15 cents per pound for halal certification. Previously, the cost for certification was \$10-20 per metric ton, or less than one cent per pound.

The retail price increases observed of 12.50 LE (\$0.74) per kilogram of beef, suggest that the increased cost of halal certification per kilogram is indeed greater than FAS Cairo initially estimated. During a period when U.S. beef prices are dropping, the price Egyptian consumers pay for those products is increasing. Markedly higher costs for halal certification likely explain the increasing prices to Egyptian beef consumers.