USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network

Required Report - public distribution

Date: 4/23/2014
GAIN Report Number:

Egypt

Grain and Feed Annual 2014

Wheat Demand Expands, Corn Stays Steady and There's Continued Reluctance to Export Rice

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Report Highlights:

Egyptian wheat imports are forecast to be around 10.3MMT in 2014/15 compared to 10.0 MMT in MY 2013/14. Post attributes this increase to rising demand due to population growth of 2.2% annually and resurgent buying of wheat by the Ministry of Supply and Internal Trade's General Authority for Supply Commodities on international markets at competitive prices from a range of origins. A recovery of the poultry industry is expected to solidify corn imports at around 6.5 MMT in 2014/2015 with Ukrainian grain becomingly increasingly dominant vis-à-vis U.S. and other suppliers. Post forecasts that Egyptian rice production in 2014/2015 will increase to 4.894 MMT from an estimated 4.880MMT in 2013/2014, as area planted with this grain will increase slightly from 790,000 ha in 2013/2014 to 795,000 ha in 2014/2015. Egypt's prevailing ban on rice exports is expected to be lifted soon as demand to meet domestic food assistance requirements are ensured from market stocks.

Executive Summary:

Egyptian wheat imports are forecast to be around 10.3 MMT in 2014/15 compared to 10.0 MMT in MY 2013/14, with the Ministry of Supply and Internal trade's (MoSIT) General Authority for Supply Commodities (GASC) projected to import over 5.7 MMT in 2014/15, and the rest to be imported by the private sector.

From July 2013 through Mid April 2014, most of MY 2013/14, GASC has imported about 4.345 MMT and is projected to import an additional 1.155MMT by the end of MY 2013/14, bringing GASC's total imports to approximately 5.5 MMT for its subsidized "baladi" bread program. Private sector imports are likely to remain at about 4.5 MMT.

The Ministry of Agriculture and Land Reclamation (MALR) announced its wheat procurement price for MY 2013/14 equivalent to $400/MT, significantly above current international prices. Farmers have responded by increased planting which may permit the government to reach their procurement target of 4.0 MMT due to a new marketing strategy developed by the MALR and new guidelines set by the MoSIT concerning duration of storage and logistics. While farmers may try to improve production practices, they will continue to be constrained by high costs, and Egypt's import dependence will be little changed.

A national silos construction project is under way with the goal of increasing Egypt's wheat storage capacity from 1.5 MMT to almost 5.0 MMT by the end of 2015. MoSIT and MALR expect Egypt to increase its storage capacity duration from 3 to 6 months to limit its storage losses (typically 20-30% is lost annually due to poor storage) and to use as a food security safety net.

The MoSIT recently introduced a pilot smart card system for subsidized bread in the Suez Canal city of Port Said which is intended to restructure and allow choices within the bread subsidy system without reducing the amount of money allocated for bread subsidies nationwide ($3.15 billion) annually. If this foray proves successful, MoSIT plans to implement this program nationwide starting in July 2014, which will be a daunting task that would require a few years to be accomplished. MoSIT hopes that the new program will reduce its consumption requirement for wheat imports by 1-1.5MMT. However, Egypt's annual population growth rate of 2.2% will continue to put pressure on its overall demand for wheat making any significant reduction in imports unlikely in the near future.

Post forecasts Egypt's corn production to reach 5.75 MMT in MY 2014/15, less than MY 2013/14 estimated output of 5.8 MMT. A recovery of the poultry industry is expected to solidify imports at around 6.3 MMT in MY 2013/2014. Posts forecasts corn imports will reach 6.5MMT in MY 2014/2015 due to further expansion and investments in the poultry and feed sector.

Post forecasts that Egyptian rice production in MY 2014/2015 will increase slightly to 4.894 MMT from the estimated amount of 4.880MMT in MY2013/2014. This should allow for more rice to be exported

once the Government of Egypt (GoE) lifts the export ban. We forecast production to stabilize around 4.8-5.0 MMT in the coming years, as we do not see much growth potential given limits to the country's remaining arable land as well as water constraints.

Commodities

Wheat

Production:

FAS Cairo forecasts Egypt's wheat production in MY 2014/15 to reach 8.95 MMT, up by 300 TMT compared to MY 2013/14 which post estimates at 8.65MMT. The estimate is that total area will show a marginal expansion and that area harvested is expected to reach roughly 1.4 million ha in MY 2014/15, up by 50,000 ha from 1.35 million ha in MY 2013/14.

Through the work of the International Center for Agricultural Research in Dry Areas (ICARDA) and in collaboration with the MALR's Agriculture Research Center (ARC) since 2009, breeding efforts and promotion of the adoption of mechanized raised bed technology to improve water and land productivity in the Nile delta has led to increasing crop yields by 15-25% for wheat varieties like the *Sakha* and *Gemmiza* varieties.

Farmers reported excellent results in the 2013/14 season from improved land and water management methods and new wheat varieties that combine high yield, disease resistance, and grain quality. Wheat yields increased by 25% in El Sharkia Governorate, and 17% in Assiut Governorate, and farmers in El Sharkia Governorate used 20% less irrigation water.

ICARDA and the ARC field crop researchers affirm that Egypt seeks to increase average yields from 6.4-6.5 MT/ha to an exceptionally high yield on the order of 9.0-10.0 MT/ha by utilizing new drought tolerant, higher yielding varieties while minimizing losses through improvements in post-harvest handling, transportation and storage. It will take considerable work, however, to boost yields on a national level an average of 40 percent.

MALR through its National Wheat Campaign in MY 2013/14 adopted an extension strategy of cultivating 3,000 acres of wheat across the country to raise awareness about the need to improve water and land productivity in the Nile Delta using raised bed planting of the new productive varieties. The increase in total production can also be attributed to those research and extension activities.

Farmers would like to increase their production of wheat but the cost of some inputs such as nitrogen fertilizers which are subsidized by the government have increased from $150/MT in MY 2009/10 to $ 230/ton in MY 2013/14. All insecticides are imported therefore international price fluctuations affect wheat production costs.

Nevertheless, high procurement prices are encouraging area expansion and hence total production. Egypt's marketing year runs from July to June. Since 2008, GASC has offered purchasing prices above those of international prices with a premium of EGP 20 (US$3.6) per ardeb (150 kg) reaching a price of

LE 380/ardeb in MY2012/2013. The government has announced the procurement price for MY 2013/14 crop at LE 420 /ardeb ($1 = EGP7.00). This is equivalent to LE 2,800/MT or $400/MT.

High government procurement prices encourage farmers to sow additional area with wheat and farmers' decision-making on crop area planted with wheat depends to a great extent on the procurement price. At the same time, farmers still find *berseem* (Egyptian clover) to be a lucrative crop that does not rely on fertilizer and provides feed for their livestock.

While GASC support pricing is attractive to domestic producers, many farmers still prefer to sell to local traders because private traders collect wheat at the farms while in the case of GASC, producers are required to deliver to the public mills or the collection centers set by MALR's Principal Bank for Development and Agricultural Credit (PBDAC) which became a daunting task due to increasing costs of transportation and the deterioration of roads across many villages especially in upper Egypt.

The Government of Egypt (GoE) is estimating wheat production in MY 2013/14 at 9.0 MMT and forecasting production at 9.5MMT for MY2014/15. MALR and GASC both estimate procurement of 4.0 MMT from local farmers in MY 2013/14 based on a new strategy for marketing wheat that has been developed by PBDAC. The strategy stipulates that PBDAC will finance agricultural co-operatives to allow them to access funding before the wheat supply season. Agricultural co-operatives will repay the credit advanced after marketing their quantities of wheat. MALR officials predict that the new system will make it easier for Egyptian farmers to market their crops and raise incomes.

MoSIT will also adopt a new set of guidelines that will enhance the procurement process such as extending the procurement period for 3 months and a half starting April 15th 2014 to July 1st 2014 and instead of keeping wheat stored in open-air facilities for months, the ministry has decided to adapt the sites known as *"Shewan"* into transit points for storing wheat only for a very temporary period before transfer directly to the flour mills, thus reducing harvest losses and avoiding spoilage due to storage for long periods in open-air storage facilities.

While farmers will take advantage of higher government prices and purchase volumes, they will nonetheless hold back a portion of the crop for next season's seeding purposes, personal milling/baking needs, and livestock feed use and this explains the position of traders and other knowledgeable interlocutors who estimate Egyptian wheat production at about 7.5 MMT in MY2013/14 and GASC procurement of local wheat will not exceed 3.6 MMT in MY 2013/14.

Egyptian farmers plant wheat in October/November and harvest starts April. Egyptian wheat is classified as semi-hard wheat. The moisture percent in Egyptian wheat ranges between 9-10 percent. It has at least 11.5-12 percent protein and a 25-26 percent gluten index. Wheat yields are higher in Lower Egypt's Delta due to lower mean daily temperatures compared to those in Upper Egypt (southern Egypt).
The Food and Agricultural Organization (FAO) estimates that Egypt has 1.75 million ha of land ideally suited for wheat cultivation. The country has an additional 900,000 ha of medium quality soil (i.e., rocky, with less than ideal pH levels) suitable for wheat cultivation. However, water constraints, along with a rapidly growing population and urban encroachment on agricultural lands, land fragmentation and high input prices of fertilizers and pesticides contribute to further expansion of wheat production.

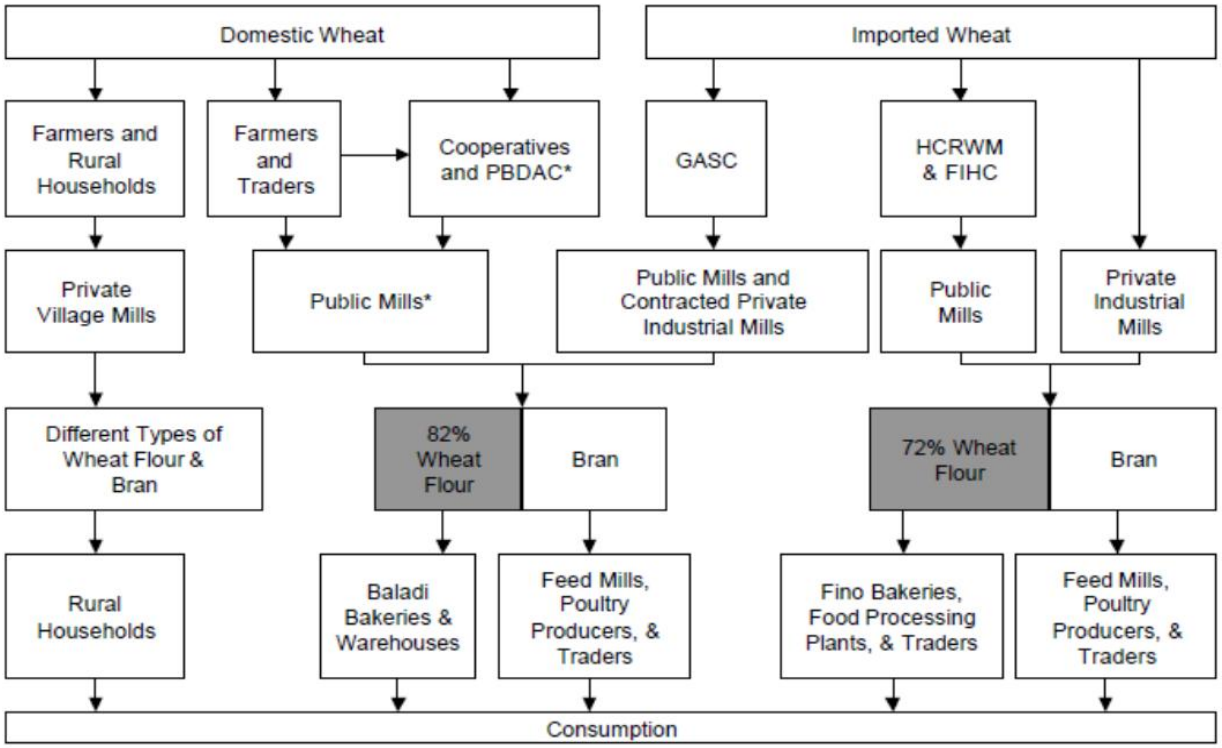
Government sources indicate that 35-40 percent of the MY 2014/15 crop will be produced from certified seed. Farmers continue to hold back a significant portion of their harvest for the following season's plantings.

Consumption:

Post forecasts total wheat consumption at 19.2 MMT in MY 2014/15, up from an estimated 18.9 MMT in MY 2013/14. We anticipate food, seed and industrial use (FSI) consumption to climb from 16.7 MMT in MY 2013/14 to 17 MMT in MY 2014/15. We see little change in total wheat consumption due to feed and residual use.

The Egyptian milling industry consists of public and private sector mills. Public sector capacity represents about 52% of the total milling capacity while the private sector owns about 48% of the milling capacity. About 70% of the production of 82% flour is produced by the public sector mills and 30% is produced by the private sector. The public sector milling industry consists of 126 mills (mostly small or medium size), in which 109 mills are currently used for the production of 82 % flour, 10 mills for production of 76% extraction flour for a second type of whiter subsidized traditional flat bread called "tabaki," as well as 7 mills for producing 72% extraction for commercial sales. All these mills are affiliated with the Food Industries Holding Company (FIHC) and the Holding Company for Rice and Wheat Mills (HCRWM). Most of the wheat imported by GASC is supplied to the state milling sector, mainly for production of the high extraction (82%) flour for baking of subsidized "baladi" bread. The FIHC is an umbrella organization that encompasses most state-owned food processing companies including nine milling enterprises with total milling capacity approaches 7 MMT, nearly sufficient for all wheat used for "baladi" bread.

The Wheat Milling Marketing Channel can be summarized in this figure:



Source: Ag Policy Reform Program

Egypt has had a food subsidy program since at least the mid-1940s. Subsidies were distributed through ration cards that provided families with a monthly quota of goods such as rice, sugar, and cooking oil. However, the larger portion of subsidies was directed to wheat and the production of "baladi" bread.

"Baladi" bread is produced from government-procured wheat through GASC and milled in government-owned mills or private-sector mills for a fee. The resulting flour is supplied to bakeries at subsidized prices to produce the bread sold at highly subsidized prices to the public. In this scheme the entire supply chain is subsidized, resulting in a high level of subsidized flour leakage and wastage, as private-sector bakers take advantage of the significant difference between the flour's subsidized price and the market price by selling flour illegally. *(Perspective on Food security Key issues for an emerging MENA priority)*

The Egyptian food-subsidy system provided an important social safety net during two recent food-price shocks by mitigating some of the negative impacts. However the system is still confronted with many challenges that can be summarized mainly in:

• *Targeting:* Bread subsidies are not targeted in Egypt, where the amount of wheat procured should supply on average of five loaves of bread per person per day. Non-targeting has resulted in a dilution of the impact of the subsidy, and a significant percentage of the bread made from subsidized wheat and flour does not reach the working poor.

• *Form:* The bread subsidy is one in which the entire supply chain is subsidized in the form of subsidized flour provided to the bakeries. This has resulted in huge losses and leakage driven by the

profit margins of selling wheat flour in the black market because of the substantial differences between the subsidized price (EGP160/ton) and the market price (currently around EGP2000/ton).

• *Effectiveness:* Although the government has attempted several projects to control the loss of flour and subsidy, the great difference between the subsidized price and the market price has created too great an incentive for opportunists selling the flour on the black market, making the program even more costly. Additionally, the heavy demand for "baladi" bread leads to substantial wait times/long lines at bakeries.

The current structure of the Egyptian food-subsidy system provides several opportunities for leakage along the marketing chain, and the value of what GoEs missing is estimated at $1 billion annually. For domestic wheat, the government buys output from the farmers, and then sells it to the public mills. After the wheat becomes flour, it is purchased again by the government and then sold to the public bakeries. Even beyond the point of sale, it became increasingly common for farmers to purchase subsidized bread as feed for their poultry due to its low cost and high feed value compared to bran. This is an additional factor which diverts supply away from consumption by the neediest population.

A new program by the MoSIT is intended to restructure and allow choice within the subsidy system without reducing the amount of money allocated for bread subsidies ($3.15 billion) annually. The reform begins at the end of the supply chain by getting rid of the flour subsidies (which represents a major leakage in the system) allowing flour to be sold according to market prices thus creating only one price for flour. This will allow centers around the country where subsidized bread is sold to be open for longer hours with no lining up and creating competitiveness among bakers. Over time, bakers will become more market oriented and will strive for better quality.

A pilot scheme in the Suez Canal city of Port Said is underway where access to subsidized bread will also be added to a nascent smart card system where every beneficiary is allowed 150 loafs/month or 5 loafs/day. In order to encourage people to consume less "baladi" bread, the beneficiary can choose to not take the full bread ration and instead trade in the "credits" for other foodstuffs like cheese, rice, vegetable oil etc. that MoSIT makes available in its shops, thus reducing the amount of wheat consumed, saving a significant portion of the subsidy through redistributing the subsidy and allowing more choices by consumers and finally reducing a percentage of bread that gets wasted in the system.

Losses and leakage across the "baladi" bread supply chain, for example, are estimated at 25%. Post thinks that MoSIT recent effort of reforming the subsidy system to make it more efficient can lead to savings that could be invested in more targeted food security and nutrition interventions as well as job-creating initiatives in poorer areas.

The success of the overhaul of the "baladi" bread system is, like many policies in need of reform in Egypt, a question of political will. Post predicts that improving the "baladi" bread supply chain efficiency can facilitate investments in job creation and improving targeting practices to improve food security and conditional cash transfers, vouchers, or both could replace subsidies and be linked to price indexes, particularly for food, to counter the effects of inflation.

As it is, Egypt has a very expensive and extensive food subsidy system which is a heavy burden on the state's budget. The existing domestic food assistance system is inefficient and is not sustainable in its current form. Anybody familiar with its operation agrees with the imperative of reform.

Trade:

Egyptian wheat imports are forecast to be around 10.3 MMT in 2014/15 compared to 10.0 MMT in MY 2013/14. GASC is projected to import nearly 5.7 MMT, and the rest is to be imported by the private sector. For the first eight months and a half of MY 2013/14, July 2013 through Mid April 2014, GASC imported bought about 4.345 MMT.

In the absence of Government of Egypt reform of the "baladi" bread system, it is expected that imports of wheat in MY 2014/15 could climb by an additional 300 TMT. Although Egypt has bought the bulk of what it needs to finish MY 2013/14, GASC will conduct additional tenders to obtain about 1.15MMT by the end of June 2014. As in years past, because the 2014 local crop is harvested starting in April, there will be some juggling for storage space.
Thus far in MY 2013/14, Egypt purchased 310,000 TMT of wheat from the US. In the current marketing year, Russia is the largest exporter of wheat to Egypt with almost 2.4 MMT.

Table (1) highlights GASC wheat import tenders since the resumption of wheat imports in July 2013 into April 2014.

Recently MoSIT announced that implementing the aforementioned smart card pilot scheme nationwide could reduce imports by 1-1.5MMT in the next fiscal year. This a commendable goal, but given the complexity of the "baladi" bread system and the number of stakeholders involved in the wheat/flour supply chain, it is unrealistic to expect for there to be a sudden and dramatic drop in public sector wheat imports. No question, the ultimate fix to the system is to provide the targeted segment of the population with purchasing power transfers via a smart card to each family. Egypt, with a growing population of 2.2% annually, limited water resources and less than 4% of arable land, will remain significantly dependent on imported wheat for years to come.

Price distortions between the subsidized market and the free market often lead to subsidized goods being resold on the black market, causing leakages. If somehow the GoE is able to extract itself from the flour milling and marketing business, the privatization of these functions would make a dent in overall wheat imports and allow Egypt to transfer more support to its target audience in need for domestic food assistance and more meaningfully address budgetary challenges.
As for US wheat exports to Egypt, if a smart card system is fully implemented in the years ahead and consumers have more choice that can affect product quality, then there would be additional opportunities for higher quality wheat including American soft and hard wheat.

Table (1) Wheat Import Tenders Since the resumption of wheat imports in July 2013

Tender date	Origin	Tonnage /MT	Total /MT	Tender date	Origin	Tonnage /MT	Total /MT
07/2/2013	Romania	120,000 60,000	180,000	11/14/2013	France Romania	180,000 60,000	240,000

	Ukraine						
07/18/2013	Romania Ukraine Russia	120,000 60,000 120,000	300,000	11/ 19/2013	Russia Russia	60,000 60,000	120,000
07/24/2013	Romania Russia Ukraine	120,000 60,000 60,000	240,000	11/27/2013	France	60,000	60,000
07/30/2013	Romania Ukraine	120,000 120,000	240,000	12/ 3/2013	Romania France	180,000 120,000	300,000
08/6/ 2013	Romania Ukraine	60,000 60,000	120,000	12/17/2013	Romania Russia	60,000 60,000	120,000
08/28 2013	Romania Russia Ukraine	60,000 60,000 175,000	295,000	01/3/2014	France Romania Russia Ukraine	115,000 180,000 120,000 120,000	535,000
09/4/2013	Romania Russia	60,000 120,000	180,000	01/16/2014	France Russia Ukraine USA	120,000 60,000 55,000 60,000	295,000
09/6/ 2013	Romania Russia	60,000 60,000	120,000	01/ 28/2014	Russia USA	180,000 60,000	240,000
09/10/2013	Romania Russia Ukraine	60,000 60,000 115,000	235,000	02/27/2014	Romania Russia	60,000 235,000	295,000
				04/13/2014	Romania Russia Ukraine	120,000 55,000 55,000	230,000

Source: FAS/Cairo

GASC is the Cairo-based agency that carries out Egyptian government wheat buying internationally. At the same time it oversees and channels funds to the various state entities that buy domestic wheat for subsidized bread.

Grain traders these days describe GASC as the largest "single structure" buyer of wheat in the international market. Its purchases vary from year to year depending on the amount of wheat available internally but in recent years have been in the range of 5 MMT.

GASC buys wheat steadily and sometimes opportunistically throughout most of the year. It tenders, on average, every two to three weeks and may conclude contracts for one to several cargos with each market entry or none at all. Tenders go quickly. They are announced in the late evening Cairo time after Chicago Board of Trade trading ends.

Most often GASC go on the market when Chicago wheat prices have closed lower. Bid deadlines are 11 a.m. the next morning and a GASC committee decides its purchases that day. Delivery is usually set for 30 to 60 days from the tender date.
For example, a tender opened on Feb. 2 called for delivery from March 1-10. In this regard, GASC policy adds to Egypt's import bill because of the narrow windows set between the time of purchase and delivery.

Compared to other significant regional wheat buyers including Algeria and Saudi Arabia and even compared to GASC practice, say, ten years ago, its tender requirements have become unnecessarily complicated and costly. GASC can realize considerable savings if they made their tender more trade-friendly.

Stocks

GASC usually maintains 5-6 months stock but with still limited storage capacity, strategic stocks are now redefined to include wheat import purchases in the pipeline, which usually amounts to about three months of annual consumption. Currently, while GASC may only have three months reserve in country, it has an additional 2-3 months in the pipeline. The current total covered storage capacity for wheat is estimated at 1.5 MMT. While domestic stocks are highest with local production into mid-summer, stocks are tapped throughout the year.

The Egyptian government is seeking to reduce wheat storage losses by improving the quality of its storage capacity and efficiency. The limited number of modern silos, combined with poor storage conditions contribute to major wheat losses in Egypt. The Egyptian Holding Company for Silos and Storage (EHCSS) operates 8 metal silos throughout the country. These modern silos, built between 2005 and 2009, have a combined total capacity of 360 TMT. PBDAC has 362 silos with a combined total storage capacity of 2 MMT. Out of this number, 298 are open storage facilities known as *"shewan"* and 64 are concrete silos. These silos are, however, plagued by dust and grit cross contamination, as well as elevated vermin infestation rates. Losses are estimated at between 20-30 percent annually due to the lack of appropriate storage facilities.

A national silos construction project is under way with the aim of increasing Egypt's storage capacity of wheat from 1.5 million tons to almost 5 million tons by the end of 2015. The first phase witnessed the construction of 25 silos distributed across the country with storage capacity 30,000 metric tons each. The second phase of the project is being done in collaboration with the support of the United Arab Emirate with the goal of constructing another 25 silos with storage capacity 60,000 metric tons each.

Media reports also indicate that joint Egyptian and Emirati private investments have plans to construct another 45 silos with storage capacity of 60,000 metric tons each.

Egypt could potentially reduce losses by more than 2.7 million MT of wheat annually. At a price of $300/MT for wheat, the Egyptian economy could realize a savings of close to $800 million each year. Post estimates that improving the supply chain by construction and adequate management of modern silos could reduce total wheat storage losses from 20-30 % to less than 1-5 %, which would result in an increase of approximately 2.5 million MT of wheat.

However, this will require a huge investment which is not presently available due to the current economic climate where government resources are limited and rising poverty has meant food insecurity and nutritional challenges.

Wheat **Egypt**	**2012/2013**	**2013/2014**	**2014/2015**
	Market Year Begin: Jul 2012	**Market Year Begin: Jul 2013**	**Market Year Begin: Jul 2014**

	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Harvested	1,350	1,350	1,400	1,350		1,400	(1000 HA)
Beginning Stocks	6,698	6,698	4,608	4,608		4,168	(1000 MT)
Production	8,500	8,500	8,800	8,650		8,950	(1000 MT)
MY Imports	8,300	8,300	10,500	10,000		10,300	(1000 MT)
TY Imports	8,300	8,300	10,500	10,000		10,300	(1000 MT)
TY Imp. from U.S.	1,606	1,606	0	310		750	(1000 MT)
Total Supply	23,498	23,498	23,908	23,258		23,418	(1000 MT)
MY Exports	190	190	200	190		200	(1000 MT)
TY Exports	190	190	200	190		200	(1000 MT)
Feed and Residual	2,200	2,200	2,200	2,200		2,200	(1000 MT)
FSI Consumption	16,500	16,500	16,900	16,700		17,000	(1000 MT)
Total Consumption	18,700	18,700	19,100	18,900		19,200	(1000 MT)
Ending Stocks	4,608	4,608	4,608	4,168		4,018	(1000 MT)
Total Distribution	23,498	23,498	23,908	23,258		23,418	(1000 MT)
Yield	6.	6.2963	6.	6.4074		6.3929	(MT/HA)

Corn

Production

Post forecasts Egypt's corn production to total about 5.75 MMT in MY 2014/15, marginally less than MY 2013/14's output of 5.8 MMT. Total area harvested in MY 2013/14 was estimated at 714,000 ha and is expected to decline by 4,000 ha in MY 2014/15. The bulk of domestic production is white corn for human consumption. Post estimates the area of yellow corn during MY 2013/14 at 170,000 ha and the share of area and production of yellow corn is estimated at 23.8% of the total area and production of corn. It is expected that the share of area and production of yellow corn in MY 2014/15 will grow to about 24.2% of the total area and production of corn.

In contrast with wheat and rice, 95% of corn seed is produced by the private sector, while 5% is produced by public sector companies. One acre requires 10-12 kilogram of seed for single cross and over 15 kilogram for three-way cross seed. One kilogram of seed costs from LE 30 to 60/kg ($4.3-8.5/kg). One kilogram of Bt corn seed had sold to the farmer at about $8.25 in MY 2011/2012 but on March 8, 2012, the former Minister of Agriculture ordered a temporary suspension of planting of MON 810 in reaction to false information circulated in the media about health concerns which had no apparent scientific foundation.

Since that date, the commercialization of Bt Corn has been at a standstill. For Egypt to move forward in the area of biotechnology, an updated and sound biosafety law is needed including a functional biosafety system implementing a transparent and clear policy. The obvious challenge rests in building an effective partnership between ministries that have historically not trusted each other. However, Egyptian scientists and stakeholders hope that the new government will have a position conducive to the use of biotechnology.

The main threat on the production side comes in the form of urban sprawl, fuel shortages, high input prices and limited water availability, all of which make agricultural output more challenging. Climate change is also contributing to desertification. Any growth in the agricultural sector will have to result from the more efficient use of the country's very limited, already stretched resources including better-suited seed varieties.

Trade sources indicate farmers would likely further expand corn cultivation if the government would announce its planned procurement price targets prior to the start of the planting season. The government's practice of delaying until the fall the announcement of its crop procurement prices certainly affects producer planting decisions.

The GoE only procures a relatively small proportion of the corn crop, so the procurement price is often misleading in relation to the price farmers will actually receive during the marketing year. Most corn marketed from producers to processors, millers or other end users is handled by traders.

Government prices for corn, much like the case with wheat, often exceed international prices and are aimed at encouraging expanded cultivation. With improved production practices and the incorporation of technologies like molecular breeding and biotechnology, Egypt could significantly increase corn yields. Egypt's corn crop suffers significant losses both in yield and quality from the European corn borer.

Consumption:

Post forecasts feed consumption to increase to 12.4 MMT in 2014/15, up by 300 TMT from MY 2013/14 which was estimated at 12.1 MMT. Post forecasts a 200 TMT increase in the corn FSI consumption numbers for MY 2014/15. Although there is growing demand for corn for food products such as snack foods and corn oil, the bulk of Egypt's FSI corn demand will continue to be absorbed for the foreseeable future by an increasing glucose and fructose production, as well as fresh consumption needs. Most of the imported corn is being used in feed production for the poultry industry. Post predicts that imports of corn will increase in 2014/15 due to expansion in the poultry and feed industry.

Trade:

A recovery of the poultry industry is expected to solidify imports at around 6.5 MMT. During MY 2013/14 Ukrainian corn has dominated the import market with 3 MMT of exports to Egypt followed by Brazilian corn at 1.77 MMT, Argentinian corn at 920 TMT and U.S. corn exports at 315 TMT with approximately an additional 340 TMT to be imported by traders from the US in the fall.

There are small quantities of Romanian and Polish corn imported into Egypt as well, but the quality is not as good as from other sources. If avian flu were to strike again with new virulent strains, it would have a major negative impact on the demand for corn feed, as has occurred during previous outbreaks.

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	725	714		710	(1000 HA)
Beginning Stocks	2,220	2,220	1,369	1,369		1,359	(1000 MT)
Production	5,800	5,800	5,600	5,800		5,750	(1000 MT)
MY Imports	5,059	5,059	6,200	6,300		6,500	(1000 MT)
TY Imports	5,059	5,059	6,200	6,300		6,500	(1000 MT)
TY Imp. from U.S.	0	0	0	655		750	(1000 MT)
Total Supply	13,079	13,079	13,169	13,469		13,609	(1000 MT)
MY Exports	10	10	10	10		10	(1000 MT)
TY Exports	10	10	10	10		10	(1000 MT)
Feed and Residual	9,700	9,700	10,000	9,900		10,000	(1000 MT)
FSI Consumption	2,000	2,000	2,000	2,200		2,400	(1000 MT)
Total Consumption	11,700	11,700	12,000	12,100		12,400	(1000 MT)
Ending Stocks	1,369	1,369	1,159	1,359		1,119	(1000 MT)
Total Distribution	13,079	13,079	13,169	13,469		13,609	(1000 MT)
Yield	8.	7.7333	8.	8.1232		8.0986	
TS=TD		0		0		0	

Rice

Production

Post forecasts that Egyptian rice production in 2014/2015 will increase to 4.894 MMT from an estimated 4.880 MMT in 2013/2014, as area planted with the grain will slightly increase from 790,000 ha in 2013/2014 to 795,000 ha in 2014/2015. The Ministry of Irrigation and Water Resources announced its numbers for rice area in MY 2013/14 at 462,921 ha.

Post estimates that the areas planted with rice will exceed this number by over 300,000 ha due to high yields, the profitability of rice compared to other summer field crops such as corn or cotton, an increased likelihood of exporting the crop and the lack of law enforcement at the canals and canal

branch level in various areas in the Delta making it difficult for the government to restrict areas of rice, particularly since January 2011.

This will allow for more rice to be exported once the export ban on rice is lifted. We forecast production to stabilize around 4.8-5.0 MMT in the coming years, as we do not see much growth potential given limits to the country's remaining arable land as well as water constraints.

Rice is a major summer crop planted in March/April and harvested in August/September. New rice varieties allow an earlier harvest compared to the old varieties. The crop in Egypt occupies 10-20 percent of Egypt's total production area. Like just about everything else, the entire rice crop is irrigated. One acre of rice requires about 70 kilos of seed. Rice requires a special irrigation regime, and its cultivation is largely restricted to the northern part of the Delta. Rice consumes about 12% of the Nile river water quota of 55 billion cfm. It is often planted on low quality land where the soil is fairly saline and has varying degrees of productivity.

During MY 2014/15 MALR is planning to have 1200 extension fields across villages in the northern delta to showcase good rice agricultural practices using high yielding varieties developed by the ARC.

Consumption

Egypt consumes medium grain rice, and rice consumption is relatively constant, as consumers continue to prefer wheat-based products. Post estimates the quantity consumed of milled rice at 4.0 MMT in MY 2013/14 and forecast at 4.1 MMT of milled rice to be consumed in MY 2014/15. Rice stocks in MY 2013/14 will slightly increase due to the ban imposed on exports. There is no stock-holding policy, with levels reflecting pipeline supplies.

Under the ration card program, the Ministry of Supply provides 1.5 kg of rice per person per month for the 68 million ration card holders or a total of about 1.3 MMT per year. GASC previously procured Egyptian medium grain for the ration card program. There is now a program to redistribute subsidized commodities using a smart card system that allows consumer choice and make commodities affordable with the same subsidized prices.

Post expects that the GoE will import long grain rice for its subsidy program which could be a step to test consumer preference and thus go ahead with allowing rice exports.

Trade

The export ban of rice in years, 2008, 2009 and 2011 had negative repercussions on the production and trade of rice since many large private rice mills had concentrated on the production of export quality rice because of the higher returns versus selling domestically.

With traders prevented from permitted exportation, inventories grew to some extent, although there were illegal exports as the incentive to ship to outside markets continued with the higher prices

available. Overall, the continuation of imposing such an export ban reduced the incentive for producing rice.

In September 2012, rice exports were allowed but only through an export licensing system. Through this system, the government controls the amount of exported rice and the timing of the exports in order to grant rice for ration card beneficiaries under the food subsidy system. On October 2013, Ministry of Industry and Foreign Trade announced the third rice export tender since the application of the export license system and the first in 2013. The 2013's tender was for exporting 100 TMT - more or less – for shipping before January 15, 2014. Rice exports were suspended however by a GoE internal decision in November 2013.

According to several media sources, in March 2014 the Egyptian government was poised to allow rice exports once again with a view to helping revive the country's economy, according to the newly appointed Minister of MoSIT who told local sources that the government might reverse its decision over the rice exports ban which was pushed by his predecessor just a few months prior.

The new MoSIT Minister indicated that there are demands for resumption of exports so Egyptian suppliers can take advantage of the sizable international market premium for medium-grain rice. The government also announced that it would accept offers to buy imported rice in its next tender for the subsidy program, a sign that the door for Egyptian rice exports could soon be opened.

As for lifting the ban on rice exports, there seems to be two conflicting opinions: the first opinion suggests that resuming rice exports encourages expanded area, in excess of that announced by the government for rice planting by 320,000-360,000 ha annually thus affecting the water supply for other crops and creating a water management crisis. Subscribers of this opinion who are mainly from public milling rice operations also predict that removing the ban on rice exports will once again empower private traders and millers leading to shortages and price increases affecting 80% of the supply purchased by GASC for its subsidized rice. Public millers demand that the government allocate $150 million to stockpile 500 TMT to procure local rice from farmers as a safety net.

On the other side of the fence, farmers, traders and millers believe that banning rice exports led to closure of more than 60% of the private mills, causing great losses for farmers who preferred to use their rice as feed for cattle rather than selling it to milling operation. Their argument is that farmers profited from exportation of rice because of the high prices paid for Egypt's rice internationally and producers were able to cover the costs of inputs and cultivation.

The price of one ton of Egyptian rice would be on the order of $900/MT on the international market, were it available, vs. $375- 420/MT of the imported long grain rice that can be used with the local medium grain rice for GASC's required1.3 MMT of subsidized rice that benefits
68 million people with ration cards. Egyptian rice exports can generate employment, serve as an incentive for good agricultural practices and bring in badly needed foreign exchange. Trade sources also indicated that despite the rice export ban, contraband Egyptian rice is making its way to shops across the Arabian Gulf and Africa where shoppers are able to cover their needs through the growing trade in illegal Egyptian rice

Post predicts that in the very short term, the Egyptian government will continue to ban rice exports to control rice prices, despite an estimated surplus of around 800 TMT. Looking ahead, the expectation is that the GoE will adopt a balanced policy that will open the door for exporting rice due to demand by farmers for higher prices and surplus stocks and at the same time will strongly enforce the laws and guidelines prohibiting any illegal cultivation of rice exceeding the restricted area set by the MALR and the Ministry of Water Resources.

Any decision taken by the government of Egypt to lift the ban on exporting rice will be linked to increasing international competition for rice tenders. This has mainly been seen from the US and Russia, which stepped in to supply Egypt's neighbors. As one example, the US and Russia have boosted exports to Turkey owing to Egypt's absence from the global export market.

Egyptian rice can easily move back into regional markets, and is competitive with US and Russian suppliers. Trade agreements between Egypt and many countries in the region provide a special tariff-rate quota to Egyptian rice exports. We expect Egypt to regain its place as a major exporter to Libya and Iraq, but rice demand from Syria will remain constrained by the ongoing civil war in that market. In the meantime, markets in which Egypt once had a stake are now dominated by other suppliers, at least in the short term.

Rice, Milled 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	770	770	800	790		795	(1000 HA)
Beginning Stocks	487	487	462	462		567	(1000 MT)
Milled Production	4,675	4,675	4,850	4,880		4,894	(1000 MT)
Rough Production	6,775	6,775	7,029	7,072		7,093	(1000 MT)
Milling Rate (.9999)	6,900	6,900	6,900	6,900		6,900	(1000 MT)
MY Imports	50	50	25	25		60	(1000 MT)
TY Imports	50	50	25	25		60	(1000 MT)
TY Imp. from U.S.	0	0	0	0		0	(1000 MT)
Total Supply	5,212	5,212	5,337	5,367		5,521	(1000 MT)
MY Exports	850	850	850	800		875	(1000 MT)
TY Exports	850	850	850	800		875	(1000 MT)

Consumption and Residual	3,900	3,900	4,000	4,000		4,100	(1000 MT)
Ending Stocks	462	462	487	567		546	(1000 MT)
Total Distribution	5,212	5,212	5,337	5,367		5,521	(1000 MT)
Yield (Rough)	9.	8.7987	9.	8.9519		8.922	(MT/HA)