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Egypt

Sugar Annual

Increasing Sugar Supply on Expanded Beet Production

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Report Highlights:

The Office of Agriculture Affairs forecasts refined sugar production in MY2019/20 to increase by approximately 14 percent or 335,000 MT to reach 2.74 MMT. Of this total forecast, 1.5 MMT of sugar will be derived from sugar beets, while 1.2 MMT will be sourced from sugarcane. Increase in production is attributed to higher procurement prices especially for sugar beets. Posts forecasts domestic consumption in MY2019/20 to increase by 4.8 percent or 150,000 MT to reach 3.25 MMT as a result of population increase. Egypt's raw sugar imports in MY2019/20 are forecast at 800,000 MT down from 830,000 MT in MY2018/19. The Sugar Industry Research Institute established a national sugar beet breeding program with cooperation from USDA to select sugar beet seed varieties that are adapted to the Egyptian environmental conditions. Through this program, Egypt can develop substitutes for EU seeds varieties and begin to produce their own beet seeds.

Sugarcane:

Overview

Sugarcane cultivation in Egypt is heavily concentrated around the sugar refineries in Upper Egypt. These concentrations constitute 77 percent of the cane area in the country. Middle Egypt comprises an additional 15 percent of the sugarcane area, followed by the delta at 8 percent. Sugarcane is planted in the spring and autumn seasons. Spring planting occurs in February and March, while autumn planting extends from September through October. The crop takes 12 months to grow.

Cane Production

FAS Cairo estimates a slight increase in the planted area to 130,000 ha, an increase of 4,000 ha compared to last year. The government is considering the request of farmers to increase the procurement price of sugarcane for the 2019/20 marketing year. The farmers responded to increases in the government procurement price of sugarcane by increasing the planted area. After the farmers syndicate demanded an increase in the price to EGP 1000 (\$57.68) per metric ton, the Egyptian government allowed for some upward adjustment. The price first increased to EGP 700 (\$40.38) and later, in January 2018, it increased to EGP 720 (\$41.53) per ton. Post expects an increase in the procurement price in 2019 harvest season to EGP 900 (\$51.90).

Post expects sugarcane production in MY 2019/20 to reach 13.8 MMT, 1.30 MMT above last year's estimate. In the past year, yields improved because of better access to fertilizer. The improved yields along with mild increases in harvested area are driving higher cane production.

The economy in Upper Egypt, the country's south, is heavily dependent on sugarcane production. Any disruptions to the sugarcane planted area would directly impact the livelihoods of the estimated 200,000 families that grow sugarcane. Given an average family size of 5.3 persons, just over a million people are directly dependent on sugarcane production. Another 300,000 families that depend on the ancillary businesses built around sugar production would also be indirectly affected by a downturn in the industry.

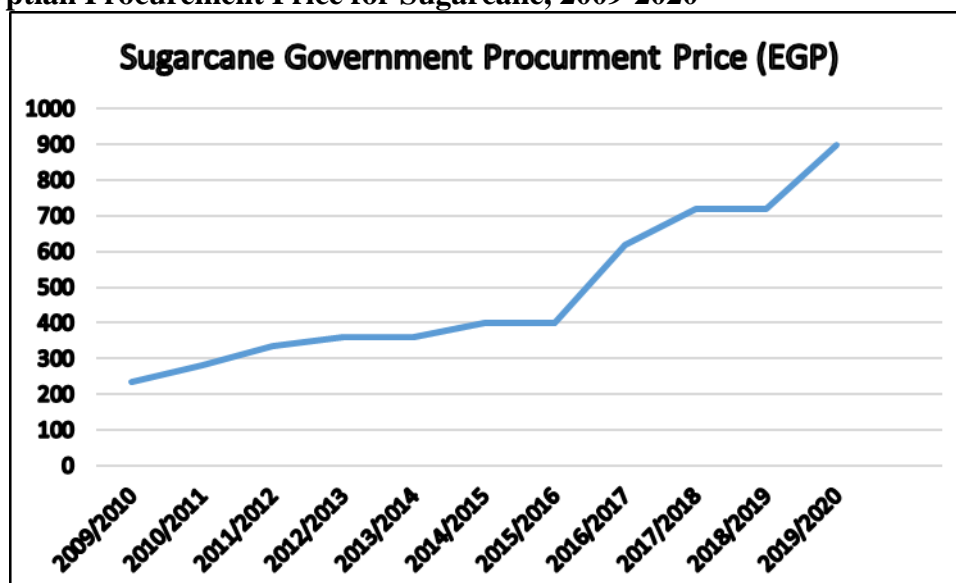
Due to the importance of sugarcane production to Egypt's economy, adequate pest control is essential. Since the 1990s, the United States has funded a project valued at 200 million Egyptian Pounds to develop sugarcane varieties resistant to culmicolous smut. This severe sugarcane disease can cause 30 to 75 percent loss in sugarcane yield. The US initially funded the long-term project using the Section 416(b) program.

The government controlled procurement price is a major determinant for farm-level production decisions. When the government sets a low procurement price, farmers switch to other more profitable crops. Farmers were disappointed with the government's procurement price of EGP 620 (\$34.83) per metric ton going into the January 2018 harvest. The current price is EGP 720 (\$41.53) per MT, which might increase to EGP 900 (\$51.90) by next season's harvest.

The local farmer's syndicate regularly pressures the government to increase its procurement prices. In marketing year 2016/17, the government increased the sugarcane procurement price to EGP 620 (\$34.83) per ton at the behest of the syndicate. The updated rate was 55 percent higher than the 2015/16 procurement price of EGP 400 per ton. The current price of EGP 720 (\$41.53) per metric ton is up by 16 percent as compared to the MY2016/17 procurement price. Figure 1 tracks the Egyptian procurement

price over time. [Note: The devaluation of the Egyptian Pound in November 2016 dramatically impacted the value in real terms, explaining much of the increase in subsequent years.]

Figure 1: Egyptian Procurement Price for Sugarcane, 2009-2020



Source: Egyptian Sugar Crop Council

Post estimates that with a sugarcane procurement price of EGP 900 (\$51.90) per ton, farmers will see a net profit of EGP 24,500 (\$1,413) per hectare. With the current procurement price of EGP 720, farmers received a net profit of EGP 19,619 (\$1,122) per hectare. The estimated cost of sugarcane production per hectare is around EGP 52,381.

Table 1: Sugarcane, PSD

Sugarcane for Centrifugal	2017/2018		2018/2019		2019/20	
Market Begin Year	Jan 2017		Jan 2018		Jan 2019	
Egypt	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	120	126	126	126	0	130
Area Harvested	119	125	125	125	0	129
Production	13650	12500	12500	12500	0	13803
Total Supply	13650	12500	12500	12500	0	13803
Utilization for Sugar	13650	12500	12500	12500	0	13803
Utilizatr for Alcohol	0	0	0	0	0	0
Total Utilization	13650	12500	12500	12500	0	13803
(1000 HA) ,(1000 MT)						

Note: These are FAS Cairo estimates, not official USDA data

Sugar Beet:

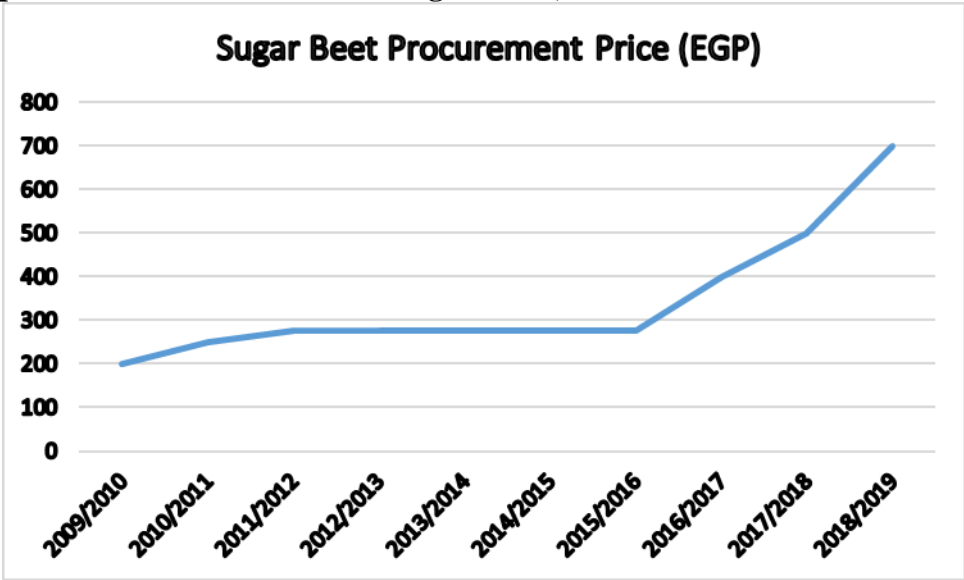
Beet Production

The industrial demand for sugar beets is increasing, which provides a higher price, incentivizing many farmers to plant more beets. FAS Cairo is increasing sugar beet area harvested in MY 2019/20 to 250,000 ha. Post is revising down last year's harvested area to 225,000 hectares instead of 230,000. With the decreased area harvested, post also revised down MY 2018/19 production to 9.5 MMT, six percent below earlier estimates.

Increased demand is attributed to new sugar beet processing plants, increasing demand for raw beets. Post expects area planted to increase and, subsequently, area harvested to rise by 11 percent or 25,000 ha, to reach 250,000 ha in MY 2019/20. With increased area comes an associated increase in production, expected to reach 10.71 million metric tons. This is an increase of 13 percent over the MY 2018/19 estimate of 9.75 million metric tons.

Sugar beet prices are increasing significantly. In MY 2018/19, the procurement price for the sugar beet crop reached to EGP 700 (\$40.38) per metric ton for early varieties compared to EGP 500 (\$28.08) per metric ton in 2017/18; a 40 percent increase. In MY 2016/17, the price was EGP 400 per ton. The 2016/17 price increase was the first beet farmers received since MY 2011/12. Before that time, prices were flat at EGP 275 per metric ton. Figure 2 shows sugar beet procurement prices from 2009 to the current year.

Figure 2: Egyptian Procurement Price for Sugar Beets, 2009-2019



Beets are planted in August and September and harvested in March and April. Independent farmers grow beets and contract sales directly with factories. Some beets are also cultivated on leased land operated by privately owned factories. During MY 2017/18, post expects sugar beet yield to average 42.4 metric tons per hectare. Sugar concentration in beets is 13-18 percent, higher than the 11 percent in sugarcane. In addition to sugar for human consumption, co-products from the refining process are utilized in animal feed.

Egypt does not produce beet seeds locally due to requirements in terms of temperature and sunlight. Among other conditions, seed production requires packing the roots at eight degrees centigrade for three months and daylight duration of 16-18 hours. As a result, Egypt depends on seed varieties imported

from Germany, Denmark, Netherlands, France and Sweden, which have a less-than-optimal performance in the Egyptian production areas. Every season, MALR distributes between 20-30 different varieties to avoid the risk of crop failure due to the susceptibility of a single variety to biotic or abiotic stresses.

The Sugar Industry Research Institute established a national sugar beet breeding program with cooperation from USDA to select sugar beet seeds varieties adapted to the Egyptian environmental conditions. Researchers evaluated 22 US sugar beet lines for heat stress tolerance 2016/2017; they identified seven lines as heat tolerant. Currently, the Sugar Industry Research Institute is conducting further trials to produce seeds out of the seven varieties identified for local production.

Table 2: Sugar Beet, PSD

Sugar Beets	2017/2018		2018/2019		2019/2020	
Market Begin Year	Jan 2016		Jan 2018		Jan 2019	
Egypt	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	225	211	231	226	0	251
Area Harvested	224	210	230	225	0	250
Production	9500	8900	9750	9518	0	10710
Total Supply	9500	8900	9750	9518	0	10710
Utilization for Sugar	9500	8900	9750	9518	0	10710
Utilization for Alcohol	0	0	0	0	0	0
Total Distribution	9500	8900	9750	9518	0	10710
(1000 HA) ,(1000 MT)						

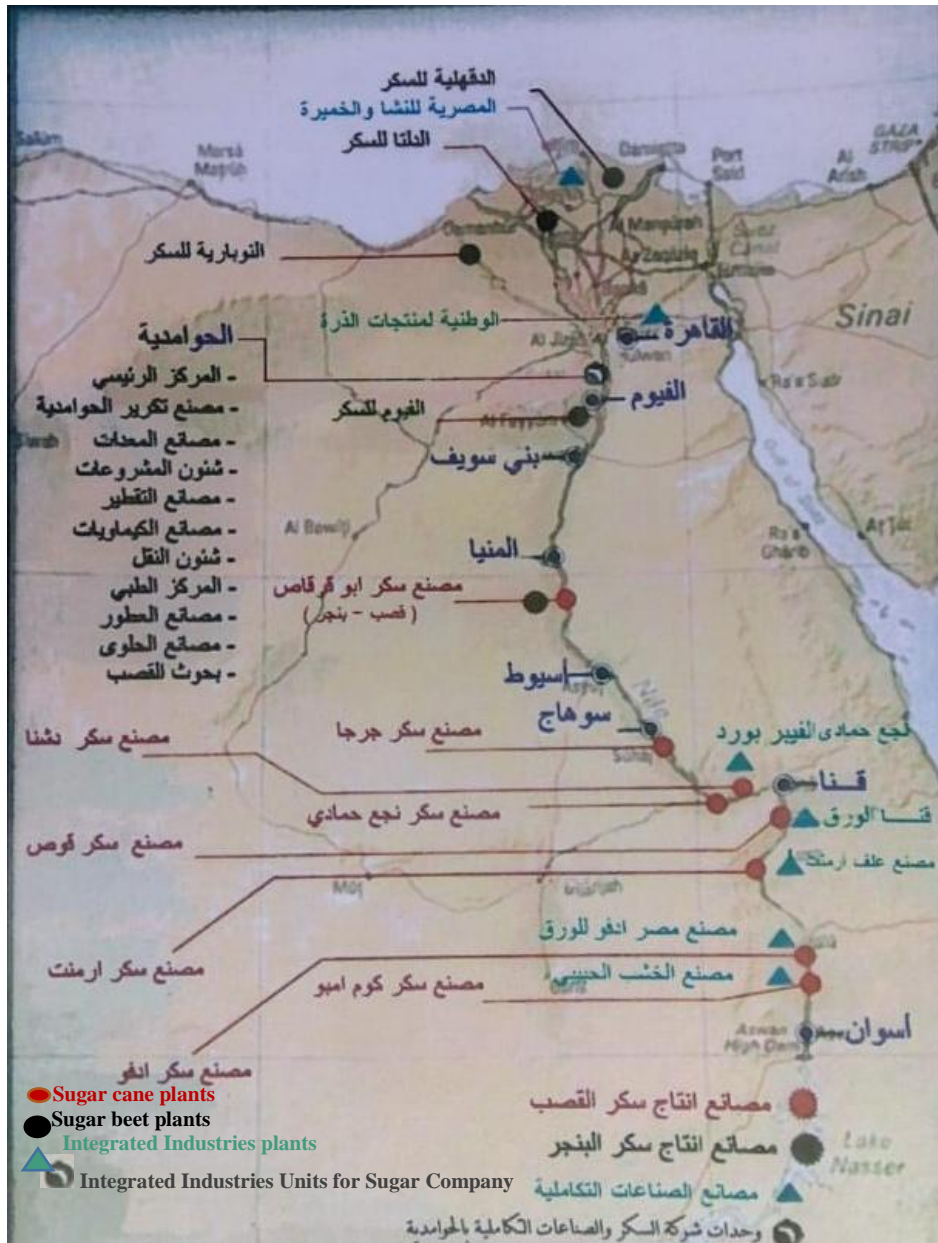
Note: These are FAS Cairo estimates, not official USDA data

Sugar Production:

Refined sugar production in MY2019/20 is expected to increase by approximately 14 percent or 335,000 MT to reach 2.74 MMT, as compared to the MY2018/17 estimate of 2.40 MMT. Of this total forecast, 1.5 MMT of sugar will be derived from sugar beets, while 1.2 MMT will be sourced from sugarcane. With a new processing facility coming online and farmers expanding planted area to meet demand, beet sugar production in MY2019/20 is forecast to increase by 195,000 MT, reaching 1.5 MMT. This is up 15 percent from 1.3 MMT in the previous marketing year. Sugar from cane is expected to increase in MY 2019/20 by 13 percent or 140,000 metric tons.

In Egypt, there are 15 sugar processors, seven processing sugarcane, seven processing sugar beets, and one processing both in Abo Korkas in the Menya governorate. All seven sugarcane processors are state-run companies affiliated with Ministry of Supply and Industrial Trade's (MoSIT) Holding Company for Food Industries (HCFI). Of the seven sugar beet processors, three are private sector, three are public-private, and the rest are state-run companies. Figure 3 demonstrates geographical distribution of sugar processors and related integrated industries.

Figure 3: Geographical Distribution of Sugar Processors and Related Integrated Industries

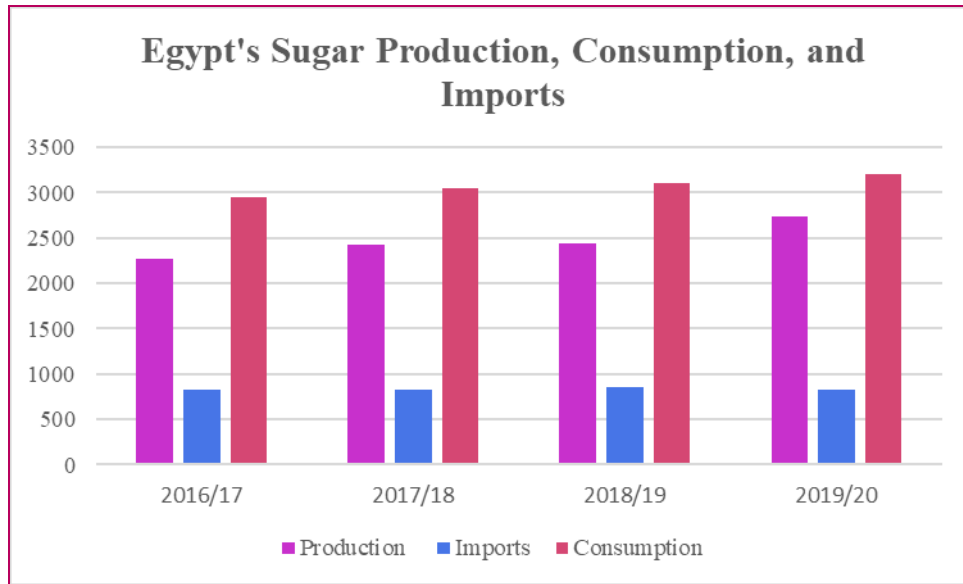


Source: FAS Cairo office research

Consumption:

Post forecasts total domestic sugar consumption in MY2019/20 to increase by 4.8 percent or 150,000 MT to reach 3.25 MMT. The rise in sugar consumption is driven by improving purchasing power and high population growth, estimated at 2.4 per annum. Egypt, with a population of 99.4 million (est. 2019), is adding roughly 2.4 million people per year. It is also host to an estimated six million refugees from Iraq, Syria, Libya, Yemen, and Sudan. Increases in consumption are in line with annual population growth.

Figure 4: Egyptian Sugar Production, Consumption, and Imports, 2016-2020



The Food Subsidy Program:

The Egyptian government in fiscal year 2017/18 (July-June) allocated EGP 85 billion (\$4.72 billion) for food subsidies. Of this amount, roughly EGP 45 billion (\$2.5 billion) alone is earmarked for the bread subsidy program. The other EGP 40 billion (\$2.2 billion) is for supply commodities, including sugar. Around 71 million Egyptians make use of food subsidies delivered by the government as credits on SMART cards; these can be redeemed for household staples each month. The cards are accepted by a network of 2,500 state-owned consumer complexes managed by the Ministry of Supply and Internal Trade's (MOSIT) Holding Company for Food Industries (HCFI), as well as at 27,000 partnered private grocery stores.

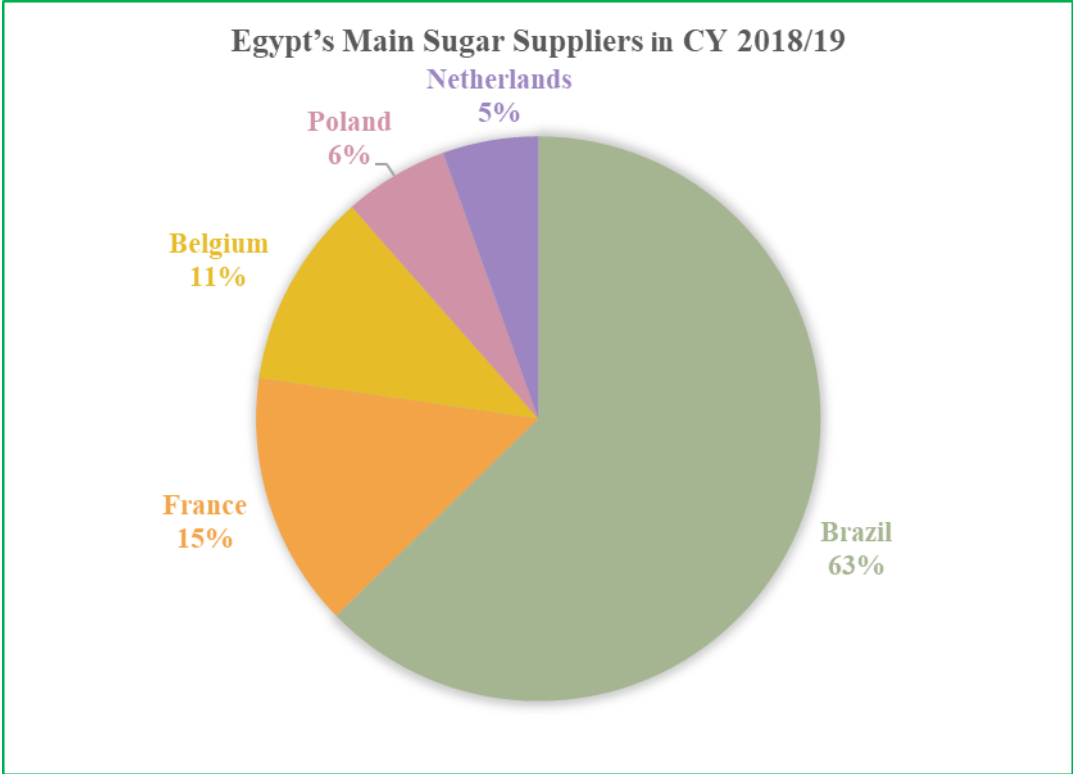
Egypt continues to provide refined sugar to food subsidy beneficiaries at prices below the international price. Egyptians are eligible to receive a cash allowance of EGP 50 (\$2.80) per beneficiary for the purchase of supply commodities. All SMART card beneficiaries are entitled to receive 0.8 liters of blended vegetable oil (EGP 18) and one kilogram of sugar (EGP 9.50) at subsidized prices per month. A family of four will get a monthly cash transfer of EGP 200 (\$11.36), enabling them to meet their sugar needs, as well as purchase other food commodities.

Nationally, average prices are between EGP 8-9 per kilogram, including bulk sales. Retailers in the greater Cairo area generally sell packaged sugar to the public at around EGP 10 per kilogram.

Trade:

Import estimates for MY 2018/19 are revised up 3.6 percent to 860,000 MT on lower-than-expected domestic production and increasing demand. Egypt’s sugar imports in MY2019/20 are forecast down to 830,000 MT on growing domestic production of sugar beets. The majority of sugar imports are imported through the Egyptian Sugar and Integrated Industries Company (ESIIC), which operates as a subsidiary of the Egyptian Holding Company for Food Industries.

Figure 5: Egypt’s Main Sugar Suppliers, CY 2018/19



Source: GTIS – office analysis

In CY 2018 Egypt imports amounted to 8.6 MMT, with Brazil supplying 63 percent of Egypt’s imports of raw sugar. Brazil is likely to remain Egypt’s main raw sugar supplier in MY2019/20. France is the second largest sugar supplier to Egypt followed by Belgium and Poland.

Post forecasts Egypt’s sugar exports to reach 300,000 MT in MY 2019/20 an increase of 100,000 from post’s MY2018/19 estimate. The Egyptian government put in place an export tax after the MY 2016/17 season, decreasing overall exports since that time. The tax is designed to protect domestic supply. On April 5, 2017, Ministerial Decree number 469/2017, increased the export tax to EGP 3000 (\$172) per metric ton. The decree was effective from March 30, 2017 and remains in effect. Sudan and Kenya absorb 50 percent of Egypt’s sugar exports and are expected to remain the main export destinations in MY2019/20. Egypt exports sugar to the majority of countries in the Levant and some countries in Africa.

Table 3: Centrifugal Sugar, PSD

Sugar, Centrifugal	2017/2018		2018/2019		2019/2020	
Market Begin Year	Oct 2017		Oct 2018		Oct 2019	
Egypt	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	120	120	180	180	0	145
Beet Sugar Production	1320	1220	1335	1305	0	1500
Cane Sugar Production	1100	1100	1100	1100	0	1240
Total Sugar Production	2420	2320	2435	2405	0	2740
Raw Imports	800	960	800	830	0	800
Refined Imp.(Raw Val)	30	30	30	30	0	30
Total Imports	830	990	830	860	0	830
Total Supply	3370	3430	3445	3445	0	3715
Raw Exports	200	200	200	200	0	300
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	200	200	200	200	0	300
Human Dom. Consumption	3050	3050	3100	3100	0	3250
Other Disappearance	0	0	0	0	0	0
Total Use	3050	3050	3100	3100	0	3250
Ending Stocks	120	180	145	145	0	165
Total Distribution	3370	3430	3445	3445	0	3715
(1000 MT)						