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Egypt Lifts Rice Export Ban

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Report Highlights:

Egypt lifted the rice export ban as of October 1, 2012, but there will be a $162/MT export tax and export permits will be allocated by tender. Rice production is clearly sufficient to cover domestic market requirements and permit exports. There were substantial contraband exports in MY 2011/2012 and Post expects legitimate exports to reach 850 TMT in 2012/13. Post estimates paddy production of 6.8 MMT, although estimates of as high as 8.5 MMT are circulating in the trade and government. Egyptian traders will seek to recapture their former position as a major exporter of medium-grain rice, but face new competition and uncertain markets. Prior to the March 2008 export ban, Egypt exported 1.2 MMT in MY 2006/07. U.S.-origin rice exports to the Middle East – North Africa (MENA) region have benefited from Egypt's withdrawal from the market and will now face vastly increased competition.

General Information:
Export Ban Lifted:

The Minister of Industry and Foreign Trade issued on September 30, 2012, the ministerial decree authorizing the export of milled rice (HS 1006-30) starting October 1, 2012. There have been substantial contraband exports, especially since early 2011 when the former regime was overthrown and law enforcement was degraded. In a “Farmers Day” speech on September 12, 2012, the Minister of Agriculture and Land Reclamation announced on that Egypt would lift the March 2008 export ban. The Ministry of Industry and Foreign Trade (MIFT) – Foreign Trade Sector will issue the new export permits.

Milled rice export permits are guaranteed through tenders announced by the MIFT. However, exports are to remain restricted by domestic market needs. MIFT will allocate quotas and quantities on the basis of the availability of rice for domestic consumption. Exporters will pay LE 1,000 ($162) (U.S. $1.00 = LE 6.10) per metric ton of milled rice exported. We understand, exporters are also interested in the lifting of the export ban on HS 1006-10 (paddy) and, especially, 1006-20 (brown rice), for which Egypt has tariff rate quota access to the EU, Turkey, South Korea and Taiwan.

General Information:

Production: Post estimates that some 740 thousand hectares of land are being cultivated in MY 2012/13, representing an increase of almost 6 percent compared to the MY 2011/12 levels, but a slight drop from our previous estimate. With the 2012 harvest season underway we estimate that Egypt will produce about 6.8 MMT of rice, based on improved yields. However, yields are still restrained by availability of irrigation water. Some private estimates indicate 40-50,000 more hectares planted and paddy production of 8 MMT or more. Post tends to discount these estimates as local traders have been encouraging the GOE to reopen the export market. If there really are 8 MMT of paddy available, Post would expect a significant price drop during the harvest season as Egypt does not appear to have sufficient domestic demand and export markets to absorb all of this rice.

Table 1: Egypt Production Statistics, Thousand Hectares, Thousand Metric Tons

Rice, Milled Egypt	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: May 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	450	450	700	700	750	740
Beginning Stocks	498	498	122	122	502	702
Milled Production	3,100	3,100	4,250	4,250	4,500	4,700
Rough Production	4,493	4,493	6,159	6,159	6,522	6,812
Milling Rate (.9999)	6,900	6,900	6,900	6,900	6,900	6,900
MY Imports	24	24	800	550	750	150
TY Imports	76	76	800	550	750	150
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	3,622	3,622	5,172	4,922	5,752	5,552
MY Exports	200	200	600	600	600	850
TY Exports	320	320	600	600	600	850
Consumption and Residual	3,300	3,300	4,070	3,620	4,300	3,900
Ending Stocks	122	122	502	702	852	802
Total Distribution	3,622	3,622	5,172	4,922	5,752	5,552
1000 HA, 1000 MT, MT/HA						

Note: (*) Post data reflect Post's assessments and are NOT official USDA data.

Domestic Market Requirements: To ensure domestic procurement for the ration card program, President Mohamed Morsi announced in mid-September target purchase prices for Egyptian medium-grain paddy. Procurement prices are LE 2,000 ($328) for “thin grain” paddy and LE 2,050 ($337) per metric ton for “wide grain” paddy. Sources indicate that some rice traders are purchasing wide, medium-grain rice from farmers at LE 2,000 ($327) per metric ton and reselling it to the government at LE 2,050.

Prior to President Morsi's announcement, the market price hovered at LE 1,600 ($260) per metric ton, down 17 percent from the preceding year's price of LE 1,920 ($315) per metric ton. The GOE apparently is opting for higher medium-grain rice price ceilings to placate small- to medium-size farmers who have been impacted by the overall stagnation in the Egyptian economy and have not received the wage increases given to many employees in the public and private sector. However, the GOE only needs to procure about one quarter of the paddy crop to supply the ration card program. There is talk of setting up a strategic stock of paddy rice, but the GOE lacks both storage capacity and funding for such a stock. Post would expect paddy prices to fall after the initial GOE procurement is completed, likely leading to farmer dissatisfaction as well as increased competitiveness of Egyptian rice on world markets.

Egypt tries to restrict rice planting to about 1.2 million feddan or 500,000 hectares. President

Morsi announced that the GOE will waive fines for planting rice in other areas for the 2012 crop, as occurred in 2011, but that the government will not tolerate this next year. While planting area violators will face stiffer penalties in the 2013 crop year (MY 2013/2014), we anticipate that violations will continue. Rice's high returns provide farmers an incentive to exceed planting area limits despite fines of LE 600 ($98) per feddan.

Domestic Market - Government Tendering: The General Authority for Supply Commodities (GASC) procures rice for the national ration card program. This program provides 2 kilograms of rice per person per month at LE 1.5 ($0.25) per kilogram to some 64 million ration card holders. The Ministry of Supply and Internal Trade distributes 1.1 MMT of rice yearly to ration card holders. Post estimates total rice consumption at around 3.9 MMT per annum for MY 2012/13.

With export markets closed, except for the substantial contraband trade, rice farmers and traders have stockpiled rice to drive up domestic prices. The government responded in December 2011 and in March 2012 by conducting imported long-grain rice tenders for 221 TMT and 213 TMT. A 228 TMT tender was issued in August 2012 to cover ration card needs for July to September 2012. It appears that 80 percent of the tender is being filled with domestic product. This is the first tender in nearly a year in which domestic rice was supplied. As a result, Post has reduced the 2011/12 imports from 800 to 550 TMT. Post also sharply reduced 2012/13 imports from 750 to 150 TMT, reflecting the expectation that Egypt will have minimal imports this year.

The GOE has announced a budget of LE 1 billion ($164 million) for rice procurement. The government seeks to procure large volumes of rice at the beginning of the season to avoid quarterly price increases, but has allocated only about half the required funds to purchase paddy to produce the 1.1 MMT of rice required for the ration card program.

Trade Impacts: Egyptian rice traders may well not be able to export rice in the volume that they would like given increased international competition and uncertain markets. The United States and Russia have made some inroads in the Turkish market, but whether they will remain competitive with Egypt in the market again is open to question. Egypt does have a bilateral trade agreement with Turkey which provides a TRQ for Egyptian rice. The ongoing civil conflict in Syria, a traditional Egyptian market, will reduce demand for Egyptian rice. We expect Egypt to do well in Libya, Iraq and other regional markets that consume medium grain rice. However, based on Post's previous estimates of some 600 TMT of exports, mainly contraband, we only expect exports to reach 850 TMT once the ban is lifted. Egyptian traders have indicated they expect as much as 1 MMT of exports.

With increased production and exports likely unable to absorb the full surplus, Post would expect domestic paddy prices to fall, creating potential political problems as farmers will not be able to obtain prices equivalent to the announced procurement price. While this may ameliorate the cost of living for domestic consumers, farmers could again see their income levels adversely impacted.

Impact on U.S.-origin Rice Exports: Egyptian exports will adversely impact the competitiveness of U.S.-origin rice exports in the Middle East North Africa (MENA) region. Rice traders indicate that they plan to offer Egyptian medium-grain rice at $750 per metric ton.

Table 2: Estimated Volume of Rice Imports, Thousand Metric Tons

Market Share	Destination	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
U.S.	Jordan	69	75	88	78	73
Egypt	Jordan	117	21	40	4	0*
	TY Imports	**213**	**135**	**177**	**136**	**140**
U.S.	Libya	2	2	4	41	169
Egypt	Libya	168	98	24	160	1*
	TY Imports	**170**	**150**	**32**	**215**	**198**
U.S.	Saudi Arabia	127	132	115	115	144
Egypt	Saudi Arabia	62	21	25	9	0*
	TY Imports	**961**	**1,166**	**1,072**	**1,069**	**1,059**
U.S.	Sudan	0	0	0	0	0
Egypt	Sudan	48	29	27	18	0*
	TY Imports	**55**	**35**	**35**	**30**	**35**
U.S.	Syria	0	4	7	15	18
Egypt	Syria	204	130	136	107	0*
	TY Imports	**235**	**230**	**250**	**315**	**250**
U.S.	Turkey	2	115	31	324	74
Egypt	Turkey	140	48	60	58	0*
	TY Imports	**193**	**225**	**207**	**412**	**300**

Note: Post data reflect Post's assessments and are NOT official USDA data. The Trade Year is January-December of the later year of the split. For example, 2010/2011 refers to calendar year 2011.
(*) Substantial contraband shipments of Egyptian rice were made to these markets.
Source: Foreign Agricultural Service, Official USDA estimates, Post estimates, and Global Trade Atlas.

Post anticipates Egypt to export 850 TMT of rice in MY 2012/13, short by 150 TMT from the goal of 1.0 MMT. U.S. and Russian rice have filled part of the void created by Egypt's off-and-on 2008 rice export ban. Egypt's traditional medium-grain rice export markets in the region include Jordan, Libya, Syria, Turkey, and Saudi Arabia.

Post anticipates strong competition from Egyptian rice to come in the Turkish market. Egypt benefits from shipping proximity combined with it being a historical supplier to Turkey, which is a large importer of HS 1006-30 milled rice. Egypt has a TRQ of 30,000 MT for brown rice and 10,000 MT for milled rice under the Egypt-Turkey Free Trade Agreement. U.S.-origin rice will also face increased competition from Egyptian rice exports in the Saudi Arabian market, where U.S. exports of medium grain rice have increase substantially since the Egyptian export ban.

Post anticipates Egyptian competition in the Jordanian market in a bid to recover market share. U.S.-origin rice benefitted from Egypt's export ban. Egypt's return to the export market will benefit from proximity to Jordan and long established trade relationships. Reports abound of unrecorded transshipment operations in Syria and Iraq.

Indications are that trade with Libya should blossom once political consolidation and a measure of stability return to that market. U.S.-origin rice captured a major share of the

Libyan market in 2011 and to a lesser extent in 2012 as contraband Egyptian rice recaptured market share.

Post believes that Syria will remain a good Egyptian medium-grain rice export destination in the short- to medium-term. Despite the export ban, Egyptian rice has continued to make its way to Syria. However, the ongoing Syrian insurrection may hinder the financing of Egyptian medium-grain rice imports. Egyptian traders may have some advantages in moving rice into this market despite financial sanctions.