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Foreign Exchange Crunch and Unusually Restrictive Trade Measures Affect Wheat Imports and Continued Mishandling of Rice Export Policy

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Report Highlights:

MY 2016/17 wheat imports are forecast at 11 million metric tons (MMT). MY2015/16 imports are revised downward to 10.6 MMT from USDA's estimate of 11.5 MMT. The decrease results from limited foreign exchange which has affected imports in general since early 2015 and confusion about applying zero tolerance for ergot in wheat, leaving traders unwilling to supply wheat. Growing feed demand by the poultry, aquaculture, and livestock sectors will increase corn imports to 8.5 MMT in 2016/2017. Post is revising MY2015/16 rice exports downwards to 250,000 MT from USDA's estimate of 400,000 MT, as Egypt's rice is not internationally competitive under current government policy. Post also reduced the MY 2015/16 milled rice consumption estimate by 14.2 percent from USDA's estimate of 4 MMT due to shortages of rice supplies in the government's subsidy program.

Executive Summary:

FAS Cairo forecasts wheat and corn areas to remain unchanged at least in the short run, despite challenges in water management and high input costs. In the next few years however, with more limited Nile water availability looming due to the construction of Ethiopia's Renaissance Dam and because of heat stress issues and assuming salinity problems in the Northern Delta persist, absent the development of especially drought-tolerant seed varieties, a gradual reduction in planted area of wheat, rice and corn is expected.

MY 2016/17 planted area and wheat production is forecast to reach 1.26 million hectares (ha) and 8.1 MMT, respectively. In MY2015/16, FAS Cairo's forecast remains unchanged from USDA's official estimate at 1.26 million ha of planted area and production of 8.1 MMT.

Due to pressure from farmers and farmer groups, the Government of Egypt (GOE) backtracked from a new subsidy program that had been announced. So, for this crop year, the government returned to fixing a price reflecting a substantial subsidy for local procurement of the local harvest. The price of LE 420 /ardeb or $ 357 /ton, ($1= LE 7.83) has been set for this year's wheat crop which will begin to be harvested in April. This is the same price paid for local wheat in 2015. The high price is a contributing factor in limiting any reduction in current wheat areas being cultivated by more than 3 million farmers.

MY 2015/16 wheat imports are being revised downward to 10.6 MMT, 8.5 percent lower than USDA's official forecast of 11.5 MMT. The decrease is attributed to challenges in accessing dollars that has made opening letters of credit more difficult and confusion that prevailed for several weeks in the first quarter of 2016 about whether a zero-tolerance for ergot was being applied to incoming wheat shipments. Posts forecasts imports to reach 11.0 MMT in MY 2016/17 as a result of rising consumption, population growth, and growth in the bakery sector.

Between July 1, 2015 and March 2, 2016, the total amount of wheat purchased by the General Authority for Supply Commodities (GASC) reached 3.97 MMT, slightly under GASC imports during the same period in MY 2014/2015 which amounted to 4.22 MMT. Top suppliers in MY 2015/16 are:

- Russia, 1.95 MMT
- Romania with 780,000 MT
- France with 540,000 MT
- Ukraine with 460,000 MT, and
- Argentina with 180,000MT

The poultry and aquaculture industries increasing demand for feed is expected to lead to record imports of corn at around 8.5MMT in MY 2016/2017. Posts forecasts corn imports will reach 8.25MMT in MY 2015/2016 due to further expansion and investments in the livestock and feed sectors.

In MY 2016/17, FAS Cairo's forecasts of rice exports are 250,000MT, similar to MY 2015/16, which was revised downward from USDA's estimate of 400,000MT. Export conditions set under the Ministry of Industry and Trade's 2015 Decree No.708 requiring exporters to pay an export tax of $256 per ton have hindered milled rice exports as the surcharge has made Egyptian rice prices less competitive in the international market.

Commodities

Wheat

Production:

FAS Cairo forecasts Egypt's wheat production and planted area in MY 2016/17 at 8.1 MMT and 1.26 million ha, respectively. FAS Cairo's estimate for area planted and production in MY 2015/16 remains unchanged from USDA's official estimate.

The Ministry of Agriculture and Land Reclamation (MALR) through its Agricultural Research Center (ARC) continues to focus on vertical expansion efforts in wheat that include:

1. Using early-maturing varieties, leading to increasing water use efficiency and achieving high crop intensification rates.
    - Increasing yields by utilizing new drought tolerant, higher yielding varieties
    - Expanding the amount of certified seed distributed to farmers from high-yielding wheat varieties that yield between 6.5-6.8 tons/HA that include Giza 171, Sids 14, Gemiza 11, Shandaweel 1, Misr 1 and Misr 2.
2. Development of a national wheat campaign to showcase good agricultural practices in more than three thousand extension fields across the country.

Procurement Price:

The key driver for wheat production is the government's procurement price policy. High government procurement prices encourage farmers to make early cropping decisions, discouraging them from switching to other crops such as clover or sugar beets.

Since the MY2013/14 season, Egypt has maintained high local wheat procurement prices at LE 420/ardeb which meant $400/MT @$1= LE 7.00. Now, due to a deterioration in the value of the Egyptian Pound, the MY2015/16 price translated to $357/MT because $1= LE 7.83, which is still between $150-180 above world market prices. However, the policy has encouraged fraud as cheaper imported wheat was passed off/sold as domestic wheat in 2015, due to the substantial difference between the low international price and high price paid for "local" wheat. Medium to small-scale local traders usually approach farmers before the harvest season and make a deal to buy their crop at a price lower than that declared by the government and then sell it back to the government at procurement time, mixing in imported wheat to increase their profits.

In an effort to stifle abuse and leakages, in November 2015, the government approved a policy proposal, submitted by the Ministry of Supply and Internal Trade (MOSIT) and MALR, that would replace the procurement price with direct payments to farmers, providing each farmer with LE 1,300/feddan ($166/feddan or $395/ha) up to a maximum of 25 feddans (10.5 ha) per farmer.
Farmers would receive the subsidy a month before the onset of the harvest, which would be between January and February, through MOSIT. The Egyptian Government (and local traders) would then

purchase the local wheat harvest at the average international wheat price prevailing during the harvest time (April-June).

The new policy, however, angered the country's three million wheat farmers, who asserted that the reduction in price per ton of wheat from $357 to the prevailing international market price plus the per feddan (slightly more than 1 acre) support - would make it unprofitable to cultivate. The three major agricultural unions in the country– the General Union for Agrarian Reform, the General Union for Agricultural Credit, and the General Union for Land Reclamation – argued that the proposed policy is unconstitutional. According to the cooperatives, Article 129 of the Egyptian Constitution calls for the State to buy strategic crops from farmers at prices that enable them to make a decent profit.

Farmers and the cooperatives along with the newly elected members of Parliament including influential Agricultural Committee members, took their objections to Prime Minister Sherif Ismail, forcing him to reverse the government's policy and reinstate the original procurement price policy of LE 420 ($53.6) per ardeb or $357/ton.

According to government sources, there will be very strict committees formed by the Ministry of Supply and Internal Trade (MOSIT) of which GASC is a part and MALR to ensure that no imported wheat leaks into the system during the three-month 2016 procurement season. However, skepticism abounds as there are no clear specifications for the different grades of Egyptian wheat, as well as the lack of appropriate advanced systems of inspection methods that are necessary to curtail the problem. Post estimates that local wheat procurement for MY 2015/16 will be in the range of 3.7-4.0 MMT.

Consumption:

In MY 2016/17, USDA Cairo forecasts total wheat consumption at 19.4 MMT, up 1.0 percent from MY 2015/16. The increase is due to an increase in food, seed and industrial use (FSI) consumption by 2.2 percent from MY2015/16's estimate of 17.8 MMT. The anticipated rise in FSI consumption of wheat in MY 2016/17 is driven by high demand for bread by a population that is growing at a rate of 2.6 percent annually, coupled with the registration of six million new beneficiaries to the smart card subsidy program.

Total MY 2015/16 wheat consumption has been revised downward by approximately 2.1 percent from USDA's official estimate of 19.6 MMT. The decrease is attributed to a 28.6 percent reduction in feed and residual use, as less bread is being used as animal (primarily poultry) feed as a result of the improved bread subsidy system in place since April, 2014.

Under the existing subsidy system each individual with a smart card is allowed 150 loaves/ month or 5 loaves/day. Subsidized "baladi" bread is sold at a subsidized price of EGP 0.05 per loaf ($ 0.01 per loaf), while the non-subsidized market price is EGP 0.35 per loaf ($ 0.05 per loaf). The government pays the bakers the difference between the two prices.

The system allows beneficiaries who consume less than the quota to convert their bread savings into points (1 point= $0.01) and spend it on more than 40 food products that they can purchase from the 25,000 privately-owned grocery stores around the country partnering with MOSIT or the 5,000 publicly owned consumer complexes. The beneficiary can only use the redeemed points during the first twenty days of the following month.

After almost two years of implementing the subsidized “baladi” bread program using smart cards strengths and weaknesses of the program can be summarized as follows:

Strengths:

1. Disappearance of long waiting lines at bakeries, thus improving timely access to the bread.
2. Bakeries now purchase wheat flour (82% extraction rate) at a market price of $320/ton from public or private mills, increasing competitiveness between them by working harder to lure customers with quality.
3. The program has allowed for 25,000 bakers and another 25,000 privately-owned grocery stores to join the formal economy, through the linkage of these market participants with MOSIT and the banking system.
4. MOSIT established a customer service call center to get consumer feedback to review the program and improve on it.
5. The program allows the government the means to collect the appropriate data by screening the actual volume of bread produced and consumed by smart card holders, and customers’ consumption patterns through the usage of redeemed points. Further, it has facilitated an improved allocation of products and a better targeting of low-income consumers’ needs.

Weaknesses:

1. The increase in the food subsidy budget. According to the Egyptian Ministry of Finance, actual spending on food subsides amounted to LE 39.4 billion ($5 billion) in FY 2014/15 compared to LE 35.5 billion ($4.5 billion) in FY 2013/14. In December 2015, the Ministry of Finance monthly report indicated that expenditures on food subsidies rose by 17.4 percent during the first semester of FY 2015/16 compared to the same period in FY 2014/15.

2. Smart card fraud: Reports have surfaced of several bakeries renting smart cards from beneficiaries, in order to allocate the maximum daily amount of bread allotted. Additionally, unscrupulous bakeries take advantage of the beneficiaries’ lack of awareness of the system’s rules. For example, most beneficiaries do not take a receipt from the bakery after purchasing their bread in order to track their bread balance, enabling some bakeries to fraudulently enter a larger bread quantity into their electronic scanners than what they truly gave to the beneficiaries.

3. Technical problems with the network system: The network system that links the smart cards readers across Egypt frequently experiences connectivity issues, disrupting end-users’ purchasing ability.

Milling Capacity:

Egypt has more than 410 mills divided between the public, public/private, and private sector mills with total investments of more than one billion dollars. Public mills and public/private milling capacity ranges between 50-55 thousand tons per day while private sector mills capacity is estimated at 20 thousand tons per day.

In MY 2015/16, many private mills, especially smaller ones, have been operating at under 50 percent capacity due, in part, to shortages of imported wheat as Egypt goes through a foreign currency crunch. According to some private investors, Egypt has an overall excess milling capacity of more than 35 percent. Public mills and public/private mills produce flour at extraction rate 82 percent used for making the subsidized *baladi* bread, producing 70 percent of its total.

The remaining 30 percent is produced by private sector mills that have a contract with the government. These mills are not allowed to produce the 72 percent extraction flour produced by the other private sector mills. However, in a new development, private bakeries producing 72 percent extraction are now allowed to produce flour at extraction rate 82 percent used for making the subsidized baladi bread under the premise that it would create competition in the milling sector leading to higher quality flour at reasonable prices.

The 72 percent extraction flour is sold to around 20,000 private sector bakeries which produce higher quality *fino* bread and other bakery products. This higher-end sector is expected to grow by more than 8 percent in MY2016/17 due to their relatively cheaper prices and high caloric intake. Private bakeries and in-store bakeries in large retailers and hypermarkets are also witnessing high-growth for high-quality baked goods.

Trade:

Posts forecasts imports to reach 11.0 MMT in MY 2016/17 as a result of rising consumption, population growth, and the bakery industry's increasing demand for wheat. As for the current MY 2015/16, wheat imports are being revised downward to 10.6 MMT, 8.5 percent lower than USDA's official forecast of 11.5 MMT due to the interruption in imports caused by foreign exchange rationing and a short-lived, but highly trade-disruptive, zero-tolerance of ergot fungus in wheat shipments

Private sector imports in CY 2015 amounted to 5.2 MMT, compared to 5.6MMT in CY2014, a reduction of 400,000 MT or eight percent. The foreign currency crisis also hindered the private sector's ability to access dollars. In many cases banks have been unable to promptly open letters of credit, thus crippling import activity. Delays in opening letters of credit for the goods supplied to state buyers have noticeably increased during the past 3-4 months. In light of this, the GASC changed the payment terms for wheat purchases in its tenders. The letters of credit can now be opened up to 180 days after signing the contract, allowing for additional time to secure the necessary amount of dollars needed for these L/Cs.

The other factor that disrupted wheat supplies was Egypt's Central Agency for Plant Quarantine (MALR) attempting to enforce a zero-tolerance for ergot, contravening GASC's tender specifications of 0.05 percent, which is in line with the Codex Alimentarius' standard.

This measure put Egypt clearly out of step with international norms and cost the government money.

This attempted restriction led to the rejection of two French wheat shipments and a Canadian wheat shipment, sending traders into disarray who, at least for a few weeks, refused to bid on subsequent GASC tenders. In turn, GASC was forced to cancel tenders number 20, 21, and 23, really for the first time in its history.

After the debacle, the minister's office (at MALR) issued a letter to traders indicating it would resume allowing an ergot fungus tolerance level of 0.05 percent in wheat shipments. Additionally, the ministers of MALR and MOSIT at a press conference issued a joint statement disavowing the disruptive ergot zero tolerance, stressing that they had concurred to resume accepting the 0.05 percent ergot level in an effort to further assuage traders' concerns.

Despite these assurances, traders remain wary and few of them participated in tenders number 25, and 26. However, those that participated submitted bids at a premium of $8.0-10.0/MT above market prices as a result of the uncertain and chaotic environment created by the temporary measure.

GASC gave the following breakdown of wheat purchases in its last tender, March 2, 2016: 60,000 MT of Romanian wheat from Ameropa at $184.38 C&F, 60,000 MT of Romanian wheat from Serialcom at $184.38 C&F, and 60,000 MT of Ukrainian wheat from Louis Dreyfus at $185.38 C&F.

For the 2015/16 marketing year through March 2, 2016, the total amount of wheat purchased by GASC totaled almost 4 MMT, less than GASC imports during the same period in MY 2014/2015 by 6.2 percent. Please see table 1 for complete GASC purchases Compared to other significant regional wheat buyers such as Algeria and Saudi Arabia, Egypt's tender requirements have become unnecessarily complicated and costly. GASC can realize considerable savings if their requirements were less rigid. Shipping and delivery time for GASC tenders tend to be very short, and require inspectors from three government agencies to travel and inspect vessels at ports of origin, significantly increasing costs paid by consumers.

Additionally, CAPQ's rigorous phytosanitary requirement on *Ambrosia spp*. requires a zero tolerance for this widespread weed seed which is commonly found in wheat, corn and soybean shipments. If found, CAPQ requires that the entire shipment be sieved before the shipment can be released, taking up to 10 days to three weeks. The measure increases demurrage, storage, and other associated costs between $5 to $7/MT. Egypt argues that this measure is based on a pest risk analysis (PRA), which is viewed by phytosanitary experts as weak as it does not follow International Plant Protection Convention's PRA guidelines.

These burdensome inspection and phytosanitary requirements add a premium to an already burdened economy that ends up eating away at the country's precious foreign exchange, while saddling its consumers with higher food costs. It is in Egypt's best interest to revise these standards and bring them in line with those of the global trading community.

Table (1): Government imports by GASC Since July 1st 2015

Tender No	Tender date	Origin	Tonnage /MT	Total /MT
1	07/01/2015	Romania	60,000	60,000

2	07/09/2015	Russia Ukraine	120,000 60,000	180,000
3	07/15/2015	Romania Russia	120,000 115,000	235,000
4	07/21/2015	Russia	175,000	175,000
5	08/5/ 2015	Russia	120,000	120,000
6	08/13/ 2015	Russia Ukraine	60,000 115,000	175,000
7	08/27/2015	Russia	60,000	60,000
8	08/28/2015	Ukraine	55,000	55,000
9	09/ 03/2015	Russia	170,000	170,000
10	09/18/2014	France Russia	60,000 175,000	235,000
11	10/ 03/2015	Russia Ukraine	180,000 60,000	240,000
12	10/09/2015	Russia Romania	120,000 60,000	180,000
13	10/15/2015	Russia Romania	180,000 60,000	240,000
14	10/29/2015	France Romania Poland	120,000 60,000 60,000	240,000
15	11/10/2015	Ukraine Russia	55,000 60,000	115,000
16	11/11/2015	Russia France	60,000 60,000	120,000
17	11/25/2015	Russia France Romania	60,000 120,000 60,000	240,000
18	12/23/2015	Argentina	120,000	120,000
19	1/21/2016	Romania Russia France	60,000 115,000 60,000	235,000
20	2/2/2016	Cancelled	0,000	0,000
21	2/4/2016	Cancelled	0,000	0,000
22	2/11/2016	Romania	60,000	60,000
23	2/12/2016	Cancelled	0,000	0,000
24	2/19/2016	Russia France	180,000 60,000	240,000
25	2/27/2016	Argentina France Romania Ukraine	60,000 60,000 120,000 60,000	300,000
26	3/2/2016	Romania Ukraine	120,000 60,000	240,000

Stocks:

Post forecasts that MY2016/17 ending stocks will be 3.2MMT. MY2015/16 stocks have been adjusted downward to 3.5 MMT from USDA's official estimate of 3.9MMT. The decrease in ending stocks is attributed to an expected increase in consumption levels and a decrease in imports.

In principle, GASC strives to maintain 5-6 months' supply of stocks, which include wheat imports in vessels and recently tendered. As such, three months' supply is in country, while an additional 2-3 months' of supply is on its way to Egypt.

Existing wheat storage capacity for Egypt is 5.2 MMT. Public mills have 700,000 tons storage capacity while the private sector storage capacity is around 1MMT which are either located in ports or close to the vicinity of the ports. In addition, the Egyptian Holding Company for Silos and Storage has a 1.5 MMT storage capacity, which includes 25 newly constructed silos with a storage capacity of 750,000 tons storage capacity as part of the National Silos Program. Finally, the PBDAC has 364 *shonas* with a storage capacity 2 MMT used for the local harvest.

Shonas are a system of traditional open float storage. The poor quality of this storage causes significant losses from exposure to weather and pests, which is estimated at 5-10 percent.

Of the 364 *shonas*, 264 *shonas* are in disrepair and need to be upgraded with modernized storage facilities. Currently, a project is underway to refurbish 93 *shonas* which will include modernized warehouses with screening, drying, and grading capabilities. The project is being undertaken by the Ministry of Defense's Engineering Authority which is building the warehousing and a U.S. company, Blumberg Grain, that is equipping this new storage. Recently, Egypt also received an Italian grant to replace 10 *shonas* and to build 2 modern silos with a total capacity of 140,000 tons.

On December 20, 2015, the Egyptian Holding Company for Silos and Storage inaugurated the Modern Command and Control Center with equipment furnished through Blumberg Grain, as part of the government of Egypt's *Shona* Development Project. The center is an integrated system that monitors the status of grains inside the *shonas* such as temperature, humidity, and contamination using satellite feeds and sophisticated sensor technology. It also monitors weather patterns – if it indicates an oncoming sand storm, for example, operators will be able to enact emergency protocols to protect the grain inside the system.

Wheat	2014/2015		2015/2016		2016/2017	
Market Begin Year	Jul 2015		Jul 2015		Jul 2016	
Egypt	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1350	1350	1260	1260	0	1260
Beginning Stocks	4328	4328	4252	4252	0	3502

Production	8300	8300	8100	8100	0	8100
MY Imports	11063	11063	11500	10600	0	11000
TY Imports	11063	11063	11500	10600	0	11000
TY Imp. from U.S.	156	156	0	30	0	0
Total Supply	23691	23691	23852	22952	0	22602
MY Exports	339	339	350	250	0	0
TY Exports	339	339	350	250	0	0
Feed and Residual	2000	2000	1800	1400	0	1200
FSI Consumption	17100	17100	17800	17800	0	18200
Total Consumption	19100	19100	19600	19200	0	19400
Ending Stocks	4252	4252	3902	3502	0	3202
Total Distribution	23691	23691	23852	22952	0	22602

Corn

Production:

Post forecasts MY 2016/17 corn production and planted area remains unchanged from USDA's MY 2015/16 official estimate of 6.0 MMT and 750,000 ha respectively. White corn accounts for 550,000 ha producing 4.4 MMT, while yellow corn constitutes around 200,000 ha producing 1.6 MMT.

The government of Egypt is determined to implement its strategy of expanding the production of yellow corn to reach 840,000 ha by the end of 2018. It has become one of the priorities of the current government in an effort to decrease the importation of feed ingredients, especially as the country faces a persistent, crippling foreign exchange crisis. To achieve this, the government seeks to improve extension services, assist farmers in developing market channels and ensure appropriate contract farming between the Union of Poultry Producers (UPP) and farmer unions in the Delta, and encourage growing the crop using hybrid seeds produced by both MALR and private companies. The Agriculture Research Center (ARC) through its breeding stations across Lower and Upper Egypt has the objective of establishing more than 200 extension fields to teach farmers about good agricultural practices from planting to harvest in order to increase productivity.

Currently, ARC's breeding efforts have resulted in the production of three high-yielding varieties: Giza10, Giza130 and Giza 131. Seeds will be distributed to farmers through the Central Agency for Seed Production (CASP) and agricultural cooperatives in various governorates. In addition, CASP recommended the adoption of specific agricultural practices, which can easily bring yields up to 8.5 MT/ha. These practices include better adherence to recommended planting dates, appropriate fertilizer use, etc. CASP is planning to distribute seeds of 18 hybrids of white maize and yellow maize.

Egypt had similar plans in the past five years to expand yellow corn areas but implementation has always been a problem, plagued with high input prices, water management issues, and lack of viable marketing channels. Post is doubtful that the government will succeed in significantly increasing yellow corn acreage.

Consumption:

Driven by feed demand by the poultry, dairy, and aquaculture sectors, FAS Cairo forecasts MY 2016/17 consumption at 14.8 MMT, an increase of 2.1 percent from MY 2015/16's estimate of 14.5MMT which remains unchanged from USDA's official estimate. So far in MY2015/16, Egypt's poultry industry has consumed about 6.0 MMT, followed by the dairy industry at 2.7 MMT, and aquaculture at 2.0 MMT.

The remainder is used for human consumption and industrial use as white corn is a staple for many Egyptians, especially those living in Upper Egypt.

Consumption growth will be driven by Egypt's aquaculture industry, which ranks number seven worldwide, but number two in tilapia production. It is expected that tilapia production will double within 6-8 years to 1.5 MMT/year.

Additionally, the government is developing large aquaculture projects in the vicinity of the Suez Canal. Recently Major General Mohab Mamish, Chairman of the Suez Canal Authority, inaugurated 600 aquaculture ponds as part of the National Marine Aquaculture Development project. The aquaculture research center of the University of Suez Canal and the General Authority for Fish Resource Development (GAFARD) of MALR are conducting several trials with marine species including sea bass, sea bream, mullet and red mullet. Several investors from Italy, Greece, and the Gulf States are currently studying the project's feasibility.

To meet the increase in feed demand, significant investments in aquaculture feed are taking place. Two of the largest are Skretting's Nutreco which recently tripled its tilapia fish feed capacity to 150,000 MT, followed by Aller Aqua which is doubling its aqua feed production in Egypt to reach 150,000 MT by 2017. Aller Aqua is the only company that produces shrimp feed in addition to fish feed. In aquaculture, the major dietary energy sources include the following levels: yellow corn 10–35 percent, wheat bran 20–30 percent, rice bran 10–25 percent and vegetable oils 1–5 percent.

Consumption growth in the poultry industry will slow down as the industry is expected to grow two percent, as the number of consolidations and vertical integration efforts increase, as larger producers seek efficiencies through economies of scale. This trend is noticeable in the case of Cairo Poultry Company and Wadi Group, each importing around 1 million tons of corn and soybeans annually and which account for 45 percent of poultry feed demand in Egypt. These companies have entered animal feed production as a result of vertical integration strategies aimed at reducing costs. Egypt's feed mills produce poultry feed mix consisting of 70 percent yellow corn, 19.4 percent soybean meal, 3.4 percent wheat bran, and 1.9 percent broiler concentrates (fish or meat meals) in addition to minerals and vitamins.

The dairy industry is witnessing an annual growth of three to four percent, as the sector is rapidly industrializing due to the rising demand for fresh, refrigerated dairy products. Many dairy farms are replacing their buffalo herds with high-yielding Holsteins.

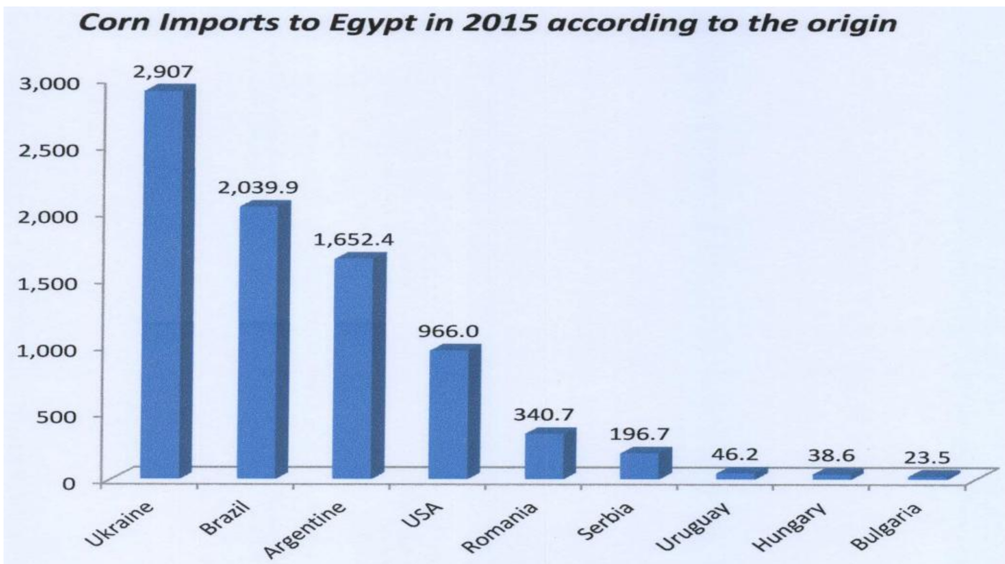
Trade:

FAS Cairo forecasts MY 2016/17 imports at 8.5 MMT. Post is revising upwards MY2015/16 imports to 8.25 MMT from USDA's estimate of 8.00 MMT.In CY 2015 Egypt imported 8.2 MMT. The largest exporters of corn were Ukraine at 2.9 MMT, followed by Brazil at 2.03 MMT, Argentina at 1.65 MMT and the U.S at 966,000 MT. (Fig. 1)

In CY 2014, the United States was the largest exporter of corn to Egypt with almost 2.9 MMT, followed by Ukraine with 2.1 MMT and Argentina with 1.6 MMT.

The market share of U.S corn declined from 2014 to 2015 mainly due to lower prices from South America and the Black Sea basin, but there was some dissatisfaction by certain Egyptian customers with the quality of the imports in 2014 including complaints about excessive broken corn and dust causing problems in their milling facilities. Suppliers need to keep in mind Egyptian feed grain buyers' concerns about corn quality.

Figure (1): Corn imports to Egypt 2015 according to origin
Source: U.S. Grain Council



The growing demand for corn by the Egyptian feed industry coupled with the reduction of corn prices by over 25 percent in MY2015/16, a trend which is likely to continue in MY 2016/17, has fueled Egypt's imports this marketing year.

Egyptian purchases of US distillers dried grains with soluble (DDGS) dropped by 43 percent from 168,000 MT in 2014 to 95,000 MT in 2015. The decrease in imports was mainly driven by a strong dollar. Post believes imports will reach 150,000 metric tons in MY 2016/17. DDGS is now used in rations for poultry, dairy and beef cattle and aquaculture. Numerous research efforts by companies and universities spearheaded by the U.S. Grains Council are panning out as some companies are increasing DDGS usage levels from 5 to 8 percent in poultry, and from 15 to 20 percent in dairy feed.

Stocks:

Post forecast corn stocks at 1.7 MMT in MY 2016/17 as stocks will tighten due to the increase in demand by the feed industry. Post is revising upward MY 2015/16 stocks number from USDA estimate of 1.76 MMT by 14.1 percent to 2.014 MMT due to surging demand supported by lower prices.

Corn	2014/2015	2015/2016	2016/2017

Market Begin Year	Oct 2014		Oct 2015		Oct 2016	
Egypt	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	745	745	750	750	0	750
Beginning Stocks	2398	2398	2274	2274	0	2014
Production	5960	5960	6000	6000	0	6000
MY Imports	7826	7826	8000	8250	0	8500
TY Imports	7826	7826	8000	8250	0	8500
TY Imp. from U.S.	1128	2700	0	0	0	0
Total Supply	16184	16184	16274	16524	0	16514
MY Exports	10	10	10	10	0	10
TY Exports	10	10	10	10	0	10
Feed and Residual	11500	11500	12100	12100	0	12400
FSI Consumption	2400	2400	2400	2400	0	2400
Total Consumption	13900	13900	14500	14500	0	14800
Ending Stocks	2274	2274	1764	2014	0	1704
Total Distribution	16184	16184	16274	16524	0	16514
(1000 HA) ,(1000 MT)						

Rice

Production:

Post forecast of milled rice production in MY 2016/17 at 4.0 MMT, in line with USDA's official estimate. The planted area and production estimate in MY 2015/16 remains unchanged from USDA numbers. This area is much larger than the government's designated production zone of 452,000 ha, which is located in eight governorates in the Northern Delta Region. The reality is that Egyptian rice producers grow their commodity on an area clearly greater than government designated acreage, and this is a function of farmers having become accustomed to cultivating the crop, as well as a profit that exceeds the returns from other summer crops. In consequence, farmers are willing to take the risk of fines of $600/ha if found farming outside the circumscribed area.

According to the Ministry of Irrigation and Water Recourses (MIWR) the main reason for positioning rice growing in coastal provinces is to mitigate sea-water intrusion into Northern Delta soils as rice cultivation uses a considerable quantity of drainage water, combating soil salinization. Early maturing varieties develop in three months and consume 9,500 to 11,000 cubic meters water per hectare.

Consumption:

Post forecasts rice consumption at 3.5 MMT in MY 2016/17. MY 2015/16 use is revised downward by 14.2 percent from USDA's estimate of 4 MMT. The significant reduction in consumption was a result of the government's failure to procure rice for its food subsidy program at a favorable price in September and October, as prices have skyrocketed from $250/MT to $500-530/MT, due to traders procuring and holding stocks.

After the 2015 harvest season, the price of milled rice in the Egyptian market increased from $ 200/MT to $250/MT, in response to the government's lifting of the export ban. Traders and millers held on to their stocks in hopes of exporting rice. However, the export conditions set by the government have proved too much of a disincentive. At the time, according to prominent rice traders, MOSIT missed a great opportunity in September-October 2015 to purchase at least half a million tons of high quality rice at reasonable prices for its subsidy program before running out of stocks in late January 2016.

To address the government's rice shortage for its subsidy program, in late January, GASC announced an international rice tender without specifying the amount, but some rice traders stated that the minimum amount to be purchased was 50,000MT. However, the government did not follow through on the tender, as it was unable to secure the funds to buy the rice.

This resulted in even tighter supplies in the marketplace driving prices upward by an additional 15 percent. Despite attractive prices in the marketplace, traders continue holding to their stocks, as a means of pressuring the government to ease its export restrictions.

Traders are seeing arbitrage opportunities if they're able to export as the price differential between the official exchange rate and the parallel market widens on a daily basis. The higher prices coupled with shortages drove consumption down significantly, as rice is not considered a key staple as bread in the Egyptian diet.

Trade:

In MY 2016/17, Post forecasts rice exports at 250,000 MT. MY 2015/16 exports are revised downward by 150,000 MT from USDA's official estimate of 400,000 MT. It is expected that 110,000 MT of the overall export quantity will be broken rice exports. Of the overall rice exports for the current marketing year, at least 15,000 is smuggled, not officially registered. The reduction in exports is attributable to the conditions set under the Ministerial Decree No.708 of 2015, issued by the MTI and the requirement that the export tax be paid in dollars, leaving many rice millers and exporters struggling.

Under the decree, exporters must pay an export fee of $256 per ton, however, the shortages in foreign currency and a parallel market charging an exchange rate 20 percent above the official rate, has proved too onerous. Traders were hopeful of doing some business - even under the decree's conditions - from January to March of 2016 when market prices of medium grain rice would have been more competitive, but the market did not respond accordingly.

Knowledgeable interlocutors hinted that the government may extend the export window to August 2016 and may ease its requirements due to increasing stocks, but our take is that there will not be a significant effect on exports. This will be probably take place after the government ensures that it has sufficient supply for its smart card subsidy program, if it is successful in assuaging traders concerns to be paid promptly.

Stocks

Post forecasts that rice stocks in MY 2016/17 will reach around 1.48 MMT up 23 percent from the MY 2015/16 estimate which was revised upward dramatically from USDA's official estimate by 660,000MT.

Rice traders and growers building stocks from the 2015 crop with many refusing to sell to the government explain the increase in stocks while pricing has limited Egyptian rice export competitiveness.

Rice, Milled Market Begin Year Egypt	2014/2015 OCT2014		2015/2016 OCT 2015		2016/2017 OCT 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	650	650	800	650	0	650
Beginning Stocks	602	602	916	916	0	1201
Milled Production	4530	4530	4000	4000	0	4000
Rough Production	6565	6565	5797	5797	0	5797
Milling Rate (.9999)	6900	6900	6900	6900	0	6900
MY Imports	34	34	25	35	0	35
TY Imports	30	34	25	35	0	35
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	5166	5166	4941	4951	0	5236
MY Exports	250	250	400	250	0	250
TY Exports	250	250	400	250	0	250
Consumption and Residual	4000	4000	4000	3500	0	3500
Ending Stocks	916	916	541	1201	0	1486
Total Distribution	5166	5166	4941	4951	0	5236
(1000 HA) ,(1000 MT)						