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Sugar Annual 2017

Egypt's Government Increases the Supply Price for Sugar Cane and Beets Ceding to Farmers' Demands

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Report Highlights:

In MY2017/18, total raw sugar production is forecast to increase seven percent or 150,000 MT to reach 2.42 MMT. FAS Cairo attributes this increase to an expansion of total area harvested, driven by an increase in the government's supply price. The Egyptian government is buying at higher prices, encouraging farmers to increase their production in order to avoid another year of short supplies. Total domestic consumption in MY2017/18 is forecast to increase by 3.3 percent to 3.05 MMT, compared to 2.950 MMT in previous year. Sugar imports are forecasted to remain stable at 830,000 MT, while exports are expected to drop by 33 percent to 200,000 MT.

Area Planted:

Cane:

Overview

Cane is widely cultivated in tropical and temperate regions like Upper Egypt where, like most anything else Egyptian farmers grow, it is planted on the narrow strip of land along the banks of the Nile. It 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 11 to 12 months to grow.

Cane Production

FAS Cairo forecasts MY2017/18 cane area harvested to increase by nine percent, or 10,000 ha, to reach 119,000 ha, which is expected to produce 13.650 MMT of sugar cane. FAS Cairo estimates cane area harvested in MY2016/17 at 109,000 ha, producing 12.580 MMT of sugar cane. The government's policy of encouraging farmers to grow beets over sugar cane as a water saving measure has been ineffective, because of an attractive supply price offered by the government, making it the cash crop of choice in Upper Egypt.

Upper Egypt's economy is heavily dependent on sugar cane production. Disruptions to the area planted with sugar cane would impact the livelihood of over 150,000 families that live directly on farming it, plus a plethora of ancillary business built around sugar production. These ancillary businesses include input providers, irrigation providers, logistics, metallurgy, as well as all non-commercial activity such as schools and hospitals. The frame of mind of such an important economic pillar can be summed up by what a farmer remarked to FAS Cairo during a visit to the area: "We grow sugar cane because our fathers and their fathers used to grow it and we cannot change this."

The existing nine sugar cane refineries in Upper Egypt have a production capacity of around 10,200 MMT of cane, which requires total area of at least 120,000 ha in order to operate. The government has tried implementing policies to reduce sugar cane area, due to the crop's high water consumption; however, these have been unsuccessful. Policies designed to move production away from sugar cane find themselves squeezed between the hammer of water scarcity and the anvil of sugar processors' demand for raw material.

A policy drafted by the Sugar Crops Research Institute (SCRI) at the Ministry of Agriculture and Land Reclamation's (MALR) Agricultural Research Center tried to tackle the water scarcity problem. The proposed policy would have prevented any increase in the area planted with sugar cane and focused instead on improving productivity in order to meet the sugar cane mills' capacity in Upper Egypt. This policy alone proved to be insufficient as high government-supported cane prices continue to incentivize farmers to grow larger areas of sugar cane.

Table 1: Sugar Cane PSD

Sugar Cane for Centrifugal	2015/2016	2016/2017	2017/2018
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Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Egypt	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	101	101	101	110	0	120
Area Harvested	100	100	100	109	0	119
Production	9167	9167	9167	12580	0	13650
Total Supply	9167	9167	9167	12580	0	13650
Utilization for Sugar	9167	9167	9167	12580	0	13650
Utilization for Alcohol	0	0	0	0	0	0
Total Utilization	9167	9167	9167	12580	0	13650

(1000 HA) ,(1000 MT)

Note: These are post estimates, not official USDA data

Beet:

Beet Production

FAS Cairo forecasts MY2017/18 sugar beet area harvested to increase by 10 percent or 20,000 ha, to reach 224,000 ha. With increased area comes a concomitant increase in production, expected to reach 9.5 MMT, an increase of 3.4 percent or 313,000 MT. FAS Cairo estimates area harvested in MY2015/16 at 204,000 ha. Post attributes the increase in area and subsequent production to the increase in government's subsidized supply price, which will encourage farmers to grow sugar beets over other crops.

Beets are planted in August and September and harvested in March. Co-products from the refining process of sugar beets are used to produce animal feed. Beet sugar concentration is 13-18 percent, compared to only 11 percent for cane. However, the crop yield for sugar cane is higher than for sugar beets, with an average yield of 48 MT/*feddān* (22.6 MT/ha), as compared to 20 MT/*feddān* (8.4/ha) for sugar beets. The highest-producing Egyptian sugar cane farmers achieved yields of 72 MT/*feddān* (30.4 MT/ha), while the lowest-producers achieved yields of only 28 MT/*feddān* (11.76 MT/ha).

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. Every season, MALR distributes between 21-30 different varieties to avoid the risk of crop failure due to the susceptibility of a single variety to biotic or abiotic stresses.

Table 2: Sugar Beet PSD

Sugar Beets	2015/2016		2016/2017		2017/2018	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Egypt	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	195	195	205	205	0	225
Area Harvested	194	194	204	204	0	224
Production	8750	8750	9187	9187	0	9500
Total Supply	8750	8750	9187	9187	0	9500
Utilization for Sugar	8750	8750	9187	9187	0	9500
Utilization for Alcohol	0	0	0	0	0	0
Total Distribution	8750	8750	9187	9187	0	9500

(1000 HA) ,(1000 MT)

Note: These are post estimates, not official USDA data

Sugar Production:

FAS Cairo forecasts refined sugar production in MY2017/18 to increase by seven percent or 150,000 MT to reach 2.42 MMT, as compared to the MY2016/17 estimate of 2.27 MMT. Of this total forecast, 1.32 MMT of sugar will be derived from sugar beets, while 1.1 MMT will be sourced from sugar cane. Beet sugar production in MY2017/18 is forecasted to increase by four percent or 50,000 MT, reaching 1.32 MMT as compared to 1.27 MMT the previous year. Sugar from cane is expected to increase by ten percent or 100,000 MT to reach 1.1 MMT compared to 1.0 MMT in the previous marketing year.

FAS Cairo attributes the increase in production to an increase in total area planted in both sugar beets and cane. The growth in planted area is driven by the government’s decision to increase the supply price for sugar cane and beets, which will encourage farmers, especially cane farmers, to increase their production and deliver it to the mills. In April 2017, two months after the onset of the cane harvest, sugar cane processors in Upper Egypt region reported an increase of ten percent in the delivery of cane to refineries as compared to same period in 2016.

In MY2015/16, some farmers preferred to sell some or all their crop to juice shops and molasses producers due to the higher prices offered, as compared to the government’s supply price. According to MALR’s Sugar Crops Council, for the sugar cane produced and delivered in 2016, 77.7 percent of the crop was delivered to sugar refineries, 3.5 percent used for molasses, 2.9 percent used as seeds, and 15.9 percent used fresh, mostly for juice production.

Table 3: Sugar Centrifugal PSD

Sugar, Centrifugal	2015/2016		2016/2017		2017/2018	
	Oct 2015		Oct 2016		Oct 2017	
Market Begin Year	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Egypt						
Beginning Stocks	395	395	270	270	0	120
Beet Sugar Production	1210	1210	1270	1270	0	1320
Cane Sugar Production	915	915	915	1000	0	1100
Total Sugar Production	2125	2125	2185	2270	0	2420
Raw Imports	850	850	800	800	0	800
Refined Imp.(Raw Val)	30	30	30	30	0	30
Total Imports	880	880	830	830	0	830
Total Supply	3400	3400	3285	3370	0	3370
Raw Exports	200	200	200	300	0	200
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	200	200	200	300	0	200
Human Dom. Consumption	2930	2930	2950	2950	0	3050
Other Disappearance	0	0	0	0	0	0
Total Use	2930	2930	2950	2950	0	3050
Ending Stocks	270	270	135	120	0	120
Total Distribution	3400	3400	3285	3370	0	3370

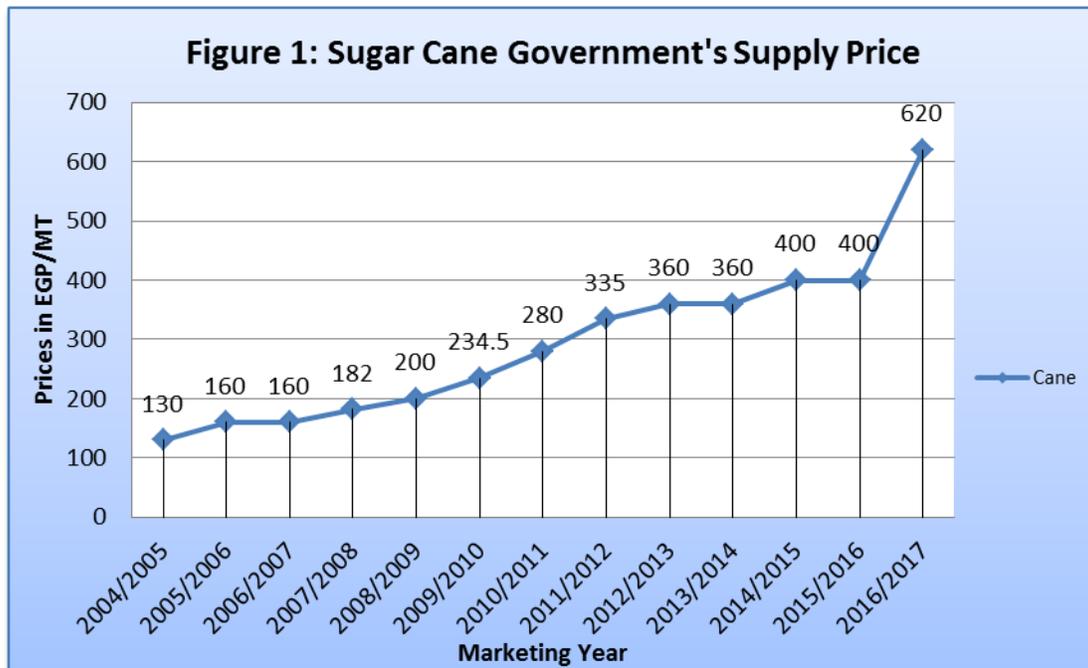
Note: These are post estimates, not official USDA data

To encourage farmers to deliver their crop to sugar refineries, the government provides a subsidized “supply price” for beet and sugar cane production. The subsidized prices are to help farmers’ incomes and, at the same time, reduce the prices of refined sugar in the local market. Refined sugar is one of the main commodities that the government distributes to food subsidy beneficiaries.

Farmers always pressure the government to increase the supply prices. This year, farmers cited the inflationary pressures on production inputs, as a result of the floating of the Egyptian pound against the U.S. dollar, cut into their profits. The pound took a hit when in November of 2016; the government

floated it against the U.S. dollar going from EGP 8.88 per U.S. dollar to EGP 13 per dollar, finally reaching EGP 18 per dollar in late March 2017.

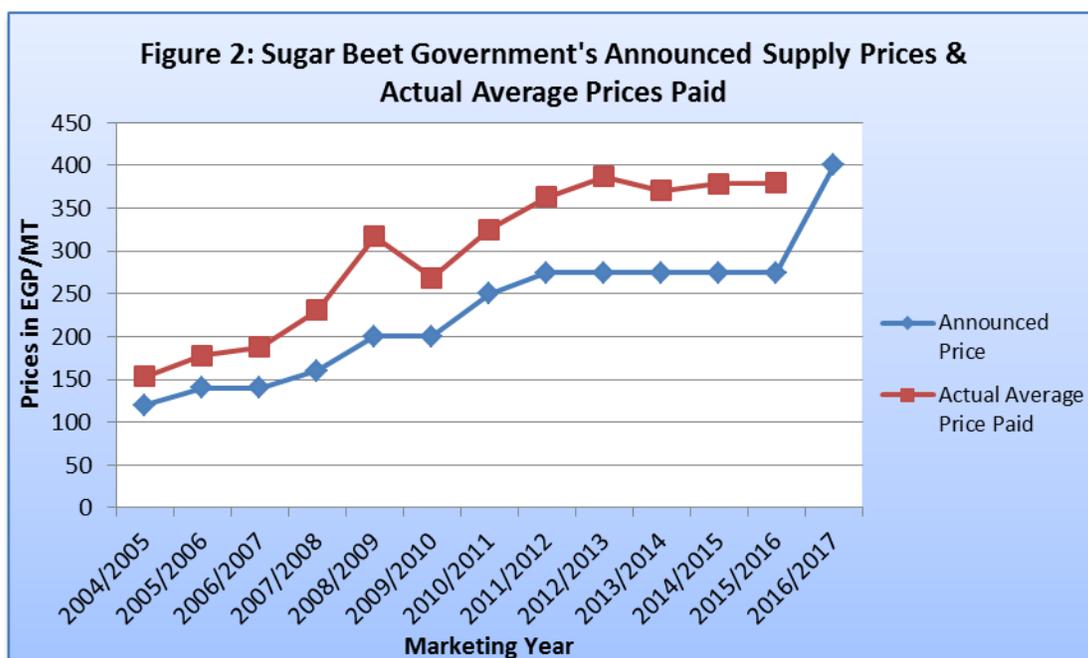
As a result, the government, fearing another year of tight supplies, caved to the farmers' demands, increasing the supply prices for sugar cane and beets by 55 and 45 percent respectively. This is the highest percentage increase ever. The government previously kept the supply prices flat for two years, before applying an increase of 10 percent. This marketing year 2016/17, the government increased the supply price for the sugar cane crop to EGP 620 (\$34.5) per MT, 55 percent higher than 2015/16 prices of EGP 400 (\$22) per ton (See Figure 1).



Source: Sugar Crops Council's Annual Report 2017

For sugar beets, farmers previously received the actual price announced by the government, in addition to bonuses from refineries for early harvest and high sugar concentration. The government's 2016/17 supply price for the sugar beet crop increased to EGP 400 (\$22) per metric ton, 45 percent higher than 2015/16 prices at EGP 275 (\$15) per ton. This increase is the first since MY2011/12 as it was flat for 5 years at EGP 275 (\$15) per metric ton (See Figure 2).

As a bonus for early harvest, beet farmers get an additional EGP 120 (\$6.7) per metric ton, if they are able to deliver the crop during the first week of the harvest season. After the first week, the EGP 120 bonus is gradually reduced by EGP 10 per metric ton (\$0.55 cents) every week thereafter. Refineries are paying extra for early supply as early harvested crop has higher sugar concentration – up to 20 percent greater – compared to the late harvested crop. For sugar concentration, refineries pay farmers additional bonus of EGP 25 per MT (\$1.4) if the sugar concentration is higher than 16 percent. In MY2016/17, farmers who are able to deliver their crop during the first week of the harvest season and have sugar concentration higher than 16 percent will receive an average sum of EGP 545 per MT (\$30).



Source: Sugar Crops Council's Annual Report 2017

In Egypt, there are 14 sugar processors, seven processing sugar cane, six processing sugar beet and one processing both. All seven sugar cane processors and the one sugar cane and beet processor are state-run companies affiliated with Ministry of Supply and Industrial Trade's (MoSIT) Holding Company for Food Industries (HCFI). Of the six sugar beet processors, two are private sector and the rest are state-run companies. The total capacity of the sugar cane processors is 10.200 MMT and 8.300 MMT for sugar beet processors (Table 4).

Table 4: Sugar Cane & Beet Processors' Total Capacity, Farmers Delivery and Sugar Produced Numbers in MT & MY2015/16

Crop	Factory	Total Capacity	Farmers Delivery	Sugar Produced in 2015/16	
Sugarcane	Komobo	1,800,000	1,934,139	193,055	State-run
	Nagahamady	1,700,000	1,430,488	143,550	State-run
	Kous	1,600,000	1,519,286	158,690	State-run
	Armant	1,300,000	1,301,056	137,918	State-run
	Edfo	1,100,000	1,229,093	130,620	State-run
	Gerga	1,000,000	552,612	54,600	State-run
	Deshna	1,000,000	757,429	78,396	State-run
	Abu Korkas	700,000	339,412	34,451	State-run
Total Sugarcane		10,200,000	9,063,515	931,280	
	Kafr El-Sheikh	1,750,000	1,877,150	258,154	State-

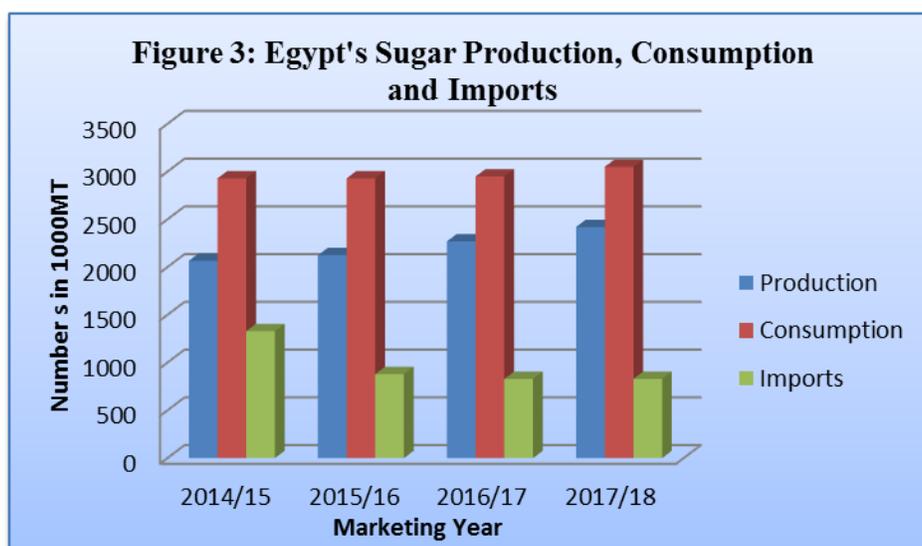
Sugar Beet	“Delta”				run
	Dakahlia	1,750,000	2,229,482	313,610	State-run
	Fayoum	1,250,000	1,264,634	179,106	State-run
	Nubaria	1,000,000	995,333	144,849	State-run
	El-Nile	1,000,000	1,075,312	151,500	Private
	Alexandria “Savola”	1,000,000	1,056,726	145,354	Private
	Abu Korkas	550,000	592,219	73,024	State-run
Total Sugar Beet	8,300,000	9,090,856	1,265,597		

Source: MALR’s Sugar Crops Council

In MY2015/16, total volume of beets delivered by farmers was 9.091 MMT while the total capacity for the beet processors is 8.30 MMT (Table 4). Beet processors had to increase the working operation hours to absorb the extra quantities delivered and extend their production period. A similar situation will prevail in FY2016/17.

Consumption:

FAS Cairo expects total domestic consumption in MY2017/18 to increase by 3.4 percent or 100,000 MT to reach 3.050 MMT. Consumption in MY2016/17 is estimated at 2.950 MMT. FAS Cairo attributes this increase to the annual increase of population. Additionally, Egyptians are expected increase their sugar consumption to meet caloric needs, substituting sugar for other key commodities, such as poultry and beef, due recent food inflation.



Egypt continues to provide refined sugar to food subsidy beneficiaries at prices below the free market prices. Egyptian citizen beneficiaries are receiving a monthly cash transfer of EGP 21 (\$1.17) per person through a smart card system. A family of four will get a monthly cash transfer of EGP 84 (\$4.7), enabling them to meet their sugar needs, as well as purchase other food commodities. At MoSIT’s shops

and retailers, each beneficiary can get one kilogram of refined sugar per month at EGP 8 (\$0.45 cents) per kilogram while other consumers buy it at EGP 10.75 (\$0.60 cents) per kilogram.

In October 2016, sugar prices in the local market surged to EGP 18-20/kg (\$1-1.1) as compared to EGP 5.50 (\$0.30 cents) per kilogram previously. A price spike of that level was unprecedented. Due to different levels of government influence and subsidization, multiple market prices currently exist. For example, the MoSIT's outlets sell refined sugar at EGP 8 (\$0.45 cents) per kilogram to food subsidy beneficiaries and EGP 10.75 (\$0.60 cents) per kilogram for other consumers. In the free market, two prices prevail: refined sugar offered by state-run processors at EGP 11.75 (\$0.65) per kilogram and sugar from private companies offered at EGP 12-14 (\$0.66-0.77) per kilogram.

In March 2017, the Minister of Supply and Internal Trade decided to put measures in place to try to stabilize the sugar price. The Ministry obliged sugar packing companies to stamp each sugar package with the subsidy prices sold at its outlets. In addition, the sugar processors must now sell their sugar production destined for household consumption at EGP 9,250 (\$514) per metric ton and for industrial use at EGP 10,500 (\$583) per metric ton. From each, a deduction of EGP 1,500 (\$83) and EGP 1,250 (\$69.5), respectively, per metric ton sold will go to a "Price Budget Fund" to help finance sugar imports.

The international prices of raw sugar dropped to \$398/MT in March 2017, compared to \$449/MT in February 2017, amid expectations that the price will continue to fall until May of 2017, to \$369/MT. Prices of refined sugar also dropped to \$510/MT in March 2017, compared to \$545/MT in February 2017, amid expectations that the price will continue to fall until May of 2017, to \$477.20/MT. The fall in sugar prices is expected to help the government secure the country's needs of sugar at more affordable prices than those that prevailed in late 2016.

Trade:

Egypt's sugar imports in MY2017/18 are forecast to remain stable at 830,000 MT. In MY2016/17, the majority of sugar imports were imported through MoSIT's Holding Company for Food Industries and the Ministry of Defense's National Service Projects Organization (NSPO). FAS Cairo believes that HCFI and NSPO will continue to lead and import most of the sugar needed to bridge the gap between domestic production and consumption. The devaluation of the Egyptian pound to the U.S. dollar made it harder for importers to buy from international suppliers.

Brazil is likely to remain Egypt's main raw sugar supplier in MY2017/18. From October through February 2017, Egypt imported around 242,054 MT from Brazil with no reported imports from other origins (Table 5). Sugar from the EU is exempt from import tariffs on raw or refined sugar due to the EU-Egypt Free Trade Agreement. Other suppliers including Brazil are enjoying duty free access on raw beet and cane sugar exported to Egypt from March 15, 2017 through December 31, 2017, and duty free access on refined sugar exported to Egypt from November 10, 2016 to May 30, 2017.

	MY 2013/14	MY 2014/15	MY 2015/16	Oct 2016 – Feb 2017
Brazil	1,292,843	1,173,619	743,069	242,054
UK	105	211	30,590	0
Mauritius	0	0	22	0
China	25,242	0	0	0
Belgium	510	131	0	0
Total	1,318,700	1,173,961	773,681	242,054
Source: GTA	Numbers in MT			

In 2016, a number of local and international events took place which affected Egypt's local sugar market. Locally, the government decided to raise import tariffs on a wide range of imported commodities, including raw and refined sugar. Presidential Decree number 25/2016 published in the National Gazette on January 26, 2016, raised import tariffs on raw cane and beet sugar (HS 170112, 170113 and 170114) from 2 percent to 20 percent. It similarly raised tariffs on from 10 percent to 20 percent on refined sugar imports (HS 170191). According to the government, the decision was designed to reduce Egypt's overall imports in order to diminish demand for foreign currency, as the country has struggled to keep hard currency in reserve since the 2011 revolution. Conflictingly, industry asserted that the tariff increases on sugar imports were advocated for by the Federation of Egyptian Industries as a measure to protect the local sugar industry. The local sugar industry was struggling to sell its production as was less competitive than imported sugar due to low world market prices.

However, due to a drop in sugar production amongst the world's leading suppliers, mainly Brazil and India, sugar prices in international markets increased to the extent that importers found it difficult to source their needs from international markets under the new tariff structure. Instead, they targeted local sugar production by offering more competitive prices to local processors than those offered by the government. This forced the government to reverse its decision and remove the import tariffs on raw sugar. On May 21, 2016, Prime Ministerial Decree (1364/2016) removed import duties on raw sugar imported from May 20 through December 31, 2016.

On November 3, 2016, the government decided to float the Egyptian pound. The currency was initially devalued to EGP 13 per USD, as an indicative price from the pegged rate of EGP 8.88 per USD. It has since toppled further, currently trading at EGP 18 per USD as of late March. The devaluation along with the 20 percent import tariffs made imports expensive and domestic sugar much more competitive, encouraging sugar traders to export instead of importing.

This situation led to sugar hoarding, as traders realized that they could profit handsomely if they sold sugar in the future, resulting in severe sugar shortages in the local market with prices tripling (see: [GAIN Sugar Voluntary Report 2016](#)). This situation forced the government in November of 2016, to remove the import duties on imported refined white sugar (HS 170191) from November 10, 2016 through May 30, 2017. On March 7, 2017, Prime Ministerial Decree (532/2017) removed import duties on raw sugar imported from March 15 through December 31, 2017.

In addition, to curb exports, Egypt's Minister of Industry and Trade (MoIT) has temporarily imposed an export tax. According to Ministerial Decree number (455/2016), published in the National Gazette on May 18, 2016, Egypt's sugar exports were subject to an export tax of EGP 900 (\$50) per metric ton. The decree was effective from the date of publication in the Gazette until December 31, 2016. In December 2016, the Ministry extended the export tax for six months and increased it to EGP 2000 (\$111) per metric ton. FAS Cairo expects that the government will extend these taxes and will likely maintain the current rate of EGP 2000 (\$111) per metric ton.

FAS Cairo forecasts Egypt's sugar exports to drop by 33 percent or 100,000 MT, reaching 200,000 MT, as compared to an estimate of 300,000 MT in MY2016/17. Post attributes this drop in exports to the government's export tax, which is designed to protect domestic supply. In April 5, 2017, the Ministerial Decree number (469/2017), re-imposed an export tax of EGP 3000 (\$166) per metric ton. The decree is effective from March 30, 2017. According to a statement released by MoIT, the decision is intended to safeguard the country's strategic reserves of sugar after sugar prices increased worldwide. Based on reports, the Ministry added that some traders were planning to export huge amounts of Egyptian sugar to capitalize on the high market prices. MoIT confirmed that there is a large price differential between local white sugar prices and international prices, encouraging some traders to capitalize on this arbitrage opportunity (see: GAIN Sugar Voluntary Report May 2016).

This is not the first time that Egypt imposed an export tax to protect the domestic supply. In 2016, Egypt's Minister of Industry and Trade (MoIT) temporarily imposed barriers on sugar exports through an export tax. According to Ministerial Decree number (455/2016), published in the National Gazette on May 18, 2016, Egypt's sugar exports were subject to an export tax of EGP 900 (\$50) per metric ton. The decree was effective from the date of publication in the Gazette until December 31, 2016.

Sudan and Kenya absorb 50 percent of Egypt's sugar exports and are expected to remain the main export destinations in MY2017/18. Egypt exports sugar to the majority of Arab countries and some in the African continent.