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What's The Matter with Egyptian Agricultural Trade? How Unnecessary Regulation, Burdensome Tender Requirements and Misguided Export Taxes Cost The Economy and Consumers

Report Categories:
Agricultural Situation

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Report Highlights:

Egypt's unorthodox agricultural measures lead to spending cash it cannot afford and missed market opportunities for some of its key commodities. In 2016, FAS/Cairo estimates that these measures will cost Egypt over $860 million in direct costs and foregone export earnings.

General Information:

With costly trade restrictions and missed opportunities, certain Government of Egypt agricultural regulations cost the country dearly, eating away at precious foreign exchange, distorting trade, hindering private initiative, and undermining innovation. Unfortunately, the end result is higher food prices paid by Egypt's overburdened consumers, in complete dissonance with the government's efforts and trumped up claims that it's trying to make food more affordable. Combined with misguided export policy with regard to rice, post believes that the net effect of these measures is valued at well over $800 million, and that export earnings could be increased and imports costs significantly reduced if the country followed international standards and best practices.

Ergot Fungus on Wheat Imports

In December of 2015, Egypt's Central Administration for Quarantine (CAPQ) rejected a 63,000 MT shipment of French wheat due to the presence of ergot fungus, despite being below the 0.05 percent threshold stipulated in the Ministry of Supply's General Authority for Supply Commodities (GASC) tender specifications. CAPQ officials justified the rejection on the basis that Egypt's 2001 quarantine law which stipulates zero tolerance of quarantine pests, indicating that all wheat imports must be free from ergot to protect the country's plant health. Zero tolerance for ergot puts Egypt out of step with the rest of the international trading community, and Egyptian consumers pay the price.

It is interesting to point out that Egypt has been importing wheat under the 0.05 percent ergot threshold for years, and despite being the world's largest importer of wheat, there is no evidence that ergot has taken hold in Egypt's wheat fields. This is so even in light of the fact that imported wheat is distributed from Alexandria to Aswan, as has been the case for decades.

International markets reacted swiftly to CAPQ's actions with traders refusing to submit bids on GASC's tenders, forcing GASC to cancel three tenders in January and February. The backlash forced the government to backtrack, with the Minister of Agriculture's office manager subsequently issuing a letter indicating that it would resume allowing an ergot tolerance level of 0.05 percent. In addition, a joint press conference between the Ministers of Agriculture and Supply led to the issuance of a statement disavowing the disruptive ergot standard.

Despite these assurances traders remain wary, still submitting bids at a premium of $5.0-7.5/MT above market prices, hedging against the uncertain and chaotic environment created by the temporary measure. As local commodity traders like to point out about this restriction: "It puts Egypt in a category by itself, for which it will only pay more than it should." It is estimated that this measure alone will cost Egypt between $55-82.5 million in 2016, excluding legal costs it will incur as it fights a multimillion dollar lawsuit brought by the trading company whose wheat was rejected due to breach of contract.

Tender Specifications and Letters of Credit

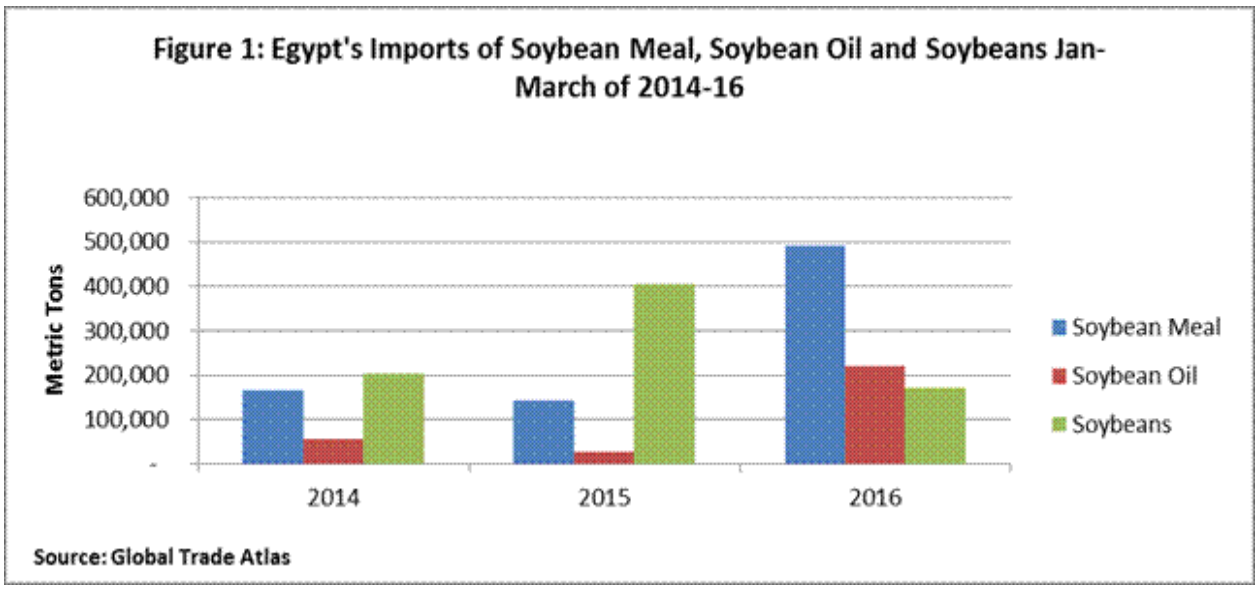
Egypt's wheat tender specifications and inspection requirements are also unique in the global trading system, driving up its costs significantly. It's the only country that regularly requires a six-member team travel overseas and preclear wheat shipments made by GASC, costing an additional $1.5 to $2/MT. This same buyer also requires that pest damage be of one percent, despite Egypt's wheat standard allowing for four percent, increasing costs by $4 to $5/MT. GASC's sublot sampling requires a thorough analysis costing an additional $2-3/MT. Finally, Egypt's constant delays in issuing its letters of credit add to its woes as it incurs up to an additional $6 /MT.
In 2016, Egypt will expend between $75-100 million in unnecessary costs to meet its burdensome tender requirements making Egyptian Government wheat imports more expensive.

Ambrosia spp in Grain and Oilseed Imports

Egypt applies a zero tolerance standard on *Ambrosia spp*. seeds, affecting corn, soybeans, and wheat shipments. Ambrosia spp. is a widely distributed weed, varieties of which are found on all continents, and its seeds are frequently found in grain and oilseed cargoes. If discovered in a shipment, Egypt requires that the entire shipment be sieved before the grain can be released. The process takes from ten days to three weeks for a panamax vessel, and due to demurrage, storage, and other associated issues, costs the importing company between $5 to $7 per MT. Any added costs like these are, in turn, passed along to the Egyptian buyer. Egypt argues that this protectionary measure is based on a pest risk analysis (PRA). Phytosanitary experts, however, view the Egyptian's PRA as fundamentally flawed because it does not follow International Plant Protection Convention's guidelines.

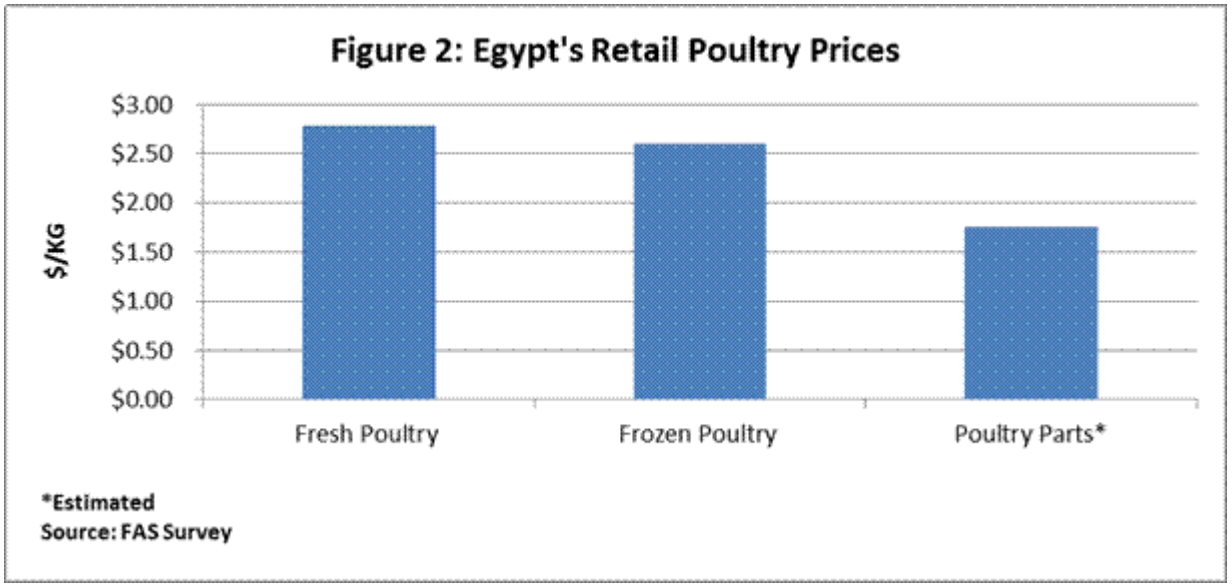
This year, CAPQ has been excessively restrictive in implementing the measure as it rejected four U.S. soybean cargoes in the first quarter of 2016 alone due to ambrosia presence. The rejected shipments were diverted to EU markets and were discharged and processed. For other cargoes, it has required the soybeans be screened and sieved at port before they can be moved to the processing plants. CAPQ's measures have dampened demand for U.S. soybeans as crushers are seeking to source South American soybeans; however, with tightening supply due to drought, sourcing South American supplies has become costly. This has led the two largest crushers to lay idle during the months of April and May, sending feed prices rocketing and creating cooking oil shortages. This situation could have been averted if CAPQ adopted mitigation measures as those that the EU and other major import markets apply, allowing the soybeans to undergo crushing, rendering Ambrosia *spp* seeds unviable.

Due to these measures, in 2016 FAS Cairo estimates that Egypt will spend an additional $70-100 million. At the rate that shipments are being sieved, in 2016, between 10 percent of its corn imports and 20 percent of its soybean imports will face regulatory hurdles due to the presence of Ambrosia, affecting 0.8 million MT (MMT) of corn and 0.4 MMT of soybeans. Sieving the shipments alone will cost the country between $6-$15 million. In addition, Egypt's crushing factories idle time due to the lack of soybeans will add another $4-6 million in costs. To make up for the lost value-added, it will need to spend an additional $60-80 million importing soybean meal and soybean oil to meet the country's feed industry and cooking oil needs, which is noticeable in figure 1 with surging soybean meal and soybean oil imports in lieu of soybeans. No question, foreign suppliers of soybean derivatives – meal and oil – are delighted to ship these value-added products to Egypt. Ironically, these two products are much less scrutinized at the point of importation than are the soybeans!



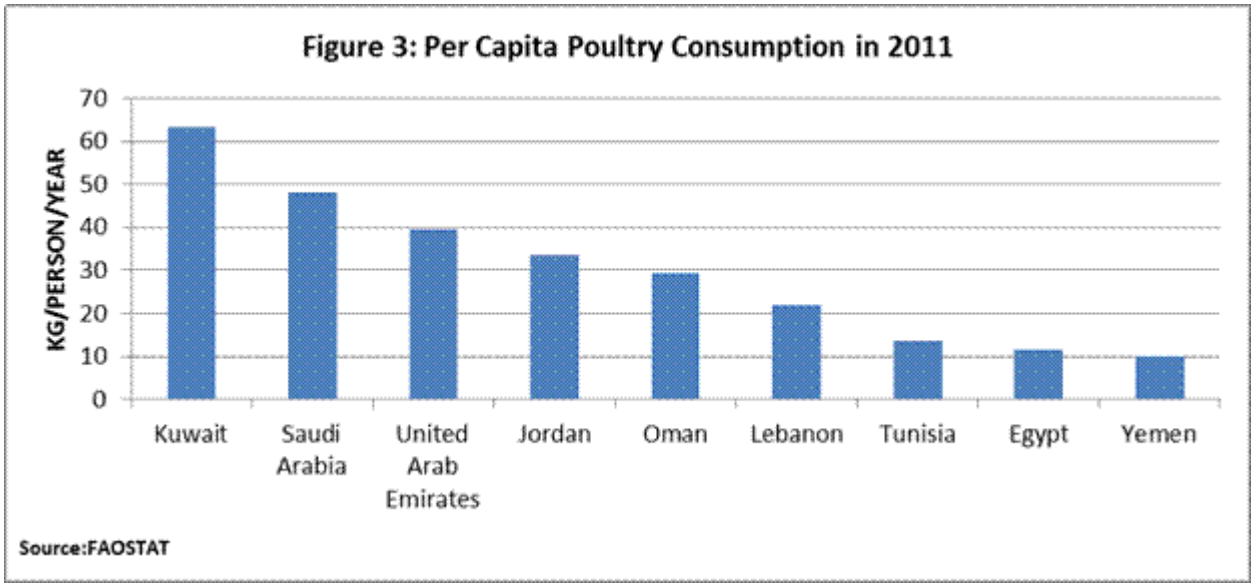
Poultry Parts

Egypt does not allow U.S. poultry parts on supposed halal concerns despite the U.S. industry's ability to export to other halal markets such as Kuwait, Jordan, UAE, Iraq, and Saudi Arabia. In fact, disallowing poultry part imports is purely protectionist. Arguably, imported poultry parts would be in a product niche of their own when compared with domestic poultry as the former would be an affordable product to the lower-end consumer segment that currently views local fresh poultry as a luxury good. Post estimates that the price differential between whole domestic poultry and U.S. poultry parts is close to $1.00/kilo (figure 2), which would be a huge benefit to millions of Egyptian consumers that are currently priced out of the market.



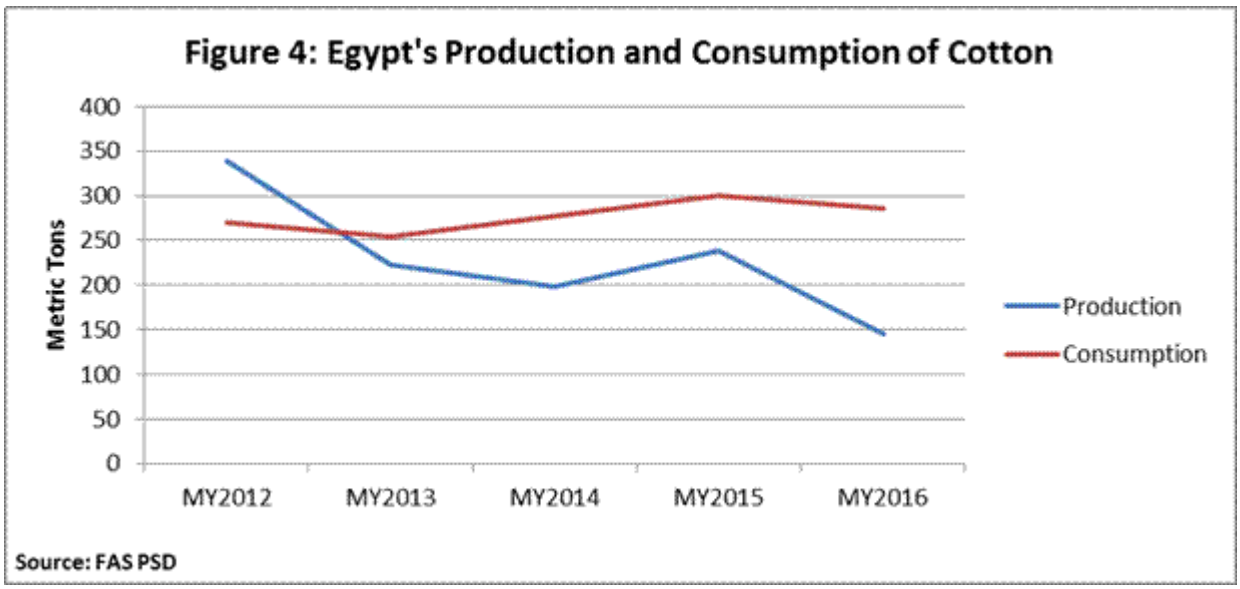
FAS Cairo estimates that this ban on poultry parts imports prevents access to approximately 100,000 MT of poultry parts, which would be a welcome addition to provide some of the protein needs of

Egypt's working poor. As a whole, Egypt has one of the lowest poultry consumption rates in the region (figure 3). Instead of its protectionist policies, Egypt should be willing to grow the pie for poultry consumption.



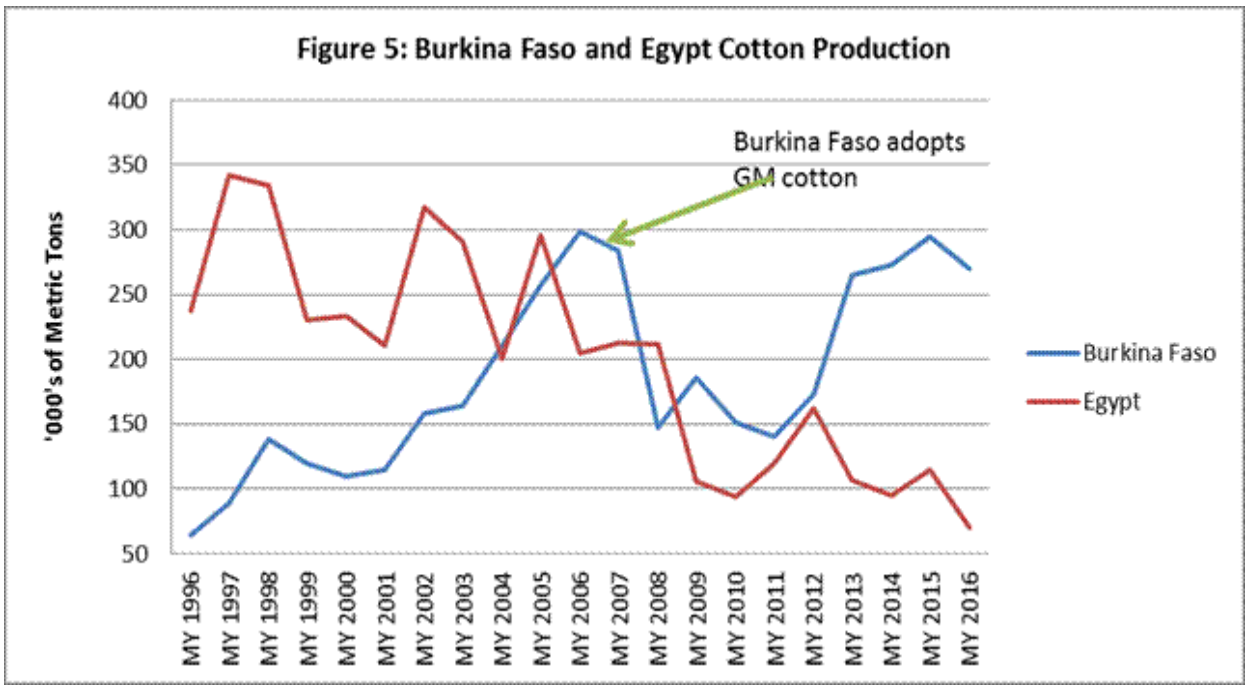
Cotton

Egypt's unpredictable cotton policy and unique phytosanitary requirements are unnecessary burdens on an already beleaguered textile industry. From time to time, Egypt imposes ad-hoc import bans on cotton lint in an effort to prop up local production. It halted the issuance of import permits in July 2015, but began issuing permits in the month that followed. The measure disrupts the textile industry's supply chain operations, as Egypt's domestic production has deteriorated to the point that it is unable to meet the textile industry's demand (figure 4). The industry ends up paying a significant premium for using inferior or unsuitable cotton varieties, since Egypt mostly produces extra-long and long staple cotton that, in addition to its deteriorating quality, is unsuitable to many textile operations as these rely on short and medium staple varieties. In MY2016, Post forecasts that the textile industry will pay a premium on 75,000 MT of cotton of about $1,000-1300/MT, an excess of $75-95 million.



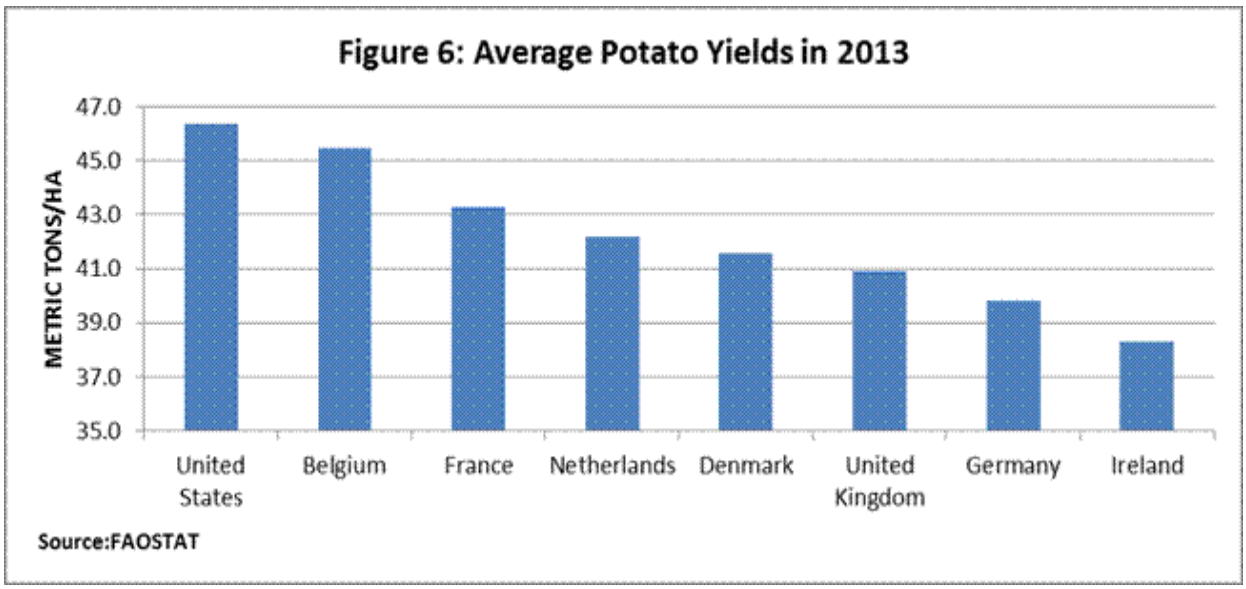
Egypt also requires that imported cotton be fumigated at the country of origin with methyl bromide or phosphine and again at the port of arrival on the premise of controlling boll weevil, increasing costs significantly. Egypt is the only country requiring double fumigation. In 2016, this measure will cost Egypt's textile industry an additional $3.0 to $5.5 million. These measures reduce Egypt's textile industry's competitiveness, which struggles to compete in the U.S. market, even with preferential access under the Qualifying Industrial Zones agreement.

Finally, Egypt's refusal to adopt new technologies and adapt to market conditions has decimated the cotton industry. Its failure to adjust to end-user demands in terms of the need by industry for shorter-staple varieties while not adopting biotech cotton varieties have contributed to the decline of Egyptian cotton. In contrast, Burkina Faso's cotton production, a country that adopted genetically-modified cottonseed in 2007, has surpassed Egypt's, becoming a top generator of foreign exchange for the West African nation (figure 5).



Seed Potatoes

Despite having worked through much of a pest risk analysis of U.S. seed potatoes, indicating, for example, that the measures the U.S. takes are appropriate to avoid the introduction of brown rot (among other fungi), Egypt continues to ban U.S. seed potatoes. U.S. seed potatoes would have provided much needed relief during the onset of the local MY2016 season when Dutch potatoes suffered from an outbreak of brown rot forcing CAPQ officials to travel to the Netherlands to deal with the problem, amidst the hold-up of several shipments of seed potatoes in detriment to producers. U.S. potato yields outperform those from Egypt's key seed potato markets (figure 6). It is also worth noting that since access for U.S. seed potatoes in Egypt has been linked to access for Egyptian citrus in the U.S. market, Egypt is forgoing what would likely be tens of millions in USD exports of its oranges and tangerines to the U.S. market by not completing access for U.S. seed potatoes in Egypt.



Rice Exports

Despite having a surplus production of rice, Egypt's trade policy severely curtails exporters' ability to conduct business. Currently, Egypt has an export ban in place, but even when it permitted overseas sales from October 2015 through March 2016, it imposed an export tax of $200.00/ton on milled rice, justifying the measure as a means to maintain an adequate domestic supply of rice at reasonable prices. Yet, in the first half of 2016, rice producers and traders have held on to their stocks in an effort to force the government to lift the export ban. For its part, the government has refused to lift the ban, and GASC has issued three international tenders to purchase imported rice, all of which were all canceled as prices were higher than expected. Currently, the government is trying to contract rice of Indian origin, bypassing the tendering process, but many interlocutors suspect that its efforts will be unsuccessful.

If Egypt allowed the market to work its course, it would be able to sell close to one million MT of rice in the international marketplace at close to $600/MT. However, using the past as an indicator, in 2016 Egypt will export just 200 thousand MT and sell the rest, 3.8 MMT domestically, at a significant discount of $300/MT. For the export value this rice would garner, it will shortchange itself close to $500 million in precious foreign exchange earnings the economy so desperately needs.

Conclusion

In addition to the excessive direct costs that the aforementioned measures impose, the indirect costs are even greater when intangibles are factored in. These measures lead to a plethora of issues such as constantly increasing feed costs, leading to high aquaculture, dairy and poultry product prices paid by the consumer. In response, the government implores producers to avoid price hikes, instead of focusing its efforts aligning its practices to those of the global trading community.

Despite its positive steps in terms of reforming food subsidies, viewed as a package, the government's efforts end up being a negative-sum game as any savings consumers could have capitalized on are eroded by regulatory burdens. It also fails to provide an alternative source of cheap protein to those that

can least afford it by imposing a ban on poultry parts, a product that would be an affordable source of animal protein that would not truly compete with Egypt's domestic poultry industry as the intended consuming audience otherwise views poultry as a luxury item.

Egypt can reverse course, improving social welfare significantly, while protecting its plant and animal health. But it needs a concerted effort from its regulators and policymakers to do what is best for Egypt. As it is, zero tolerance on things like ergot and ambrosia or requiring imported cotton be fumigated twice increase the price of imports with no added value to Egyptian agriculture or its consumers.