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Egypt

2018 Sugar Annual

Incentives Work: Cane Area Up, Beet Area Down on Dueling Procurement Programs

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Report Highlights:

FAS Cairo forecasts refined sugar production in MY2018/19 to increase by approximately five percent or 115,000 metric ton (MT) to reach 2.44 million metric tons (MMT), as compared to the MY2017/18 estimate of 2.32 MMT. Of this total forecast, 1.34 MMT of sugar will be derived from sugar beets, while 1.1 MMT will be sourced from sugarcane. Increase in production is attributed to higher procurement prices by the government. FAS Cairo forecasts total sugar domestic consumption in MY2018/19 to increase by 1.6 percent or 50,000 MT to reach 3.1MMT as a result of population increase. Egypt's raw sugar imports in MY2018/19 are forecast at 800,000 MT against 960,000 MT in MY2017/18.

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

Farmers responded to increases in the government procurement price of sugarcane by increasing the planted area. FAS Cairo estimates cane area harvested in MY2017/18 at 125,000 ha, up five percent from USDA's official estimate of 119,000 ha. Similarly, MY2018/19 cane area harvested is expected to reach 125,000 ha, which will produce an estimated 12.5 MMT of sugar. These figures are in line with FAS Cairo's updated area harvested and production estimates for MY 2017/18. Due to the attractive procurement price, sugarcane is now the cash crop of choice in Upper and Middle Egypt.

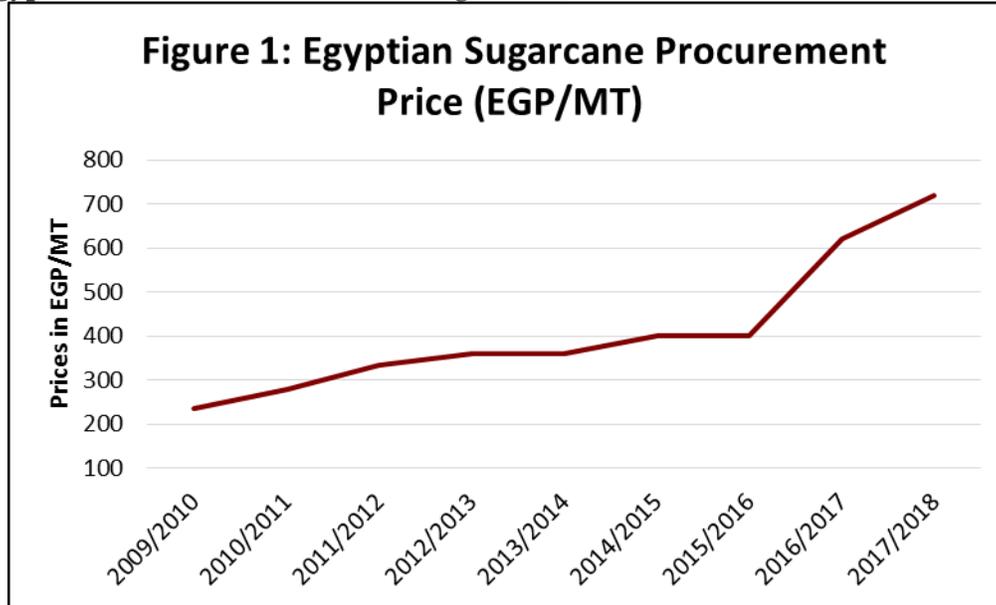
In spite of the increased area harvested, FAS Cairo expects sugarcane production in MY 2017/18 to reach only 12.5 MMT, 1.15 MMT below USDA's official estimate. The lower production is attributed to a decrease in yields from 114.7 MT per ha to 100 MT per ha. Increasing inflationary pressure following the floating of the Egyptian pound in November 2016 is driving up the cost of fertilizers and other inputs, thereby limiting their use and decreasing yields.

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 an 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.

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 (\$35.1) per metric ton going into the January 2018 harvest. After the farmers syndicated demanded an increase in the price to EGP 1000 (\$56.6) per metric ton, the Egyptian government allowed for further upward adjustment. The price first increased to EGP 700 (\$39.6) and later, on January 21, it increased to EGP 720 (\$40.79) per ton. Post expects no further change in the procurement change during the 2018 harvest season.

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 (\$35.1) 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 (\$40.7) per MT is up by 16 percent as compared to the MY2016/17 procurement price. Figure 1 tracks the Egyptian procurement price over time.

Figure 1: Egyptian Procurement Price for Sugarcane, 2009-2018



Post estimates that with a sugarcane procurement price of EGP 720 per ton, farmers will see a net profit of EGP 19619 (\$1,111) per hectare, which represents approximately a 104 percent increase in local currency terms. The estimated cost of sugarcane production per hectare is around EGP 52,381 (\$2967.7) per hectare.

Table 1: Sugarcane PSD

Sugarcane for Centrifugal	2016/2017		2017/2018		2018/2019	
	Jan 2016		Jan 2017		Jan 2018	
Egypt	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	110	110	120	126	0	126
Area Harvested	109	109	119	125	0	125
Production	12580	12580	13650	12500	0	12500
Total Supply	12580	12580	13650	12500	0	12500
Utilization for Sugar	12580	12580	13650	12500	0	12500
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	12580	12580	13650	12500	0	12500
(1000 HA) ,(1000 MT)						

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

Sugar Beet:

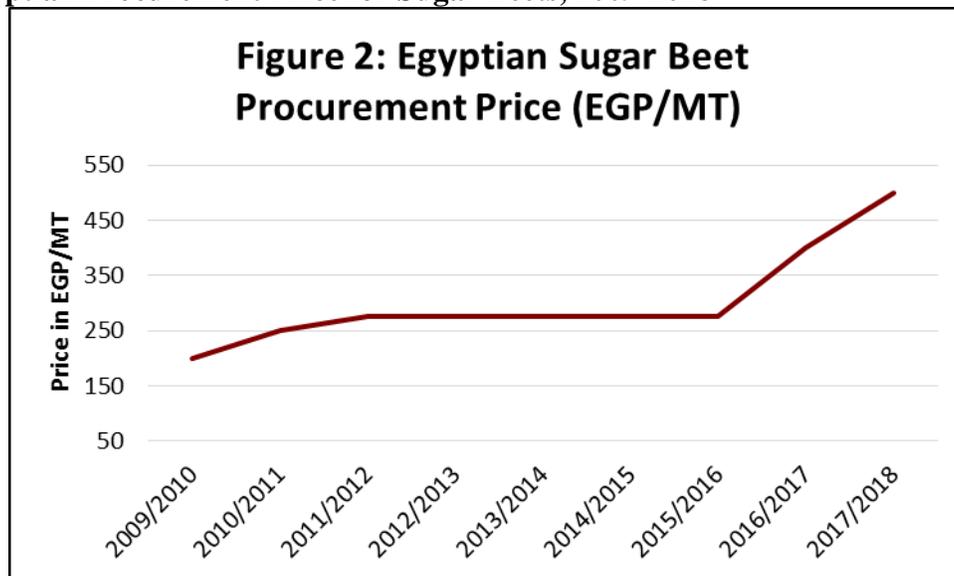
Beet Production

The Egyptian government increased their procurement price for wheat in MY 2017/18, incentivizing many farmers to move from sugar beets back to wheat production. As a result of this shift, FAS Cairo is decreasing sugar beet area harvested in MY 2017/18 down 14,000 ha, or six percent, to 210,000 ha. With the decreased area harvested, post estimates that MY 2017/18 production will reach only 8.9 MMT, six percent below USDA estimates.

In time for the 2018/19 harvest, a new sugar beet processing plant will begin production, increasing demand for raw beets. As a result of the increased demand in MY2018/19, FAS Cairo expects area planted to increase and, subsequently, area harvested to rise by 9.5 percent or 20,000 ha, to reach 230,000 ha. With increased area comes an associated increase in production, expected to reach 9.75 million metric tons. This is an increase of 9.6 percent from post's MY 2017/18 estimate of 8.9 million metric tons.

As with sugarcane, sugar beets are purchased from farmers at a government-controlled procurement price. In MY 2017/18, procurement price for the sugar beet crop increased to EGP 500 (\$28.4) per metric ton, 25 percent higher than the 2016/17 price of EGP 400 (\$22.6) 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 (\$15) per metric ton. Figure 2 shows sugar beet procurement prices from 2009 to the current year.

Figure 2: Egyptian Procurement Price for Sugar Beets, 2009-2018



In addition to the official procurement price, farmers receive premiums based on delivery date and sugar content. Beets that are delivered in the first week of harvest receive an early delivery premium of EGP 120 (\$5.6) per metric ton. After the first week, the EGP 120 bonus is gradually reduced by EGP 10 per metric ton (\$0.55) every week thereafter until April 30th, when it reaches its minimum of EGP 20 per ton. The delivery premium is designed to ensure steady beet supplies early in the season when sucrose content is at its peak. For sugar concentration, refineries pay farmers an additional bonus of EGP 25

(\$1.40) per ton, if the sugar concentration is higher than 16 percent. This encourages farmers to focus on sucrose concentration rather than just crop weight, increasing sugar yields.

Beets are planted in August and September and harvested in March and April. Most beets are grown by independent farmers, who contract sales directly with factories. Some beets are also cultivated on leased land operated by privately owned factories. During MY 2017/18, FAS Cairo 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. 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.

Table 2: Sugar Beet PSD

Sugar Beets	2016/2017		2017/2018		2018/2019	
	Jan 2016		Jan 2016		Jan 2018	
Market Begin Year	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Egypt						
Area Planted	205	205	225	211	0	231
Area Harvested	204	204	224	210	0	230
Production	9187	9187	9500	8900	0	9750
Total Supply	9187	9187	9500	8900	0	9750
Utilization for Sugar	9187	9187	9500	8900	0	9750
Utilization for Alcohol	0	0	0	0	0	0
Total Distribution	9187	9187	9500	8900	0	9750
(1000 HA) ,(1000 MT)						

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

Sugar Production:

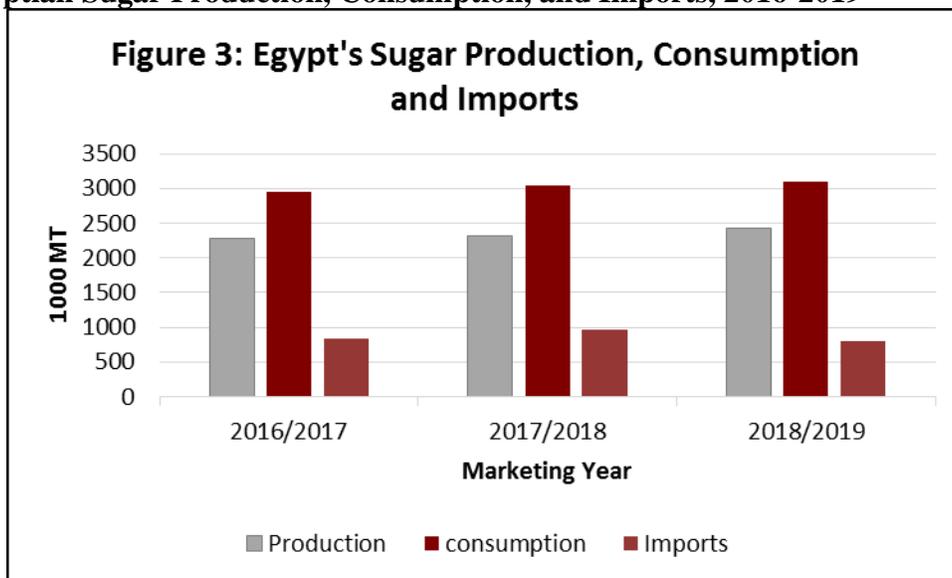
Refined sugar production in MY2018/19 is expected to increase by approximately 5 percent or 115,000 MT to reach 2.44 MMT, as compared to the MY2017/18 estimate of 2.32 MMT. Of this total forecast, 1.34 MMT of sugar will be derived from sugar beets, while 1.1 MMT will be sourced from sugarcane. With the new processing facility coming online and farmers expanding planted area to meet demand, beet sugar production in MY2018/19 is forecasted to increase by 115,000 MT, reaching 1.34 MMT. This is up 9.4 percent from 1.22 MMT in the previous marketing year. While area harvested in sugarcane is expected to increase in MY 2018/19, production gains will likely be tempered by decreased yields as fertilizers and other inputs remain costly. Sugar from sugarcane in MY 2018/19 is likely to remain unchanged from at 1.1 million metric tons.

In Egypt, there are 14 sugar processors, seven processing sugarcane, six processing sugar beet and one processing both. All seven sugarcane processors and the one sugarcane 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. A third private factory is expected to start processing beets after the 2018 harvest. The total capacity of the sugarcane processors is 10.200 MMT and 8.300 MMT for sugar beet processors.

Consumption:

FAS Cairo forecasts total sugar domestic consumption in MY2018/19 to increase by 1.6 percent or 50,000 MT to reach 3.1 MMT. Consumption in MY2017/18 remains unchanged from the USDA official estimate of 3.05 MMT. The rise in sugar consumption is driven by population growth, estimated at 2.5 per annum. Egypt with a population of 97 million (Central Intelligence Agency, est., July 2017) is adding roughly 2 million people per year. It is additionally host to an estimated five million refugees from Iraq, Syria, Libya, Yemen, and Sudan. Increases in consumption are in line with annual population growth.

Figure 3: Egyptian Sugar Production, Consumption, and Imports, 2016-2019

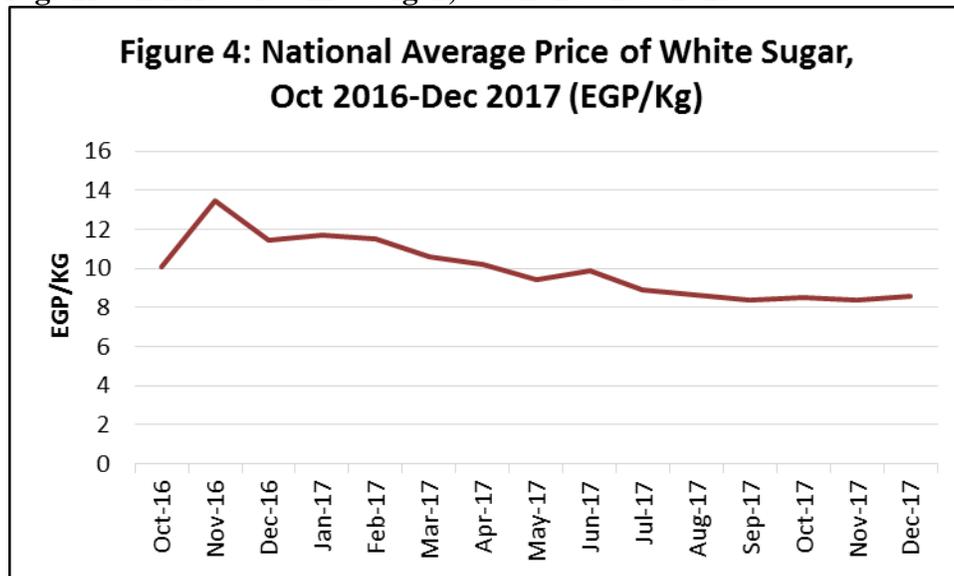


The Food Subsidy Program:

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 14) 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.

Figure 4: Average Retail Price of White Sugar, Oct 2016 - Dec 2017



A sugar supply shortage in October 2016 led to price spikes and scarcity in the domestic retail market. Local prices reached as high as EGP 18-20 per kilogram. The government responded by exerting greater control over retail prices, restricting exports, and increasing public-sector imports. Since that time prices have stabilized. Nationally, average prices are between EGP 8 and 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.

