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Sugar Annual 2015

Sugar Industry Struggles with Government's New Food Subsidy Reform Program

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Report Highlights:

In MY2015/2016, total raw sugar production is forecast to increase 3 percent to 2.127 MMT from MY2014/15 due to an increase in raw beet sugar production of 60,000 MT or a total of 1.210 MMT. Raw sugar imports are expected to decrease by 23 percent or 300,000 MT to 1 MMT from MY2014/15. The government's new food subsidy program eliminated subsidized sugar prices; however, it now provides a LE 15 ($1.96) monthly stipend so that consumers can choose from over 42 commodities. The new market-oriented system has resulted in lower prices for imported sugar than locally produced sugar. Consumption is expected to increase by 2.5 percent driven by population growth.

Area Planted:

Cane: Post forecasts total cane area harvested for centrifugal sugar in MY2015/2016 to remain stable at 101,000 hectares (ha). The government continues its ongoing policy of encouraging farmers to grow beets over sugarcane as a water saving measure. So far, the government has not been able to reduce the area planted with sugarcane; nonetheless it's remained stable over the past three years. Post does not expect a significant drop in cane planted area unless the government reduces or eliminates its price support policy.

Water scarcity is one of the main challenges that hinder agricultural expansion and development in Egypt. One feddan or 0.42 ha planted with sugarcane needs around 8,000 cubic meters of water but needs around 3,000 cubic meters if planted with beet.

Sugar Cane for Centrifugal, Egypt	2013/2014		2014/2015		2015/2016		
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Planted	101	101	101	101		101	(1000 HA)
Area Harvested	100	100	100	100		100	(1000 HA)
Production	9,167	9,167	9,167	9,167		9,167	(1000 MT)
Total Supply	9,167	9,167	9,167	9,167		9,167	(1000 MT)
Utilization for Sugar	9,167	9,167	9,167	9,167		9,167	(1000 MT)
Utilization for Alcohol	0	0	0	0		0	(1000 MT)
Total Distribution	9,167	9,167	9,167	9,167		9,167	(1000 MT)

Note: These are not USDA Official Numbers

Cane is widely cultivated in tropical and temperate regions like Upper Egypt where, like most anything else Egyptian farmers grow, it is cultivated on a narrow strip on both banks of the Nile. It is planted in the spring and autumn seasons. The spring season planting happens in February and March, while the autumn season's planting extends from September through October. The crop takes 11 to 12 months to grow. Sugarcane is the main source for refined sugar but also the main source for molasses, which is used by the feed industry. Its bagasse is used as raw materials in the plywood and paper pulp industries.

Beet: Post forecasts Egypt's total beet area harvested in MY2015/2016 to increase by 7 percent or 12,000 ha to roughly 195,000 ha compared to 183,000 HA in the 2014/15 year. The increase in area harvested is due to the government's policy of encouraging farmers to grow beets over sugarcane to conserve water and also for its higher sugar concentration. The increase in area will be mostly undertaken by cotton farmers who are facing difficulties securing contracts to sell their harvest under the government's new cotton policy (see Cotton Annual 2015). Under the new policy, the government requested that all cotton farmers sign contracts with buyers before planting. Only farmers with signed contracts will be provided seeds required for the 2015/2016 planting season.

Beets are planted in August and September and harvested in March. By-products from the refining process of beet are used to produce animal feed. Beet sugar concentration is around 13-18 percent compared to only 10 percent for cane, while the yield for sugarcane is higher than beet, with an average yield of 50 MT/feddan for sugarcane and 20 MT/feddan for beets. However, beets are more profitable for farmers as prices offered by sugar mills depend mainly on sugar concentration.

Sugar Beets Egypt	2013/2014		2014/2015		2015/2016		
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Planted	174	174	183	183		195	(1000 HA)
Area Harvested	173	173	182	182		194	(1000 HA)
Production	7,826	7,826	8,230	8,230		8,750	(1000 MT)
Total Supply	7,826	7,826	8,230	8,230		8,750	(1000 MT)
Utilization for Sugar	7,826	7,826	8,230	8,230		8,750	(1000 MT)
Utilization for Alcohol	0	0	0	0		0	(1000 MT)
Total Distribution	7,826	7,826	8,230	8,230		8,750	(1000 MT)

Note: These are not USDA Official Numbers

Production:

Post forecasts total raw sugar production to increase in MY2015/2016 by 3 percent or 60,000 MT at 2.127 MMT compared to 2.067 MMT in MY2014/15. This growth is attributed to the increase in raw beet sugar production by 60,000 MT for a total of 1.210 MMT versus 1.150 MMT in the previous year. Raw cane sugar production is expected to remain stable at 917,000 MT due to unchanged planting area, resulting from the government's policy to halt sugarcane plantings in order to conserve water.

The government provides a subsidized "supply price" for beet and sugarcane production in order to support farmers' incomes, while at the same time reducing the prices for local sugar production, trying to increase its competitiveness against imported sugar. The government announced the supply price in 2014 for the crop that is going to be delivered to refineries after harvesting in 2015. To date, the government has not announced the supply price for the 2015 crop that will be harvested and delivered to refineries in 2016.

The government's 2014/2015 supply price for the sugarcane crop was LE400 per MT ($53 per MT). This price is LE40 per MT ($5 per MT) higher than from the 2013/2014 price. The state-run Sugar and Integrated Industries Company (SIIC) will pay LE300 per MT ($39 per MT), while the Ministry of Supply and Internal Trade (MoSIT) contributes LE100 per MT ($13 per MT).

For sugar beet, the supply prices remain unchanged from last year at LE275 per MT ($36 per MT), but beet farmers also receive LE120 per MT ($16 per MT) from refineries but for only the early supply compared to LE100 per MT ($13 per MT) last year. Refineries pay extra for early supply as early harvested crop has higher sugar concentration compared to the late harvested crop. Every year, refineries announce the first date of it will take delivery of beets from farmers. Farmers who supply their crop during the first week of March receive the full money allocated for early supply, i.e., LE120 per MT. This amount is reduced by LE10 per MT ($1.3) every week thereafter.

The government's supply price is contentious as sugarcane farmers are always requesting higher prices, reasoning that the supply prices are not adequate to provide for a decent return. Producers cite increased fuel costs as the key hurdle to agreeing to the current supply price. Last year's subsidy cuts on fuel prices resulted in an increase of 64 percent in the price of diesel, while 80-octane gasoline rose 78 percent. Because of their heavy reliance on tractors for the crop's cultivation and harvest and on trucks to haul the harvest to the sugar mills, these increases directly affect the bottom line for cane farmers.

According to sources, the cost of cultivating sugarcane increased from around 13,000-15,000 per feddan ($718-828 per ha) to around 15,600-18,000 per feddan or ($873-995 per ha). Farmers are selling their sugarcane crop to factories at a supply price of LE400 per ton ($53 per ton). With an average yield of 50 MT per one feddan of cane, farmers are paid around LE 20,000 per feddan ($2,630 per ha).

Locally produced sugar is offered at LE 5.15 per kilogram ($0.70 cents per kilogram) while imported sugar is offered at LE 4.50 per kilogram ($0.60 cents per kilogram) at government shops and groceries that are responsible for distributing certain products including sugar to food subsidy beneficiaries. High procurement prices offered by the government to cane farmers have increased the overall costs of local sugar production. In order to cover these costs, refiners are selling their sugar at sale prices higher than for imported sugar. The unwillingness of the domestic industry to lower its sugar sale price is seen as a strategic move by the industry to force the government to implement measures that will provide a higher return, such as increasing the procurement price or implementing antidumping measures as it has done in the past.

The government is the main buyer of cane crop through SIIC which is part of the Holding Company for Food Industries (HCFI), which, itself, became in 2014 part of MoSIT rather than the Ministry of Investment. SIIC used to be responsible for supplying sugar for the domestic food assistance program administered by MoSIT through its sugar refineries. There are 6 sugarcane refineries (Naga Hamady, Deshna, Kous, Edfo, Armant and Kom Ombo) belonging to the SIIC in Upper Egypt in the cane producing areas, with a production capacity of around 1 MMT of refined sugar.

In addition, there are six companies that refine beets and shift to refining imported raw sugar when the beet crop is not in season. Out of the six, four are private-public partnerships established under the Egyptian Law of Investment, in which SIIC has taken a majority stake. The total production capacity of the six companies is 1.690 MMT per year, bringing the total refining capacity to roughly 2.690 MMT per year. However, the mills belonging to the private-public partnerships are not working at full capacity due to the absence of modern technology and lack of skilled labor. Industry sources state that this brings the actual capacity down from 1.690 MMT per year to around 1-1.2 MMT per year.

Figure (1): Estimates for the Production Capacity of Egypt's Beet Sugar Companies	
Company	**Production**
State-run Companies affiliated with SIIC	
Delta	270,000 MT
Dakahlia	300,000 MT
Fayoum	120,000 MT
Nubaria	125,000 MT
Total	**815,000 MT**
Private Companies	
Al-Nile	75,000 MT
Savola	800,000 MT
Total	**875,000 MT**
Total Production Capacity	**1.690 MMT**

In addition to the current production capacity, a new mill, the Al-Nouran sugar production facility, a LE 2.5 billion ($357 million) project, will begin operating in the first quarter of 2017. The facility, located in northern Al-Sharkiya governorate, is expected to have an annual refined white sugar production of 500,000 tons using beet during the first half of the year, and, when beet is not in season, the company will refine imported raw sugar. The company also plans to produce ethanol and expects to export around 100,000 tons of white sugar. According to the company, Al-Nouran's new plant could reduce Egypt's reliance of imported sugar by up to 25 percent.

Consumption:

Post forecast total raw sugar consumption MY2015/2016 to increase by 2.5 percent or 70,000 MT at 3 MMT compared to 2.930 MMT in the previous year. Sugar consumption is driven by Egypt's population growth rate of 2.4 percent.

In July 2014, Egypt modified its food subsidy program. The new program eliminates the price subsidy for sugar, but provides citizens a monthly cash assistance of LE 15 ($2) per family member through smart cards, which operate as ATM debit cards. Currently, around 67 million citizens benefit from the food subsidy program, having access to more than 42 different goods, including sugar, at market prices. The MoSIT offers these products at nearly 25,000 privately-owned grocery stores in various provinces (which used to provide the subsidized commodities under the old system), and at nearly 4,000 consumer cooperatives run by MoSIT's HCFI.

Under the old subsidy system, each ration card beneficiary was allowed 2 kg of sugar monthly at a subsidized price of LE1.25 per kg ($0.16). However, under the new system, sugar is offered at market-based prices with no set quotas, which are LE 5.15 per kg ($0.70 per kg) for domestic sugar, while imported sugar is offered at LE4.50 per kg ($0.60 per kg).

It is expected that the increase in white sugar prices for ration card beneficiaries from LE1.25 per kg under the old subsidy system to LE 5.15 per kg for domestic sugar and LE4.50 for imported sugar under the new subsidy system will not affect and reduce total sugar consumption in MY2015/2016. As

mentioned, Egyptian citizen beneficiaries are receiving a monthly cash assistance of LE15 per person through their smart cards. A family of four will get a monthly cash transfer of LE60, enabling it to meet their sugar needs, as well as for some of the other products.
Naturally, the cheaper price of imported sugar has encouraged smart card holders to prefer to locally produced sugar. As a result, due to the straggling demand for domestic sugar, MoSIT is unwilling to buy the state-run SIIC's sugar production. Furthermore, it has encouraged the private sector, which refines imported raw sugar, to increase its production in order to supply MoSIT's participating establishments.

MoSIT's action has prompted a strong reaction from farmers, who have called on the Prime Minister to intervene and force MoSIT to buy all local sugar production, as SIIC critically needs funds to pay the remaining 50 percent of the "supply price" owed to them for their crop. According to the contract between farmers and SIIC, the latter pays 50 percent of the total price or LE200 per MT for their harvest at delivery, and the remaining 50 percent or LE 200MT is paid when MoSIT buys the refined white sugar.

Some media reports and sources indicate that the government's "delay" in purchasing the local sugar production is deliberate, signaling that it is reluctant to continue buying the country's local sugar production. The government, through SIIC, is offering farmers supply prices that are higher than imported raw sugar prices. The HCFI's former Chairman and current Advisor to the Minister of Supply and Internal Trade, Hassan Kamel, has openly stated in media reports, that it is more profitable for sugar refineries to import and refine raw sugar than buying the domestic sugar production under the current supply prices. The same media reports suggest that the government's recent decision in removing cotton subsidies, is a clear indication that it is unwilling to continue supporting expensive agricultural support programs that are becoming unsustainable.

Trade:

Post forecasts total raw sugar imports in MY2015/2016 to drop by 23 percent or 300,000 MT to 1 MMT. Raw sugar imports in MY2014/2015 are revised upward to 1.300 MMT from USDA's estimate of 1.190 MMT.

The drop in raw sugar imports is attributed to the expected increase in raw sugar production, and high carry-in stocks from the previous marketing year. The increase in raw sugar imports in MY2014/2015 is attributed to government's implementation of its new food subsidy program that removes price subsidies for sugar and allows for imported raw sugar to be distributed to food subsidy beneficiaries at MoSIT shops and groceries. The sale price of white sugar produced from imported raw sugar is lower than the price of refined sugar produced from local raw sugar. This encourages consumers to prefer imported sugar over local sugar and importers to supply more of the products to meet consumers' needs.

Although domestic prices are higher than international prices, there is a strong indication that Egypt might implement measures to protect its domestic industry. In early April 2015, MoSIT Minister Dr. Khaled Hanafy said in a meeting with the local sugar industry that he will ensure that Egyptian sugar companies are able to compete in local and international markets. The local industry lobbied Minister

Hanafy for the government imposition of anti-dumping duties on imported sugar for six months, so that the domestic sugar can become more competitive. The Minister said that he will discuss the request with the Prime Minister and Minister of Industry, Trade and Small and Medium Enterprises.

Before May 2013, the Government periodically imposed temporary safeguard duties on raw and refined sugar to protect local state-run sugar refineries. The safeguard duties were equal to the difference between the lower import price and the higher local price. Post expects that given the current pressure from the local industry and the government's history of applying anti-dumping duties on sugar imports, the government may impose dumping fees on sugar imports for 6 months. If imposed, the duties will take at least 3-6 months to take effect, exempting any existing contracts, and would come to affect MY2016/17 imports.

Brazil and the EU will remain Egypt's main raw sugar suppliers in MY2015/16. From January through October 2014, Egypt imported around 726,000 MT of raw sugar of which 90 percent or 653,000 MT came from Brazil, 8 percent or 58,300 MT from the EU and 2 percent or 14,500 MT from different suppliers including China and Mauritius. EU sugar is exempt from any import tariffs due to the EU-Egypt Free Trade Agreement. Other suppliers, including Brazil, are subject to an import duty of 2 percent for raw cane and beet sugar and 10 percent for refined white sugar.

An industry source was quoted in media reports that around 50,000 MT of raw sugar was imported from the EU in February, 2015. He added that prices dropped earlier this year and this has encouraged many importers to source from the EU. The value of imported sugar is LE3,365 per MT ($443/MT) compared to LE5,100/MT ($671 per MT) for locally produced sugar.

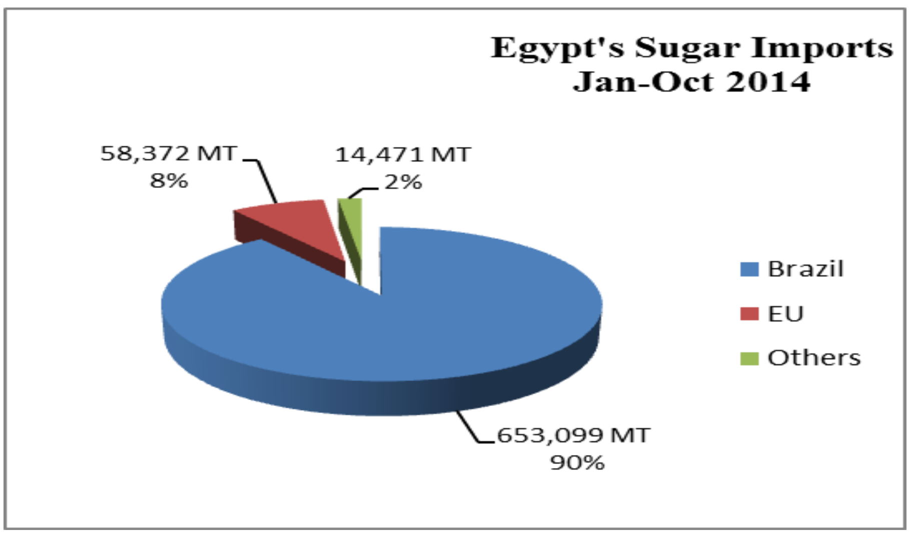

Figure (2): Egypt's Sugar Imports Source: Trade Map

Figure (3): Egypt Sugar Imports Jan-Oct 2014 in MT	
Brazil	**653,099**
Germany	23,359

France	11,194
Sweden	9,142
Belgium	6,733
Denmark	4,840
Romania	2,000
Netherlands	576
Poland	528
EU Total	**58,372**
Others	**14,471**
Total	**725,942**

Post forecasts Egypt's refined white sugar exports to drop by 14 percent or 50,000 MT in MY2015/2016 to reach 300,000 MT. Sudan, Kenya, Libya, Syria, Tanzania and Uganda are Egypt's top export destinations for refined white sugar.

Media reports indicate that during the Sixth Session of the Kenya and Egypt Joint Commission for Cooperation held in Nairobi, Kenya in March 2015, Kenyan authorities and millers complained that sugar originating from non-regional markets, such as Brazil, is shipped into Egypt and later repackaged as produced within the Common Market for Eastern and Southern African (COMESA) to qualify for preferential trade terms. Kenyan authorities claim that Egypt is violating rules of origin. Under COMESA rules, a product must be fully produced in the exporting country, or that the CIF must not exceed 60 per cent of the total cost of the materials used in the production of the product. The value added should account for at least 35 per cent of the ex-factory cost of the product. Kenya says that packaging sugar from Brazil does not meet the rules of origin threshold.

Stocks:

In MY2015/2016, FAS Cairo forecast sugar ending stocks at 135,000 MT. Post is revising upward MY2014/15's ending stocks compared to 278,000 MT from USDA's estimate of 171,000 MY. The stocks will be held mainly by the state-run SIIC as a strategic reserve. The high stocks reserved in MY2014/2015 were due to government's decision to allow imported sugar to be sold at MoSIT's shops and consumers' cooperatives. This led to extra stocks at SIIC that were unsold.

Sugar, Centrifugal Egypt	2013/2014	2014/2015	2015/2016

	Market Year Begin: Oct 2013		Market Year Begin: Oct 2014		Market Year Begin: Oct 2015		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Beginning Stocks	160	160	161	161		278	(1000 MT)
Beet Sugar Production	1,096	1,096	1,130	1,150		1,210	(1000 MT)
Cane Sugar Production	917	917	920	917		917	(1000 MT)
Total Sugar Production	2,013	2,013	2,050	2,067		2,127	(1000 MT)
Raw Imports	1,178	1,178	1,190	1,300		1,000	(1000 MT)
Refined Imp.(Raw Val)	30	30	30	30		30	(1000 MT)
Total Imports	1,208	1,208	1,220	1,330		1,030	(1000 MT)
Total Supply	3,381	3,381	3,431	3,558		3,435	(1000 MT)
Raw Exports	350	350	350	350		300	(1000 MT)
Refined Exp.(Raw Val)	0	0	0	0		0	(1000 MT)
Total Exports	350	350	350	350		300	(1000 MT)
Human Dom. Consumption	2,870	2,870	2,910	2,930		3,000	(1000 MT)
Other Disappearance	0	0	0	0		0	(1000 MT)
Total Use	2,870	2,870	2,910	2,930		3,000	(1000 MT)
Ending Stocks	161	161	171	278		135	(1000 MT)
Total Distribution	3,381	3,381	3,431	3,558		3,435	(1000 MT)

Note: These are not USDA Official Numbers