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Sugar Annual 2016

Government Increases Import Tariffs to Limit Sugar Imports

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Report Highlights:

Post forecasts total sugar production in MY2016/17 to increase by 3 percent or 60,000 MT to 2.185 MMT from MY2015/16's 2.125 MMT. The increase is attributed to an increase of five percent of sugar beet area. Total raw sugar imports in MY2016/17 are expected to drop by 6 percent or 50,000 MT at 800,000 MT. Imports are expected at 850,000 MT in MY2015/16 down by 35 percent or 450,000 MT from MY2014/15 imports, mainly from Brazil and the EU. The decrease in imports is a result of higher tariffs on raw cane and raw beet sugar from 2 percent to 20 percent, and from 10 percent to 20 percent on refined sugar imports.

Area Planted:

Cane: Post forecasts total cane area harvested in MY2016/17 to remain stable at 100,000 ha. The government continues its policy of encouraging farmers to grow beets over sugarcane as a water saving measure. As a result, for the last 3 years, area planted with cane remains stable and is expected to remain unchanged, or somewhat reduced, in the coming years. Post believes that sugarcane area will not drop further unless the government eliminates its price support policy for farmers.
Cane is widely cultivated in 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, used by the feed industry. Its bagasse is used as raw material in the plywood and paper pulp industries.

Cane production in Egypt faces serious challenges due to the increasing challenges in terms of access to Nile water supply. According to Egypt's state statistics agency (CAPMAS), agriculture uses 82.6 percent of the country's annual water resources. One feddan or 0.42 ha planted with sugarcane needs around 8,000 cubic meters of water, while the same area planted to beets consumes around 3,000 cubic meters. Additionally, Egypt's explosive population growth from around 27 million in 1959 to over 90 million in 2015 has resulted in a decline of water per capita availability, and Egypt is now considered a water-scarce country.

Sugar Cane for Centrifugal	**2014/2015**		**2015/2016**		**2016/2017**	
Market Begin Year	**Jan 2014**		**Jan 2015**		**Jan 2016**	
Egypt	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Planted	101	101	101	101		101
Area Harvested	100	100	100	100		100
Production	9167	9167	9167	9167		9167
Total Supply	9167	9167	9167	9167		9167
Utilization for Sugar	9167	9167	9167	9167		9167
Utilization for Alcohol	0	0	0	0		0
Total Utilization	9167	9167	9167	9167		9167
(1000 HA), (1000 MT)						

Note: These are not USDA Official Numbers

Water scarcity has forced the government to put in place policies that limit the area planted with crops that require abundant water consumption like sugarcane and rice. The current policy regarding sugar cane, drafted by the Sugar Crops Research Institute (SCRI) at the Ministry of Agriculture and Land Reclamation's (MALR) Agricultural Research Center, prohibits any increase in the area planted with sugarcane; therefore, efforts are focused on improving productivity in order to meet the sugarcane mills' capacity in Upper Egypt. So far, the government has succeeded in keeping the area planted with sugar cane stable.

Despite calls for a reduction of sugar cane area, FAS Cairo believes that the government would be hard pressed in reducing the area planted with sugar cane as it would threaten the sugarcane industry in Upper Egypt. Currently, the nine sugarcane refineries in Upper Egypt have a production capacity of around 1 MMT of refined sugar, which require the current area of 100,000 ha in order to operate their plants at capacity by processing 9.2 MMT of sugarcane. Reducing the area planted may reduce the mills' processing capacity to a level that is not economically rational to operate, putting in jeopardy over 23,000 jobs in an area with one of the highest unemployment rates in Egypt.

Beet: Post forecasts an increase of 5 percent in total beet area harvested in MY2016/17 or 10,000 ha for a total of 204,000 ha. FAS Cairo expects area harvested in MY2015/16 at 194,000 ha. The expected increase in area is attributed to government's policy of encouraging farmers to grow beets over sugarcane to conserve water, as well as its recent decision of increasing import tariffs on sugar imports.

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 (21/ha) for sugarcane and 20 MT/feddan (8.4/ha) for beets. However, beets are more profitable for farmers as prices offered by sugar mills depend mainly on sugar concentration, and beet farmers are able to secure income from a second crop due to the shorter growing cycle.

Sugar Beets	2014/2015		2015/2016		2016/2017	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Egypt	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	183	183	195	195	0	205
Area Harvested	182	182	194	194	0	204
Production	8230	8230	8750	8750	0	9187
Total Supply	8230	8230	8750	8750	0	9187
Utilization for Sugar	8230	8230	8750	8750	0	9187
Utilization for Alcohol	0	0	0	0	0	0
Total Distribution	8230	8230	8750	8750	0	9187
(1000 HA), (1000 MT)						

Note: These are not USDA Official Numbers

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 8 centigrade for 3 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 variety to biotic or abiotic stresses.

Production:

FAS Cairo forecasts MY2016/17 sugar production to increase by 3 percent or 60,000 MT to reach 2.185 MMT from MY2015/2016 production of 2.125 MMT. Post attributes the increase in production to the increase in area planted with beets. Of total forecast 2016/17 sugar production, 915 TMT of sugar will derive from cane and 1.270 MMT of sugar from beet.

The government is likely to continue its supply or procurement price policy by providing a subsidized price for sugarcane farmers through the state-run Sugar and Integrated Industries Company (SIIC), belonging to the Holding Company for Food Industries (HCFI), and the Ministry of Supply and Internal Trade (MoSIT). This price aims to support farmers' incomes, while at the same time reducing the price for local sugar production, in order to increase its competitiveness against imported sugar. To date, the government has not announced the procurement price for the FY2016/17 crop. However, Post believes it will be similar to the FY 2015/16 supply price of LE400 per MT ($45 per MT), the same price offered in 2014/2015 when pricing was not considered attractive. Because cane sugar marketing is guaranteed relative to competing crops like cotton, its production is preferred by certain producers. SIIC, pays LE300 per MT ($34 per MT), while the Ministry of Supply and Internal Trade (MoSIT) contributes LE100 per MT ($11 per MT).

Sugar, Centrifugal	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
Beginning Stocks	161	161	278	428	0	283
Beet Sugar Production	1150	1150	1210	1210	0	1270
Cane Sugar Production	917	917	915	915	0	915
Total Sugar Production	2067	2067	2125	2125	0	2185
Raw Imports	1300	1300	1120	850	0	800
Refined Imp.(Raw Val)	30	30	30	30	0	30
Total Imports	1330	1330	1150	880	0	830
Total Supply	3558	3558	3553	3433	0	3298
Raw Exports	350	200	300	200	0	200
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	350	200	300	200	0	200
Human Dom. Consumption	2930	2930	3000	2950	0	3000
Other Disappearance	0	0	0	0	0	0
Total Use	2930	2930	3000	2950	0	3000
Ending Stocks	278	428	253	283	0	98
Total Distribution	3558	3558	3553	3433	0	3298
(1000 MT)						

Note: These are not USDA Official Numbers

For sugar beets, the price provided by the mills remains unchanged from last year's at LE275 per MT ($31 per MT) for beet with at least 16 percent sugar concentration. Farmers will receive an additional LE120 per MT ($13.5/MT) from refineries if they are able to deliver their crop during the first week of the harvest season. After the first week, the LE 120 bonus is gradually reduced. Refineries pay extra for early supply as early harvested crop has higher sugar concentration – up to 20 percent greater - compared to the late harvested crop. Mills announce the date when they'll begin taking delivery of beets from farmers, which is usually during the first week of March. Farmers who supply their crop during the first week of delivery receive the LE275 in addition to the full money allocated for early supply of LE120 per MT. This amount is reduced by LE10 per MT ($1.1) every week thereafter. The refineries are responsible for transporting the crop from the farms to the mills. Through a tracking system, each farmer receives a code for his crop and through it; he gets paid according to the sugar concentration analysis.

SIIC is the main buyer of the cane crop, and also responsible for supplying sugar for the domestic food assistance programs administered by MoSIT. All nine sugarcane refineries (Hawamdeya, Abu Qorkas, Gerga, Naga Hamady, Deshna, Kous, Edfo, Armant and Kom Ombo) belong to SIIC and are located in Upper Egypt throughout the cane producing areas. There are six companies that refine beets. Out of the six, four - Delta, Dakahlia, Fayoum and Noubaria - are state-run companies established under the

Egyptian Law of Investment, in which SIIC has taken a majority stake Sugar Annual GAIN Report 2015. The other two beet refineries -Al-Nile and the United Sugar Company of Egypt (a subsidiary of the Saudi Savola Group) - are privately owned. The total production capacity of the six beet refineries is around 1.6 MMT. Some of these beet mills shift to refining imported raw sugar when processing of the local beet crop is complete.

Figure (1): Farmers' trucks stand in line to deliver sugarcane crop to refineries in Upper Egypt.

In addition to the current mill capacity, a new mill, the Al-Nouran, a LE 2.5 billion ($283 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 from beets, and, when beets are 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 plant could reduce Egypt's reliance of imported sugar by up to 25 percent.

In March 2016, the European Bank for Reconstruction and Development (EBRD) announced that it will strengthen Egypt's agribusiness sector with a $100 million equity investment in the United Sugar Company of Egypt S.A.E. (USCE), a subsidiary of Saudi Arabia's Savola Group. EBRD's investment will support a privately owned and efficiently-run player in Egypt's state-dominated sugar sector. It will also help USCE improve the company's labor and environmental practices by meeting international standards. The bank said it will convert an existing US$50 million loan into equity and provide the company with an additional US$ 50 million in capital through the purchase of shares.

Consumption:

Post forecasts total sugar consumption to increase by roughly 2 percent or 50,000 MT to reach 3 MMT in MY2016/17. Domestic consumption is expected at 2.950 MMT in MY2015/16. The increase in consumption is due to the increase in total population by at least 2 percent annually.

Since 2014, Egypt continues to provide monthly cash assistance of LE 15 (less than 2 dollars) per family member through smart cards, which operate as ATM debit cards. Currently, around 68 million citizens benefit from the food subsidy program, having access to more than 50 different goods, including sugar, oftentimes, at least for other products, at below-market prices. MoSIT offers these products at nearly 25,000 privately-owned grocery stores in various provinces, and at nearly 4,000 consumer complexes run by HCFI. For sugar, 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. ($0.14). However, under the new system, sugar is offered at market-based price with no set quotas, at LE 5 per kg ($0.56 per kg).

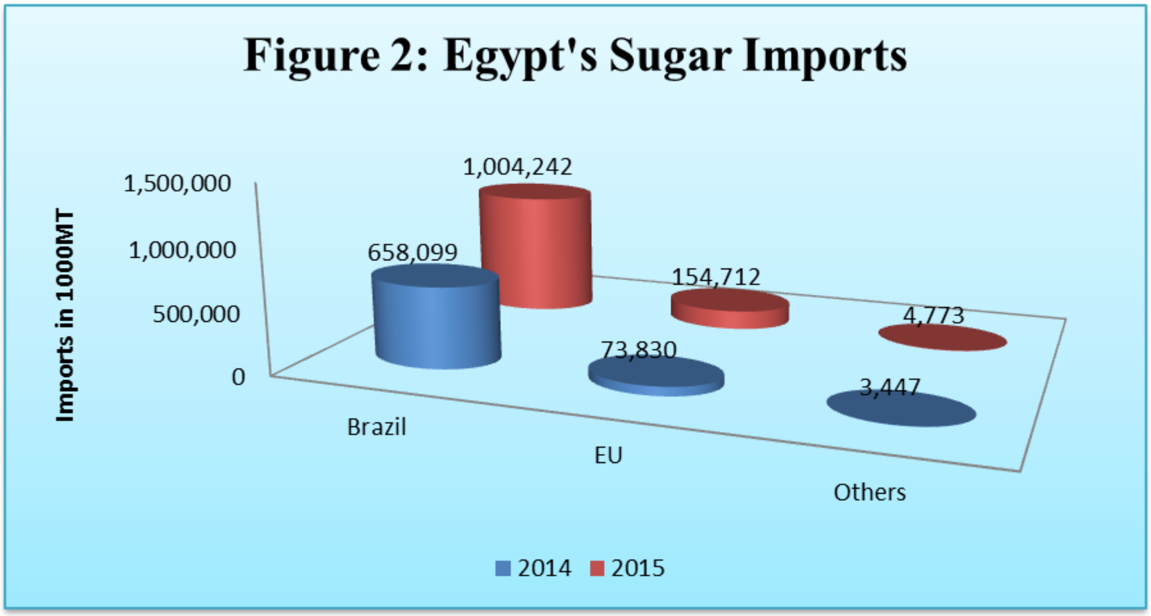
In March 2016, the General Division of Food Products (GDFP) of the Federation of Egyptian Chambers of Commerce (FEDCOC) reported that the price of sugar in the Egyptian market rose from LE 4,150 to LE 4,500 per metric ton (from $468 to $507 per metric ton). The division released a statement requesting that the SIIC announce their sugar pricing policy to prevent market speculation. The head of GDFP's sugar division, Ahmed Yehia, stated that SIIC's decision would affect Egypt's overextended consumers as the retail price would increase from LE 5 per kilogram to LE 5.50 per kilogram (from $0.56 to $0.62 per kilogram).

In response, MoSIT announced that it would purchase 250,000 MT of locally produced sugar at a price of LE 4,050 per metric ton ($456/MT) to be sold in consumer complexes and alleviate the price burden. The announcement came after MoSIT's Minister Hanafy met with the sugar companies' managers, who pledged to offer the lower prices for the benefit of smart card beneficiaries.

During the same meeting, the Minister agreed to form a high-level committee that will look and decide on policies aimed at protecting both consumers and the local sugar industry. The committee will be headed by Minister Hanafy, and will include representatives of the ministries concerned with the sugar industry, convening monthly to discuss the challenges facing the sugar industry. It will also ensure that an adequate supply of sugar is available in the local market at reasonable prices.

Trade:

Post forecasts total raw sugar imports in MY2016/17 to drop by 6 percent or 50,000 MT at 800,000 MT. Imports are expected at 850,000 MT in MY2015/16 down by 35 percent or 450,000 MT from MY2014/15 imports. Brazil and the EU were Egypt's main suppliers for sugar imports in MY2015/16 and are expected to remain the main suppliers in MY2016/17 (Figure 2). Post forecasts Egypt's sugar exports to remain stable at 200,000 MT. Sudan, Saudi Arabia, Tanzania, Uganda and Kenya were Egypt's main export destinations in MY2015/16, and this distribution is no expected to change in MY2016/17.



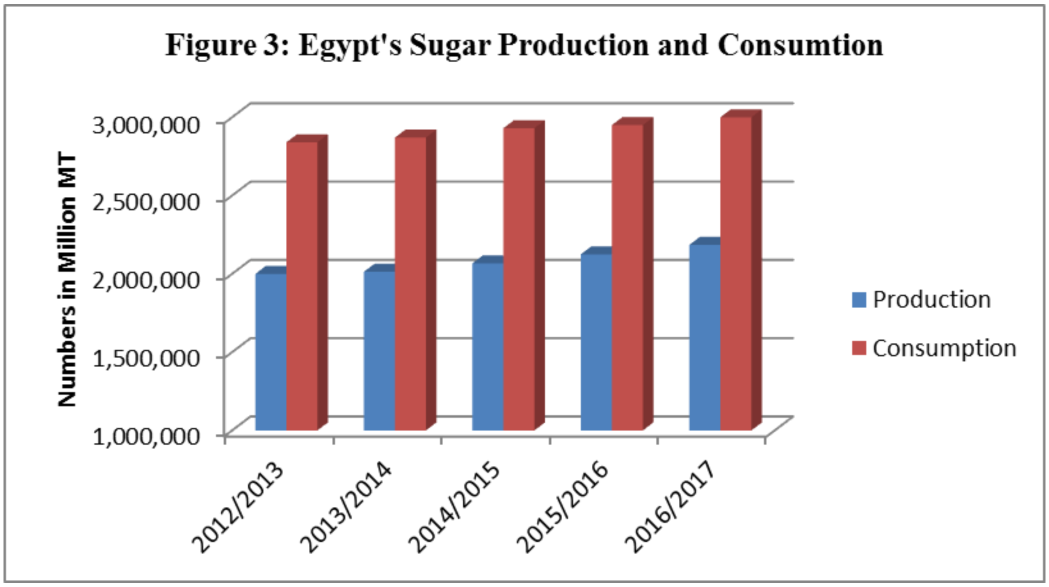
Source: GTA

On February 8, 2016, the Ministry of Industry and Trade (MIT) published Decision Number 2/2016 in the Egyptian Official Gazette rescinding the safeguard measures imposed on white sugar imports since April 2015. The safeguard measures imposed were a 20 percent tariff rate on white sugar imports, with a minimum of LE700 per ton ($90/ton) GAIN Voluntary Report July 2015. According to the decision, the investigations done by MIT's Anti-dumping Authority found that it was not necessary to impose the safeguard measures on white sugar imports and decided to refund all temporary fees paid by the importers during the period.

However, the decision came a few days after the government's decision to raise the import tariffs on a wide range of imported commodities, including raw and refined sugar. Presidential Decree Number 25/2016, published in the Gazette on January 26, 2016, which raised import tariffs on raw cane and raw beet sugar (HS 170112, 170113 and 170114) from 2 percent to 20 percent, and from 10 percent to 20 percent on refined sugar imports (HS 170191).

According to the government, the decision to increase import tariffs on certain commodities is intended to reduce Egypt's overall imports in order to reduce the demand for foreign exchange as the country has struggled through a currency crisis since the 2011 revolution. However, industry sources told Post that increasing tariffs on sugar imports was advocated by the Federation of Egyptian Industries to protect the local sugar industry, as domestic sugar is less competitive than imported sugar under current world market prices.

The move provoked backlash from government critics stating that an increased tax on imported sugar would prompt local factories to manipulate prices. The Federation of Egyptian Industries countered by stating that the 20 percent tariff rate would achieve social justice for all the parties involved, in which consumers would pay a fair price, while guaranteeing the survival of the country's sugar industry's ability to pay farmers a fair price. Nonetheless, imports will remain necessary to bridge the gap between production and consumption (Figure 3).



Source: GTA - Imports in CY – 2015 numbers cover January to November

Moreover, importers are finding it increasingly difficult to source the dollars necessary to pay for their shipments, as the government has instituted a series of measures to tackle forex drainage as it goes through a forex crunch.

In 2015, the Central Bank of Egypt (CBE) limited foreign currency deposits in banks to $10,000 a day and $50,000 a month. In January 2016, the government relaxed the cap to $250,000 for importers of food, machinery, spare parts, capital goods, and medicine only, then raised it again in February to $1 million per month. On March 9, 2016, it lifted the monthly cap on dollar deposits and withdrawal for companies importing essential goods, including food commodities; however, sugar is not on the list as it is not considered an essential commodity. According to CBE's regulation, priority goes to poultry, meat, fish, wheat, corn, edible oil, milk, beans, lentils, tea and butter. Sugar traders are clear that these challenges complicate their ability to source sugar, as the commercial banks take forever to allocate the needed foreign currency at the official rate.

Egypt Import Statistics Commodity: 1701, Cane Or Beet Sugar And Chemically Pure Sucrose, In Solid Form
Year To Date: January - November

Partner Country	Unit	CY 2013		CY 2014		CY 2015	
		USD	Quantity	USD	Quantity	USD	Quantity
World	MT	424935978	745834	425446688	735376	403843687	1163727
Brazil	MT	266618307	445836	292488877	658099	242450675	1004242
France	MT	23575293	50917	10113092	16241	80484479	75907
United Kingdom	MT	115585832	222987	68955839	166	37941460	180
Germany	MT	11817772	16370	15095172	27991	11282597	23133
Belgium	MT	606717	1000	4353441	6733	8709788	17889
Czech Republic	MT	170317	249	3176466	5246	6799541	11461
Denmark	MT	543632	888	2559920	4840	5977314	11550
Netherlands	MT	2302725	3250	364738	576	5839377	11312
Lebanon	MT	0	0	0	0	1711660	3808
Poland	MT	0	0	254934	528	862917	1968
Slovenia	MT	0	0	0	0	562250	1107
China	MT	494226	363	19971512	301	277415	196
Switzerland	MT	449237	348	489119	363	262911	202
Thailand	MT	22651	16	54882	13	193127	358
Saudi Arabia	MT	1247486	1266	0	0	155143	0
Mauritius	MT	112670	152	154191	90	145257	154
Others	MT	1389110	2192	7414505	14188	187776	259

Source of Data: GTA