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Voluntary - Public

Date: 3/19/2018

GAIN Report Number: EG18009

Egypt

Post: Cairo

Egypt May Lose 1.4 Billion Pounds on Wheat Purchases in 2018

Report Categories:

Agriculture in the Economy

Grain and Feed

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Report Highlights:

On February 2, 2018, Egypt's General Authority for Supply Commodities (GASC) issued updated requirements for suppliers wishing to participate in government tenders for wheat procurement. The government may lose 1.4 billion pounds on wheat purchases this year due to cumbersome import requirements. Expected to import approximately 12 million metric tons (MT) of wheat in 2018, Egypt remains the world's largest importer of wheat. Egypt's General Authority for Supply Commodities is the world's single largest purchaser of wheat. Government imports of wheat in 2017 reached 7.5 MMT, while Egyptian private sector imports amounted to only 4.5 MMT. Once a large buyer of U.S.-origin wheat, Egypt now purchases primarily from European and Black Sea producers.

General Information:

On February 2, 2018, GASC issued updated requirements for suppliers wishing to participate in government tenders for wheat procurement. Expected to import around 12 million metric tons (MT) of wheat in 2018, Egypt remains the world's largest importer of wheat. Egypt's General Authority for Supply Commodities is the world's single largest purchaser of wheat. Government imports of wheat in 2017 reached 7.5 MMT, while Egyptian private sector imports amounted to only 4.5 MMT. Once a large buyer of U.S.-origin wheat, Egypt now purchases primarily from European and Black Sea producers.

Egyptians have long been large consumers of wheat. Private sector estimates put per capita wheat consumption in Egypt at 184.5 kg per year; equivalent to 151.3 kg of flour per year. This is up from 174.1 kilograms of wheat per year in 2000. Subsidized bread, produced from government-purchased wheat, remains central to Egypt's domestic food support program.

The Policy of Protein

Egypt's General Authority for Supply Commodities occasionally alters the specifications for government purchases of imported wheat. The February 2 policy shift is one such example. The new policy decreased the required protein percentage in GASC tenders for wheat purchases. In theory, the lower requirement will allow a greater number of bidders to participate in government tenders, increasing competition and potentially cushioning price increases. Notably, global wheat prices have increased over the last year. From January 2017 to January 2018, USDA Market News shows U.S. hard red winter wheat (FOB, Gulf of Mexico) increasing 25.4 percent to \$192.17 per metric ton. Traders remain skeptical that the increased competition will transmit to lower purchase prices. Table 1 lists new minimum protein requirements.

Table 1: GASC Tender Minimum Protein Requirements, Wheat

Origin	New Minimum
Soft Wheats	11.5-11%
Russian, Romanian, Ukrainian, Bulgarian, Paraguayan, Hungarian	11.5-12%
Hard Red Winter	12.5-12%
Kazakh	12.5%

Source: FAS Cairo Market Analysis

Delays: A Dollar Waiting on a Dime

Prior to September 2016, the Egypt's Central Administration for Plant Quarantine (CAPQ) required that wheat shipments bound for Egypt be pre-cleared by Egyptian inspectors at the port of origin. Shipments that were not pre-cleared ran the risk of rejection upon arrival to Egypt. This practice continued through 2016 when the CAPQ began to reject wheat shipments due to the presence of ergot, implementing a zero tolerance for the fungus. [Note: The international standard for ergot presence is 0.05 percent. End Note.] Unable to attract bidders to government tenders, the Prime Minister of Egypt issued a decree rescinding the zero-tolerance ergot policy and ending the practice of pre-clearance.

Since that time, traders have begun to complain of increased delays in port clearance and an increase in the shipments facing mandatory sieving to remove foreign material, including ergot. Industry sources

indicate that shipments containing any level of ergot, or other foreign matter, must now be sieved under CAPQ supervision at a cost of \$3.00 per ton. This is an increase from the \$2.00 per ton charged in 2017. Sieving is a practice done normally as part of the milling process, meaning that Egyptian authorities are mandating and charging for a process that would be carried out by processors regardless.

Moreover, delays in customs clearance result in increased demurrage charges for shippers. The Government of Egypt has addressed the question of demurrage charges by holding importers liable for charges only incurred during the first 12 days. Under this policy the GASC charges importers a flat \$12,000 per day for the first 12 days a shipment is held in demurrage, for a total of \$144,000. Additionally, traders noted that the delays created by sieving are causing shippers to be forced to renew their performance bonds for shipments. The bonds generally expire after 60 to 90 days. With delays lasting up to 120 days, importers must renew the bond, which implies an additional cost for the seller.

The Costs of Doing Business

These new policies create a new calculus for potential importers and exporters to the Egyptian market. On one hand, the decreased protein percentage has the potential to increase competition and possibly decrease the price offers GASC receives. On the other hand, the new system of demurrage charges increases the daily rate, but limits the number of days that both can be charged. On top of these charges is a higher sieving cost, which most any exporter to Egypt should expect.

A firm shipping a 63,000 MT load of wheat to Egypt would expect to pay \$144,000, or \$2.29 per ton, in demurrage charges. Most shippers would then have to pay \$3.00 per ton, or \$189,000 per shipment, for sieving. Finally, the cost of renewing a performance bond, if expired, would have to be added. For the firm shipping 63,000 MT, the sum of these costs would be \$333,270 or \$5.29 per ton – equivalent to around 10 Egyptian piasters per kilogram of wheat. Obviously, traders and shippers will include these additional costs in their offers at the GASC tenders.

The Government of Egypt is expected to import 7.8 MMT of wheat in 2018. If only 80 percent is sieved at a cost of \$3.00 per ton, sieving alone will cost suppliers \$18.7 million dollars. Demurrage charges for the year will cost approximately \$17.86 million dollars. The sum of these figures suggests that the GASC will pay around \$36.6 million dollars more for wheat in 2018 than would otherwise be necessary. At the current exchange rate, that is 651.5 million Egyptian pounds (EGP) (1USD = 17.80 EGP).

Comparing the prices paid by GASC in public tenders throughout late 2017 and into 2018, the disparity between market price and the price paid by the Egyptian government becomes starker. In the nine GASC tenders held between October 18, 2017, and February 2, 2018, Egypt paid an average of \$10.26 per metric ton (182.63 EGP) more than other buyers. This indicates that importers or traders are adding an additional risk premium to offset the high risk of doing business in the Egyptian market. If this average premium holds in 2018, Egypt will pay \$80 million dollars, approximately 1.4 billion Egyptian pounds, extra for public wheat purchases.

Table 2: Russian Wheat Shipments to Egypt and Indicative Prices

Russian Wheat Shipments to Egypt Dec 2017 – Feb 2018

Tender Date	Delivery Date	GASC Price Paid, FOB USD/MT	Indicative Price*, FOB	GASC – Indicative USD/MT**
Feb 2	March 5-15	202.70 – 204.80	189.67	14.30
Jan 15	Feb 18-28	193.50 – 198.00	187.12	9.37
Jan 9	Feb 11-20	192.00 – 193.30	184.33	8.32
Dec 27	Feb 1-10	192.30 – 194.90	184.11	9.22
Dec 12	Jan 21-31	192.45 – 193.50	183.83	9.15
Nov 27	Jan 11-20	192.99 – 193.30	184.33	8.81
Nov 15	Jan 1-10	194.65	184.43	10.22
Nov 9	Dec 15-30	196.50	185.00	11.50
Oct 18	Dec 1-10	198.35 – 198.90	187.28	11.41

*Indicative prices are Russian milling wheat, FOB, as reported by industry. Protein standards matched to Egyptian shipments.

** GASC – *Indicative* is the difference between the simple averages of GASC purchases and indicative price, not weighted by volume.