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Egypt's Farmers Extract from the Government Higher Sugarcane Procurement Prices

Report Categories:

Agricultural Situation

Agriculture in the News

Agriculture in the Economy

Climate Change/Global Warming/Food Security

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Report Highlights:

On January 21, 2018, the Egyptian government gave Upper Egypt sugarcane farmers a financial boost. The government is raising its sugarcane procurement price to EGP 720/MT (\$40.5/MT), up from EGP 620/MT (\$34.9/MT). The procurement price increase will assist farmers to offset higher production costs, encouraging them to continue planting sugarcane. According to Minister of Supply and Internal Trade Dr. Aly Moselhy, increasing the procurement price may cause a slight increase in the industrial costs of refining and producing sugar. However, any increases will be subsidized by the government in order to keep the price of refined sugar stable in the local market at EGP 9.5/Kg

General Information:

Egypt’s total planted area in marketing year (MY) 2017-18 (January-December) with sugarcane is 126,000 hectares (HA), producing around 12.0 million metric tons (MMT) of sugarcane. FAS Cairo understands that the production from 107,000 hectares is being purchased by nine government-owned sugar refineries; the balance is utilized to produce molasses.

Upper Egypt’s (in the south of the country) economy 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 (rural family size in Upper Egypt is estimated at around 5.3 individuals). Another 300,000 families that benefit from the associated businesses built around sugar production would also be indirectly affected.

Pricing of the crop is a major determinant for farmers; low procurement prices set by the government will induce farmers to switch to other more profitable crops. Farmers going into the January 2018 harvest were disappointed with the government’s procurement price of Egyptian pounds (EGP) 620/metric ton (MT) (\$34.9/MT). Farmers are concerned with rising sugarcane production costs reaching EGP 52,381/HA (\$2,951/HA). With average yields coming in at 95.2 MT/HA, farmers profit margins would drop to EGP 6,643/HA (\$374.2/HA). With sugarcane in the field for a full 12 months, farmers are seeing at this price return of only EGP 553.5/HA (\$31.2) per month. The pound is trading at roughly EGP 17.75 = \$1.00.

TABLE 1: EGYPT, Sugarcane Farmers’ Profit Margins at a Procurement Price of EGP 620/MT (\$34.9/MT), 2017

| USD Exchange Rate | Cost per HA | Gross Income per HA | Net Profit per HA | Net Profit per Month |
|-------------------|----------------------|------------------------|--------------------|----------------------|
| EGP 17.75 | EGP 52,381 (\$2,951) | EGP 59,024 (\$3,325.2) | EGP 6,643 (\$74.2) | EGP 553.5 (\$31.2) |

Source: FAS CAIRO

Farmers, through the farmers syndicate (union), have demanded that the government raise sugarcane’s procurement price to EGP 1,000/MT (\$56.3/MT). Negotiations with the Parliament’s Agricultural Committee have only led to a new procurement price of EGP 700/MT (\$39.4/MT). This price was raised to EGP 720/MT (\$40.5/MT) on January 21, 2018, just one week after the previously negotiated price adjustment. Post estimates that with a sugarcane procurement price of EGP 720/MT, farmers will see a profit of EGP 16,163/HA (\$910.6/HA), which represents a 143.3 percent increase in net profit. On a monthly basis, farmers will be making about EGP 1,347/HA (\$75.8/HA) per month now.

TABLE 2: EGYPT, Sugarcane Farmers’ Profit Margins at a Procurement price of EGP 720/MT (\$40.5/MT), 2018

| USD Exchange Rate | Cost per HA | Gross Income per HA | Net Profit per HA | Net Profit per Month |
|-------------------|-------------------------|---------------------------|-------------------------|-----------------------|
| EGP 17.75 | EGP 52,381 (\$2,951) | EGP 68,544 (\$3,861.6) | EGP 16,163 (\$910.6) | EGP 1,347 (\$75.8) |

Source: FAS CAIRO

Conclusions:

Farmers regularly pressure the government to increase its procurement prices. This year, farmers cited the inflationary pressures on production inputs resulting from the November 2016 floating of the Egyptian pound against the U.S. dollar.

In marketing year 2016/17, the government increased the sugarcane procurement price to EGP 620/MT (\$34.9/MT), 55 percent higher than the 2015/16 procurement price of EGP 400/MT (\$22/MT). The current price of EGP 720/MT (\$40.5/MT) is up by 16 percent compared to the MY2016/17 procurement price.

As of January 1, 2018, government sugar refineries in Upper Egypt reported deliveries of 2.75 MMT of sugarcane, up nine percent compared to the same period in 2017.

According to Minister of Supply and Internal Trade Dr. Aly Moselhy, increasing the procurement price may cause a slight increase in the industrial costs of refining and producing sugar. However, any increases will be subsidized by the government in order to keep the price of sugar stable in the local market at EGP 9,500/MT (\$535.2/MT).

Egypt's total production of sugar is estimated at 2.4 MMT (1 MMT from sugarcane and 1.4 MMT from sugar beet). Its annual consumption is around 3.2 MMT; some 800,000 MT of sugar are imported to fill the gap between local production and consumption.