Wheat Sector Issues in Egypt – Opportunities for Dialogue

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Introduction

1) Wheat outlook
2) Production
3) Wheat import costs
4) FAO/EBRD Egypt Wheat Sector Review: key findings
Outlook: rising consumption, ongoing import requirements

Forecast Egyptian Wheat Consumption, 2013-23, ‘000s tonnes,
Source: FAO/OECD

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• Wheat is the most important crop: 4.3 million farms grew wheat worth USD 3.7 bn in 2012 or 9% of agricultural production (22% of field crops).
• Wheat grown as a winter crop, occupying nearly half the winter crop area
• Govt wheat procurement price is roughly USD 100 more than import prices.
• This increases the gross margin for wheat above those of competing crops: berseem, potatoes and sugarbeet

Gross margins for wheat and competing crops (US$ per hectare)
Costs of GASC Tender Complexity

- The General Authority for Supply Commodities (GASC) undertakes government wheat imports via tenders.
- GASC pays around USD 6-7 per tonne more than private companies for imports of wheat due to increasing tender complexity:
  - Very short notice time for shipping for GASC tenders
  - Tender complexity
  - Excessive amounts of inspections

Estimated Tender Complexity Costs

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<th>Costs/tonne</th>
<th>GASC Total Costs, m USD</th>
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<td>GASC Tender complexity and short notice</td>
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<td>GASC Port of loading inspection</td>
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<td>Costs of ambrosia presence</td>
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Sources: Egyptian and International grain traders and importers
Notes: Based on GASC imports of 4.3 million tonnes (2011-13 average). Ambrosia costs are for cleaning the shipment, including demurrage, sieving and additional storage.
Tender costs and complexity

Some of the issues:

- Short notice between tender and delivery – raises price and reduces competition as some origins cannot deliver in the timeframe
- Is all the level of analysis at 2,500 tonne sub-lot level required?
- Multiple entities undertaking analysis (official surveyor, Egyptian delegation, country of origin authorities). Also gives rise to different results, especially at sub-lot level.
- Scope to review some of the requirements in particular moisture level, protein level requirements varying by origin, insect damage
- No flexibility on vessel size (only 55 or 60,000 MT vessels allowed)
- Penalties paid to GASC in case of delay of loading are on top of the supplier having to pay demurrage fees
- No clear arbitration clause in the tender book
- Port of loading inspections – difficult to see the benefits, the delegations are large and cheaper private alternatives are available
Price per tonne paid by governments for imports of French milling wheat (in USD)
Key Recommendations

1. Encourage public-private dialogue between the government and private grain trading companies
   => grain suppliers ‘voice’ in discussions with the government
   => develop the role of the association
   => benefits of regular public-private dialogue

2. Welcome the recent Baladi programme reforms and the goals of reducing waste and inefficiency

3. Reduce the artificially high domestic procurement price for wheat
   => opportunities to develop higher value added exports and encourage investment, jobs and growth

4. Simplify GASC wheat import tenders and procedures
   => explore how to reduce inspection costs
   => grain suppliers willing to engage in further discussions with authorities, FAO and EBRD ready to support with technical expertise and investment to support and further the dialogue
Key Recommendations

5. Encourage use of privately built silo storage for the domestic wheat crop ⇒ welcome the reform of domestic grain storage

6. Government should rely more on private storage companies in ports

7. The government should review the existing rules for ambrosia seeds and implement a risk-based approach ⇒ Workshop on approaches to ambrosia in September

8. Enhanced data quality and transparency would be welcomed ⇒ more grain market transparency would benefit all actors
Thank you