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Rice Update

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Report Highlights:

Rice area is up significantly in 2011/12 and harvested area is expect to reach 760,000 HA, a 69% increase from last year. Strong prices and an absence of police to enforce area restrictions, as well as a more populist approach by the interim government have permitted the area expansion. There may not be sufficient water availability for this increased area, so yields may suffer. Exports of rice are banned until October 2011, and the trade expects the Government of Egypt to continue the ban until January/February 2012, due to the political sensitivity of high food prices. Post expects a fairly strong export program once the ban is lifted, reaching 500 TMT in 2011/12.

General Information:

The ban on rice exports is still in place, but broken rice continues to be exported. In addition, there are some contraband exports. It is difficult for the Government of Egypt to allow rice exports during these sensitive political, economic, and social circumstances following the January 25 Revolution. The Supreme Council of the Armed Forces and the interim Cabinet are very sensitive to food prices in the run-up to Parliamentary elections in November and Presidential elections in early 2012. Consumer rice prices are high, at LE6,000 to 6,500/ton (\$1.00=LE5.95). This is the end of the marketing season and demand has increased with the start of the holy month of Ramadan on August 1st. Allowing rice exports would mean further increases in rice prices, which would likely have political and social repercussions. Traders don't expect that the ban will be lifted before January/February 2011 after the country is politically settled and the government makes sure that it will be able to supply the consumers with their basic rice needs. Once the new crop is harvested, traders are expected to get rid of the old stock, which they will not be able to sell except in the local market. The traders expect the milled rice price to return back to about LE 3,000/MT by the beginning of MY 2011/12. Post expects approximately 500 TMT of exports in 2011/12, given that traders should have at least eight months to ship once the ban is lifted.

According to Ministries of Agriculture and Irrigation, the area cultivated with rice this year is about 760,000 hectares compared to 450 TH last season, due to favorable prices and reduced police presence to enforce area restrictions on rice cultivation. The government will then have two routes in the light of the abundance of rice, first, to extend the decision to ban the export, which is scheduled to end on October 1st, and in this case rice will be available at cheap prices for the consumer, but will come at the expense of the farmer, because the purchase price of rice will fall. The second route is to allow the export of predefined share to help raise the purchase prices from the farmer, especially since Egyptian rice is now priced in world markets at \$ 1,000 (LE 6,000) per ton.

Rice is planted in March/ April and harvested in August/September. The new rice varieties allow earlier harvest compared to the old varieties. Rice area has increased due to lax law enforcement following the January 25 revolution and because the interim government is generally trying to curry favor with various interest groups, including farmers. High rice prices and the GOE abolishing the fines for planting rice have led to the increase the area of rice this year.

Rice is a good cash crop for the farmers. With a short crop last year because of planting restrictions, paddy prices started the year at LE 2,700/ton and went up from there. Farmers consider rice as a better summer crop than corn. Cotton became a competitive crop, along with rice, after the government raised its procurement price in line with rising world prices, which encouraged the farmers to grow more cotton instead of corn. However, securing adequate irrigation water will be a problem that affects yields of both cotton and rice this year. Post will be reducing forecast corn harvested area in accord with rising cotton and rice area.

Under the bidding system followed by the General Authority for Supplies Commodities (GASC) to procure rice for the ration card holders at subsidized prices, the Ministry of Solidarity and Social Justice (MOSSJ) is now accepting bids for imported long grain rice. GASC paid LE 4500/ton for Egyptian medium grain in the latest tender. The first shipment of imported rice arrived in July 2011. The Ministry generally seeks lower prices regardless of the quality. U.S. rice may have the chance to win some of these tenders if the price is competitive with the prices of the Egyptian rice as well as the rice imported from other countries (mainly Vietnam, Thailand, India, and Pakistan). If the bidder committed to supplying local rice, he must comply or pay a penalty fee of LE 100 (or \$17)/ton regardless of the quality. Given the price differentials, importing long grain rice and paying the penalty makes economic sense.

Traders believe that there are two problems in importing U.S. rice: the slow preparation, arrangement, shipping, and the transit time; and the second is the higher prices of U.S. long grain rice compared with the Far East sources. According to the traders, the difference between U.S price and Far East prices was \$60-70 last week, and \$40-45 this week.

There is some resistance from consumers to accept the long grain rice, but poorer consumers have no other choice and now they have to change their consumption pattern to accept long grain rice over Egyptian medium grain. The government now delivers rice or pasta for the ration card holders, depending on which one has the lowest price. They may also deliver one kilo of rice and one kilo of pasta per person depending on the price and the availability of each of them. MOSSJ make tenders for pasta and has already received 84,000 MT since May 2011.

The traders expressed their interest to have an open continuous dialogue with the concerned ministries. There is a conflict in interest between the Ministry of Agriculture (MOA), MOSSJ, and the traders. MOA would allow the importation of milled rice to be sold at the local free market in addition to be delivered to the ration card holders.

With three million people added to the ration card holder, the monthly amount needed is now 93,000 MT. Egypt has already imported long grain rice for the ration card program. Post has learned that Vietnam has offered MOSSJ to sign a government-to-government agreement to supply Egypt with rice at special price against Egyptian food products, but the ministry has not yet replied to this offer.

There is widespread smuggling of rice to neighboring countries including Libya, Sudan, Jordan, and Syria. It is estimated that about 20,000 MT has been smuggled (LE 1,200-1,300/ton) or (\$200-220/ton) but others estimate it at about 50,000 MT. Post has reflected this smuggling in the 2010/11 rice export estimate.

The demand for rice has increased in the holy month of Ramadan (started in August 1st), due to large quantities demanded by the consumers that are delivered to the poor people as a charity. The current price of milled rice is LE 5,500/ton (\$925/ton), where it is sold freely at LE 6,000- 6,500/ton (\$1,000-1,100/ton) based on the quality and whether it is sold packed or bulk. The amount of subsidy paid by the government is LE 4,500/ton (\$760/ton) representing the difference between the free market price (LE 6,000 /ton or \$1,000/ton) and the ration card subsidized price (LE1,500/ton) or \$250/ton.

Options for Importing Paddy Rice

An option supported by the traders and owners of the mills is to import medium grain paddy rice to be milled and re-exported as Egyptian rice to their traditional markets in the Middle East besides consuming it in Egypt for the ration card holders and in the free market. Such option will force the local traders to reduce their prices. Traders, mills owners, and related industries are in favor of this option, but MOA is not for quarantine reasons. The traders have strong interest in importing U.S. medium grain paddy rice to permit Egyptian millers to continue to supply their regional market. Egypt's agricultural science establishment refused to allow this deal for quarantine reasons (Egypt's rice producing areas are fairly disease free and there is a great deal of concern about introducing new diseases and pests). The Egyptian rice industry does not want to import brown rice, as they do not think this will be profitable. Parts of their earnings come from sales of rice husks and bran. The Egyptian scientists claim that the Egyptian rice is infested with only five diseases and pests compared to 70 disease and pests contamination in the imported paddy rice. The United States successfully exports paddy rice to a number of rice producing countries without any phytosanitary problems.

The trade is proposing to set up a dehushing facility in one of Egypt's free ports. They would import U.S. paddy, dehush it and provide the brown rice to local millers. Presumably, the dehushing would be on a toll basis. Also,

presumably they are also looking into some way to either re-export the husks or make them disease-free so that they can be utilized by the livestock industry in Egypt.

Traders say that importing paddy rice will have a value added to the Egyptian economy. There is no official decree of not allowing the importation of paddy rice and while the Minister of Agriculture was on the side of dehushing, no decision has been made in this regard. According to the importers, this idea if even has agreed on, it may not work, because they have to pay higher freight since they will import paddy rice (30% more weight than the milled rice) if the extraction rate is 70%, while the customs on rice whether it is milled or not is 1% only.

The third option proposed by the exporters is to relate the allowed quantity imported of rice with quantity exported in the sense that allowing the traders to export one ton of rice against the importation of one and half ton of rice.

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