

Agricultural Economy and Policy Report - EGYPT
February 2009

POLITICAL SITUATION: Elected to his fifth six year term in 2005, President Hosni Mubarak and his National Democratic Party (NDP) will maintain a firm grip on all political and security institutions in Egypt. NDP holds overwhelming majorities in both the Upper and Lower Houses of parliament.

Ties between Egypt and the United States remain strong. However, there are strains on the relationship, owing to such factors as U.S. demands for democratization and the complexities of the Mid-East Peace Process. Although GOE generally tends to follow the U.S. lead regarding strategic objectives in the region, Egypt's ability to play its traditional role of regional mediator is currently strained due to the situation in the Palestinian Territories, especially in Gaza. Egypt relies heavily on U.S. financial assistance, amounting to about \$1.3 billion in military grants and \$400 million in economic assistance in FY 2007/08. The EU remains an important partner in both trade and diplomacy, and Egypt is also seeking to strengthen links with new allies such as Russia and China.

ECONOMIC SITUATION: The GOE's five-year National Development Plan for the period fiscal year 2007/08 (July 1-June 30) to 2011/12 targets an annual real GDP growth of 8 percent. To achieve this target, GOE will continue to push ahead with economic reform and liberalization, sharp cuts in income tax rates and customs duties, and more moderate reductions in fuel subsidies.

The 8 percent target is unlikely for 2008 but the outlook for Egypt's growth prospects remains bright. The robust performance of the tourism and real estate sectors, progress with the government's economic reforms, and strong domestic demand led to a real GDP growth of 7.1 percent in 2007, up from 6.8 percent in 2006. In January 2008, growth was forecast to continue growing to 7.2 percent in 2008. There has been a slowdown in consumer demand onset by relatively high inflation, e.g., prices are expected to increase about 7 percent in 2008.

Macro-Economic Indicators	2002	2003	2004	2005	2006	2007	2008*
Real GDP (% change)	2.9	3.3	4.1	5.2	6.8	7.1	7.2
Nominal GDP Per Capita (US\$)	1,204	1,001	1,078	1,259	1,428	1,689	1,894
Consumer Price Index (% change)	2.7	4.5	11.3	4.9	7.6	9.5	6.9
Unemployment Rate (%)	10.2	10.4	10.7	11	10.6	10.1	9.5
Current Account Balance (US\$ bil.)	0.6	3.7	3.9	2.1	2.6	1	1.9
Trade Balance (US\$ bil.)	-5.8	-4.2	-6.6	-7.7	-8.4	-13.2	-15.8
Exchange Rate (LCU/US\$)	4.5	6.15	6.13	5.73	5.7	5.51	5.87

*Forecast

Source: Global Insight 2007

AGRICULTURAL SITUATION: Contributing about 14 percent to overall GDP, agriculture ranks third behind manufacturing and mining (including oil and gas) as the most important productive sector in the economy.

Agriculture is restricted to the Nile Valley and Delta, comprising about 2.5 million hectares and only 2.4 percent of the country's land mass. Without the Nile, Egypt would be little more than a desert wasteland. Approximately one-third of Egyptian labor is engaged directly in farming, and many others work in the processing or trading of agricultural products. Some desert lands are being developed for agriculture, while some other fertile lands in the Nile Valley and Delta are being lost to urbanization and erosion.

While the desert hosts some large, modern farms, more common traditional farms occupy one acre each, typically in a canal-irrigated area along the banks of the Nile. The poultry industry has been severely affected by Avian Influenza, while the dairy and beef sectors have been negatively affected by other diseases such as foot and mouth disease (FMD).

DOMESTIC AGRICULTURAL POLICY OVERVIEW: Egypt's primary agriculture policy relates to managing scarce water resources, developing Upper Egypt, and subsidizing a few key commodities. Subsidies on agricultural production are modest and well below levels allowed under WTO commitments. The key commodities for which the government still maintains price supports are wheat and sugar cane. In addition, in 2008, GOE will spend about \$1.5 billion on a subsidized bread program. The State-run logistical organization, GASC, remains Egypt's largest buyer of wheat, purchasing about 5 million tons per year. GOE is deeply interested in improving the horticultural sector so it can more consistently meet the quality and regulatory requirements in overseas markets, particularly those in Europe. Economically depressed Upper-Egypt is targeted for development in horticulture production. The rice, cotton, and horticultural product sectors are among the most politically powerful sectors (amongst row crops or even when compared with dairy, beef, and poultry sectors).

Egypt maintains no import restrictions or labeling requirements for products produced with the benefits of modern biotechnology or genetically modified organisms (GMO). Nonetheless, while maintaining a robust research program in the field, in March 2008 Egypt approved its first GM crop for domestic planting, a Bt corn variety. While some in the Ministry of Agriculture have expressed an interest in developing biofuels, the fact is that Egypt lacks raw materials to develop such a sector.

The principal future policy challenge will be developing a system for sustainable water management. Imposed limits on rice area have proven to be ineffective, so the government has imposed a six month export ban effective April 1, 2008 in order to lower the domestic price of rice. The rice export ban was initially only to last six months until October 1, 2008, however the ban has been extended and is now expected to end April 1, 2009. In the animal sector, as noted above, Egypt still has many disease problems, which curtail productivity and limit growth.

AGRICULTURAL TRADE SITUATION: Egypt is a WTO member, but has not staked out a strong position or strategy vis-à-vis the United States during the Doha agriculture negotiations. Import duties on most agriculture products remain minimal, with some notable exceptions (wine and spirits). In general, the United States enjoys good access to the market in Egypt, although some barriers persist and sometimes difficult testing requirements upon entry for some goods result in product detention

In 2007, Egypt imported about \$6.6 billion in agriculture products, while exporting about \$1.7 billion. Leading imports in rank order of value were: 1) cereals (wheat and corn); 2) lumber; 3) beef; 4) soybeans; 5) vegetable oils; 6) feed materials (soybean meal & corn gluten feed); 7) edible beans; 8) dairy products; 9) sugar; and 10) cotton.

Given the unprecedented market situation that prevailed in 2007, the United States enjoyed a banner year in exports to Egypt. Led by a rebound in wheat exports and record sales of corn, soybeans, corn gluten feed, and continued strong sales of beef offals, dairy products, as well as several other products, exports were a record \$1.8 billion. In the future, the United States should maintain dominant market share in corn and soybeans, but will likely face increased competition again from suppliers that were absent from the wheat market in 2007/08; Russia and other Black Sea origins remain formidable competitors for Egypt's huge wheat market. Absent any new SPS barriers, Egypt will remain a top market for U.S. beef offals, but Brazil and Argentina will continue to supply the overwhelming majority of the beef. As noted above, Egypt is not applying OIE guidelines on U.S. beef imports.

Rice, potatoes, and cotton are the major export earners. However, producers are increasingly diversifying into higher value crops such as fruits, vegetables, and flowers for export. Most of Egypt's exports are confined to the EU, and neighboring markets in North Africa and the Middle East.

USDA STAKEHOLDERS: U.S. Wheat Associates' North Africa and Middle East office is located in Cairo, and the American Soybean Association and the U.S. Grains Council have representative offices here. In addition, the Washington Apple Commission recently appointed a Cairo-based representative to serve the region. The U.S. Meat Export Federation and U.S. Dairy Export Council have a representative in Beirut. All of these organizations have active programs in Cairo. In addition, the Southern U.S. Trade Association intends to have a large contingent at a major trade exhibition in Cairo in the Fall of 2008.

USAID is currently funding two FAS capacity building projects: one on SPS issues and one on biotechnology. Both of these are scheduled to conclude in 2008. USAID has also provided about \$8 million to combat avian influenza in Egypt, and the regional APHIS office in Cairo provides technical support for this project. In addition to the regional APHIS Attaché, the APHIS office in Cairo had a specialist veterinarian serve a TDY to support AI efforts in the region in FY 2008.

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