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Country Development Strategy Statement

FY 1986

EGYPT

ANNEX J

THE REGULATION OF
AGRICULTURAL PRODUCTION AND
MARKETING IN EGYPT, 1974-83



APRIL 1984

Agency for International Development
Washington, D.C. 20523

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1. Introduction

This report is intended to provide basic, annual information and draw inferences about the longer-term direction of GOE agricultural and food policies from 1974 to the present. Three areas of policy are covered: production and marketing, foreign trade, and consumption. More attention is given to the first two areas. The area of consumption has been studied intensively by the International Food Policy Research Institute, and a large amount of factual information and analysis is available from their reports.^{1/} This report does not cover all areas of the regulation of agriculture. Egypt as a country, and especially its agricultural sector, is highly regulated. A number of previous reports in English and Arabic provide more comprehensive reviews of GOE agricultural policies.^{2/} A number of areas of recent public concern and legal change have not been considered. They include landlord-tenant relations, agrarian reform, the law of cooperatives, building on agricultural land, the planting of orchards, the production and import of seeds and other inputs, and so forth. Other regulations of a general order, such as transportation, also affect agriculture but are not covered here.

2. Direct Regulatory Controls on Production and Marketing of Agricultural Crops

Particular attention is given to the set of governmental regulations that directly control the production and marketing of important crops. The subset includes:

1. official procurement prices
2. procurement quotas
3. planned areas
4. input allocations

Tables I-IV provide quantitative documentation of the trend 1974-83 in each of these regulatory instruments.

Table I shows the evolution of the fixed government procurement prices of major crops from 1974 to the present. It will be noted that all prices are constantly increasing, and that the rate of increase has increased starting circa 1978. This reflects inflation in the prices of inputs, especially of labor and land. Other costs of production (e.g. machinery, petroleum products, and chemical fertilizer) are controlled. The conceptual basis of government price formation policy remains the "cost-of-production" approach.^{3/} The increasing rate of increase of GOE procurement prices should not be interpreted as a philosophical shift to opportunity cost pricing based on international prices. Nor is there any indication that the government monitors domestic markets when it sets the prices of commodities. Corn became a fixed price procurement crop in 1982, but contrary to expectations, farmers did not deliver any to government warehouses due to a higher, prevailing free market price. The system is used only inadvertently as a price support system. 1984 prices are not shown in Table I even at this date in the middle of the crop year due to the GOE's practice of announcing procurement prices after the relevant production period. The allocative effect of this action is minimized, in any event, by the stable expectations that farmers have developed about the evolution of price policy.

Table II shows the trend in procurement quotas of the major crops subject to compulsory delivery. The procurement quotas of wheat, rice, lentils, beans, and peanuts are set as a fixed quantity per feddan of production. The quota is expressed in the table in kilograms, although it is officially announced in ardebs, a local, volume measure. For example, one ardeb of lentils has 160 kgs., and one ardeb of beans contains 155 kgs. The rice quota is officially stated in tons per feddan. It will be noted that a range of quotas exists for a number of these crops. The procurement quota varies by governorate and district with adjustments being made according to locally-achieved yields. At the limit, a farmer should not have to deliver more than he grows. 100% of cotton and sugarcane production must be delivered to government

warehouses. The marketing of the other crops is intended to be split between the government and the local markets giving rise to a weighted-average, farmgate price for many crops as the price actually received by farmers.

Procurement quotas were suspended for wheat (1977) and lentils (1982). The government began to purchase corn in 1982, but delivery of this crop is not compulsory. The suspension of any crop from compulsory delivery is not irreversible. Annual decrees continue to be issued stating that, in a particular year, delivery is "voluntary without upper limit," but this is still within the government's authority to change. Unlike prices, procurement quotas do not seem to be adjusted once they are in place. The same rice, cotton, lentil, bean, and sugarcane quotas have existed for the entire 1974-83 period. This means that, as yields increase, the government is taking a lower portion of the farmers' production. Unless a procurement quota is in place, the government may not honor the fixed procurement price. This has been particularly true of wheat, a crop that the government has almost ceased to procure in recent years from domestic sources. Similarly, there was no government procurement of corn in 1982. On October 26, 1983, the Minister of Agriculture stated in an interview in one of the opposition Cairo newspapers that starting again in 1983-84, wheat planting and delivery would be obligatory. The quotas to be imposed were still not decided as of December, 1983.

Table III shows planned and actual area of the major crops that are subject to controls. Important shifts in land use have occurred in Egyptian agriculture in recent years. Regarding the planned areas of crops from 1974-83, the planned area of wheat has increased from 1 to 1.4 million feddans. Rice has decreased marginally from 1.1 to 1.0 million feddans. Corn has remained stable at about 1.9 million feddans. Cotton has shown the largest decrease from 1.6 to 1.1 million feddans. As recently as 1965, 2.0 million feddans of cotton were grown in Egypt. It will be noted that planned and actual areas tend to coincide. The Egyptian land use plan is as much a description of trends in land use as it is an instrumental factor in causing them. Planners have adjusted the areas especially to conform with farmers' resource allocation decisions. The land use targets of 3 crops, cotton, rice, and sugarcane, are the most strictly enforced on an annual basis. Table III shows, however, that planners have scaled the area targets over time to the amount of land that farmers are (voluntarily) willing to allocate to these 3 crops.

Table IV shows allocations of nitrogenous fertilizer (15.5 analysis equivalent) for the major control crops that are sold to farmers at subsidized prices. Fertilizer allocations for the individual crops have been increased as the national supply situation has improved, with new plants coming on line and fertilizer imports phasing out. Farmers may purchase additional, over-quota quantities of fertilizer at unsubsidized prices that reflect economic costs. As with all subsidized commodities, a secondary market has developed for chemical fertilizers where the direct recipients of the subsidized commodities resell at higher prices.

Tables V and VI provide further illustration of how plans are adjusted to conform to actual results. Planned rice delivery was reduced from 1.3 million tons in 1976-77 to 1.1 million tons in 1982-83, thus bringing the percent of plan achievement from 83 to 102%, but with a decrease in the absolute quantity delivered. Table 6, for the governorate of Sharqia, shows how the area objectives of cotton, rice, and beans were reduced in order that they correspond to the actual planted area for these crops. Interestingly, wheat increased in area.

3. Institutional Mechanisms

The Egyptian government's crop production plan is established every July by an inter-ministerial committee. It may then be modified during the course of the year at the request of ministries, governorates, and public sector industries. The major crops whose areas are strictly enforced are cotton, rice, and sugarcane. Other target crop areas are indicative rather than compulsory. The planning system rests to some extent on the agreement of the farmers, and the government proceeds with attention to the limits to which it can push the farmers. The government is not raising delivery quotas, for example, as yields increase. This would encounter resistance. The government's avowed philosophy is to strike a balance between producers and consumers. It permits farmers to deliver a portion of their crop to the free market where prices are high enough to have the farmer make a profit, and be able to live. The plan is often modified to take account of the market forces that decisively shape farmers' decision-making. Certain regions of the country, and especially the "cordons" that encircle the urban areas, have been permanently exempted from all crop controls. The "cordon" (the French word is used) is an Egyptian tradition that the GOE in the modern period has not dared to alter. It is basically the dairy, fruit and vegetable zone that will spontaneously emerge around all urban areas. The crop rotation is sometimes modified to introduce new crops (e.g. soybeans). It may also be modified to meet the input requirements of processing industries (e.g. flax). The ministries of Supply and Industry intervene in the decision-making process on behalf of these interests. Finally, projects funded by foreign donors (e.g. Small Farmer Production) may result in the suspension of the normal, crop rotation rules to achieve the projects' objectives. In general, agricultural planning in Egypt is partial, flexible, and loosely enforced. Farmers appear able to escape from restrictions on land use whenever high value opportunities appear.

4. Basic Planning Units

Agricultural production in Egypt is regulated from the basic level of the houd to the national level. The intermediary, administrative units are the village, district, and governorate. Agricultural administration coincides with local government in rural Egypt. However, the houd is the 'real' unit of regulated production in Egyptian agriculture. It is the area of land on which the administration imposes a uniform crop selection and management of production. In a typical houd of 150 feddans, there may easily be 150 farmers, including owners and tenants, but they are directed to act in unison in the use of their land.

The technical and logistical advantages of operating large contiguous areas planted to a single crop are said to be:

- (a) airplanes can be used for crop dusting
- (b) the irrigation schedule can be synchronized for all the farmers according to the crop requirements
- (c) large pieces of machinery can be used more easily and economically
- (d) new seed varieties can be introduced more rapidly over a wider area
- (e) chemical fertilizer and other inputs can be delivered in large quantities on a timely basis
- (f) crops with conflicting requirements are physically separated.

If every farmer made his own production decisions independently, none of these advantages would happen. The existing system of "organized agricultural production" was designed to eliminate the "chaos" that existed when every farmer was free to plant whatever he wanted, given the fact that parcels of land were highly fragmented (as they remain today). The organization of production by the administration does not, however, affect ownership rights. The system is said to be pragmatic, and not ideologically-inspired. "Socialism would be contrary to the religion of Islam," it is said.

The houd is the level at which the administration imposes, so to speak, the collective interest on the farming community. AID projects (e.g. Major Cereals and Small Farmer Production) have taken advantage of the uniformity of treatment that the administration is able to impose to achieve production results by speeding the spread of more efficient but exigent technologies. An evaluation of the AID Agricultural Mechanization Project, dated February, 1983 stated:

Large farming units (houds) occurring in the form of consolidated blocks or basins (25-125 feddans) mandated by the cooperative societies for crop rotation purposes, offer the greatest opportunity for large-scale mechanization efforts (p.38).

In contrast to the houd, the higher administrative levels of the agriculture sector allow for greater diversity in crop selection and production management. Major differences exist among the governorates in terms of governmental intervention in the agriculture sector. The differences are related to a number of factors: soil and water conditions, marketing opportunities, distance from urban centers, and even the force of personalities in provincial administration. National policy in Egypt is mediated through several distinct layers of

government. Bureaucrats, elected officials, and ordinary citizens participate vociferously at all levels. Current national policy emphasizes "decentralization" of decision-making from Cairo to the governorates both in agricultural policy and other areas that concern local government. At the same time, the center has not delegated its final authority over the agricultural sector to lower levels of government. The enforcement of unpopular, central directives has always been a cyclical phenomenon in Egypt. At the very least, it is recognized at all levels of government that the Egyptian rural population is too poor to endure a punitive, extractive policy for too long. Uneven administration is always a problem. But the inter-governorate differences in Egypt are conscious, intended, formal differences that are recognized in the Egyptian government itself. They do not result from slippage as central direction becomes diluted in the provinces. Besides the inter-governorate differences, there are also intra-governorate differences in the regulation of agriculture among districts and villages, and between the majority of ordinary farmers who deal with the Agricultural Bank (PBDAC), and the minority of "agrarian reform" farmers who received their land from the state. It is said that the agrarian reform farmers are more strictly supervised by the administration because they received their land not by private inheritance or purchase but rather from the government itself. The farmers who deal with the Agricultural Bank have more secure tenure status, and therefore the administration has less of a voice in the way that they manage their farms.

5. Regional Diversity in the Regulatory Situation

Diversity is always an aspect of national policy for the regulation of agricultural production and marketing. In Egypt in particular, the size of the administration enables the agriculture sector to be administered intensively. The regional offices of the Ministry of Agriculture understand their mission to be the implementation of national policy objectives in accordance with the "conditions and means" available to the governorate. Governorate officials thus adjust national policy objectives according to the specific characteristics of the districts and villages in the governorate. The extent of the diversity that results is not always appreciated at higher, more central levels.

For example, in Gharbiya governorate, each district is specialized in a different type of crop:

<u>Districts</u>	<u>Principal Crop(s)</u>
Tanta	Cotton and vegetables
Qtour	Rice
Santa	Wheat and cotton
Zifta	Cotton, wheat, fruit
Kfir Zayat	Vegetables
Bassiouni	Cotton and rice
Mahalla El Koubra	Cotton and rice
Setour	Rice

Villages also tend to be similarly specialized according to their specific conditions. The village administrative councils for the crop rotation, composed of elected officials, meet in September and October to negotiate with the district level about the allocation of area quotas.

In El Minia governorate, cropping regulations differ on the East and West banks of the Nile River. On the East bank, farmers are obligated to grow fava beans and other pulses. On the West bank, they must grow cotton. The difference was attributed to soil type. The marketing system is uniform on the two banks. All fava beans, pulses, and cotton must be marketed through the cooperative system. The other crops, corn, millet, sorghum, wheat, and grapes, may be freely marketed.

A final illustration of the diversity in national regulation of production and marketing is Ismailia governorate. Farmers have been forbidden to grow cotton, and high value, horticultural crops have been encouraged. There are 3 crops that must be planted and delivered: peanuts, fava beans, and sesame. However, of the total cropping area in 1982, 190,000 feddans, only 40,000 feddans, or 19%, were planted to compulsory crops. The cropping pattern reflects President Sadat's decision in the late 1970s that Ismailia become the "garden of Cairo" for fruits and vegetables. It also reflects the heterogeneity of soil types within the governorate that requires land allocation decisions be left to individual farmers.

The degree of diversity also may be illustrated by contrasting the regulatory situation in Minoufia and Gharbiya governorates. The following, relatively liberalized situation exists in the governorate of Minoufia:

- 1) production for all crops is voluntary with the exception of cotton; the area devoted to cotton is going down, and it now occupies approximately 10% of the cultivated area of the governorate; cotton has a 3 year rotation, and many farmers never grow it;
- 2) the marketing of all crops is voluntary with the exceptions of cotton (100% of production) and beans (310 kgs. per feddan); that is, if a farmer chooses to grow beans, then he must deliver 310 kgs./feddan to the Principal Bank — but the initial decision to grow the beans belongs to the farmer;
- 3) the Principal Bank is of decreasing importance in terms of the volume of total agricultural production that it handles, whereas alternative marketing channels are handling increasing volumes (regarding export marketing, see the next point);
- 4) specialized export marketing institutions, both public and private, exist, and they have been handling an increasing share of production during the last few years; farmers receive a higher percentage of world prices for the horticultural products (chiefly potatoes and green beans) that are marketed for export than if sold on the domestic market;

- 5) the cropping pattern of the governorate is shifting away from grains and fibers and towards high value, horticultural, livestock and dairy production;
- 6) export prices are announced in the governorate, and adjusted for timeliness of delivery according to export price fluctuations; horticultural products are graded according to 3 standards, and they are marketed according to the highest value channel that quality permits.

The farmer in Minoufia faces a much less regulated situation than in Gharbiya, where it is more tightly controlled. The Ministry of Agriculture believes that, in Gharbiya, the state had to intervene to reverse the trend towards fragmentation which would have made the adoption of modern farming techniques nearly impossible. The agricultural engineer who was responsible in the early 1960s in Gharbiya for the creation of the system of organized agricultural production, and for assuring its continued implementation, is now the second highest ranking agricultural official of the governorate in recognition of his accomplishments. Gharbiya governorate is said to be proud of its implementation of centrally planned and controlled agricultural production. Ministry of Agriculture officials stress that a consensus exists between the administration and the farmers about the advantages of centrally planned and controlled cropping patterns. The officials cite the advantages (as stated above) that agriculture in Gharbiya has gained during the two decades that the current system has been in operation. Before 1960, Gharbiya, like Minoufia today, had a chaotic farming pattern which did not work to the advantage of either the individual or society.

Gharbiya, whose total area is 405,000 feddans, produces both cotton and rice. Cotton and rice are two of the three crops in which, according to a recent statement by Minister of Agriculture Yusef Wally, the government will not permit area reductions to occur as the prices of alternative crops are raised, and hence become more attractive as substitutes for cotton and rice (sugar is the third crop, but it is not a major economic crop in Gharbiya). Cotton, rice, and sugar are considered to be too important to Egyptian consumers for land area controls to be lifted. Gharbiya is a major contributor among the governorates to achieving national, pro-consumer objectives. Whereas Minoufia grows only one compulsory crop (cotton) on 50,000 feddans, Gharbiya grows two compulsory crops: cotton on 115,000 feddans and 90,000 feddans of rice. In addition, cereals and pulse production is organized into contiguous areas in Gharbiya, whereas it is left to individual farmers' choices in Minoufia. In the context of the debate over reform, it would be interesting to compare the economic results of field crops in Minoufia and Gharbiya governorates to determine which is the better system.

6. Regulations of Inputs: Chemical Fertilizer

If there is diversity in land use above the houd level, there is a far higher degree of uniformity in governmental regulation of chemical fertilizer. The following are basic characteristics of the regulatory environment for chemical fertilizer (both N and P):

- All domestic manufacturing capacity is in the public sector
- Public sector monopoly on imports and domestic distribution from foreign and domestic production sources
- Producer, wholesale, and consumer (farmgate) prices set by government, with subsidies to offset the higher production and import costs
- Quantity allocations per feddan by crop
- An extensive secondary, resale, or "black" market
- Barriers to entry by the private marketing sector, chiefly due to application of the subsidy through the medium of public sector organizations (Principal Agricultural Bank)
- Private sector involvement limited to the illegal, resale market.

Fertilizer distribution is a national system completely regulated by government. The system now is making adequate quantities of fertilizer available to most farmers at reasonably stable prices. The chief shortcoming of the system, in the absence of conversion to private distribution, is the wastefulness and lack of incentives for the public sector to improve handling and storage efficiencies. Individual handling and storage units in the system of the Principal Agricultural Bank seem to lack incentive to improve handling and storage practices. This problem seems to have been overcome by intentionally over-supplying the distribution system. Table VII shows the one bright spot in terms of a liberalization scenario for the fertilizer sector. The GOE has been raising fertilizer prices to attempt to cut down on the budget subsidy. The other potential bright spot, private sector fertilizer distribution, is now a deadletter with the exceptions of foliar fertilizer and other types that are not produced in Egypt. Private Egyptian companies are importing and distributing pesticides and seeds. The import of these kinds of inputs is regulated by the Ministry of Agriculture as well as by normal customs regulations.

7. The Foreign Trade Regime

Government dominates the foreign trade regime.^{4/} Regulations determine the composition, volume, and channels of trade in agricultural commodities. A number of basic agricultural commodities, including wheat, corn, livestock, and edible oils, are banned from export. (See List I.) They include commodities that are imported and subsidized by the government, as well as domestically-produced commodities whose prices are set for consumers by the government below import price levels. The government is the monopoly importer of many basic foodstuffs (e.g. wheat, corn, beans, sesame, tea, sugar, edible oils, fats, tobacco, cotton, plus chemical fertilizer for agriculture). (See List II.) Furthermore, GOE importing organizations prefer government-to-government supply agreements. The reasons cited are that they give better assurance

for product delivery and quality, eliminate agent commissions, and respond to recommendations by the Peoples' Assembly for direct agreements with foreign governmental organizations to obtain the best prices and conditions. A substantial proportion of the volume of agricultural commodity imports is undertaken through government-to-government agreements having concessionary terms. Such agreements have dominated Egypt's foreign trade irrespective of the government's foreign policy orientation. Another set of crops, including rice, fruits, and vegetables, that Egypt is considered to have a comparative advantage to produce and has — or, at least, has had -- a surplus for export, may be exported under licences from the Ministries of Agriculture and Economy. (See List III.) For the commodities in this set a specialized committee has been established in the Ministry of Economy for the purpose of reviewing export license applications. The export criteria include the status of the domestic supply situation, quality specifications, and the price to be received from the foreign purchaser.

Private exporters are reporting a vastly eased regulatory situation for high value horticultural exports in recent months. The most significant development of 1983 was a decree of the Ministry of Economy* permitting private sector exporters to retain all foreign exchange earnings, and receive the "own exchange" rate of exchange for their hard currency when buying L.E. Previously, exporters had to change 75% of foreign exchange earnings at the official (82PT/\$1) rate. "Now we can compete with Lebanon and Turkey" to supply fresh produce to the Middle East markets, according to a major exporter. Another significant regulatory development was the permission given to refrigerated trucks from the Middle East (chiefly from Jordan) to cross into Egypt and transport fresh fruits and vegetables. Previously ordinary Egyptian trucks had to haul the produce to the borders. In general, the Ministry of Economy has been taking a more positive approach to encouraging commodity exports, including especially agricultural products. The Minister himself reportedly will intervene to solve the problems of the private exporters. Specific institutional developments have been the Export Promotion Center and the establishment of an Export Development Bank, according to a bill approved by the Peoples Assembly. The Minister of Economy has stated that, in 1982-83, exports of fruits and vegetables increased by about 70% over the preceding year, especially to the Arab countries. Commodity exports start from a very low base, and total "acreage exported" remains very small.

Key administrative bodies in the central government for the regulation of agricultural trade are:

Imports and Exports Control Authority
Import Rationalization Committee
Specialized exports committees
Mixed Export Committee

* Ministry of Economy Decree No. 126/1983 effective April 22, 1983.

To export agricultural commodities, approval also must be obtained from local government. The "cordons" that exist around the urban areas also supply the export market.

8. Consumer Regulation

Two measures were taken in 1983 aiming to restrict access of consumers to subsidized commodities. A red ration card was created (Decree #51 of February 6, 1983) for higher income Egyptians entitling them to the set of rationed commodities at "partially subsidized free market prices." Holders of the ordinary green ration cards will continue to receive the set of commodities, which includes sugar, tea, cooking oil, soap, detergents, and rice, at the same, fully subsidized prices that have been in effect since the 1970s. Under the old system in which everybody had the same, green cards, the total subsidy administered through the ration cards was L.E. 284 million. The introduction of red cards will reduce this to L.E. 237 million, or a savings of L.E. 47 million (Ministry of Supply estimate). Modifications of the ration cards yields only modest savings in the total subsidy bill for food of the government because they do not cover the major subsidized items, principally wheat, for which access is unrestricted. The second measure taken in 1983 was to restrict full subsidy flour, sold at L.E. 56 per metric ton, to price controlled uses. Businesses that sell their products in the open market, such as fancy bakeries, hotels, and tourist restaurants, must pay for flour according to a sliding scale between L.E. 58 and L.E. 120 per metric ton depending on their prices and type of clientele that they serve.

9. Short- and Long-Term Results of Regulation

A fundamental objective of the GOE's regulatory interventions in the agricultural sector is to stabilize producer and consumer prices. Price stability is an important political objective. In reality, however, official GOE (CAPMAS) wholesale and retail price indexes show that food prices have been among the most inflationary in the Egyptian economy.^{5/} Food items have a weight of about 60% in the consumer price index. The urban consumer price index stands at 563.1 for "food and beverages" against 425.6 for "all items" (1966/67=100). In the wholesale price index, all items are 355.8, whereas agricultural commodities are as follows:

Agricultural Crops	425.9	
Poultry & Fish	604.3	
Inedible Animal Products	417.1	
Foodstuffs and Beverages	434.7	(1965/66=100)

Food prices thus are increasing faster than prices in the economy as a whole.

Price inflation varies greatly among the types of commodities within the food and beverage group of all urban general CPI (1965/66=100):

Fruits	1716.9
Vegetables	586.2
Dairy Products	660.6
Meats, Fish, & Eggs	762.3
Pulses	602.8
Cereals	235.7

A high correlation clearly exists between the magnitude of price inflation of the different commodities, and the nature of regulatory instruments to which they are subject. The type of commodity with the lowest rate of inflation has been cereals. Cereals are subject to the fixed price procurement program, and there have been large imports of wheat and corn that have stabilized prices. For the other commodities, the private sector which handles them is only subject to wholesale and retail price controls. The price controls have been a weaker instrument to stabilize prices than have the fixed price procurement program and subsidized food distribution by the government.

For the cereals group, there is also a surprising degree of short-term (intra-annual) price instability given the extensiveness of government intervention. Figures 1 and 2a, 2b, 2c, and 2d show the fluctuations in wholesale corn, retail corn, and wheat prices in local markets in recent years. For example, the March, 1983 wholesale corn price was about 60% higher than the March, 1982 price.

GOE regulations often are held responsible for the lack of private Egyptian and foreign investment in the agricultural sector commensurate with the country's resource endowment and international comparative advantage. Law 43 (Open Door) companies are forbidden to export the banned commodities except on an exceptional basis by companies that produce exclusively for export. Nor are they allowed to price their products above government prices for sale on the domestic market. The regulations thus limit the profitability of some crops. Of the 39, Law 43 companies that began agricultural production operations in Egypt between 1974 and 1981, 31 of them have been in the dairy, meat, and poultry area. There are two main reasons. The first is the growing demand for livestock products. The second is the lack of price controls on these products in the domestic market. However, investors have been unwilling to invest extensively in other branches of agriculture. This is due to price controls on fruits and vegetables, export quotas, and other restrictions.

10. Conclusions

Our conclusions concerning the long-term evolution of regulations in the agricultural sector are thus as follows:

i. An important subset of the major fieldcrops in the Egyptian agricultural sector is subject to a comprehensive and direct set of production and marketing controls that includes required areas, input allocations, fixed product prices, and delivery quotas.

ii. Each regulatory instrument is reviewed annually by the GOE, and adjustments are made. No two commodities are regulated in exactly the same way, and the list of regulated commodities changes from year to year. Some commodities (e.g. cotton and rice) are comprehensively regulated, while others are subject to fewer instruments (e.g. corn).

iii. Regulatory decisions for the directly controlled subset of major fieldcrops are made on a disaggregated, commodity-by-commodity basis. Local and central levels of government interact with various ministries for the foreign trade and industrial sectors in making the regulatory decisions. There is a high degree of institutional fragmentation, with special committees established to deal with individual commodities. Regulatory decisions are taken on an annual, case-by-case basis. The preceding characteristics of regulating agriculture in Egypt make the system slow to change.

iv. The regulatory system for fieldcrops is institutionalized and stable. The annual adjustments that take place do not suggest 'systems change' in the direction of liberalization. The system rests on a set of perceived advantages to the society and to farmers that is based on the characteristics of the agricultural sector itself (fragmented landholdings, the existence of new, mechanical, biological, and chemical technologies that require large, contiguous areas for production, etc.).

v. The government dominates the foreign trade regime for agricultural commodities. The level, composition, and timing of agricultural commodity imports affect domestic incentives to produce. Export regulations will also determine, in part, whether a strategy based on Egypt's comparative advantage to produce "high value" horticultural crops can be implemented.

vi. The government's regulation of the agricultural sector is most uneven between the direct controls for fieldcrops and the indirect controls that are applied to livestock and horticultural products. The latter "sub-sector" is indirectly regulated by price controls at the wholesale and retail levels that the private marketing sector, which handles these goods, must observe.

vii. A higher degree of long-term price stability has been achieved for the directly controlled sub-sector of fieldcrops than for the livestock and horticultural products. The role of grain imports has also been critical in maintaining long-term price stability. At the same time, the degree of short-term price instability for grains is surprising given the degree of governmental intervention and is difficult to explain.

11. Update on Regulatory Developments in 1983

In 1983, certain trends were apparent in GOE policies in the food and agriculture sector. Regarding subsidized food consumption, the GOE was generally concerned to reduce subsidies for higher income individuals. Decree #51 of the Ministry of Supply created the red ration card for higher income individuals for whom the rationed items will not be fully subsidized. Also, restrictions were placed, by type of establishment, on access to subsidized wheat flour, and a sliding scale of prices was promulgated. The trade regime became more liberal for exporters, but more restrictive for importers generally. The GOE took some important first steps to stimulate exports of fruits and vegetables to the Middle East and Europe through the private sector. The most significant measure was a decree permitting exporters of most agricultural products to retain the foreign exchange earned, and to convert it at the "own exchange" market rate of exchange of L.E. 1.20 per dollar (versus .82 per dollar previously). This step has made Egyptian agricultural exports more competitive. The GOE's monopoly on imports of livestock products and chemical fertilizers was reinforced with bans on private sector imports of these goods. Subsidies administered through the public sector have tended to make these goods unattractive to the private trading sector anyway. A possible exception in the near future may be private sector imports of corn. The GOE may, in effect, encourage the private sector to bail it out and assist in providing feed to the burgeoning poultry producer sector. In general, the GOE believes that it can drive harder bargains for food and agricultural inputs than the private sector, and, in any case, there would be considerable bureaucratic resistance to allowing private sector importers to compete in the same product lines of imports as the current government monopolies.

Controls over domestic production and marketing differ for the major and minor crops. The major grain and industrial crops have been subject to high, tightened controls over production and marketing. Wheat and corn were recently added to the others, including cotton, rice, and sugarcane, for which there is a high level of governmental control. At the same time, a number of minor crops (lentils, favabeans, soybeans, grapes) have had controls lifted and their prices raised to international market levels. This pattern seems to depend on whether:

- (a) deregulation would have a significant budgetary impact
- (b) a domestic processing industry is involved
- (c) the Ministry of Agriculture has sole jurisdiction for policy concerning the crop, or whether policy is decided by an inter-agency process including the ministries of Supply and Industry
- (d) the product is perishable
- (e) the crop is grown in an area that has been exempted from controls.

In monitoring public policy, often it is more significant to focus on the megatrends instead of daily decisions. Government regulations often vascillate from one day to another, and they may be inconsistent with any particular economic philosophy. For example, in recent weeks the GOE reportedly has decided to allow the private sector to import fertilizer and to backpeddle on the red, half-ration cards. There do not appear to be any important, practical effects of this kind of 'stop-and-go' behavior.

12. The Question of "Liberalization"

Regarding the "bottom line" question of the direction of policy change, or "liberalization" in the sector, the position to which the evidence reviewed in this report leads was stated previously in the Economics Working Paper No. 149 of the Agricultural Development Systems Project by Dr. Bruce Glassburner (May, 1983):

... the domestic pricing system has been all but divorced from international prices as measured by any sort of rate of exchange. It is this very insulation of the agricultural sector from the influence of international markets which is the central feature of agricultural repression. Agriculture has not participated in "El Infitah" (the Open Door policy) to any significant degree, except for such indirect effects as increases in agricultural imports, which are generally unfavorable from the point of view of agricultural incentives...(from "Exchange Rate Policy in Egypt since 1973 and its Significance for Agriculture," p.49).

Old lands Egyptian agriculture has not been affected fundamentally by the policy reforms of the Sadat years. Private new lands (land reclamation) projects have been allowed to operate in a more liberal economic environment; however, the old lands represent the mainstream of the sector, having most of its population and potential. To assess progress, it is essential to distinguish reform from the GOE's day-to-day management of the agricultural sector. In its disaggregated application (by commodity, season, geographic region, etc), agricultural policy inevitably responds to exogenous changes. The government controls only some of the costs of crop production. It must increase farm procurement prices periodically to offset the effect of inflation on incentives to produce. World market conditions have been another source of management adjustments. The cropping pattern, for example, may be modified to substitute domestic production for import commodities that are rising rapidly in cost. Furthermore, fluctuations in world prices will sometimes cause the temporary appearance of reducing price distortions, by reducing the gap between world and domestic prices, without the GOE making a conscious decision or purposively adopting a new philosophy of pricing. However, reforms to create a less regulated sector, subject to market forces for producers and consumers, have not occurred in the mainstream of old lands agriculture.

FOOTNOTES

- 1/ Cf. Harold Alderman, Joachim von Braun, Sakr Ahmed Sakr, Egypt's Food Subsidy and Rationing System: A Description, October, 1982; Harold Alderman and Joachim von Braun, Welfare and Distributional Impact of the Egyptian Food Ration and Subsidy System, September, 1983; Grant M. Scobie, Government Policy and Food Imports: The Case of Wheat in Egypt, December, 1981.
- 2/ Cf. John A. Spanogle, Egyptian Agricultural Law, Agricultural Development Systems project report, June, 1983; Mawad Abdel Taweb, Intermediaries in Agricultural Legislation, Cairo, 1984 (in Arabic).
- 3/ Cf. the following official Government of Egypt documents: Ministry of Agriculture, Data Collection and Analysis Project, Major Economic Implication of Price Changes for Selected Crops on the National Economy, Phase I, Cairo, 1982; Osman Ahmed El-Kholy, Nabil Rewfik Habashy, Aly Khedr, The Economic Impact of the Changed Farm Prices of the Major Crops on the Egyptian National Economy, Phase II, nd.; Arab Republic of Egypt, The Problem of Food in Egypt and Policies to Face It, February, 1983. These documents tend to be critical of the "cost-of-production" approach to farm pricing, and to argue instead for a liberalized price mechanism that takes account of the demand side and opportunity costs.
- 4/ Relevant organic legislation covering the trade regime for agricultural commodities is:
- Presidential Decree No. 137/1974
Law No. 118/1975
Ministry of Commerce Decision No. 1036/1978
Ministry of Economy, Foreign Trade and Economic Cooperation, No. 600/1979
Ministry of Economy, Foreign Trade and Economic Cooperation, No. 618/1979 (addendum to Ministerial Decision No. 600/1979)
- 5/ Central Agency for Public Mobilization and Statistics, Index Numbers of Wholesale Prices, December, 1982; Monthly Bulletin of Consumer Price Index, June, 1983.

TABLE I

PRICES RECEIVED BY FARMERS (LE/MT)

CROPS	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Millet											
Official purchase price	47	47	47	47	47	63	77	77	93	93	93
Open market price											
Rice											
Official purchase price	40	50	50	50	65	65	75	85	95	105	105
Open market price									155	162	
Corn (maize)											
Official purchase price	-	-	-	-	-	-	-	-	100		
Open market price					93	81	123	124	121	175	179
Cotton											
Official purchase price	161	203	216	225	297	297	297	300	352	457	
Open market price	-	-	-	-	-	-	-	-	-	-	-

1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984

ntils

Official purchase price

106 138 156 166 219 250 375 375 -

Open market price

825

ans

Official purchase price

84 84 97 129 161 226 238

Open market price

jarcane

Official purchase price

7 8 8 9 10 13 16 16 17

Open market price

...le

Official purchase price

208 417 541 625 625 666 833

Open market price

POPS	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
<hr/>											
eanuts											
Official purchase price				240	253	253	333	333	333	400	400
Open market price											760
<hr/>											
cybeans											
Official purchase price										260	260
Open market price										320	320
<hr/>											

eanuts

Official purchase price

Open market price

cybeans

Official purchase price

Open market price

TABLE VI

PROCUREMENT QUOTAS (MT/PEDDAN)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Wheat	.300-.600		.300-.900	0	0	0	0	0	0	0	
Rice	1-1.5	1-1.5	1-1.5	1-1.5	1-1.5	1-1.5	1-1.5	1-1.5	1-1.5	1-1.5	1-1.5
Corn (maize)	0	0	0	0	0	0	0	0	0	0	0
Cotton	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Leghulls	0.320	0.320	0.320	0.320	0.320	0.320	0.320	0.320	0	0	0
Beans	.155-.388	.155-.388	.155-.388	.155-.388	.155-.388	.155-.388	.155-.388	.155-.388	.155-.388	.155-.388	
Sugarcane	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

BEST AVAILABLE

DPS 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984

same

nuts

0.300

TABLE III

PLANNED AND ACTUAL AREA (% OF PFDANS) IN 000's

CROPS	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Wheat											
Planned	1,060	1,250	1,075	1,265	1,275	1,375	1,375	1,300	1,400	1,400	
Actual	1,370	1,394	1,396	1,207	1,381	1,391	1,326	1,400	1,374		
Rice											
Planned	1,125	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,150	1,009	
Actual	1,050	1,050	1,060	1,010	1,037	1,037	972	956	1,026		
Corn (maize)											
Planned	1,900	1,780	1,630	1,630	1,840	1,740	1,740	1,660	1,900	1,900	
Actual	1,750	1,820	1,860	1,750	1,900	1,880	1,870		1,935		
Cotton											
Planned	1,580	1,600	1,490	1,240	1,190	1,180	1,290	1,290	1,100	1,100	1,200
Actual	1,440	1,330	1,240	1,410	1,200	1,200			1,066	956	
Lentils											
Planned									10	12	
Actual						22	15	12	12		

TABLE IV

FERTILIZER ALLOCATION QUOTAS PER FEDDAN (IN KGS OF N 15.5% EQUIVALENT)

CROPS	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Wheat		250-400	250-400	250-400	250-400	300-400	350-450	400-450	450	450	
Rice	200	200	200	200	200	200	200-250	250	250	250	
Orn (maize)			350-400	350-400	350-450	400-500	400-500	500	600	600	
Cotton	250	300	300-400	300-400	300-400	350	400-450	350-450	400-450	400-450	
Lentils	50	50	50	50	50	50	100	50	100	100	
Beans	50	50	50	50	50	50	100	50	100	100	
Sugarcane	700	700	400-	400-	400-800	800	600	400-800	1200	1500	
Sesame (ardeb)											
Peanuts											

BEST AVAILABLE

PLANNED AND ACTUAL RICE DELIVERY

	1975/1976	1976/1977	1977/1978	1978/1979	1979/1980	1980/1981	1981/1982	1982/1983
I. Planned Rice Delivery	1,278,999	1,351,583	1,216,887	1,139,079	1,257,098	1,172,198	1,179,932	1,154,675
II. Actual Rice Delivery	1,217,139	1,125,292	1,085,986	1,137,666	1,344,139	1,181,615	1,159,127	1,182,083
III. Percentage of Plan Achievement	95%	83%	89%	99.8%	107%	101%	98%	102%

Source: Ministry of Agriculture
March 7, 1983

TABLE VI

PLANNED AND ACTUAL AREAS OF MAJOR CROPS: SANGHIA GOVERNORATE

CROPS	1975/1976	1976/1977	1977/1978	1978/1979	1979/1980	1980/1981	1981/1982	1982/1983
Cotton								
Planned	155,000	170,000	155,000	160,000	160,000	150,000	138,000	116,000
Actual	132,000	161,000	142,000	143,000	145,000	138,000	114,000	-
Rice								
Planned	185,000	182,000	180,000	186,000	186,000	186,000	170,000	170,000
Actual	174,000	152,000	140,000	150,000	141,000	150,000	169,000	-
Wheat								
Planned	155,000	140,000	148,000	155,000	165,000	175,000	175,000	177,000
Actual	172,000	148,000	161,000	177,000	180,000	187,000	177,000	172,000
Beans								
Planned	32,000	38,000	35,000	31,000	31,000	35,000	25,000	23,000
Actual	28,000	27,000	10,000	24,000	21,000	28,000	24,000	25,000

TABLE VII

EXFACTORY PRICES OF NITROGEN FERTILIZERS

(CALCIUM AMMONIUM NITRATE 15.5%)

1974-1983 in LE/MT

1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
	25	26	26	26	29	35	45			

1. List of Agricultural Commodities Banned from Exports

Wheat

Barley

Maize

Flour

Fenu greek

Maize starch

Maize waste

Black olives

Sesame

Tea

Coffee

Clover (bersim)

Hay

Processed fodder

Edible oil

Timber

Livestock

Meats (excepting pork either canned or frozen)

Raw wool (excepting exports to Sudan within the framework of the trade protocol)

Wool waste

Jute waste and Yarn

Natural silk oddments

Horse hair

Horns

Eggs

II. List of Agricultural Commodities Imported by Public Trading
Companies and Public Sector End-User Organizations

Wheat

Flour

Maize (corn)

Beans

Seasame

Bulk tea

Sugar

Edible Oils

Animal and Vegetable Fats

Tobacco

Cotton

Cotton Yarn

Processed Jute

Chemical Fertilizers

Insecticides

Source: Marketing in Egypt
U.S. Department of
Commerce
December, 1981

III. List of Agricultural, Animal and Residue Products Subject to Control and Inspection When Exported

Agricultural crops and produce and animal products

Rice

Seeds for the production of seedlings

Dehydrated garlic

Green and dry haricot beans

Groundnuts

Flax fibres

Dry lupin seeds

Dry lentil seeds

Sugar cane stalks

Products of agro-industries

hard bran wheat

soft bran wheat

hard and soft mixed brans

bleached rice waste

rice residue from which oil is extracted

natural rice germ

rice germ from which oil is extracted

husked cotton seed cakes

unhusked cotton seed cakes

cotton seed husks

flax seed cakes

sesame seed cakes

husked groundnut cakes

unhusked groundnut cakes

maize germ cakes

maize gluten

protylene

various rice starch waste

sugar cane molasses

milk

Fresh vegetables

Egg plant (aubergine)

Green okra

Green peas

Fresh onion

Sweet potatoes

Potatoes

Watermelon

Fresh garlic

Carrots

Artichoke

Cucumber and snake cucumber

Strawberries
Melon
Tomatoes
Green haricot (runner) beans
Jamaica pepper
Green Jamaica pepper
Cauliflower
Courgette
Green small beans (lubia)

Dry vegetables

Dry okra
Dry pea seeds
Dry haricot seeds
Dry green bean seeds
Dry small bean seeds
Dry mulukhiya

Fruits and citrus

Oranges
Grapefruit
Lemon
Egyptian bitter lemon
Sweet lemon
Quince
Tangerine

Fruits and sweets

Dry and semi dry dates
Fresh dates
Pomegranates
Grapes
Pears
Mangoes
Bananas

Medicinal herbs

Camomile
Henna
Saffron
Sharmar
Anise

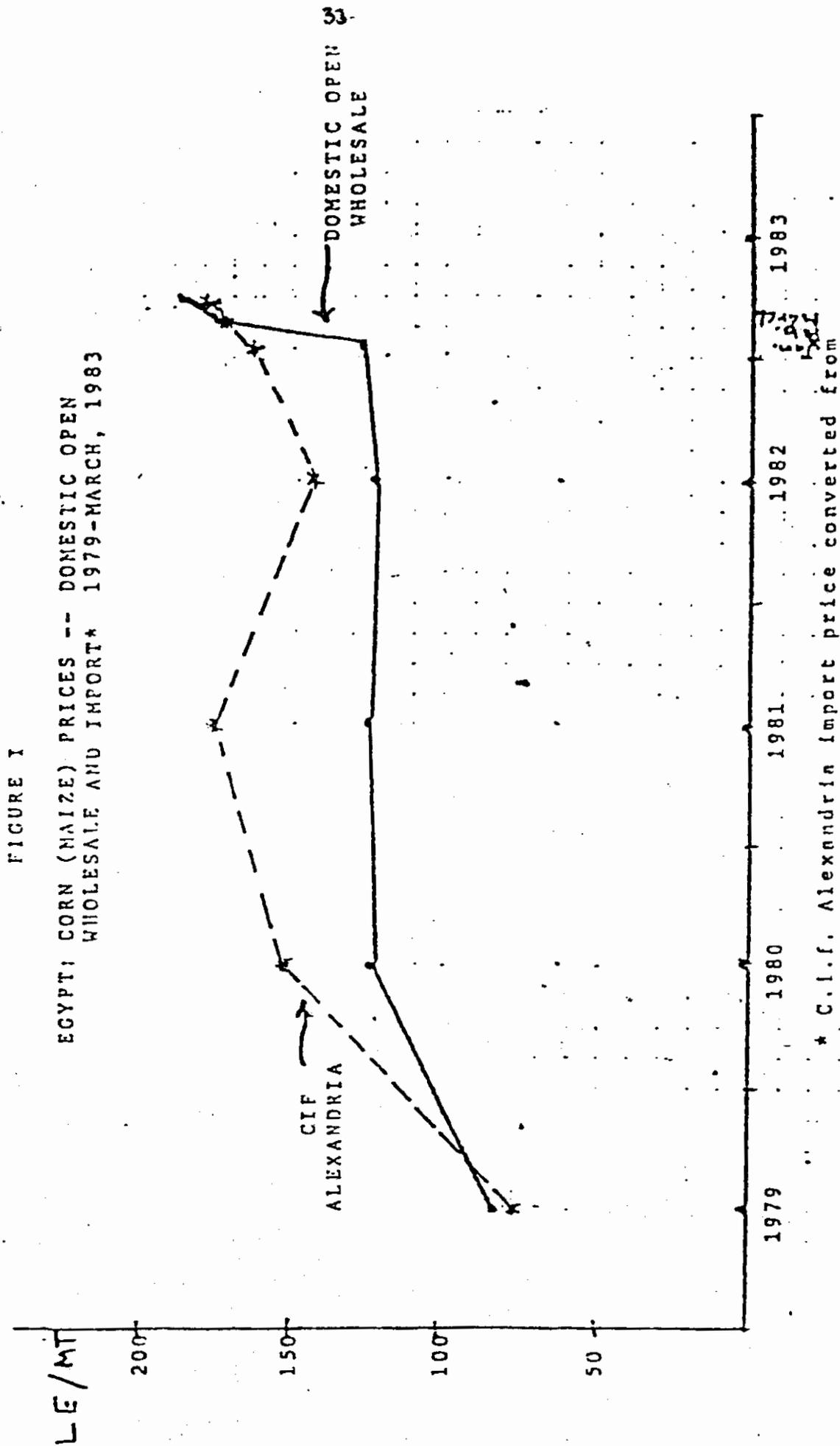
Caraway
Hibiscus
Coriander
Mint
Fenugreek

Flowers

Gladiolus
Roses
Zonbok - flower

Tinned foods

Green okra
Horse beans
Orange juice
Guyava juice
Mango juice



* C.I.f. Alexandria import price converted from
dols. U.S. into Egyptian pounds at the own,

FIGURE 2a

QALYUB MARKET: Grain Prices

Note: Figures 2a-2d show retail prices of corn (maize), local wheat, and wheat (high yield varieties) in 4 local markets in the Egyptian delta from March, 1982 to March, 1983, in millimes per kilogram

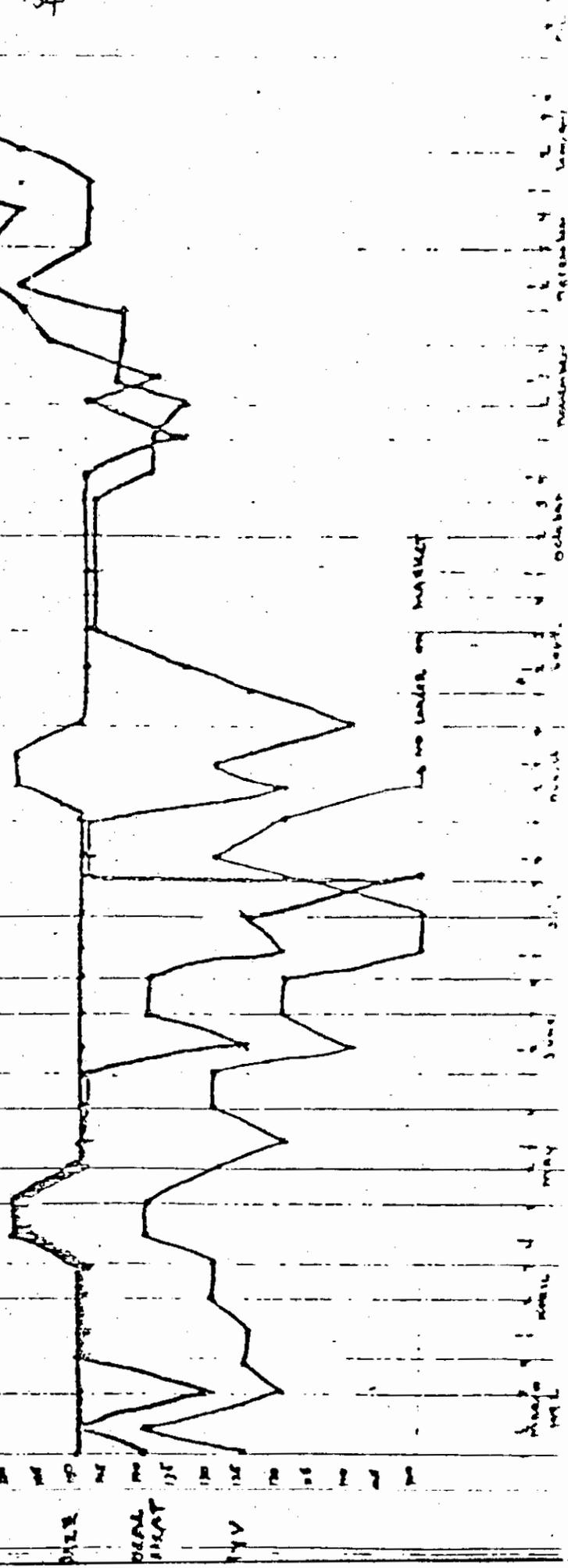
MILLIMES

~~2000~~

2000 1800 1600 1400 1200 1000 800 600 400 200 0

Source: Unpublished data, courtesy of Inna de Treville, Cairo, May, 1983

COP-N
LOCA
G.H.F.



no trade on market

March 1982

May

June

July

August

Sept.

October

November

December

March 1983

TANAU MARKET : GRAIN PRICES

FIGURE 2b

