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EGYPTIAN AGRICULTURAL STRATEGIES IN RELATION TO THE FINAL ACT OF URUGUAY ROUND (A PRELIMINARY ASSESSMENT)

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I. INTRODUCTION

The following is merely a preliminary assessment. However a full assessment cannot be made unless the schedules of commitments and the total Uruguay Round Package are finalised. According to general estimation the Uruguay Round would result in global welfare gains of about \$274 billion. Income gains were estimated to be broadly spread across regions with the share of developing countries as a group calculated at over 40%. Though hypothetical, these gains have been widely advertised by the GATT, the OECD and the World Bank. FAO advocates the Final Act of the Uruguay Round as a notable achievement which should help boost world trade and income over the next decade.

Egypt has undertaken an economic reform and structural adjustment program with support from multilateral and bilateral donors. This program includes measures to reduce the fiscal deficit, reduce inflation, stabilise exchange rate, liberalise prices, and restructure and eventually privatise public sector enterprises.

As a part of this economic reform and structural adjustment program, the agricultural sector is provided with price incentives, input and credit subsidies are abolished, prices of subsidised foods are raised, and the number of items that are subsidised is reduced as is the quantity of food subsidised and rationed to households. It is expected that as a consequence of these measures, food prices will rise, food consumption subsidies will fall, and the food consumption pattern will change. In the short run, these changes, taken together, may harm the poor households more than any other group of households.

Egypt's overall concern for food security and its strategic goals for the agricultural sector include¹:

1. The improvement of efficiency in the use of the country's limited land and water resources, relative to a rapidly growing population, through greater specialisation in products in which the country has and can maintain a dynamic comparative advantage.
2. The enhanced sustainability of resource use patterns and protection of the environment,
3. An increase in the number of workers employed in the agricultural sector,
4. A contribution to a more equitable income distribution, poverty alleviation, and the fulfilment of basic needs of the population, and
5. The expansion of foreign exchange earnings from agricultural exports.

Egypt today is confronted with major economic challenges. At a time when bold reform steps have been taken - especially in the food sector - the economic environment has become less favourable, largely due to external factors (the number of migrant workers has been reduced, and there has been a decline in tourism). Thus, economic reforms have been coincided with some economic declines rather than with accelerated growth. However, one should admit that the final Act of the GATT will support the structural adjustment program of the agricultural sector in Egypt as well as in other countries adopting this program. However, it has been estimated that if the developed countries removed all forms of export subsidies on agricultural products and inputs into Egypt, the country would lose about \$300 million annually. Consumers,

¹ IFRI, Maintaining food security in Egypt during and after agricultural and food policy reform, Cairo, 1993

therefore, would suffer from a higher food importation bill after the phasing out of the subsidy by the implementation of the GATT.

II. EXPECTED PRELIMINARY EFFECT OF THE U.R AGREEMENT ON PRICES OF MAJOR TEMPERATE ZONE AND TROPICAL PRODUCTS

Some studies have attempted to assess the effect of the eventual U.R Agreement on Agriculture. However, it must be noted that a full assessment can only be made after the Schedules of Commitments are finalised. An analysis of the detailed losses and gains must however await publication of the detailed schedules.

Perhaps the most important provision in the developed countries is the commitment to reduce subsidised exports. However, a large distortion in the world agricultural commodity market for temperate zone products² will still remain even after the complete implementation of the reduction for which commitments have been made. A reduction in support should lead to a lower output in these countries.

The simulated effects of the eventual U.R trade liberalisation on world prices are shown in table 8 of FAO commodity Review and Outlook for 1993-94³. The price change for temperate zone products ranges as follows :

Commodity	% change in price
Wheat	5 to 10
Maize and Sorghum	1.8 to 4.4
Rice	-1.9 to 18.3
Meat	0.5 to 13.0
Sugar	5 to 10.6
Soybeans	0.0 to 4.5
Soybean Oil	0.1 to 4.1
Dairy Products	6.9 to 10.1

The price change for tropical products ranges as follows :

Coffee	-6.1 to 0.8
Cocoa	-4.0 to 1.0
Tea	0.5 to 3.0
Tobacco	0.3 (a single estimation)
Cotton	0.9 to 3.7
Groundnuts	1.5 to 4.5
Groundnuts Oil	0.6 to 4.1
Plants and Flowers	1.0 (a single estimation)
Spices	0.2 (a single estimation)

Export earnings of developing countries from tropical products may thus not be much affected in view of the small changes expected in world market prices and relatively inelastic demand of the main consuming countries for these commodities. As regards temperate zone products, it can be expected that export earnings will rise, especially those of the low cost exporters; export earnings of developing countries would depend to a large extent on their net trade position in these commodities. However, one should note that the effects of trade liberalisation on the magnitudes and stability of agricultural prices, especially those of cereals, have been the subject of considerable debate.

² Compared with the trend, the increase in world prices of 5 to 10% was forecast for temperate zone products which in the past have enjoyed high levels of assistance, particularly in the developed countries.

³ FAO, Commodity Review and Outlook, 1993-94, Rome, 1994, pp.24-25.

III. ANIMAL PRODUCTION SECTOR

This sector comprises red meat, milk, poultry, and fish. When international specialisation and the division of labor taken into account, Egypt has never been characterised by a comparative advantage in the production of any of those components under the intervention regime. Egypt is a very arid land with no natural pasture as a source of feed, which is the main cost component in the animal ration. Feed is responsible for about 70% of the total production cost of meat and milk. Most of the feed components for poultry and cattle, i.e. yellow corn and soybeans in addition to animal medicines, antiseptics, concentrates, hormones etc. are imported. New breeds of cattle and poultry are also imported. Import prices of all those items are expected to rise significantly under the rules adopted by the GATT. All these factors might give rise to the less-competitive advantage of animal and poultry products of Egypt.

However, the target of raising the standard of living, if achieved, will result in an increase of per capita animal protein. Such an increase will be at the expense of demand for starchy stuff. Under abolishment of the subsidy on production and export, as the GATT requires, the cost of Egypt's imports of meat and dairy products will rise. In the early 1990s, the subsidy on production of meat and dairy exports to Egypt, has been estimated to reach 7% - 12% and 43% - 104%, respectively. Subsidy elimination in exporting countries will put local meat and milk in a competitive position in relation to that of imported meat and milk and thus encourages investment in the area of meat and dairy production. Egypt has a relative comparative advantage in fish, milk and poultry production, when compared to that of red meat.

Because of Egypt's limited comparative advantage in red meat production, domestic production will only meet a portion of domestic demand. Efforts will be focused on improving the production efficiency of small ruminants, dairy, poultry, and fisheries. The role of the government will be confined to quality control of feed ingredients, research, and market information and in particular it will support the national veal project through a development fund financed by means of a development charge on meat imports, improve the veterinary service, and also use the drainage water for aquaculture production.

Successful research programs can help in this regard by adopting double purpose crops as sugar beet and sweet corn, the production of which, if enhanced, will help to bridge the sugar gap and simultaneously provide green forage for livestock. It appears to be extremely important to try to find possible and effective solutions for bridging the meat gap as donors of food aid will cease their grants by the year 2001.

IV. AN OUTLOOK FOR RICE

Internationally, rice production is concentrated in small number of Asian countries. More than 83% of the world production comes from China, India, Indonesia, Bangladesh, Thailand, Vietnam, Burma and Japan. China and India alone contribute 57% of the total world production.

Meanwhile 7 of the 8 producing countries consume well above 84% of total world consumption. These are the main producing countries except for Burma. Naturally, the situation as such implies that world trade in rice is very limited, since only about 4% of total annual production in terms of milled rice is traded. In 1994/95 the volume of world exports of milled rice did not exceed 5 million tons. World rice exportation is monopolised by a small number of countries, namely: Thailand, US, Pakistan, China, Burma, Australia, and Vietnam, as they captured more than 85% of the volume of foreign trade of rice during 1983 - 1994.

One of the major preliminary effects of the Final Act of Uruguay Round is Japan's temporary lifting of its import ban and therefore its entrance as a net rice importer, which signifies a major change in the global trade of rice. It is also expected that Europe, especially some EC members such as France and Italy, are going to reduce their paddy production as a consequence of the reduction in export subsidies. Therefore, a larger demand for imports into Europe, especially the EC, is expected as a result of the implementation of the GATT.

With regard to Egypt, the major factor controlling rice production is the availability of irrigation water. Either for the medium or the long term, the strategy of the Ministry of Public Works and Water Resources entails that the area under rice should not exceed 700,000 feddans⁴. This year, however, farmers cultivated 1.4 million feddans because of the high relative profitability of rice. Egypt ranks number one in the world with regard to the productivity of rice (3.3 tons per feddan). The total production amounts in 1995 to 5 million tons of paddy rice which allows for the export of 1 million tons of processed rice.

⁴ 1 Feddan = 0.42 Hectare

V. WHEAT

Facing the Final Act of the Uruguay Round, Egypt is intensifying the efforts of the agricultural co-operatives to encourage Egyptian farmers to expand the area under wheat at the expense of the area under clover. The co-operative Union is exerting a lot of effort to encourage farmers to shift from clover to wheat production.

The measures taken by Egypt to increase wheat production are in harmony with the *Green Box Policies* allowed by the Final Act. The U.R has taken care of the formation of food security stocks⁵ by exempting it from the commitments of reduction of expenditure and subsidies. There is, however, an emphasis concerning the financial transparency of that stock so that the government should buy it at market prices; in the meantime consumers are not allowed to purchase it at prices lower than domestic market prices.

Year	Wheat production capacity (million tons)
1981	1.8
1995	5.8
2000 (expected)	8.0

The major objective of this measure is to support the National Campaign for enhancing wheat production which aims at increasing the volume of wheat production to 8 million tons by the year 2000. This is an important move since the current (1995) wheat production does not exceed 5.8 million tons which represents only about 52.7% of the total annual wheat consumption capacity amounting to about 11 million tons.

Currently, the yield per feddan of wheat on the typical farm, amounts to 17 ardabs⁶ or 2.5 tons which is equivalent to 5.95 tons per hectare. The advanced wheat production technology indicates that wheat yield could reach as high as 40 ardabs per feddan or 6 tons which is equivalent to 14.2 tons per hectare. Moreover, efforts are exerted to expand the area under wheat. The area cultivated to wheat in 1995 amounted to 2.5 million feddans.

The American wheat exported to Egypt under the EEP (a program for promoting American exports) is subsidised, on the average, at \$ 29.4 per ton. The effect of abolishing the subsidy to Egypt's imports of the American wheat and flour under the EEP amounting to about 2 million tons will be about \$59 million annually. The available information forecasts a probable reduction in Egypt's quota of the American wheat and flour to only 1 million tons. This action will raise the burden facing the Egyptian economy. The burden will be heavier, reaching \$176, if other sources were to abolish their subsidy, too. Some other commodities imported into Egypt are also subsidised. Among them are meat, poultry and edible oil which are imported from the EEC.

VI. CITRUS CROPS

More than 80% of Egyptian citrus exports consist of oranges, either fresh or processed. The protection rates for domestic juice processing in import countries are very high as they amount to more than 10 times the protection rates for fresh oranges. Those rates amounts to 100% in Japan, 50% in the European Union, and 32% in the United States. Thus reduction of protection coefficients to the levels agreed upon by the Final GATT Act would raise domestic demand in import countries and consequently Egypt's exports of processed orange juice would increase.

VII. POTATOES

One of the preliminary positive indicators of the initial effects of the final Uruguay round on Egypt's agriculture is the very noticeable upsurge in exports of Egyptian Potatoes which mounted to 430 thousand tons in 1994/1995. This record has never been achieved in the past and it reflects the potential competitiveness of Egyptian potatoes as well as other horticultural crops.

⁵ Food security stock is one of the « Green Box » policies which are exempted from reduction commitments. They are defined as those that do not entail price support to producers and for which the support is provided by the government and not by the consumers. The list of exempted policies is very long and includes such policies as general services (research, training, extension, inspection, marketing and promotion, infrastructure), food security stocks, domestic food aid, and certain direct payments to producers (decoupled income insurance and safety net programs, disaster relief, producer of resource retirement schemes, investment aids, environmental programs and regional assistance).

⁶ 1 Ardab = 150 kg.

The expansion in exportable high-value crops such as horticultural crops including, fruits, vegetables, flowers, and medicinal and aromatic plants might be challenged by sanitary and phytosanitary measures imposed by the U.R agreement. However, the agreement indicated that those measures should be applied only to the extent of protecting human, or plant life and would not arbitrarily or unjustifiably discriminate between members where identical or similar conditions prevail.

VIII. STRATEGIES

Facing the Final Act of the Uruguay Round of the GATT Egypt has adopted an appropriate strategy consisting of the following main measures and precepts:

1. Concern for the cropping pattern. The basic question is: what will be the nature and composition of the cropping pattern in response to the U.R. Agreement?

The map of the cropping pattern is basically determined by the level of both domestic and world market prices. Egyptian Agriculture does suggest an indicative cropping pattern in the framework of prevailing prices for the crops and the technical requirements in cultivating those crops, with regard to their adjacency and sequence.

Egypt's agriculture can deal flexibly and efficiently with the movement of supply and demand in the world market which is positively and gradually assured.

2. The future of Egypt's agriculture lies with the cultivation of high value crops.
3. More and better opportunities lie in the production of various crops without using pesticides or chemical fertilisers, which give an additional impetus for enhancing the competitiveness of Egypt's exports to the world market. One of the major strategic actions is the adoption of the integrated pest control program.

This program includes production of crops without application of any artificial inputs such as pesticides or chemical fertilisers. The European market is said to be ready to absorb such "clean production" at prices more than double the prices offered for the comparable crop produced using chemical inputs.

In this regard the country has succeeded in establishing organic or biological farms in an acreage of more than 276,000 feddans for producing clean and non-contaminated food. This type of agricultural production depends on fertilising the soil with organic material, with no chemical fertiliser or pesticides at all. Even pest control depends exclusively on biological control. In addition, this new method does not include any hormones or growth enhancing materials.

The production of clean food has also been extended to livestock and fish as they are raised on feed produced via the above - mentioned principles of clean food.

Production of clean food has several advantages: it reduces the cost of production, improves quality, increases our competitiveness in the international market and increases exports in addition to protecting environment and avoiding pollution.

4. Continuous rationalisation where the utilisation of fertilisers and irrigation water is concerned.
5. Egyptian agriculture possesses a comparative advantage in producing both long staple and short staple cottons. However, the success achieved in the US regarding the minimisation of the differences in the prices of long staple and short staple cottons has reduced the benefits of that advantage to Egypt. The same is true regarding the differences in the prices of rice and wheat, which have dramatically declined.
6. As modern agricultural technologies allow the attainment of higher productivity, new horizons for expanding cultivated area in Egypt have been practiced through the exploitation of modern irrigation techniques, irrespective of the level of soil fertility.
7. Another strategy of Egypt's agriculture is the introduction of the new business of predicting price and demand movements for agricultural production on the international market. Making prices and demand prospects available to producers helps them orientate their farm cropping patterns towards the best economic advantage which - under market mechanism - coincides with the national interests.
8. As a result of the extensive efforts of research staff a substantial jump in the production of cereals has been achieved. It rose from only 8 million tons in 1982 to 16 million tons in 1994. Wheat

production, as mentioned above, has boosted to 5.8 million tons. Sugar crops production amounts to 1.1 million tons, vegetable production amounts to 12 million tons, and fruit crop production amounts to 6 million tons in 1995.

Thus one element of the strategy is emphasizing the research and extension efforts with the objective of producing the best varieties of various crops in terms of the quantity and quality of production, resistance to diseases and adaptability to Egypt's environment.

9. Land improvement of 588,000 feddans through installation and clean up of water streams. It is worth mentioning that this implementation has outweighed the target for 1995 by as much as 30%. In addition an area of 445,000 feddans, or 129% of the respective target of 344,000 feddans, has undergone subsoil plowing.

CONCLUDING REMARKS

According to general estimates, the Uruguay Round agreement would result in global welfare gains of about \$ 274 billion. Income gains were estimated to be broadly spread across regions with the share of developing countries as a group calculated at over 40%.

Though hypothetical, these gains have been widely advertised by the GATT, the OECD and the World Bank. FAO advocates the Final Act of the Uruguay Round as a notable achievement which should help boost world trade and income over the next decade.

Egypt's strategy could benefit by adopting the following preliminary recommendations:

1. A potential and substantial gain would be derived from a more efficient use of resources when distortions of domestic prices and markets are completely removed.
2. There should be an improvement in the quality of domestic production of fruits and vegetables so that the surplus after domestic consumption could meet export requirement. The GATT will extend more opportunities for Egyptian exports as a result of abolition of export subsidies by competing countries.
3. The target of raising the standard of living, if achieved, will result in a per capita increase in the demand for animal protein. Such an increase will be at the expense of demand for starchy food. Under elimination of subsidy on production and export, as required by the GATT, the cost of imports of meat and dairy products will rise. In the early 1990s, the subsidy on production of meat and dairy exports to Egypt reached 7% - 12% and 43% - 104% respectively. Subsidy elimination will put local meat in a competitive position with imported meat and thus encourages investment in the area of poultry and dairy production.

Successful research programs can help in this regard by adopting double purpose crops, such as *sugar beet* and *sweet corn* that fill the sugar gap and simultaneously provide green forage for livestock. It appears extremely important to find an effective solution for the meat gap as donors of food aid will cease their grants by the year 2001.

4. A programme should be designed which is aimed at increasing production of food gap crops, notably *wheat*, *edible oil*, *sugar*, *meat* and *milk* on the one hand and checking the rate of population growth and rationalizing consumption on the other. It is worth mentioning that in the early 1990s food aid to Egypt amounted to:

Commodity	Amount (000 tons)
Wheat and wheat flour	351
Edible Oil	22
White sugar	3
Lentils	2
Milk	1.5
Butter	0.5

5. GATT is a chance that should not be missed as it furnishes Egypt with a good deal of protection *vis à vis* developed countries. Therefore, the country has to further improve the efficiency of the use of her limited land and water resources, relative to a rapidly growing population, through greater specialisation in products in which the country has and can maintain a dynamic comparative

advantage. In addition, the country has to enhance sustainability of resource use patterns and protection of the environment.

6. In the agricultural sector, Egypt cannot expect to make many gains, given her reliance on a few temperate zone and tropical products for export while the costs of her food imports are likely to rise. The main solution in agriculture will come from increases in productivity and production in the commodities essential to the Egyptian diet, and consequent reductions in imports of such foods as *wheat, edible oil and sugar*. On the export side, the best approach would also be to strengthen Egypt's ability to take advantage of new market opportunities by improving the productivity of exportable crops, such as *cotton, rice, potatoes, citrus*, etc, in addition to reducing the marketing and distribution costs.
7. A new land reclamation program should be pursued at a rate of 150,000 feddans annually, out of which 50,000 would be distributed to graduates in order to alleviate the unemployment problem. The remainder would be distributed to investors and small farmers.
8. The current rate of increase in agricultural production which amounts to 3.4% annually, should be pursued.
9. In response to the liberalisation of prices and marketing of crops, the country is implementing the voluntary guaranteed prices for a transitional period. This measure is applied to strategic crops such as wheat, cotton, rice and maize.
10. Enhancement and support should be given to agricultural co-operation projects with Arab, African and the Nile basin countries in the areas of plant, livestock and fish production.

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APPENDIX 1

THE URUGUAY ROUND AGREEMENT*

SIMULATED EFFECTS OF URUGUAY ROUND TRADE LIBERALISATION ON WORLD PRICES

	Price change				
	UNCTAD/ WIDER	Page and others	FAPRI	RUNS (BRANDAO and Martin)	RUNS (GOLDIN and others)
	Percent				
<u>Temperate Zone</u>					
<u>Products</u>					
Wheat	7.5	5.0	6.3	6.3	5.9
Coarse Grains	3.4 ^a	1.8	2.4	4.4	3.6
Rice	18.3	1.2	4.4	4.2	-1.9 ^h
Meat	13.0	5.3	0.5	6.1 ⁱ	4.7 ^h
Sugar	10.6	5.0	....	10.2	10.2
Soybeans	0.0	....	0.0	4.52 ^g	....
Soybean oil	0.1	....	3.8	....	4.1 ⁱ
Dairy products	....	9.3	6.9 ^e	10.1	7.2
<u>Tropical Products</u>					
Coffee	0.4 ^b	0.8	...	0.41	-6.1
Cocoa	0.0 ^c	1.0	...	0.14	-4.0
Tea	0.5 ^d	...	...	2.34	3.0
Tobacco	0.3 ^d	...	...	....	....
Cotton	0.9	...	...	2.23	3.7
Groundnuts	1.5	...	...	4.52 ^g	...
Groundnut oil	0.6	...	...	...	4.1 ⁱ
Plants and Flowers	....	1.0	...	...	...
Spices	....	0.2	...	...	...

a Simple average of maize and sorghum.

b Refers to beans; for roasted, zero percent and for coffee abstracts, 1.4 percent.

c Refers to beans; for butter, 0.5 percent; for powder, 0.8 percent and for chocolate 1.8 percent.

d Refers to leaves; for cigarettes, 0.1 percent and for cigars, 0.8 percent.

e Refers to butter.

f Refers to beef, veal and sheepmeat; for other meats, 3.1 percent.

g Refers to all oil seeds

h Refers to beef, veal and sheepmeat.

j Refers to all vegetable oils.

Sources: UNCTAD/WIDER, *Agricultural Trade Liberalisation in the Uruguay Round: Implications for Developing Countries*, United Nations, New York, 1990.

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* Table 8 of FAO Commodity Review and Outlook, 1993-94

APPENDIX 2**EGYPTIAN EXPORTS OF THE MAIN AGRICULTURAL COMMODITIES AND IMPORTING COUNTRIES FOR 1992**

Commodity	Value (\$ million)	Major Importing Countries
Raw Cotton	53	Switzerland, Germany, Japan
Fresh Fruits and vegetables	42	Gulf Countries, European Union
Meat	16	Gulf Countries
Oranges	32	Former Soviet Union, European and Gulf Countries
Potatoes	43	European Union, Gulf Countries
Rice	57	UK, Germany, Libya
Spices	12	US, Germany, Libya
Sheep and goats	26	Gulf countries
Dried onion	13	European Union
Other crops	61	
Total	355	

Source: CAPMAS, Foreign Trade Bulletin

APPENDIX 3**EGYPTIAN IMPORTS OF FOOD COMMODITIES AND EXPORTING COUNTRIES FOR 1992**

Commodity	Value (\$ million)	Major Importing Countries
Animal fats	19	US, Canada
Animal feed	105	South America, European Union, US
Broad Beans	74	China, UK, Australia
Cereals	936	US, Australia, Argentina
Wheat and Flour	758	US, Australia, European Union
Maize	178	US, Argentina
Coffee and Tea	190	Sri Lanka, India, Kenya
Cotton	130	US
Dairy Products	237	Netherlands, France, Denmark
Fishes	66	U.K., Netherlands, Norway
Lentils	46	Turkey, Syria
Frozen meat	132	Germany, Netherlands, Ireland
Purified Sugar	140	Brazil, Belgium, U.K.
Tobacco	153	China, Greece, Italy
Edible oil	310	Malaysia, Argentina, Brazil
Wood products	580	Sweden, Ex Soviet Union, Finland
<u>Others</u>	459	
Total	3577	

Source: CAPMAS, Foreign Trade Bulletin

APPENDIX 4

FIGURE 1 - INCREASE IN TOTAL AREA SOWN IN CEREALS FROM 1987 TO 1992

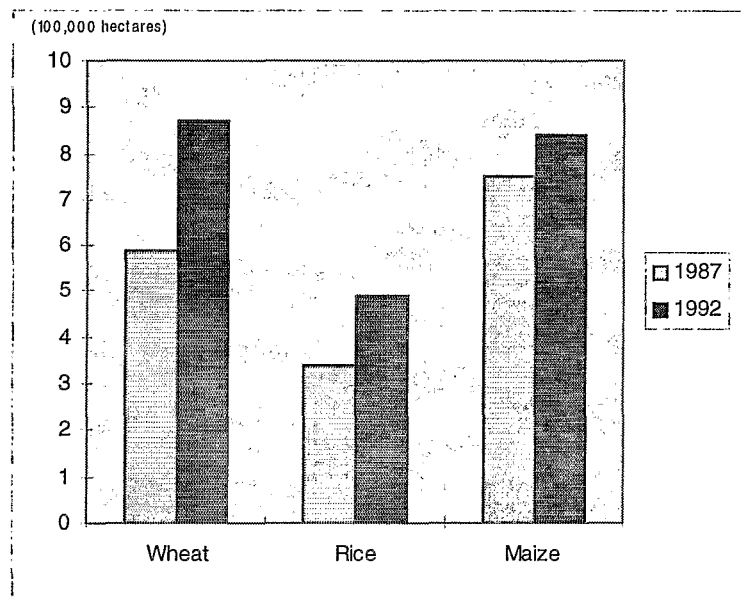


FIGURE 2 - INCREASE IN CEREAL YIELDS FROM 1987 TO 1992

