



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.08

Required Report - public distribution

Date: 9/23/2003

GAIN Report Number: EG3022

Egypt

Dairy and Products

Annual

2003

Approved by:

Asif J. Chaudhry
US Embassy

Prepared by:

Ali Abdi & Sherif Ibrahim

Report Highlights:

Egyptian fluid milk production has been steadily increasing in recent years, but still falls short of demand. NFDM imports decreased in 2002 by about 25 percent and further decline is expected for 2003 due to the devaluation of the Egyptian pound.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Unscheduled Report
Cairo [EG1]
[EG]

Table of Contents

Fluid Milk..... 3
Production..... 3
 Cheese.....4
Production..... 4
 Consumption.....5
 Prices.....5
Trade..... 5
 Tariffs7
 Marketing Opportunities for U.S. Export7
Butter..... 7
Production..... 8
Consumption 8
Prices 8
Trade..... 8
Factors Affecting U.S. Exports10
 Tariffs10
NON FAT DRY MILK11
Production.....11
Consumption12
Trade.....12
Factors Affecting U.S. Exports13

Fluid Milk

PSD Table

Country:

Egypt

Commodity:

Dairy,
Milk,
Fluid

Calendar Year Begin	2002		2003		2004	
	Old	New 01/2002	Old	New 01/2003	Old	New 01/2004
Cows In Milk	1600	1600	1620	1610	0	1620
Cows Milk Production	1685	1600	1690	1680	0	1690
Other Milk Production	2315	2200	2510	2120	0	2310
TOTAL Production	4000	3800	4200	3800	0	4000
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	4000	3800	4200	3800	0	4000
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	1629	1548	1700	1629	0	1700
Factory Use Consum.	2000	1900	2100	1800	0	2100
Feed Use Dom. Consum.	371	352	400	371	0	200
TOTAL Dom. Consumption	4000	3800	4200	3800	0	4000
TOTAL DISTRIBUTION	4000	3800	4200	3800	0	4000
Calendar Yr. Imp. from U.S.	0		0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production

Total Egyptian fluid milk production is currently estimated at 3.8 million MT. Fluid milk production has been on the increase during the last couple of years before stabilizing in 2003. Egyptians are not major milk drinkers. Per capita consumption of fluid milk in Egypt is estimated at 5.5 Kg, which is significantly lower than in other developing countries. In Egypt, most fluid milk is consumed in the form of cheese and other dairy products. Dairy processors have increasingly been relying on local production for their inputs rather than on imports due to the government's three-year safeguard duty on milk powder imports which finally expired on September 24, 2003. The discontinuation of the safeguard duty on milk powder imports is not expected to result in more milk powder import in the near future. The continuing devaluation of the Egyptian pound which lost about 30 percent of its value since January 2003, has made imports more expensive relative to local products. The cost of production of fluid milk increased this year in line with increasing cost of imported feed. Accordingly, expansion in dairy farms is expected to be limited this year. The European Union is providing LE 280 million low interest loans over a three-year period to help the dairy industry modernize. This program is managed by the Ministry of Agriculture and is directed

to milk producers and processors as an effort to improve their operations. About 50 percent of the total milk production is consumed at the farm level and the remaining share is consumed by dairy operations.

Cheese

PSD Table

Country:

Egypt

Commodity:

Dairy,
Cheese

Calendar Year Begin	2002		2003		2004	
	Old	New 01/2002	Old	New 01/2002	Old	New 01/2003
Beginning Stocks	0	0	0	0	0	0
Production	423	425	450	427	0	430
Intra EC Imports	0	0	0	0	0	0
Other Imports	10	9	12	8	0	8
TOTAL Imports	10	9	12	8	0	8
TOTAL SUPPLY	433	434	462	435	0	438
Intra EC Exports	0	0	0	0	0	0
Other Exports	3	5	4	3	0	4
TOTAL Exports	3	5	4	3	0	4
Human Dom. Consumption	430	429	458	432	0	434
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	430	429	458	432	0	434
TOTAL Use	433	434	462	435	0	438
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	433	434	462	435	0	438
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production

Egypt's total production of Feta cheese in 2002 is estimated at about 320,000 MT, 70 percent of which is still produced by small-unlicensed factories (about 5000 factories) from unpasteurized milk, despite an existing standard (yet to be enforced) that prohibits the production of feta cheese from unpasteurized milk. The balance is produced by fairly modern factories. Total cheese production in 2002 is estimated at about 425,000 MT, and is expected reach about 427,000 MT in 2003. The most important type of cheese produced in Egypt is feta. Feta production, both commercial and homemade, makes up about 75 percent of the cheese produced and consumed in Egypt. The balance is spread among hard Romano about 65,000 MT, processed cheese about 40,000 MT, small but growing quantity of mozzarella cheese and very small amount of blue and cheddar cheese. Egyptian cheese production is steadily increasing but still falls short of demand. Both private and public sector companies produce cheese. In recent years, however, the public sector market share has drastically diminished to almost insignificant levels. Under the current economic reform policy, the

Government of Egypt has been trying to sell the only public sector company for dairy products (Misr Dairy) to private sector buyers. So far, only one factory in Alexandria has been sold to a private sector investor.

Consumption

Total cheese consumption in 2003 is expected to reach 432,000 MT, compared to 429,000 MT in 2002. Present per capita consumption of cheese is estimated at 6 Kilograms. Cheese is an important part of the Egyptian diet and many people eat cheese at least with one meal every day. Most cheese is consumed with bread. Feta cheese is both the most popular and least expensive type of cheese available. The hard cheese known as "Romi" and processed cheese known as "Nisto" are also among the popular cheese consumed in Egypt.

In 2002, about 320 MT of imported fancy cheeses such as parmesan, Camembert and Brie were consumed. Consumption of cheddar and mozzarella cheese (both natural and processed) is also rising due to the increased number of fast food(pizza and hamburger) restaurants currently operating in Egypt.

Prices

The average wholesale price for Feta cheese in 2002 (increased by about 8 percent from last year) ranged between LE 8 -10 per Kg, and retail prices varied between LE 12 and 16 per Kg (depending on the type). The wholesale price of locally produced Romano cheese is between LE 10.50 to 15 per Kg and LE 16 to 22 per Kg at the retail level. In 2002, prices of imported cheese from Europe varied between ` \$3,050 and \$7,300 per MT CIF, depending on the type of cheese. Gouda and Edam cheese are currently being imported at \$3,100 and \$3,050 per MT CIF, respectively, and are being retailed for about LE 28 and 26 Per Kg, respectively. Imported fancy cheese such as Old Amsterdam, Parmesan and camembert retail between LE 80 and LE 120 per Kg.

Trade

The private sector is responsible for virtually all of Egypt's cheese imports. Netherlands, Australia and New Zealand continue to be by far, the major cheese suppliers to the Egyptian market. Import demand is generated largely by the more affluent segments of the population, tourism sector, hotels and restaurants. According to Egyptian import statistics, cheese imports in 2002 are estimated at 9,147 MT. The current stagnation in imports is mainly due to the devaluation of the Egyptian pound against the U.S Dollar, which has made imports more expensive. The lack of foreign exchange availability in banks is also limiting imports. Egypt's total cheese exports in 2002 are estimated at about 5000 MT, mostly feta cheese to other Arab countries.

The EU-Egyptian Partnership Agreement will offer several important tariff concessions for European dairy suppliers when the Agreement is implemented. However, European cheese exporters are not expected to gain much from the Agreement. According to the Agreement (Annex to protocol 2), Egypt will only allow 2,000 MT tariff rate quota (TRQ) at 50% of the basic tariff for cheese and curd products from the EU. This TRQ will apply to the following product categories.

- | HS Code | Description |
|------------|---------------------------------------|
| • 04061090 | fresh cheese in packages over 20 Kg. |
| • 04062090 | Grated or powdered cheese over 20 Kg. |
| • 04063090 | Processed cheese over 20 Kg. |
| • 04064090 | Blue veined cheese over 20 Kg. |
| • 04069090 | other cheese over 20 Kg. |

Egypt ratified the Agreement last summer and EU- member countries are in process of ratification.

It usually takes about three weeks for imported cheese to be released by Egyptian import authorities. A great deal of that time is taken to review all of the certifications required by the Ministries of Health, Agriculture, and Foreign Trade. For example, the shelf-life of imported cheese is between 6 months and one year depending upon the product. Non-tariff barriers such as unnecessarily short production shelf life continue to limit opportunities in the market.

Import Trade Matrix

Country:	Egypt	Units:	<input type="text" value="MT"/>
Commodity:	Dairy, Cheese		
Time period:	<input type="text" value="CY"/>		
Imports for	2001	2002	
U.S.	<input type="text" value="103"/>	U.S.	<input type="text" value="65"/>
Others		Others	
Netherlands	4,581	Netherlands	4,050
Australia	1,090	Australia	1,923
New-Zealand	1,008	New-Zealand	1,014
Total for Others	6679		6987
Others not listed	2,323		1,948
Grand Total	9105		9000

Tariffs

All cheeses, packaged under twenty kilograms are subject to a 30 percent tariff, while all cheeses, packaged over twenty kilograms are subject to a 10 percent tariff. There is an additional service fee of 3 percent and 1 percent sales tax. Most cheese imports are in 20 Kg packages.

Marketing Opportunities for U.S. Export

Currently, the primary suppliers of cheese to the Egyptian market are the Netherlands, New Zealand and Australia. Opportunities for U.S. cheese exports to Egypt exist but they are limited due to lack of price competitiveness. The primary factor influencing cheese imports is the price, but there is growing segment of consumers where quality comes before price consideration when buying cheese. The availability of a DEIP program for U.S. cheddar cheese could be a significant factor in expanding U.S. cheese exports (particularly cheddar cheese for manufacturing) to Egyptian market. U.S cheese products will be slightly disadvantaged (see below in "Trade" section) in terms of market access, when the EU-Egyptian partnership agreement comes into force, which is expected to occur within the next two years.

Butter

PSD Table

Country:

Egypt

Commodity:

Dairy,
Butter

Calendar Year Begin	2002		2003		2004	
	Old	New 01/2002	Old	New 01/2003	Old	New 01/2004
Beginning Stocks	0	0	0	0	0	0
Production	12	12	12	13	0	13
Intra EC Imports	0	0	0	0	0	0
Other Imports	40	50	45	45	0	47
TOTAL Imports	40	50	45	45	0	47
TOTAL SUPPLY	52	62	57	58	0	60
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Domestic Consumption	52	62	57	58	0	60
TOTAL Use	52	62	57	58	0	60
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	52	62	57	58	0	60
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production

A very small quantity of butter is produced in Egypt on a commercial scale, currently less than 10,000 MT. The bulk of local butter production is produced by farmers for home consumption, with a small amount of this production marketed locally during weekly village markets. The absence of a significant domestic butter industry in Egypt is due to several factors, the most important being the lack of adequate refrigeration throughout the country, which makes the conversion of butter to butter oil and ghee necessary. Also, there is an increasing consumer trend toward the use of palm oil in ghee rather than butter.

Consumption

Egyptians prefer butter made from buffalo milk to butter made from cow milk due to its distinctive flavor. They also have a preference for unsalted vs. salted butter. Only small quantities of butter are consumed in solid form and mostly sold at up-scale supermarkets. With pita style being the main type of bread used in Egypt, butter is rarely used directly on bread. Rather, butter is mostly used as an ingredient in baked goods or in fried foods. Both locally produced and imported butter are melted and stored in the form of butter ghee. That allows it to be kept without refrigeration for as long as 9-12 months. Butter ghee is preferred to vegetable oil for cooking. As a result of relatively high prices of imported butter oil compared to imported butter, a large number of consumers buy butter, rather than butter oil, and convert it at home. Imported butter is available throughout the year and demand increases during holidays, especially during the fasting month of Ramadan where 20-30 percent of total annual demand is consumed.

Prices

The average import price of butter is currently \$ 1,500 MT/CIF, compared to about \$ 1,100 MT/CIF during October 2002. Reportedly the increase in import prices was mainly due to the availability of less exportable surplus in international markets. However, during the last quarter of 2002, the retail price of imported butter increased significantly, especially (before Ramadan) and reached LE 190 per carton of 25 Kg, reflecting higher import costs. According to importers, the retail price of a carton of 25 Kg is currently LE 285 per carton. This is compared to LE 170 during the same period in 2002. Retail prices are expected to remain at the current level through the remainder of the year.

Trade

New Zealand and Australia are the major suppliers of butter to Egypt. However, for the first time small amounts of butter were imported recently from Ethiopia. In 2002, total Egyptian butter imports increased to about 50,000 MT, compared to 45,000 MT in 2001. Trade sources estimate that Egyptian butter imports in 2002 included about 7,000 MT of butter oil, most of which came from New Zealand and Australia. In recent years, the U.S. market share in the Egyptian butter market has been nil. The decline in U.S. market share was mainly due to the high prices of U.S. butter (in the absence of DEIP program) compared to that of competitor suppliers from New Zealand and Australia. Egypt's total butter imports from January 2003 through August 2003 are estimated at 30,000 MT. Trade sources reported that imports of butter and butter oil during 2003 will likely decrease by about 5,000 MT from the 2002 level. The EU countries maintained their butter export restitution in 2002 (reportedly about EUR 1,780 per MT).

Under the EU- Egypt Partnership Agreement, butter, other fats and oils derived from milk, dairy spreads (0405) and other products that fall under heading (04050090) in packages of

more than 20 Kg, will enter Egypt without duty two years after the Agreement is ratified. In addition, import tariffs on European processed dairy products that fall in HS cods 0403, 04031000, 040390, 04039091, 04039099, 0405 and 04050010 will be reduced in three stages following the implementation of the Agreement:

- 5 percent reduction at basic duty two years after implementation.
- 10 percent reduction of basic duty three years after implementation.
- 15 percent reduction of basic duty four years after implementation.

Moreover, European suppliers will receive a 5000 MT tariff rate quota (TRQ) of butter and other fats (04050090) at 25 percent tariff reduction of basic duty from the applied tariff.

Most butter is imported in 25 Kilograms blocks and then re-packaged for sale to grocers and supermarkets.

The shelf-life for both imported and locally produced butter is 18 months. For butter oil the shelf-life is two years. According to importers, it takes between 15-21 days to obtain all of the necessary certificates to clear incoming shipments of butter and butter oil from Egyptian ports.

Import Trade Matrix

Country: **Egypt** Units:

Commodity: **Dairy,
Butter**

Time period:

Imports for **2001** **2002**
 U.S. U.S.
 Others Others

New Zealand	22,010	New Zealand	29,804
Australia	5,666	Australia	11,239
Mexico	4,559	Ethiopia	1,003
Poland	2,490		
Ireland	1,673		
Total for Others	36398		42046
Others not listed	9,032		7,954
Grand Total	45430		50000

Factors Affecting U.S. Exports

The withdrawal of the Dairy Export Incentive Program (DEIP) is the main factor behind the drastic decline of U.S. butter exports to Egypt in recent years. Although Egyptian importers of dairy products have a very favorable opinion of U.S. butter quality, they indicate that price is the most important factor that influences their decision.

The EU countries maintained their butter export restitution and their market share in 2002 (reportedly about EUR 1,780 per MT). In addition to the lack of price competitiveness of U.S. butter, Egyptian importers cited three other factors that lead them to import butter from countries other than the U.S. These factors include the quality of packing cartons, high moisture content and the white color of U.S. butter, compared to the yellow color of the butter from U.S. competitors.

Tariffs

The current import tariffs on butter and other fats and oils derived from milk are as follows:

1-In containers up to 20 Kg	15 percent
2-Other	5 percent

In addition, there is a 3 percent customs service fee and 1 percent sales tax.

NON FAT DRY MILK

PSD Table

Country:

Egypt

Commodity:

Dairy,
Milk,
Nonfat
Dry

Calendar Year Begin	2002		2003		2004	
	Old	New 01/2002	Old	New 01/2003	Old	New 01/2004
Beginning Stocks	0	0	0	0	0	0
Production	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
Other Imports	27	18	30	15	0	15
TOTAL Imports	27	18	30	15	0	15
TOTAL SUPPLY	27	18	30	15	0	15
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	27	18	30	15	0	15
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	27	18	30	15	0	15
TOTAL Use	27	18	30	15	0	15
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	27	18	30	15	0	15
Calendar Yr. Imp. from U.S.	0	0	0	11	0	5
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production

Egypt does not have a significant milk powder production. Imported non-fat dry milk (NFDM) and whey powder are used mainly for the production of feta cheese, yogurt and ice cream. There are also small quantities of NFDM and whey utilized in the production of chocolate and

pastries. Limited quantities of full fat dry milk are also imported and sold for direct human consumption.

Consumption

Milk powder production is negligible in Egypt. Non fat dry milk (NFDM) is used mainly for manufacturing purposes such as feta cheese, yogurt, ice cream as well as chocolate and pastries. Although, the government reduced the safeguard duty to 3 percent in April 2002 and to zero in September 2003, the consumption of milk powder declined in 2002 due to the devaluation of the Egyptian pound. The consumption of milk powder is expected to further decline in 2003 with the continuing devaluation of the pound. Consumption of locally produced fluid milk and imported whey has been increasing during the past two years in order to fill the gap created by lower imports of NFDM.

Trade

The private sector imports virtually all of Egypt's dry milk requirements. According to official trade data, total imports of powder milk in 2002 declined by about 25 percent to an estimated 18,000 MT, and are expected to further decline to 15,000 MT in 2003 due to the continued devaluation of Egyptian pound against the U.S dollar and the general economic slow down. At the present time, Poland, New Zealand and Sweden are the main suppliers of milk powder to Egypt. Egyptian NFDM imports from the U.S. in 2002 remained zero for the second year in a row, compared to 6,623 MT in 2000 when all U.S. sales were under the DEIP program. The NFDM import market is very price sensitive. The average import price for non-fat dry milk from Poland is currently about \$1,800 per MT CIF compared to about \$1,150 per MT CIF during October 2002. The EU countries maintained their milk powder export restitution in 2002 (reportedly about EUR 570 per MT).

The shelf-life for imported NFDM into Egypt is two years. It normally takes between 15-21 days to release a NFDM consignment through Egyptian customs. The Current import tariffs on NFDM are as follows:

Milk and cream not containing added sugar, packages over 20 kilogram: 5 percent plus 5 percent of CIF value.

Import Trade Matrix

Country: **Egypt** Units:

Commodity: **Dairy,
Milk,
Nonfat
Dry**

Time period:

Imports for **2001** **2002**

U.S. U.S.

Others Others

Poland	4,782	Poland	2,906
New Zealand	3,845	Sweden	2,896
Sweden	2,941	New Zealand	2,198
Russia	1,261	Finland	1,374
Denmark	1,124	France	1,066
Total for Others	13953		10440
Others not listed	10,811		7,560
Grand Total	27317		18000

Factors Affecting U.S. Exports

European powdered milk suppliers will gain a slight advantage over other suppliers when the E U-Egypt partnership Agreement , which was signed in June 24, 2001, is implemented. The Agreement has been ratified by Egypt but the ratification process is still ongoing in Europe. When the Agreement is ratified, Egypt will eliminate import tariffs on European milk and cream, concentrated or containing added sugar or other sweetening matter products that fall in the following HS codes:

- 04021010 for children
- 04021091 in containers not less than 20 Kg
- 04022110 for children (semi- fatty)
- 04022910 for children (semi- fatty)
- 04022991 in containers not less than 20 Kg

Most if not all packages must be in packages over 20 Kg in order to benefit from the tariff preference. The applied import tariff on NFDM is currently 5 percent.