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Livestock and Products Annual

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Report Highlights:

The Foot and Mouth Disease (FMD) outbreak in the Spring of 2011 had a serious, but not devastating impact on Egypt's cattle and buffalo sector. With the return of cold weather this fall, there may well be a resurgence of the FMDSAT2 virus. High feed prices are impacting the sector as are reduced demand for high priced local beef during this period of low economic growth. Egypt was the fifth largest export market in terms of volume for U.S. beef and offal in 2011 with 148,000 MT. Egypt is the seventh largest export market in terms of value for U.S. beef and offal in 2011 with \$235 million in sales.

Production:

Animal Numbers, Cattle Egypt	2011		2012		2013		
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Total Cattle Beg. Stocks	6,100	6,100	6,175	6,175		6,180	1000 HEAD
Dairy Cows Beg. Stocks	3,885	3,885	3,960	3,960		3,980	1000 HEAD
Beef Cows Beg. Stocks	0	0	0	0		0	1000 HEAD
Production (Calf Crop)	1,700	1,700	1,600	1,550		1,620	1000 HEAD
Total Imports	70	70	95	95		100	1000 HEAD
Total Supply	7,870	7,870	7,870	7,820		7,900	1000 HEAD
Total Exports	0	0	0	0		0	1000 HEAD
Cow Slaughter	300	300	300	320		340	1000 HEAD
Calf Slaughter	90	90	60	60		80	1000 HEAD
Other Slaughter	1,070	1,070	940	920		920	1000 HEAD
Total Slaughter	1,460	1,460	1,300	1,300		1,340	1000 HEAD
Loss	235	235	550	340		300	1000 HEAD
Ending Inventories	6,175	6,175	6,020	6,180		6,260	1000 HEAD
Total Distribution	7,870	7,870	7,870	7,820		7,900	1000 HEAD

Note: "NEW Post" data reflect Post's assessments and are NOT official USDA data.

Sources: Ministry of Agriculture and Land Reclamation, industry sources, and FAS Cairo.

Post estimates that the Egyptian calf crop will gradually recover during MY 2013 from the MY 2012 foot-and-mouth disease (FMD) outbreak. Calf crop production should reach roughly 1.6 million head, an increase of 4.5 percent or 70,000 head compared to MY 2012. However, calf crop production will still be short by 88,000 head from MY 2011's production level of 1.7 million head due to the aftermath of the 2012 FMD-SAT2 strain outbreak (February 2012). Post has revised its MY 2012 calf crop production and losses estimates accordingly.

Virtually Egypt's entire livestock herd, both cattle and buffalo, is maintained primarily for dairy production (smallholder farmers raise dairy buffalo), with meat production of secondary importance. This is due to the absence of beef breeds. All cattle herds consist of either mixed

breeds or imported dairy cattle for milk production. The herd data in the production, supply and demand (PS&D) table is comprised of roughly half cattle and half buffalo.

Egyptian beef production in MY 2013 will reach 285,000 MT, up roughly 5,000 MT or slightly below 2 percent from MY 2012 levels. The increase in total animal slaughter is due to the gradual recovery of calf production. However, beef production in MY 2013 will still be down from the MY 2011 level of 312,000 MT due to the lingering effects of the FMD-SAT2 outbreak. Egypt will bridge the gap between low domestic beef production and demand through imports.

Meat, Beef and Veal Egypt	2011		2012		2013		
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Slaughter (Reference)	1,460	1,460	1,300	1,300		1,340	1000 HEAD
Beginning Stocks	0	0	0	0		0	1000 MT CWE *
Production	312	312	280	280		285	1000 MT CWE
Total Imports	217	217	230	230		225	1000 MT CWE
Total Supply	529	529	510	510		510	1000 MT CWE
Total Exports	0	0	0	0		0	1000 MT CWE
Human Dom. Consumption	529	529	510	510		510	1000 MT CWE
Other Use, Losses	0	0	0	0		0	1000 MT CWE
Total Dom. Consumption	529	529	510	510		510	1000 MT CWE
Ending Stocks	0	0	0	0		0	1000 MT CWE
Total Distribution	529	529	510	510		510	1000 MT CWE

NOTE: "NEW Post" data reflect Post's assessments and are NOT official USDA data.

(*) CWE = Carcass Weight Equivalent/ Conversion to CWE rate equivalent to 1.4.

Industry and government sources report that livestock owners remain fearful of the further spread of FMD in MY 2012/13. This fear factor is providing an incentive to push animals to market earlier than anticipated, even if this means at lower weights compared to historical levels. Further compounding the situation are high feed prices. This will similarly motivate livestock owners to send to market animals at below ideal slaughter weight.

Post anticipates an upswing in the slaughter of younger animals in the Fall of 2012 to hedge against potential FMD related losses, as well as to take advantage of consumer taste preferences for younger, leaner animals. Post expects slaughter numbers in MY 2013 to rise to 1.340 million head, up by 40,000 head from the MY 2012 level. Despite the 3 percent increase in animal slaughter numbers, MY 2013 production of meat, beef, and veal will increase by less than 2 percent. Production will come in lower as a consequence of growing numbers of animals being processed at below ideal slaughter weights.

Impact of Foot-and-Mouth Disease (*Aphthae epizooticae*): The FMD-SAT2 strain broke out in February 2012 (see, GAIN Report [Livestock and Products Update - FMD Outbreak](#)). The Ministry of Agriculture and Land Reclamation (MALR) confirms that by August 2012, some 94,401 animals have been infected. The mortality rate is 28 percent or 26,245 head, a loss of LE 200 million (\$33 million). The Egyptian herd numbers 6 million head comprised of half cattle and half buffalo. Due to lower than anticipated losses from the FMD outbreak in Spring 2012, Post is revising its earlier loss estimate in the PS&D table from 550,000 head to 340,000 head (includes losses from FMD and other factors).

Egypt notified the World Organization for Animal Health (OIE) on March 14, 2012, of 13 outbreaks in 8 of 27 governorates mainly in the Nile Delta (Lower Egypt). Some cases were reported in the south (Upper Egypt). Egypt's cattle and buffalo herds have no previous immunity to the FMD-SAT-2 strain. The mortality rate among calves and feeders has been high due to the lack of transmittable maternal immunity. Some maternal immunity will have been built up by the fall due to exposure in the spring.

This disease decreases milk production, impedes weight gain, hampers reproductive efficiency, and has a high mortality rate among young stock. Unchecked, FMD could exacerbate economic instability in the agricultural sector during the current period of tenuous economic growth. According to the Central Intelligence Agency (CIA), agriculture accounts for 14.5 percent of Egypt's gross domestic product (GDP). It ranks third after industry (37.6 percent) and services (47.6 percent) as the most important sector of the economy. About 32 percent of the labor pool engages in farming, with many others in the processing or trading of agricultural products.

The Ministry of Agricultural and Land Reclamation confirmed in April 2012, that the local

Holding Company for Biological Products and Vaccines (VACSERA) is producing the FMD-SAT2 vaccine. This company produced the vaccine for the 2006 FMD outbreak. The General Organization of Veterinary Services (GOVS) on April 19, 2012, announced a campaign to vaccinate Egyptian livestock against the FMD-SAT2 strain in governorates with no reported cases. Responding to an urgent request from GOVS, FAS/Cairo, in concert with the Ministry of Planning and International Cooperation, provided \$1.8 million in local currency funds remaining from our 1996 Section 416B program to fund the purchase of 2.3 million doses of SAT2 vaccine. This vaccination program is free for smallholder farmers. Sources in the MALR inform that 1.4 million animals are now vaccinated.

Despite the ongoing vaccination program, an upswing in reported detections of FMD-SAT2 starting this October is a possibility. The strain has remained dormant during the summer, but could well become more active with the onset of cooler weather. The Egyptian media reports new cases in the Minya Governorate (Upper Egypt) and in the Qalyoubia Governorate (Lower Egypt) during the second half of August 2012. Concern is high that FMD-SAT2 may further spread domestically and internationally given the trade links with neighboring countries.

Policy: Egypt is compensating local farmers and breeders for their FMD-SAT2 animal losses. The government is allocating LE 100 million (\$16.4 million) for financial compensation. The General Organization of Veterinary Services commenced paying financial compensation to farmers in the beginning of August 2012. As a result of the latest FMD outbreak the GOVS is seeking regulatory approval to mandate livestock immunizations. Once approved farmers and breeders will be required to pay a LE 70 to LE 100 (\$11-\$16) fee for preventative livestock vaccinations. Post doubts that the Egyptian government will in the short-term pursue granting GOVS this regulatory authority given livestock owners' opposition to paying upfront for vaccination costs.

Post assumes that Egypt's FMD vaccination program will be at least partially successful. We also assume that Egyptian cattle and buffaloes will have acquired some immunity from FMD exposure this past spring. Post believes that this will permit a recovery in calf numbers over time. In the short-term calf crop production nonetheless will remain tight due to continued susceptibility to the spread of FMD-SAT2, as well as constrained by higher feed prices. High feed prices and stagnating livestock prices mean less animals remaining in feedlots.

In early 2012, MALR approved a new veal project. Egypt's Social Fund for Development (SFD) and the Principal Bank for Development and Agricultural Credit (PBDAC) are funding this LE 450 million (\$73.5 million) project. The project aims to improve livestock rearing possibilities and increase self-sufficiency in meat production.

The project provides micro-credit loans to smallholder farmers for raising livestock at a low

interest rate of 4 percent, compared to prevailing rate of 16-20 percent rate. According to PBDAC, it has received some 1,670 loan applications from breeders and farmers. Sources indicate that most of the breeders and farmers applying for the veal loan are those who incurred losses due to the recent FMD-SAT2 outbreak.

Impact of Feed Ingredients Costs: Egypt's livestock and beef production remains dependent on imported feed ingredients. The country imports 60 percent of its concentrated feed ingredients for use in local feed production. High international prices for soybeans and yellow corn are driving up local feed production costs. Roughly 35 percent of local feed utilizes imported yellow corn.

The Egyptian Chamber of Commerce reports that the local feed industry is facing serious problems in procuring affordable concentrated feed ingredients due to high international prices. Industry sources confirm that their feed prices are up 40 percent this August due to the U.S. drought and its impact on the global food supply. Increased domestic corn production in MY 2012/13 may reduce somewhat import demand and provide lower cost corn, especially during the harvest period.

Egypt's economic situation, along with high international prices will further reduce the number of local feed manufacturers. Reportedly between 2007 and 2011, the total number of operational feed factories in Egypt fell by 21 percent from 112 to 88. Higher imported feed ingredient costs over time will further consolidate the local feed industry.

Herd Stabilization Efforts: Egypt is reportedly considering to again enforce Law Number 21 (2005), banning the slaughter of both cattle and buffalo cows, heifers, and calves. Industry sources confirm that 60 percent of young female animals are routinely slaughtered. Slaughter numbers spike around the time of religious holidays when Muslims slaughter their best domestic livestock.

Law Number 21 will be challenging to enforce. Smallholder farmers and small-scale animal breeders control roughly 80 to 90 percent of Egypt's animal capital. Notwithstanding the potential political cost to the government, enforcement is hindered by the absence of effective state regulatory oversight over small backyard farms in the lesser villages. The Egyptian herd's scarcity of heifers, including younger female calves, retained for reproduction is due to farmers capitalizing on strong domestic beef demand driving prices. Smallholder farmers also move animals to slaughter quickly to avoid costly outlays on vaccinations and expensive feeds.

In an effort to stabilize domestic cow and heifer herd numbers, the Butcher's Division at the

Egyptian Chamber of Commerce has proposed that village mayors be tasked with enforcing the provisions of Law Number 21. Village mayors would be responsible for fining farmers LE 10,000 (\$1,640) for every female animal slaughtered.

The Egyptian Chamber of Commerce's proposal assumes that one female animal is slaughtered per week in some 4,300 Egyptian villages, or about 224,000 female head per annum. With some 40 million Egyptian farmers (half the national population) surviving on less than one dollar a day, there is scant likelihood that this proposal will gain political traction anytime soon.

Consumption:

Post forecasts total domestic consumption in MY 2013 to remain stable at 510,000 MT much like in MY 2012. Total domestic consumption in MY 2012 is down compared to the MY 2011 level of 529,000 MT, by 19,000 MT or about 3.5 percent.

The drop in total domestic consumption in MY 2012 is a consequence of economic stagnation brought about by political uncertainty. Egyptian importers confronted challenges in financing their imports because of increased political risk and a run on liquidity both domestically and internationally. The FMD-SAT2 outbreak furthered constrained total domestic consumption by causing local beef supplies to run short by 32,000 MT, or about 10 percent compared to MY 2011 production levels.

A warning by the Food and Agriculture Organization's (FAO) Chief Veterinary Officer that consumers should not eat beef from FMD-stricken animals also impacted beef consumption during the spring. Although imports in MY 2012 were up by 13,000 MT, or nearly 6 percent, these failed to make up for local production shortfalls.

Consumption and Consumer Preferences: Egyptians prefer fresh beef to other types of animal protein such as poultry and lamb. However, higher beef prices in MY 2012 and consumer fears of contracting FMD detrimentally influenced beef consumption. Poultry and fish prices benefitted from consumers shifting to other protein sources.

Average per capita meat consumption in Egypt held steady at 8.66 kilograms per year. Low per capita consumption levels are due to the combination of low local production and high market prices. Post finds that locally produced beef in MY 2012 retails on between LE 55 (\$8.98) and LE 66 (\$10.78) per kilogram depending on the particular cut. Compared to MY 2011 values ranging between LE 40 and LE 60, this represents a 45 percent price increase for the low end cuts and a 5 percent increase for the higher end cuts. These consumer prices are troubling given that the World Bank finds that 40 percent of the Egyptian population survives on less than two dollars per day.

Demand for the lower end domestic beef cuts remained fairly inelastic in MY 2012 compared to the higher end cuts. Demand for the lower end cuts allowed retailers to charge on 58 percent more per kilogram in MY 2012 compared to the preceding year.

Post assumes that Egypt’s economy will stabilize in MY 2013, with GDP growth levels ranging between 1 to 2 percent. Political and economic stability should help increase consumer confidence levels, resulting in greater demand for food in general and beef in particular. Increased demand for fresh domestic beef should force prices upwards making imported frozen beef more attractive to a wider range of Egyptian consumers. Imported frozen beef in MY 2012 retails for between LE 32 (\$5.21) and LE 42 (\$6.85) per kilogram, making it particularly attractive to middle-to-low income consumers.

Increased political and economic stability should help entice foreign tourists and international businesses to return. The tourism sector is a major component of the economy (i.e., in past years it sustained 11percent of the economy); it also helps boost import demand for imported beef.

Trade:

Total Imports of Live Cattle – January to July MY 2012	
	Number of Head of Cattle
January	3,466
February	12,256
March	7,664
April	3,914
May	3,415
June	1,095
July	15,800
TOTAL	47,610

Source: General Organization of Veterinary Services.

Live Cattle Imports: Post estimates that live cattle imports will increase to 100,000 head in MY 2013, up 5,000 head or 5 percent compared to the MY 2012 level. We anticipate the bulk of these animals will originate in Sudan and Ethiopia and are meant for immediate slaughter. Sources indicate that high international feed prices will tend to hinder some imports of feeder and dairy cattle. Post expects that Australia, Brazil, Sudan, Ethiopia, and Croatia remain Egypt’s main live cattle suppliers in MY 2013. According to the GOVS total live cattle imports reached 47,610 head by July 2012.

Constraints with Egypt’s Cattle Slaughter at Portside Facilities

Slaughter Facility	Origin	Total Number of Cattle	Total Number of Cattle Slaughtered through August 2012	Number of Cattle Awaiting Slaughter	Shipment Arrival to Egypt
El Max – Alexandria	Brazil	1,654	1,032	622	March 2012
West Nubaria – Behira	Croatia	1,116	595	521	N/A
West Nubaria – Behira	Croatia	360	None	360	N/A
El Adabia – Suez	Ethiopia	4,000	None	4,000	July 2012
El Adabia – Suez	Ethiopia	1,970	5	1,965	July 2012
Shoubra Shehab – Qalubia	Brazil	800	None	800	N/A
TOTAL		9,900	1,632	8,268	

source: General Organization of Veterinary Services.

For the immediate future a key constraint to live cattle imports for slaughter remains Egypt's low capacity slaughter facilities combined with consumers' low purchasing power. The seriousness of the deficit of the former is made evident by GOVS reports indicating that during the first half of 2012, only 1,632 animals were slaughtered out of a cohort of 9,900 head.

Further highlighting this problem is the case of an Ethiopian-origin shipment of 1,970 head of cattle that arrived at the Al-Adabia facility in mid-July 2012 with only 5 head eventually being processed. Similarly in a separate shipment of 4,000 head, not a single animal was slaughtered. Sources confirm that slaughter operations are being held back by portside slaughter facilities' limited capacity.

Live Cattle Slaughter Operations: The slaughter of imported live cattle is only permissible at ports. Other slaughter facilities in Egypt are only for domestic slaughter. Portside slaughter facilities' processing capacity is low and inadequate for handling the high volume of imported animals. Port facilities also lack the necessary equipment for removing specified risk materials (SRM). Egypt only permits the import of animals 18 months-of-age or younger for fattening and 24 month-old animals for slaughter prior to reaching 30 months-of-age. The privately-owned Ain Sokhna slaughter facility has larger capacity than other facilities, but still lacks the capability to remove SRM material.

Post's contacts within GOVS sustain that portside slaughter facilities' capabilities are adequate for removing SRMs from animals 30 months-of-age and under. Plans however are under consideration to expand current processing capabilities at portside slaughter facilities. Nonetheless sources indicate that there will not be a commensurate expansion of capabilities

between the removal of SRMs and the capacity to accommodate larger volumes of animals.

U.S.-origin Live Cattle Imports: The U.S.-origin live cattle and beef enjoy a positive reputation among Egyptian importers and government officials. A large Egyptian milk producer is currently finalizing arrangements for the import of 1,500 head of pregnant heifers. Another imported some 1,800 head earlier this year. Also the spread of Schmallenberg virus in Europe has renewed interest in U.S.-origin feeder cattle, however high shipping costs continue to impact imports from the United States.

Sudanese Live Cattle Imports: In 2012, the MALR resumed the importation of live cattle for immediate slaughter from Sudan. However, the MALR's Animal Wealth sector and not the private sector is the importer of record. Sudanese-origin cattle is held in quarantine for 21 days under the supervision of Egyptian Quarantine Veterinarians in the Sudanese city of Wadi Halfa (bordering Egypt) and then ferried down the Nile to the city of Abu Simbel in Aswan (Upper Egypt) for immediate slaughter.

The current market price for Sudanese-origin beef sold in MALR outlets is LE 35-38 (\$5.70-6.19) per kilogram. The Ministry of Agriculture and Land Reclamation seeks to import 3,000 head of Sudanese cattle per month to rein in escalating domestic beef prices. The average weight of the imported Sudanese cattle for immediate slaughter is 350-450 kilogram per head, which produces about 210-270 kilograms of meat per head.

On August 26, 2012, the Egyptian MALR signed a Memorandum of Understanding (MOU) with Sudan's Ministry of Agriculture and Livestock establishing a farm for livestock production in Sudan. The 250 feddan (equivalent to 259.5 acres) farm site will provide the Egyptian market with 4,000 head of cattle and 4,000 head of sheep every 70 days. The Egyptian side will cover the technical expertise costs, while Sudan will assume housing and land rental costs.

Brazilian-origin Live Cattle Imports: In March 2012, a Brazilian shipment of 5,000 head of cattle destined for slaughter in Egypt was forbidden discharge in Egyptian ports. This ban was implemented upon the discovery that some 3,000 head of cattle had died while in transit.

Australian-origin Live Cattle Imports: Egypt detained two Australian shipments carrying 32,000 cattle for immediate slaughter in August 2012. Egyptian authorities at the Port of Ain Sokhna detected that the cattle were treated with the HGP growth hormone. These two shipments were released at the beginning of September after lab test results confirmed that the HGP growth hormone level present pose no harmful effect on human health.

Product	Jan.	Feb.	Mar.	Apr.	May	June	July	TOTAL	Origin
Frozen Beef	14,301	17,500	11,970	9,156	11,480	8,008	12,950	85,365	Brazil, Argentina, USA, Australia, Uruguay, New Zealand, South Africa
Chilled Beef	350	490	350	149	14	118	340	1,811	Ethiopia, Sudan, Kenya, Australia
Frozen Buffalo Meat	5,950	3,570	4,970	6,468	11,970	7,896	8,449	49,273	India
TOTAL	20,601	21,560	17,290	15,773	23,464	16,022	21,739	136,449	

OTE: Numbers per metric ton in Carcass Weight Equivalent/ Conversion to CWE rate equivalent to 1.4.
 Source: General Organization of Veterinary Services.

Beef Imports: Post anticipates frozen beef imports to drop by 5,000 MT to 225,000 MT in MY 2013, or by roughly 2 percent from the MY 2012 level of 230,000 MT. Imports will help bridge in MY 2012/13 production and consumption gaps. Post estimates that the production and consumption gap will continue to grow due to natural population growth and insufficient domestic production. The General Organization of Veterinary Services reports frozen beef imports of 136,449 MT through July 2012, of which 49,273 MT are buffalo meat from India.

Political uncertainty and economic stagnation adversely impacted imports in MY 2012. Beef importers remained concerned with Egypt's political, economic, and security situation in the lead up to and immediately following the country's presidential election in June 2012. Industry sources inform that importers refrained from importing live cattle and frozen beef out of fear of potential political instability. The Ministry of Agriculture and Land Reclamation confirms that in the three months preceding the presidential election, the total number of import permits remained low and only have now picked up.

The key suppliers of frozen beef in MY 2012 are Brazil, Argentina, United States, Australia, Uruguay, and New Zealand. India is the main supplier of frozen buffalo meat. We expect that in MY 2013 that these suppliers and percentage volumes to remain largely unchanged.

Unlike most countries, where demand for U.S. beef starts with the high end cuts and then shifts to middle cuts, Egyptian demand for U.S. beef is already focused on the middle cuts. These cuts are going to both domestic consumers and competing with Brazilian beef in the Hotel-Restaurant-Institutional (HRI) trade. The United States exported \$235 million worth of beef and offal to Egypt in 2011 of which 34,000 tons, valued at \$94 million was beef. Exports of U.S.-origin beef to Egypt are up 15 percent in value and 20 percent in quantity in the first half of 2012. Egypt was the fifth largest export market in terms of volume for U.S. beef and

offal in 2011 with 148,000 MT.

BSE Update: Egypt did not take any adverse action against U.S. beef when the fourth U.S. case of BSE was detected in April 2012. On February 3, 2012, the MALR/GOVS notified the World Trade Organization (WTO) of Ministerial Decree No. 2128 for 2011 (G/SPS/N/EGY/47) establishing conditions for importing de-boned beef, chilled or frozen boned beef, animals for immediate slaughter and animals for fattening from countries classified by the OIE as controlled *bovine spongiform encephalopathy* (BSE) risk, including United States.

This decree authorizes the import of live cattle for slaughter, fattening, as well permits the import of pregnant heifers. The decree only permits the import of male animals weighing no less than 300 kilograms and not older than 24 months-of-age for immediate slaughter. These animals must be slaughtered prior to 30 months-of-age.

The decree permits the entry of live calves for fattening. These calves must be male animals weighing no less than 200 kilograms and not older than 12-18 months-of-age. These animals must be slaughtered prior to 30 months-of-age.

The import of pregnant heifers depends on the epidemiological status of the exporting country. The import of heifers under pubertal age is not allowed. For beef imports, Egypt permits deboned beef meat only from animals that are not more than 48 months-of-age and in good health. Egypt permits the import of bone-in beef only from the inter-costal muscles area and from animals less than 30 months-of-age.