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**The Effects of GATT on Agriculture:
Egyptian Experience**

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The GATT Effects on Agriculture: Egyptian Experience

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I. Introductory Remarks:

1. Objectives and Broad Strategy of Egypt's Agriculture:

Egypt has undertaken economic reform and structural adjustment program with support from multilateral and bilateral donors. This program includes measures to reduce the fiscal deficit, reduce inflation, stabilize exchange rate, liberalize prices, and restructure and eventually privatize 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 eliminated, subsidies on food prices had decreased, and the number of items that are subsidized is reduced as is the quantity of food subsidized and rationed to households. It is expected that as a consequence of these measures, food prices will rise, food consumption subsidies will fall, and food consumption pattern will change. In the short run, these changes, taken together, may hurt 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 are¹to:

- Improve efficiency in the use of the country's limited land and water resources, relative to a rapidly growing population, through greater specialization in products in which she has and can maintain a dynamic comparative advantage;

¹ IFPRI, *Maintaining Food Security in Egypt During and After Agricultural and Food Policy Reform*, Cairo, 1993.

- Enhance sustainability of resource use patterns and protection of the environment;
- Increase crop productivity by adopting new technologies ;
- Reduce unit costs of production ;
- Increase the number of workers employed in the agricultural sector;
- Contribute to more equitable income distribution, poverty alleviation, and fulfillment of basic needs of the population; and
- Expand foreign exchange earnings from agricultural exports.

2. Integration of agriculture in the domestic and international economy :

There is a growing interdependencies and uncertainties of world agriculture today. Three factors could be cited as among the causes of those tendencies.

- growing commodification of agriculture and its increasing exposure to terms of trade movements;
- The rapid growth in world trade for agricultural products and the concomitant increase in food and feed dependency for developing countries,
- The increasing instability of tradable agricultural commodities.

This growing integration of agriculture in the national and international economy redefines the options and dilemmas which are faced by developing countries in designing their strategies of food security.

3. Food Security:

Most countries have recently attempted to define strategies of food security which make a balanced combination of self sufficiency and comparative advantage. Food security could be met through the combination of availability and entitlements. Availability derives from both domestic production and foreign trade. The choice variables are what to produce for domestic consumption? what to produce for export ? and what to import?

Food insecurity in Egypt is a function of both international price movements and variability in Egyptian crop yields. The first source of randomness has a coefficient of variation 3.8 times greater than the second (De Janvry, 1985).

II. Assessment of the Expected Effects of the GATT on Agricultural Commodities:

The direct effects will be, in General :

- Redressing price distortions;
- Enhancing access to markets for the more efficient exporters; and
- increasing the degree of transparency and stability of trade policy.

However the agreement effects will differ between developed and developing nations.

1. Developed Countries:

developed nations are expected to achieve the greatest benefit from the agreement in the short and long terms. According to Tarr et al (1995) estimates, which are considered one of the most accurate estimates of the benefits of Uruguay Round (UR), total increase in GDP of the developed nations as a result of the liberalization of international trade in agricultural products within the WTO, is estimated at about \$ 49 billions in the short-run, with a slight increase in the long run. EU ranks first in reaping the expected net benefits (\$ 28.5 billions), followed by Japan (\$ 15.2 billions) and the USA ranked third (\$ 1.7 billions).

2. Developing Countries:

All the developing nations will gain \$ 9.2 billions. The positive gaining will be mostly in Latin America Countries, some of the South East Asians, and a number of Eastern European Countries. On the Contrary, for developing countries who are net food importers, it is estimated that they will undergo a loss of \$ 1.2 billions. The loss covers the Middle East and North Africa, some Eastern European Countries and China as shown in table (1).

3. Egypt:

Egypt is a net food importer. The Egyptian balance of trade for agricultural commodities suffers from a deficit in its balance of trade which amounted to about \$ 2.3 billions on the average of the period 1995-1997. In the light of this huge disruption, there are fears that the application of the new rules of trade in agricultural commodities under the WTO will aggravate the trade gap as a consequence of the probable upsurge in the bill of agricultural imports.

Table (1): Effects from Redressing Distortions and Restrictions on International Trade of Agricultural Crops.

(\$ billions)

Regions	Relaxing import restrictions	Export Subsidies	Production subsidies	Total	Balance*
All developed countries	8.8	9.0	21.5	49.0	9.7
• EU	- 1.2	11.5	17.8	28.5	0.4
• Japan	17.7	- 2.2	- 0.5	15.2	0.2
• US	- 0.1	0.0	1.8	1.7	0.0
All developing countries	8.8	- 2.3	2.4	9.2	0.3
• Latin America	0.1	0.0	1.3	1.4	0.0
• South East Asia	3.4	2.0	0.4	4.0	- 1.8
• East Europe	0.5	- 1.2	2.9	2.2	0.0
• Middle East & North Africa	0.1	- 0.7	- 0.2	- 0.4	- 0.4
• Sub-Saharan Africa	0.3	- 0.40	- 0.1	- 0.2	0.0
• China	- 0.3	- 0.20	- 0.1	- 0.6	0.0

* Unexplained.

Source: Tarr et al, Quantitative Estimates of Uruguay Round's Outcome, Finance and Development, (Washington), IMF Dec., 1995, p. 38.

It should be noted that agriculture is, to a large extent, subject to risk and uncertainty which make estimates derived from different models about the impact of agricultural trade under the WTO on economic welfare differ widely from one author to another. In addition, there are some other problems associated with the nature of the proposed model and its underlying assumptions that affect the divergence in estimates.

As applied to Egypt, attempts in this regard faced a lot of difficulties foremost among them was the unavailability of accurate data for constructing such sophisticated models. However, one could identify the trend and magnitude of that effect, at least in the short run in the light of empirical model derivation and some simple and accepted assumptions that had been suggested by El Feky (1996). He estimated that Egyptian imports will increase by \$ 149 million, while exports will increase by \$ 9 million. Accordingly, the net increase in the deficit in the agricultural balance of trade will be \$ 140 million .

Yeats (1995) estimated the increase in Egypt's import prices of wheat, sugar and milk products at 17%, 47% and 41%, respectively, after the full liberalization of these commodities . Meanwhile, the expected price increase of major Egyptian exports such as cotton and rice will not exceed 10% at most assuming full liberalization. Even for this 10% to occur, it is necessary to upgrade crops' quality, improve its environmental characteristics and adopt the new technologies which lead to the decrease in the unit cost of export crops so that they can face the severe competition in the international markets.

In the long-run, i.e. 10 years after the establishment of the WTO or by the year 2005, it is expected that the effects will be humble and less significant compared to the short- run effects. A study conducted by the IMF (1995), had shown that the deficit in the Egyptian agricultural trade balance will not exceed \$ 35 million by the year 2005, or by a trivial percentage increase of only 2% of the total deficit in the agricultural trade balance during the period 1991-1994. Regarding the agricultural imports, the study estimated the expected increase at \$

38 million by the year 2005. With regard to the agricultural exports, the study showed that its increase will not exceed more than \$ 3 million in the same year

In conclusion, the positive impact on Egyptian agricultural exports after joining the WTO, will not be significant either in the short or in the long-run. Therefore, it is recommended that the Egyptian economy must take all necessary measures for promoting exports of agricultural commodities in the future. Those measures should be applied starting from enhancing the quantity and quality of production all the way until it reaches the final consumer in the major international markets.

III. Expected Preliminary Effect of the GATT Agreement on Prices of Major Temperate Zone and Tropical Products:

Some Studies have attempted to assess the effect of the eventual UR Agreement on Agriculture. However, it must be noted that a full assessment can only be made after the Schedules of Commitments are finalized. 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 commitment to reduce subsidized exports. However, a large distortion in the world agricultural commodity market for temperate zone product will still remain even after the complete implementation of the reduction commitments. A reduction in support should lead to a lower output in these countries.

The simulated effects of the eventual UR trade liberalization on world prices are shown in table (8) of FAO commodity Review and Outlook for 1993-94. The price change for temperate zone products ranges as follows:

<u>Commodity</u>	<u>% Change in price</u>
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:

<u>Commodity</u>	<u>% Change in price</u>
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)

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

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

Export earnings of developing countries from tropical products may thus not be affected by much 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 liberalization on the magnitudes and stability of agricultural prices, especially those of cereals, have been the subject of considerable debate.

IV. Trends in Agricultural Commodity Trade:

Tables (2) and (3) show the wide fluctuation in the value of the main agricultural exports. The figures in the tables indicate that the average value of cotton exports during the period 1992-1997 represented about 29.5% of the total agricultural exports followed by rice exports (18.1%). In the average of the same

period of time, potato came third in its relative importance (14.2%). Regarding the value of imports in the average of the period 1992-1997, tables (4) and (5) show that wheat and its flour still ranked first in their average relative importance (27.4%), followed by oil and fat (11.6%) while maize, milk and dairy products and meat came after.

The Arab countries represent the most important agricultural import market for Egypt, especially rice, vegetables and fruits. Table (6) shows the distribution of exports among the Arab countries. The countries of the European Community come second and import more than a quarter of the Egyptian agricultural exports. They import potato, medicinal and aromatic plants, vegetable, rice, cotton and citrus. Afro-Asian countries come third (Kheir El Din, 1997).

The following are some expectations regarding the main Egyptian agricultural products under the GATT:

- **Cotton:**

In spite of the wide fluctuation in its export earnings, cotton is still the main exporting crop in Egypt. Egypt has a comparative advantage in the production of extra long staple (ELS) and long staple (LS) cotton as well as short staple cotton. However, the success achieved in the US regarding the minimization of the differences in the prices of long staple and short staple cotton has reduced the benefits of that advantage to Egypt. The improvement in cotton processing makes it possible to produce fine textile from LS cotton.

Cotton production and exports are facing, presently, many difficulties. Its floor price was fixed at LE 500 in 1996 and 1997 which was higher than the international price. According to the GATT, the floor price has not to exceed the international price. Consequently, the fixed price of the present year (1998) was reduced to LE 350. That low price was accompanied by unfavorable climatic conditions which affected adversely the yield of cotton and caused losses to the farmers.

Table (2): The Evolution in Egyptian Agricultural Exports During the Period 1992-1997.

(LE Million)

Commodity	1992	1993	1994	1995	1996	1997
Raw cotton	175.2	146.7	791.1	517.3	311.9	374.7
Fresh orange	108.3	56.0	27.8	44.1	58.9	47.9
Rice	191.1	134.8	267.9	192.8	399.8	242.4
Potato	142.2	108.3	98.2	347.5	271.4	151.4
Fresh onion	30.2	68.3	69.8	62.3	37.0	43.6
Other	660.5	664.6	102.1	171.9	404.2	277.1
Total	1307.5	1178.7	1356.9	1335.9	1483.2	1137.1

Source: The Central Agency for Public Mobilization and Statistics (CAPMAS), Annual Foreign Trade Bulletin, different issues, Cairo.

Table (3): The Relative Importance of Agricultural Exports During the Period 1992-1997.

(%)

Commodity	1992	1993	1994	1995	1996	1997	Average
Raw cotton	13.4	12.4	58.3	38.7	21.0	33.0	29.5
Fresh orange	8.3	4.8	2.1	3.3	4.0	4.2	4.4
Rice	14.6	11.4	19.8	14.4	27.0	21.3	18.1
Potato	10.9	9.2	7.2	26.0	18.3	13.3	14.2
Fresh onion	2.3	5.8	5.1	4.7	2.5	3.8	4.0
Other	50.5	56.4	7.5	12.9	27.2	24.4	29.8
Total	100	100	100	100	100	100	100

Source: Collected and calculated from the CAPMAS, Annual Foreign Trade Bulletin, different issues, Cairo.

Table (4): The Evolution in Egyptian Agricultural Imports During the Period 1992-1997.

Commodity	(LE Million)					
	1992	1993	1994	1995	1996	1997
Wheat & its flour	2525.0	1601.1	2737.0	3178.1	3780.5	2702.1
Maize	592.9	807.1	892.7	1184.6	1478.2	1308.6
Cold & frozen meat	400.2	562.7	534.7	600.1	498.1	554.3
Milk & its products	525.0	503.2	509.4	573.8	614.4	505.2
Refined sugar	385.5	203.5	52.3	230.0	121.0	277.7
Oil & fat	892.6	594.0	659.4	1740.2	1762.8	1659.7
Other	2871.5	2393.3	3629.8	3924.2	4909.8	4875.4
Total	8192.7	6664.9	9015.3	11431.0	13164.8	11883.0

Source: CAPMAS, Annual Statistical Bulletin, different issues.

Table (5): The Relative Importance of Agricultural Imports During the Period 1992-1997.

Commodity	%						Average
	1992	1993	1994	1995	1996	1997	
Wheat & its flour	30.8	24.0	30.4	27.8	28.7	22.7	27.4
Maize	7.2	12.1	9.9	10.4	11.2	11.0	10.3
Cold & frozen meat	4.9	8.4	5.9	5.3	3.8	4.7	5.5
Milk & its products	6.4	7.6	5.7	5.0	4.7	4.3	5.6
Refined sugar	4.7	3.1	0.6	2.0	0.9	2.3	2.3
Oil & fat	10.9	8.9	7.3	15.2	13.4	14.0	11.6
Other	35.1	35.9	40.2	34.3	37.3	41.0	37.3
Total	100	100	100	100	100	100	100

Source: Collected and calculated from the CAPMAS, Annual Foreign Trade Bulletin, different issues, Cairo.

Table (6): Egyptian Exports to and Imports from the Arab Countries
in the Years 1995 and 1996.

(LE thousand)

Country	1995			1996		
	Exports	Imports	Balance	Exports	Imports	Balance
Saudi Arabia	135267	13266	122001	108147	2641	105506
Lebanon	65841	28860	36981	51637	24031	27606
Syria	85398	36191	49207	68670	42960	25710
Emirates	26585	1431	25154	23333	2576	20757
Kuwait	24120	242	23878	23397	-	23397
Libya	31794	2094	29700	35755	9051	26704
Sudan	16182	8996	7186	22034	62724	(40690)
Jordan	16941	1694	15247	87109	437	86672
Katar	4517	2229	2288	3838	-	3838
Bahrain	1889	-	1889	1835	53	1782
Tunisia	1770	-	1770	1052	418	634
Algeria	579	-	579	1155	51	1104
Oman	194	-	194	574	-	574
Morocco	266	2811	(2545)	1159	11949	(10790)
Gypouty	57	-	57	198	26	172
Yemen	33	74	(41)	681	75	606
Palestine	6	781	(775)	11393	-	11393
Iraq	-	-	-	45	-	45
Total	411439	98669	312770	442012	156992	285020

* Figures between brackets indicate negative values.

Source: (CAPMAS), Annual Foreign Trade Bulletin, different issues, Cairo

- **Rice:**

Internationally, rice production is concentrated in a few number of Asian countries. More than 83% of the world production is produced by 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 do consume well above 84% of total world consumption. Those are the main producing countries. Naturally, a situation as such implies that world trade in rice is very limited as only about 4% of total annual production in terms of milled rice is traded. World rice exportation is monopolized by a few number of countries, namely; Thailand, US, Pakistan, China, Burma, Australia, and Vietnam.

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 signs 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 import demand into Europe especially the EC is expected as a result of the implementation of GATT.

In 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 thousand feddans. However, farmers, in 1997 cultivated 1.4 million feddan as a result of the high relative profitability of rice. Egypt ranks first in the world with regard to its productivity of rice (3.54 tons per feddan). The total production in 1997 amounted to 5.5 million tons of paddy rice which allowed for exporting about 201 thousand tons of milled rice.

- **Wheat:**

Facing the Final Act of the Uruguay Round, the Ministry of Agriculture is intensifying the efforts of the agricultural cooperatives to encourage Egyptian

farmers to expand the area under wheat at the expense of the area under clover. The cooperative Union is exerting a lot of efforts 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 UR has taken care of the formation of food security stocks¹ 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, meantime consumer are not allowed to purchase it at prices lower than domestic market prices.

The major objective of these measures 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 (1998) wheat production does not exceed about 6 million tons which represents only about 55% of the total annual wheat consumption capacity amounting to about 11 million tons.

<u>Year</u>	<u>Wheat production capacity</u> (million tons)
1981	1.8
1998	6.0
2000 (expected)	8.0

Currently, the yield per hectare of wheat on the typical farm, amounts to about 6 tons per hectare. The advanced wheat production technology indicates

¹ 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 or resource retirement schemes, investment aids, environmental programs and regional assistance).

that wheat yield could reach as high as 40 Ardab per feddan or 6 tons/feddan which is equivalent to 14.2 ton/ha.

The American wheat exported to Egypt under the EEP (a program for promoting American exports) is subsidized, on the average, at \$ 29.4 per ton. The effect of abolishing 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 million, if other sources abolished their subsidy too.

- **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 amount to 100% in Japan, 50% in the European Union, and 32% in the United States. Thus reduction of protection coefficients to the agreed upon levels by the Final GATT Act would raise domestic demand in import countries and consequently Egypt's exports of processed orange juice would increase.

- **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 amounted to 430 thousand tons in 1994/1995. This record has never been achieved in the past or the present and it reflects the potential competitiveness of Egyptian potatoes as well as other horticultural crops. The problem of brown rot which faced potato exports to the EC that has been solved within the rules of the GATT represents the optimal way for attaining the rights of the exporting developing countries in the face of the importing developed

countries. Egyptian exports of potatoes in 1997 amounted to about 233 thousand tons.

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

- **Animal Production Sector:**

This sector comprises red meat, milk, poultry, and fish. Reviewing international specialization and division of labor, Egypt had never been characterized by 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 standard of living if achieved will result in an increase of per capita animal protein. Such increase will be at the expense of demand for starchy stuff. Under abolishment of subsidy on production and export, as GATT requires, cost of Egypt's imports of meat and dairy products will get higher. Early 1990's 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 may put local meat and milk in a competitive position with imported meat and milk and thus encourages investment in the area

of meat and dairy production. Worth mentioning that Egypt has relative comparative advantage in fish, milk and poultry production compared with 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. In particular, support the veal national project through a development fund financed through a development fee on meat imports, improve veterinary service, and use drainage water for aquaculture.

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 bridging the sugar gap and simultaneously provide green forage for livestock. It appears 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.

- **Food Processing and Exportation :**

Milk products, tomato products, canned and pickled fruits and vegetables, jams and jellies, frozen french fries, frozen fruits and vegetables , fruit juices, and fishery products are exported, particularly to nearby Arab countries and Middle Eastern markets. Except for large exports of dehydrated onions, little is exported to Europe.

Foremost, among the reasons behind limited exports to Europe is the low and variable quality of Egyptian processed foods. That, in turn , is a result of the poor quality control measures .

Domestic demand for processed foods is limited because of the availability of fruits and vegetables all the year round, the dietary preference for the fresh products, the low purchasing power of consumers, and high distribution costs.

V. Policies Relating to Export Promotion of Food Products

With the introduction of market liberalization, the old export system has been phased-out. New class entrepreneurs have demonstrated a willingness to compete on the basis of quality and price, to take risk, to invest in new facilities, to learn and adopt improved postharvest technologies and to manage complex businesses.

The government of Egypt has adopted aggressive policies of export promotion and import substitution. Those policies could be classified into general policies that applies to the promotion of the export process itself and commodity-specific promotional policies.

1. General Policies :

- **Trade liberalization: A key Element in Export Promotion:**

Trade liberalization has been a key element of the economic adjustment program of Egypt. An explicit expectation of Liberalization policies was that they would generate growth by stimulating exports, especially agricultural exports, which were seen as one of Egypt's outstanding comparative advantage. Current attempts to liberalize bilateral and multilateral trade in the Arabic and Islamic world are themselves elements in a process that should result in more benefits to countries concerned. A number of actions has been taken in this regard:

- a) Complete liberalization of production , marketing and export of cotton;
- b) Adequate and timely information on trade has been made available to existing and potential exporters;
- c) Research and extension have been oriented to strengthen their focus on potential exportable commodities;
- d) Horticulture exporters are being encouraged to establish export quality-control systems. The most likely markets are: the European Community (EC), Eastern Europe and the Gulf states. Trade restrictions render most of Egypt's

beyond-quota outside-period unprofitable. Exports to the EU has initiated negotiations to reduce tariffs and increase access to EU market for Egyptian food products;

- e) Monitoring market development in Eastern Europe and establish relations on which future sales would be based;
- f) Reduce the export regulations at the operational level. In response to cumbersome regulations and rules that had been prevailing before policy change. Those rules and regulations were a source of major and repeated complaint by exporters.

- **Cultivation of high value Crops :**

The Egyptian Ministry of Agriculture does suggest an indicative cropping pattern in the framework of prevailing prices for the crops and the technical coefficients required for their cultivation. The future of Egypt's agriculture lies with the cultivation of high value crops especially horticulture.

- **New National Projects for Expanding Cultivable Land :**

The first is Toshka which necessitates the achievement of a very ambitious objective that entails the reclamation and cultivation of 2.4 million feddans in South Egypt. The second is EL Salam irrigation project aiming at reclaiming and cultivating 620 thousand feddans East and West of Suez Canal.

- **Production of Clean Food :**

More and better opportunities for export promotion of food products lie in production of various crops without applying any kind of pollutants such as chemical fertilizers or pesticides. This Approach gives an additional impetus for enhancing in the competitiveness of Egypt's food exports on world market. One of the major strategies action is the adoption of the integrated pest control program which entails production of crops in the absence of application of any synthetic or artificial inputs. The European Community market is said to be ready to absorb such "clean production" at prices more than double the prices

offered for the comparable crop produced under the traditional chemical inputs. Not only that, but also samples of clean food, notably potatoes have been supplied to well-to-do consumers at metropolitan quarters of Cairo and found its outlet to consumers table.

In this regard Egypt has succeeded in establishing organic or biological farms which occupy an area of more than 276 thousand feddans assigned for the production of clean and non-contaminated food. The major features of such type of food crop production are:

First: it depends on fertilizing the soil with organic matter with no chemical fertilizer or pesticides at all.

Second: it does not include applying any hormones or growth organizing materials.

The system of producing clean food has also been extended to livestock and fish production which are raised using feed that is produced via clean method. Several advantages have been featuring production of clean food:

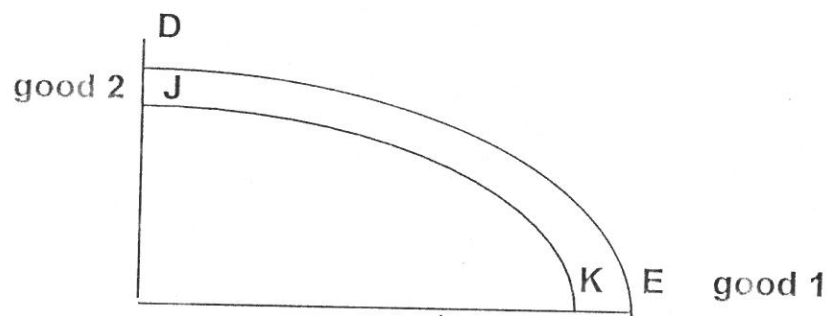
- a) Reducing cost of crop production;
- b) Improving the quality of produce;
- c) Increasing competitiveness on international markets and thereby expanding exports;
- d) Sustaining environment, protecting natural enemies and avoiding pollution.

However, one should admit that the production possibility curve of clean foods shifts downward as compared to the production possibility system of the same products. Figure (1) illustrates this point. JK represent the economy's production possibilities of two goods with a high environmental quality; DE depicts the frontier if environmental quality is reduced. The difference of the two production possibility frontiers represents the resource used in the abatement of production. With a given technology and full employment of resources, an improvement in the environment quality is

possible only if more resources are used in abatement of the external costs of production and hence the production of commodities is reduced.

Consider a country with a comparative in an agricultural export commodity, the production of which generate some environmental damage, say soil erosion. Consequently as production increases, environmental quality decreases. There is a trade-off between welfare gains and environmental quality.

Figure(1): Production Possibilities for different levels of environmental quality.



- **Minimizing Physical Losses for Food Products :**

A Salient feature of the old production and marketing system was the high percentage of physical losses experienced throughout preharvest and postharvest handling of perishable products. Research in early 80's conducted by Agricultural Research Center researchers indicated that average losses ranged from 20 to 40 percent for fruits and vegetables. Farm prices will be reduced by that amount . Saving that fairly high percentage of exportable food products could enhance exports of those products.

- **Considerable Inspections for Quality Assurance and Quality Control:**

The markets in the industrialized nations demand high quality foods. It has been noticed that one of the reasons of limited food exports to EU is the

generally variable quality of Egyptian shipments, which is the consequence of The poor quality control measures that were applied.

The Ministry of Agriculture and Land Reclamation (MALR) has had a concerted field inspection and laboratory testing programs, an inspection at the packing operations and also inspection at the port. Considerable inspection will have been performed to insure that food products identified and approved for export to the world markets will not have food diseases within the lots shipped. Only those growers participating in the MALR field inspection program are allowed to be on the approved certified growers free of disease and are allowed to deliver their produce to any exporter.

• **There are a variety of other measures which include but are not limited to:**

- Many constraints and restrictions that were traditionally imposed on exportation have been relaxed e.g. elimination of all export barriers such as export quotas, export banning and the like.

- Simplification of export procedures .

- There has been a package of discounts, e.g. the Egyptian Corporation for navigation charges 20% less than normal commercial shipping rates for exports shipped via its vessels.

- Air transport of perishables has been endorsed for charter airplanes without payment of royalties in addition to discounted rates for related services.

- Very recently, a ministerial decree entailed a reduction on import tariff from 45% to only 5% for importing refrigerated commodities.

2. Commodity Specific Policies :

a. Promotion of Potato Exports:

Potato is one of the most important vegetable crops for Egypt and its exports could be doubled. The Egyptian MALR is taking a number of measures to eliminate brown rot from infecting exported potatoes:

- 1) Areas with past history of the disease or those new infested ones are all canceled from the cycle of production for exportation to EC. New mandatory measures have been taken to comply with the phytosanitary standards of the EC:
- 2) Potato for export to the EC countries will be planted in non-traditional potato areas. Subjected to close technical observation, field inspection and lab examination .
- 3) Potato for export must be cultivated with disease free seeds.
- 4) Potato for export must not be planted more than once in the same field.
- 5) MALR appreciates and may provide help for inspection and examination of potato exports to EC in the packing houses or in Egyptian ports the quarantine inspectors
- 6) MALR bans any producer for export potatoes who does not follow required regulations.

b. Promotion of Citrus Exports:

- 1) The consolidation of the many small (one hectare) orchards into larger production units will probably take place and thereby enhancing production efficiency from many facets.
- 2) New lands development is being encouraged to plant larger citrus orchards, distant from urban domestic markets and applying different management and financial arrangements that are oriented toward exportation .
- 3) Changing the philosophy of exporting each crop not needed in the domestic market to a positive one that emphasizes planting citrus exclusively for the export market.- Valencia orange is a variety of increasing interest in Egypt. The planting of more area of this variety is encouraged so long as its harvest season extends into early summer. The most attractive export markets are in the May-July period when Valencia can be harvested. A market news network is being done in order to provide growers with what

the supply, demand and price situation is in any of the export markets. This is meant to reduce the inordinate risk in making shipment on consignment which exporters most often do.

VI. Concluding Remarks

According to general estimations, the Uruguay Round agreement would result to a 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%. 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 distortion of domestic prices and markets are completely removed.
2. Improve the quality of domestic production of fruits and vegetables so that the surplus over domestic consumption could meet export requirement. GATT will extend more opportunities for Egyptian exports as a result of abolition of export subsidies by competing countries.
3. The target of raising standard of living, if achieved, will result in an increase of per capita of animal protein. Subsidy elimination by exporting countries will put local meat in a competitive position with imported meat and thus encourages investment in the area of milk, poultry and dairy production.

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

4. Design a program aiming 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. Worth mentioning that early 1990's food aid to Egypt amounted to the following:

<u>Commodity</u>	<u>Amount (000' ton)</u>
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 a vis developed countries. Therefore, the country has to further improve the efficiency in the use of her limited land and water resources, relative to a rapidly growing population, through greater specialization 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 can not 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 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. Pursuing new lands reclamation program at a rate of 150,000 feddans annually, out of which 50,000 would be distributed to graduates for alleviating the unemployment problem. The remainder would be distributed to investors and small farmers.
8. Pursuing the current rate of increase in agricultural production which amounts to 3.4% annually.
9. In response to liberalization of prices and marketing of crops, the country is measure is applied to strategic crops such as wheat, cotton, rice and maize.
10. Enhance and support agricultural cooperation projects with Arab, African and the Nile basin countries in the areas of plant, livestock and fish production.
11. Manipulating the quotas and tariffs for the commodities exportable to the EU for better access. In this regard, those commodities could be categorized as follows:
 - (a) Products with a comparatively large share already go to the EU and where access to the EU is relatively easy, i.e. EU trade barriers are low. This category includes ground nuts, beet pulp, sunflower seeds, cane molasses and plants for medical use. There is comparatively little to be gained from tariff concessions.
 - (b) Products where Egypt ships only a small share of its exports to the EU though EU tariffs are low. These could be products where Egypt so far lacks competitiveness on that market. It might be useful for Egypt, therefore, to negotiate for comparatively large reference quantities or no quantity constraint at all. If lack of competitiveness has been a problem in the past, things might improve in the future and it would then be useful to have a large quota. As tariffs are low in this category of products, emphasis in the negotiation should be placed more on high quotas than on large tariff reductions. The products falling in this category are tomatoes

,soups and broth, onions and shallots(all with a non binding free tariff rate quota).

- (c) Products where Egypt ship comparatively large part of its exports to the EU and where EU tariffs are high .For these products it would appear that priority in the negotiation should be placed on obtaining large tariff reductions (LTR) . Large reference quantities (LRQ) would also be useful but may not merit the spending of too much “negotiating capital”. Hence Egypt might benefit more if she goes for large reduction on tariffs on above-quota exports, rather than for higher quotas . Products in this category are dried onions (with exports exceeding a free reference quantity of 4900 ton),dried potatoes (currently without any preferential treatment), and fresh potatoes (with exports exceeding a free reference quantity of 98000 ton for early shipments from Jan 1 until March 31.
- (d) Products where Egypt's export to the EU are small shipments and where EU tariffs are high . In this category of products where Egypt has so far not been successful in selling to the EU , both LTR and LRQ would be useful negotiating aims . Products falling in this category are rice and sheep carcasses.
12. Adequate and timely market information whether on the domestic or international level are critical to cope with the increasing competitive commodity markets and to decrease risk and uncertainty accompanied by agricultural production.
13. Maintain and expand the marketing infrastructure including more refrigerated storage facilities, establishing collection/grading centers and using better quality of packing materials and containers. These systems will reduce post harvest losses which are estimated at 35% in horticultural products and 15% in cereals.
14. Improving and strengthening the function of the agricultural institutions.

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Appendix 1

Table 1 - EC's Tariffs and Quotas on Egypt's Major Horticultural Commodities

		Tariffs % From	
		Jan. 1 , 1995	Jan 1, 1996
Oranges	Within the quota of 7,000 tons	0.3	0
	Beyond the quota	5.2	5.2
Mandarins		0.1	0
Lemons		1.6	0
Potatoes	Within the quota of 98,000 and for period Jan.1- Mar. 31	1.8	0
	Beyond the quota for the period Jan . 1- Mar.31	9.0	9.0
	For the period Apr. 1- Dec. 31	15.0	15.0
Onions	Within the quota of 10, 000 tons and for the period oct.1- Apr. 20	1	0
	Beyond the quota for the period Feb 1- Apr. 30	4.8	4.8
	Within the quota for the period May 1- May 15	1	0
	Beyond the quota for the period May 1- May 15	12.0	12.0
Tomatoes	For the period May 16-Jan 31	12.0	12.0
	For the period Dec. 1- dec. 31	0.4	0
	For the period Jan 1- Feb 28	0.2	0
	For the period Mar 1- Mar 31	0.4	0
Artichokes	Other periods	11.0	11.0
	Within the quota of 100 tons and for the period Oct. 1 - Dec. 31	0.5	0
	Beyond the quota or for the period Jan. 1- Sept. 30	13.0	13.0

Source: Export promotion Center-General Research Administration for Promotion of Ag. Food Products , Cairo.

Table 2 - Quotas Gradually Exempted from
Tariffs on Entrance into EC

Commodity	Period of tariff Exemption	Quota (Tons)
Early Potatoes	Jan, 1- March 31	98000
Green Beans	Nov. 1-April 30	6400
Fesh Onions	Feb. 1- May 15	10000
Fresh Garlic	Feb 1- May 31	1600
Dehydrated Onions	No time limits	4900
Dehydrated Garlic	No time limits	1000
Fresh Oranges	No time limits	7000
Artichokes	Oct. 1-Dec. 31	100
Cucumber	During Jan.and Feb.	100
Mellon	Jan. 1-March 31	100

Source : Commercial Representation, Cairo office.

Appendix 3

THE URUGUAY ROUND AGREEMENT

Table (3) : Simulated effects of Uruguay Round trade liberalization on world prices

	Prices changes				
	UNCTAD/ WIDER	Page and others	FAPRI	RUNS (Brand and Martin)	RUNS (Golden 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
Meat	13.0	5.3	0.5	6.1 ^f	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 ^j
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	---	---	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 ^j
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 sheep meat.

j Refers to all vegetable oils.

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

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