SECTOR ANALYSIS

March 2014

Egypt: Food, Agriculture and Agrobusiness

The Embassy of Denmark in Cairo

Keywords: Egypt, The Embassy of Denmark in Cairo, food, agriculture, agro business, export, production, vegetable production, fresh produce, processed produce, dairy products, beverage, organic.

Resume: In this sector analysis you will find relevant and updated information on the possibilites for export and production in the sector for food and agriculture in Egypt. Besides genereal information on the sectors structure, you will find growth aspects and market trends and information on the prosperous sectors for vegatable production, fresh produce, processed produce, dairy products beverage and organic production.

FOOD, AGRICULTURE & AGROBUSINESS

The sector for agriculture contributes about 14% of the GDP and ranks third among the most important sectors behind manufacturing and energy. Approximately one-third of Egyptian labour is engaged in farming. Furthermore, a large number of people are employed in the fields of processing or trading agricultural products. Nearly all of Egypt's agricultural production takes place in the fertile soil in the Nile Valley and Delta. Desert land is increasingly being developed for agriculture, with government incentives for setting up wells and partnerships for groundwater projects. With a population of more than 90mn people Egypt holds a lucrative long-term potential in the food sector. Egyptians spend around 37% of their income on food, drink and tobacco, and additionally, food consumption is steadily increasing from a low base with a growth rate of more than 10 % per year. In 2013 sales growth for alcoholic drinks increased by 18.14%, soft drinks increased by 14.29% and mass grocery retail sales grew by 14.09%. This makes Egypt a lucrative market for targeting export as well as a suitable location for production with possibilities for creating a profitable base for regional export.

EXPORT TO EGYPT

The Egyptian market has a great potential for exporting companies due to its large population, which is expected to exceed 100mn people by 2020. Poor water quality and increasing awareness of health has fostered annual increases in sales for the bottled water industry along with an increase in demand for processed and packaged foods, which is likely to expand further as income rises and brand-consciousness among consumers strengthens. The diary sector is yet very dispersed among more than 300 small producers, which makes it possible to get a good grip in the market for newcomers. The strong tourism sector in Egypt is a great additional possibility for increased sales as demand for well-known international brands increases along with the presence of foreigners in the country.

SETTING UP PRODUCTION

Egypt also holds great potential for setting up production. Egypt is strategically well-situated with favourable trade access to the Gulf Co-operation Council (GCC) and The Common Market for Eastern and Southern Africa (COMESA) additional to the long history of good relationship to the EU member states. The strategic location is one of the reasons why Egypt is functioning as a strong export base for several multinational companies, including Nestle, which has recently invested USD 28.8mn in expanding its ice cream factory in Egypt in order to meet the increasing demand in Egypt, as well as other countries in the region, including Jordan, Libya, Lebanon and Tunisia. The Egyptian government has recently implemented reforms for liberalising the foreign investment policy erasing some formal restrictions on FDI entry and creating incentives for establishing public-private partnerships.

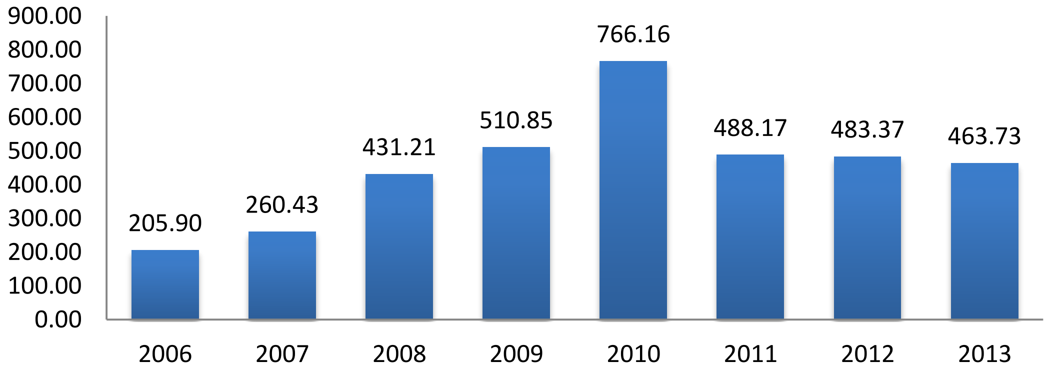
PROSPEROUS SECTORS

Agricultural Production

Egypt produces a wide range of agricultural products, and due to the climate crops can be harvested up to three times a year. Egyptian crop yields are among the highest in the world. To enable the increase in production of agricultural products, the government has invested heavily in enlarging its cultivable land. The plan is to increase cultivable land by 25 % over the next 20 years. The main obstacle for these projects will be to make enough water available to the farmers. Currently two major projects are underway in the Western Desert extracting water from Lake Nasser, and in the Northern part of Sinai, where water from the Nile is being canalled to make the land fertile and suited for agriculture. The agricultural export in Egypt was increasing rapidly prior to the 2011 revolution with a 49.97 % increase from 2009 to 2010. The industry has recently discovered setbacks due to the political unrest, but it is estimated to return to its initial growth rate within the next coming years.

Organic agricultural production has experienced considerable growth over the last 10 years, with demand in some countries exhausting the local supply of pesticide-free produce. Currently there are around 60,000 HA committed to organic production in Egypt, which represents an estimated 0.2% of total agriculture. The low share of organic production is partially due to the fact that few Egyptian producers live up to European or international standards for organic production at the moment, which means that large profits would be possible if standards were met.

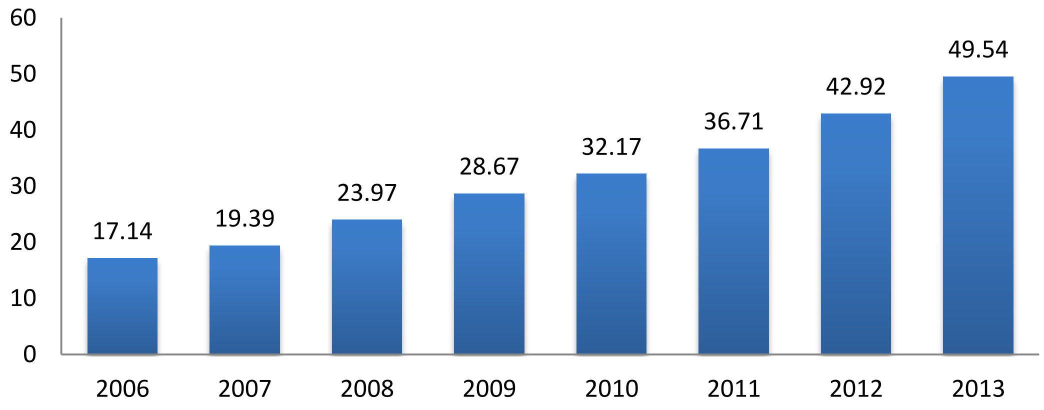
Agricultural Export, USD mn



Fresh Produce

Egypt is a large producer of fresh fruits and vegetables for both home market and exports. The most common crops are; onions, potatoes, tomatoes, oranges, lemons, mangoes and watermelons, but haricots are also becoming more popular due to increase in market prices. As mentioned above, the climate in Egypt is very favourable for the agricultural industry. This means that popular products such as potatoes and tomatoes can be harvested in Egypt all year. Due to the short transportation time to Europe, the freshness is secured. The fresh produce sector has since the 2011 uprising had a surplus of supply, since the political unrest has made it increasingly difficult to find foreign partners for export.

Food Consumption, USD bn



Processed Vegetables

A large part of vegetable production is aimed at the processing industry and this is where a large part of the above-mentioned surplus of agricultural supply goes. The annual growth rate of the processing subsector is 34 %. Jams, juices and concentrates are among the most popular products in the sector, as well as dehydrated or frozen vegetables. The Egyptian Ministry of Trade and Industry consider this area of production as a way for Egypt to build a strong export economy by utilizing its competitive advantage in the field but often, foreign investments and expertise is needed in order to ensure the quality standards demanded by the export markets. The government is cooperating with private businesses and 37% of the investment in this subsector is originated from foreign companies. Innovation centres are being established, like the Egypt Food Technology Transfer & Innovation Centre, which is working with the Danish Technological Institute under the B2B programme. Around 92 % of the equipment used for processing vegetables is imported.

Dairy products

The dairy sector offers strong growth potential, with per capita dairy consumption rising from a low base. The local dairy industry is relatively fragmented consisting of around 300 companies. One of the key players in the field of dairy production is Juhayna Food Industries, which is also a leading manufacturer of fruit juice. Juhayna have scaled up production to meet the increasing demand and revenue increased significantly in 2013. For 2012, the company had revenues of USD 107mn, which is an annual increase of 30%. The scale of commercial production of dairy products is still small compared to European standards and there is a clear lack of technology and knowledge. Hence, this sector has great opportunities for joint ventures and partnerships.

Beverage

The poor quality of the country's tap water has fostered annual increases in sales of bottled water, which moreover is being strengthened by the increasing awareness of health in the Egyptian society. The segment for alcoholic drinks, the soft drink industry together with non-alcoholic beer has grown rapidly since the beginning of the decade. In 2013 sales growth for alcoholic drinks increased by 18.14 % and soft drinks increased by 14.29 %. There is furthermore a great potential in the market for fruit juice, which is significantly smaller and less developed than the market for sparkling soft drinks. Despite the decline in tourism after the 2011 uprising Heineken managed to make a profit of over USD 300mn from beer sales in Egypt in 2012.

MARKET ASSESMENT

Extensive government-led land reclamation projects and private sector involvement in agricultural development has increased the demand for sophisticated agricultural equipment with a technical level that few Egyptian companies are able to supply.

The Egyptian market for agriculture and food shows great potential with estimated growth rates of around 15.5 % y-o-y until 2017. Egypt has previously presented impressive growth in export of agricultural products, which was setback in 2011 due to political unrest. High growth rates are expected to continue as soon as the political environment in Egypt stabilises. Within the sector for agriculture, organic production is emerging from a very low base. This sector is expected to take off in the near future with increasing export to the EU, since Egypt has the advantage of being geographically close enough to maintain the freshness of the sensitive organic vegetables.

The sectors for processed food and beverages have been growing steadily within the last decade, with little or no setbacks after the 2011 uprising. The Egyptian population demands international branded products more than ever before, and the rise in living standards contributes to increase in demand for processed food, which is less time consuming and easier to cook.

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