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Egypt: Southern farming

[0](#) Published: 10 Aug 2009

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An Egyptian labourer fill bags of beans in grain market at Cairo, 9 November 2008.

(Photo: Reuters)

Another year, another food crunch, but this time the nation looks south to satisfy its agricultural needs

By Robert Tashima, Oxford Business Group

With irrigation efforts moving slowly and imports beset by inconsistencies, Egypt has begun to follow its neighbors' lead into overseas farming. Persistently high wheat prices — and the resulting social instability over the price of bread — have motivated the government to seek new sources for the staple. The so-called "land grab," where rich but infertile nations head to poorer yet arable ones to secure food for their populations, while not unfamiliar before, is now happening on an unprecedented scale. Egypt did not embrace the trend as quickly as some of its neighbors, but since the bread riots in spring 2008, the government has announced two such projects in the hopes of providing respite to the price shocks of the past year.

News of the first project came only one month after the bread riots broke out. In May 2008, Egypt and Sudan signed an agreement to start a joint project close to the shared border town of Wadi Halfa, to help both countries become self-sufficient in wheat. Once production starts, it should produce two million tons a year.

Operations have yet to begin in Sudan, but earlier this month the government announced its intention to sign another agreement, this time with Uganda. The details of the 200-hectare project are still being debated in the People's Assembly (PA), but both sides stand to benefit and the deal is likely to go through. For Egypt, the deal offers Ugandan infrastructure, irrigation equipment, local staff and labor. In turn, Egypt will provide technical and financial assistance, as well as the experts and seeds necessary for the project. Assuming the PA approves, the government hopes to begin implementation early in the new fiscal year.

The wheat farms are not Egypt's first foray into overseas farming — the government operates a corn farm in Zambia, a rice farm in Niger and a vegetable farm in Tanzania, and there are plans to launch operations at a total of 14 farms across Africa — but they are significant because they are among the first efforts to address wheat scarcity after the instability in March and April of last year. The farms are particularly notable because they offer a sustainable solution, rather than the short-term measures the government took to diffuse frustrations.

Between the start of 2007 and mid-2008, the food price index rose by 78%, according to research by *The Economist*. In Egypt, the price of non-subsidized bread rose 25% in February 2008 alone. This increase, combined with an inflation rate of 13%, sparked demonstrations. Throughout the crisis, the government worked to show citizens that it was taking concrete steps to ease their burden, including announcements of pay raises for state workers and drafting the army to bake bread, but the international partnerships aim to address the problem itself, rather than just soften the consequences of rising prices.

As it stands, the government's efforts already strain national accounts. Bread subsidies require 5.5% of the national budget, about LE 17 billion a year, and while the government has no plans to cut them soon, with the effects of the recession hitting national accounts, raising them would be difficult.

The overseas farms, therefore, offer a good compromise. Although they require an investment upfront, officials hope that they will help make up at least part of the estimated 9 million tons shortfall that Egypt faces annually. The country does produce about 50% of its consumption and has stepped up irrigation and importing efforts, but at this point neither strategy is able to cope with demand. Still, once some of the problems are ironed out, they should be more reliable sources.

In an effort to address the water shortage, the Ministry of Agriculture and Land Reclamation has targeted 1.4 million hectares of the Sahara for reclamation by 2017. The plans are well on track and further expansion is slated in the Nile Delta, the Southern Valley, East Owaynat and the Suez Canal region. The government is also encouraging a gradual shift toward more efficient irrigation practices, in an effort to conserve increasingly depleted water resources. According to Abdel Ghani El Gindy of the Faculty of Agriculture at Ain Shams University, the Ministry of Agriculture will cover 25% of the cost for modified methods of water conservation.

Even once the projects are finished, however, Egypt simply does not have enough water to sustain all the necessary production, according to Helmy Abouleish, the chairman of the Industrial Modernization Center. "Self-sufficiency is not an option," he told OBG. "It's all about prioritizing the resources you have in order to achieve a better situation for farmers."

Egypt has traditionally relied on imports to offset its limited resources, but recent problems with shipments have complicated the usually dependable supply. The country has begun to rely more heavily on Black Sea wheat in recent years, as lower freight costs have made it more appealing. Between June 2008 and February 2009, Egypt imported 3 million tons of Russian wheat, compared with 1.5 million tons from the United States. While the lower prices are attractive, there have been some problems with the quality of the shipments. A Russian shipment, which arrived with dead bugs and other impurities, has been under investigation since May. Egypt Trades, the company that imported the wheat, has been ordered to repay \$9.6 million to Egypt's main state wheat buyer, General Authority for Supply Commodities, amid accusations that the documents pertaining to the shipment were forged.

Since then, over 100,000 tons of Russian wheat have been quarantined at Damietta, Port Said and Safage ports for testing.

Despite the problems with the Black Sea shipments, the government has said that it has not placed any new restrictions on imports. It also issued a statement saying that the seizures of low-quality wheat will not affect this year's prices or supply levels because the 4 million tons already reserved are enough to last through 2009.

The fragility of the quality of imports does, however, support the government's decision to reduce dependency on imported products. The government has said that it aims to reduce imports of wheat to about 45% of total annual consumption. While this is a good long-term goal, which efforts such as overseas farming and irrigation will support, the population is more likely to find relief from shifting macroeconomic factors. With inflation steadily decreasing from its peak of 23.6% in August 2008, to its May level of 10.2%, consumers have more purchasing power. Inflation is set to continue contracting over the next few months, which will help maintain social stability and allow the government to focus on the structural changes it needs to make to ensure long-term food security. bt

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