

# 24 The Russia-Ukraine crisis poses a serious food security threat for Egypt

Kibrom Abay, Lina Abdelfattah, Clemens Breisinger, Joseph Glauber, and David Laborde

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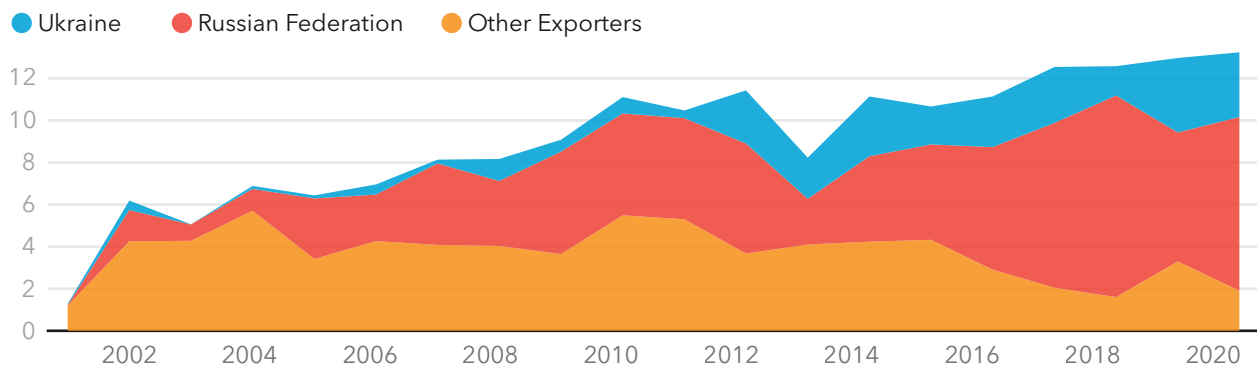
Russia's invasion of Ukraine has imperiled global food security – creating suffering within Ukraine and displacing millions while disrupting agricultural production and trade from one of the world's major exporting regions. The latter threatens to drive rising food prices still higher and create scarcity, especially for regions most dependent on exports from Russia and Ukraine – particularly the Middle East and North Africa.

In this post, we consider the impacts of the war on the wheat market, focusing on Egypt. Wheat is a key food item for this country, representing between 35% and 39% of caloric intake per person in the past few years. Wheat imports usually account for about 62% of total wheat use in the country. We conclude by listing a number of key policy actions aimed at diversifying imports in the short term and helping Egypt's agrifood system transformation become fairer and more resilient. The latter is an absolute necessity in the context of looming threats from climate change and water scarcity.

## Egypt's vulnerability to Black Sea import disruptions

Egypt is the world's largest importer of wheat. It imports a total of 12-13 million metric tons annually. With a population of 105 million growing at a rate of 1.9% a year, Egypt has become increasingly dependent on imports to meet food needs. Imports of cereal crops have been steadily increasing over the past three decades at a rate higher than that of domestic production (Figure 1).

**Figure 1: Egypt's wheat imports, by exporter, million metric tons**



Source: COMTRADE

Egypt's wheat market and trade regime is largely controlled by government agencies. The General Authority for Supply Commodities (GASC), operating under the Ministry of Supply and Internal Trade (MoSIT), handles the purchase of local and imported wheat. International wheat tenders are released every few weeks and the GASC usually handles about half of the total wheat imported, while private trading companies handle the other half.

Despite the government's efforts following the global food crisis in 2007/08 to diversify sources of cereal imports, the vast majority of the increase in cereal imports came from Russia and Ukraine (Figure 1).

The first quarter is the time of year when Egyptian wheat imports are usually at their peak, before the domestic harvest begins in April (Figure 2). Black Sea exporters are also particularly active this time of year, making the current crisis especially disruptive for Egypt.

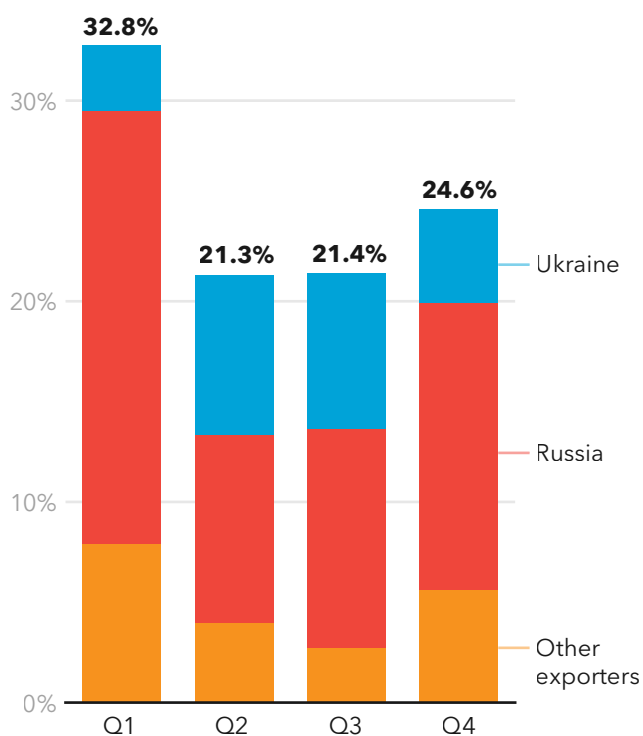
The GASC is already feeling the impact of the war, which has led to recent cancelation of tenders due to lack of offers, in particular from Ukraine and Russia. Still, there is no fear of shortage in the coming weeks. In early February, Egyptian MoSIT Minister Aly Moselhy said that the country held sufficient inventories in its strategic reserve to cover five months of consumption, but the outlook beyond is less clear. With the abrupt closure of Ukraine's ports and current maritime trade in the Black Sea, Egypt will have to find new suppliers if Ukraine is unable to export wheat this year and if sanctions against Russia impede food trade indirectly.

Such opportunities are, unfortunately for Egypt, limited. Currently, wheat producers in South America – Argentina in particular – have larger than usual surpluses from the last harvest available to export. Overall, however, it will be difficult to expand the global wheat supply in the short run. About 95% of the wheat produced in the European Union and about 85% of that in the United States is planted in the fall, leaving those regions little room for expanding production in the near term.

In addition, wheat competes with crops such as maize, soybeans, rapeseed, and cotton, all of which are also seeing record high prices. In combination with record-high fertilizer prices (also exacerbated by the Russia-Ukraine conflict), farmers in some regions such as the United States may favor less fertilizer-intensive crops such as soybeans.

About 20% of world wheat exports come from the Southern Hemisphere (primarily Argentina and Australia), which typically ship in late fall and early winter. In addition, Canada and Kazakhstan are large producers that harvest in the fall. Over the coming year and beyond, their exports may be able to make up much of the deficit created by the loss from Ukrainian production – but at a higher cost due to longer shipping routes and increased transportation costs triggered by higher oil prices.

**Figure 2: Egypt's annual wheat imports by quarter and origin, 2017-2020**



Source: COMTRADE

## Rising prices: From global market to Egyptian households

Rising global wheat prices hit a 10-year high at \$523 per ton on March 7, 2022 (Figure 3). This is a serious problem for the Egyptian government's budget and a potential threat to consumer purchasing power. Global wheat markets have been tight since mid-2021, predating the war; then the invasion triggered a surge in wheat futures contracts exceeding 50%.

**Figure 3: Global wheat prices, nearby future contract, US dollars per metric ton**



Source: CBOT

Some countries have already imposed export restrictions in response to rising prices, as many did during the food price spikes in 2007/08 and 2010/11 (apart from Russia's export tax regime put in place in 2021). Moldova, Serbia, and Hungary have imposed export bans on some grains, and Indonesia is tightening controls over shipments. These trends, coupled with disruptions in Russia's and Ukraine's exports, will likely put further upward pressures on prices going forward. Even under the most optimistic assumptions, global wheat prices will remain high throughout 2022 and the trend is likely to persist through 2023, given limits on expanding production.

The Egyptian government has been spending about US\$3 billion annually for wheat imports. The recent price increase could nearly double that to \$5.7 billion. This, in turn, threatens Egypt's baladi bread subsidy program, which provides millions of beneficiaries with 150 loaves of this subsidized bread per month, with about 90% of the production cost borne by the government at an annual cost of \$3.24 billion. The program requires about 9 million tons of wheat annually – about half of the total wheat consumption in Egypt and three-quarters of Egypt's wheat imports.

Even just before the outbreak of the Russia-Ukraine war, prices of commodities in Egypt were increasing, with overall annual inflation and food inflation reaching 7.3% and 8.4%, respectively, in January. The war has started adding further pressure to food prices in Egypt, and consumers are feeling these impacts, with annual inflation jumping to a 31-month high in February (8.8%), primarily driven by a surge in food prices (17.6%). While consumers are expected to bear the brunt of the surge in food prices, farmers in Egypt may see some benefits from higher prices because the MoSIT usually sets the price it pays farmers for domestic wheat at a level comparable to prevailing international market prices.

## Policy options for a wheat-secure future

In the short term, Egypt needs to diversify its food import sources. The GASC is actively exploring this option, while also increasing planned procurement from domestic sources by 38% over last year's figure. Overall domestic production for the marketing year (MY) 2021/22 is projected to be 9 million metric tons, only 1.12% higher than the previous year's 8.9 million tons. In addition, the government has decided to ban exports of staple foods, including wheat, for three months to limit pressure on existing reserves. These measures could alleviate some pressures on the Egyptian economy, but they will likely affect Egypt's longer-term trade relations, and even shift the burden of the crisis to neighboring countries with limited capacity to manage the crisis. For example, export restrictions that limit Egyptian food exports to Yemen could lead to drastic humanitarian consequences in this country.

In the long term, Egypt needs to explore options for reducing the gap between domestic supply and demand. Here are some of its options.

Boosting domestic wheat production will be challenging, as Egyptian farmers are already achieving high yields, relying on high input and water use. While there are some opportunities to expand arable land, modernize farming systems, and improve water management practices, the country's principal focus should be to adapt the farming system to address imminent water shortages and climate change threats and increase resilience, rather than unsustainably expanding production.

Reducing the high consumption and waste of bread has significant potential. Egyptians on average consume about 145 kg of wheat per capita annually – double the global average. Reductions in wheat consumption and food waste can serve the dual purpose of improving Egypt's self-sufficiency while also addressing malnutrition by shifting consumption from wheat to a more diverse set of food groups. Egypt has high rates of overweight and obesity, which are linked to food subsidies and associated consumption of energy-dense foods.

Improving the efficiency and targeting of Egypt's Tamween food subsidy program, which provides beneficiaries with ration cards for various foods, also holds promise. The program absorbs a large share of imported wheat and vegetable oils. Reforming it could reduce inefficiencies in the wheat sector and the cost of running the program. Improving the targeting of Tamween could also reduce government spending, given that nonpoor households receive about two-thirds of the total value of food subsidies, while three-quarters of those households benefit in some form from the program. IFPRI's work shows that improving the targeting of Tamween can enhance the welfare of poor households and cost savings from these reforms can be channeled to other targeted food security and nutrition interventions.

In conclusion, the Russia-Ukraine war poses a big challenge to global food security and particularly difficult obstacles for Egypt. The country implemented significant economic reforms in 2016, which together with a massive stimulus package helped it to manage the COVID-19 pandemic. Now, just as it embarks on post-COVID recovery and the second phase of the economic reform program, another crisis has struck that seriously threatens food security. The short-term and long-term impacts will of course depend on how the war unfolds and affects exports from Russia and Ukraine over the coming months and years. Impacts on Egypt will also depend on other countries' responses to global price hikes and cereal shortages. Egypt can mitigate some of these impacts with short-term actions as outlined above, but major global shocks like the Russia-Ukraine war are also reminders of the need for longer-term reforms and solutions.

*The IFPRI-Egypt program website has published this blog post and its figures translated into Arabic on their website. Please [click here](#) for the Arabic version.*