

Economic Reports

28 FEBRUARY
2022



المعهد المصري للدراسات
EGYPTIAN INSTITUTE FOR STUDIES

Egypt: The crisis of fertilizers and impoverishment of farmers

Abdel-Tawab Barakat



WWW.EIPSS-EG.ORG

 Eipss.EG  Eis_EG

TURKEY- ISTANBUL

Bahçelievler, Yenibosna Mh 29 Ekim Cad. No: 7 A2 Blok 3. Plaza D: 64
Tel/Fax: +90 212 227 2262 E-Mail: info@eis-eg.org

Egypt: The crisis of fertilizers and impoverishment of farmers

Abdel-Tawab Barakat

On 18 November 2021, the Egyptian government decided to increase the price of nitrogenous fertilizers [from EGP 3,290 to EGP 4,500 per ton](#), an increase of about 37%, which means raising the price of a 50-kg package from EGP 165 to EGP 225. This price increase is big and will undoubtedly reduce the productivity of land and quality of production; and it will consequently affect the gross domestic product of the state, increase the burdens of the poor farmers, and reduce their profits, as it is likely to incur great losses on them in the absence of anyone that may express them and defend their rights.

The timing of issuance of this decision, only one week after the modest increase in the purchase price of wheat from farmers, suggests that the government raised the price of an ardeb of wheat by [EGP 95](#) to support farmers and encourage them, then raised the price of fertilizers by EGP 1,200 per ton to nullify the effect of its decision to raise the purchase price of domestic wheat. Note that Article 29 of the Egyptian Constitution obliges the government to provide agricultural production requirements to farmers and protect them from exploitation, which means that the increase in prices of fertilizers is considered a violation of the Constitution, as it almost devours farmers' income completely.

In Egypt, there are 8 plants for the manufacture of fertilizers that produce 22.5 million tons of fertilizers, including 15% of nitrogenous fertilizers, representing 8% of the global production of fertilizers. The surplus in production is estimated at about 12.5 million tons of fertilizers, where 10 million tons are allocated to the domestic consumption needs; which means that 60% of the production is consumed locally while 40% is exported. The cost of chemical fertilizers represents from 12% to 15% of the cost of the crop production, where the use of fertilizers at the prescribed rates for each crop [increases agricultural productivity by 35%](#).

Egyptian agricultural lands need [chemical fertilizers](#) more than other lands across the world, due to the Egyptian soil's lack of Nile silt after the construction of the High Dam, which led to a decline in the fertility of the land.

First: causes of the crisis

The recurring crisis of fertilizers in Egypt is due to several reasons, including:

- 1) The government has raised the prices of gas supplied to fertilizer production plants, which constitutes 65% of the cost of the production of nitrogenous fertilizers, where the price of gas supplied to companies had been \$ 4.5 million per million thermal units, before it was [increased to \\$ 5.5](#), while the global price ranges between \$ 1.7 to \$ 3.5 million per million thermal units.
- 2) Fertilizer companies prefer [exporting the production](#) to selling it in the local market when fertilizer prices increase in the international market, to take advantage of the hard currency in purchasing spare parts for production lines, and to take advantage of price differences to achieve interests of investors who have bought [shares of public sector companies](#) after privatization.
- 3) The companies' failure to supply the share agreed upon with the government, which represents 55% of production, for selling it to farmers, which would be enough to cover the domestic needs. However, fertilizers companies prefer to sell their production in the free market.
- 4) The deterioration of the conditions of public sector companies and neglect of their development, which leads to increasing the production cost, due to consumption of additional quantities of gas. Furthermore, the government has imposed a [stamp and freight](#) tax in addition to the high road fees in favor of the army, where the farmer does not bear all these costs.
- 5) Intensity of agricultural production in Egypt via land cultivation for two to three times in one year, where the state does not disburse fertilizers for the third crop.
- (6) Corruption in the distribution system by leaking part of the quota allocated to farmers to the black market and some private sector traders.
- 7) The Agriculture Ministry hands over fertilizers to owners of the land, not to tenants who actually grow it; where in many cases, the landowner sells the fertilizers share at the free price prompting the tenant to buy his needs from the black market at high prices.

Second: recurrent price increase

The recent increase in prices of fertilizers is the fifth in a row since June 2014. Although the pretexts for the price increase are different each time, yet all the increases were exaggerated:

- The first increase was on 13 October 2014, when the government raised prices from EGP 1,400 per ton to EGP 2,000 , an increase of EGP 600 per ton. It was the first time to raise the prices of agricultural fertilizers in Egypt by nearly 43%, all at once. The Ministry of Agriculture said that the reason for the price increase was to help provide the fertilizers and [eliminate the black market](#).
- The second increase was on 15 January 2017, when the government raised fertilizer prices for the second time from EGP 2,000 to EGP 2,959 per ton, an increase of EGP 959 per ton, by nearly 50%, with the imposition of a new sales tax of 5%. The government said that the reason for the price increase was the rise in the exchange rate of the Egyptian pound against the dollar, which [reached EGP 16.3](#).
- The third increase was on 1 October 2017, when the government raised prices from EGP 2,959 per ton to EGP 3,200, an increase of EGP 241 per ton, [by 8.1%](#). The Ministry of Agriculture said that the reason for the price increase was the increase in the cost of natural gas and manpower.
- The fourth increase was in July 2018, when the government raised prices from EGP 3,200 per ton to EGP 3,290, an increase of EGP 90 per ton, by 2.8%. The Ministry of Agriculture said that the reason for the price increase was the rise in the dollar exchange rate [from EGP 16.5 to EGP 17.6](#). The government was selling natural gas to companies at a price of [\\$ 4.5 per million thermal units](#), although its price on the international market was around \$2.9 per million thermal units.
- The fifth increase was in November 2021, when the government raised prices from EGP 3,290 per ton to EGP 4,500, an increase of EGP 1,210 per ton, by 36.8%. The Minister of Agriculture said that the reason for the subsidized fertilizers' price increase in Egypt was the global increase in the prices of gas and agricultural supplies, and that it was necessary to keep pace with international prices, where the global price of fertilizers reached EGP 14,000 per ton, in addition to the burdens of manufacturing and the high prices of production inputs, and that the price increase was necessary for protecting fertilizer factory owners from losses and bankruptcy, being [investors](#). The Minister of

Agriculture here adopts the interests of the owners of companies [at the expense of the farmers](#) that he is assumed to defend their interests.

Third: profiting at the expense of farmers

With the recent increase in the prices of fertilizers, the government has raised fertilizer prices from EGP 1,400 per ton in 2013 to EGP 4,500 per ton in 2021, an increase of EGP 3,100 per ton, by 220%. On the other hand, the government did not raise the prices of food crops that it buys from farmers by the same rate. For example, the government raised wheat prices from EGP 420 per ardeb in 2013 to EGP 820 in 2021, by only 95%.

Also, the government raised the prices of sugar cane that it buys from farmers in Upper Egypt from EGP 360 in 2013 to EGP 720 in 2021, by 100%, compared to [220% for fertilizer prices](#) during the same period.

Just one day before the third increase, which was in October 2017, Saad Abu Al-Maati, the board chairman and managing director of Abu Qir Fertilizers Company, announced that the company, owned by the public enterprise sector, succeeded in achieving profits of EGP 2,830 million, an increase of 141% over the target, and 128% compared to the previous year, where the company paid EGP 601 million in taxes. He added that the company's share rose from EGP 103 to EGP 245 and the company's market value on the stock exchange rose from [EGP 8.5 billion to EGP 21 billion](#) – all that came from the pockets of poor farmers who buy fertilizers at exaggerated prices!

Only two weeks after the fifth increase, the government sold a [10% stake](#) in Abu Qir Fertilizers Company, in return for about EGP 2.2 billion. But is it reasonable for the government to sell a share of the state-owned company while making profits?!

Since 1952, successive governments have been selling fertilizers to farmers at outrageous prices, then falsely claiming that they subsidize those fertilizers. In the sixties of the last century, during the reign of President Gamal Abdel Nasser, the government used to sell a ton of fertilizers to farmers at EGP 25 per ton, at a time when the global price was EGP 15 per ton, an increase of 66%, as

documented by the Center for Socialist Studies in a book, titled: "Transformations of Egyptian Economy."¹

At the beginning of the nineties, the Mubarak regime innovated a program called: "Agricultural Policies Reform", with goals including, to "liberate production requirements", where for the first time the private sector was allowed a share of the fertilizer trade at the expense of the Agricultural Development Bank and agricultural associations, which resulted in increasing the prices of chemical fertilizers of all kinds at uneven rates, the lowest of which was urea, by 64%, and the highest was [potassium sulfate](#), by 547%.

During President Mohamed Morsi's one year in power, the share of the Agricultural Development Bank and agricultural associations increased at the expense of the share of the private sector, which led to escalation of disputes between the Ministry of Agriculture and fertilizer dealers and distributors, according to a report by Al-Ahram on 2 July 2012.

After the July 2013 coup, General Abdel Fattah al-Sisi's regime kept reducing the rate of fertilizers distributed to farmers at the official price, through the Agricultural Development Bank, to 25%, with the rest being handed over to private sector traders, or the so-called black market.

Fourth: compulsory pricing

Natural gas represents about 60% of the cost of nitrogenous fertilizer production, but in Egypt it is 70% due to neglect of production lines in state-owned public sector factories, which leads to an increase in the cost of production by an average of [EGP 1,200](#), borne by farmers alone.

The government raises natural gas prices for plants producing nitrogenous fertilizers, where the price reached \$5.75 per million thermal units. The Egyptian government has always justified the increase in price of fertilizers by the rising prices of natural gas in the international market, although the price of gas in European countries, which is a complete importer of gas, did not exceed the ceiling of \$2

¹ Transformations of Egyptian Economy: Preliminary Notes, the Center for Socialist Studies, 1999

per million thermal units. Even during the crisis with Russia when it cut off gas to Europe; although the price reached \$5.5 per million thermal units, it soon [fell to \\$ 1.8](#).

The surprising thing is that the companies producing fertilizers had asked the Ministry of Agriculture to raise the price of the subsidized fertilizers supplied to farmers by 20% due to the government's increase in gas price from \$4.5 per million thermal units to \$5.75, however, the government raised the price much more than that, [by 37%](#), of course at the expense of the poor farmers!

In January 2017, the Ministry of Agriculture attempted to justify the increase in the prices of nitrogenous fertilizers, stating that each ton of fertilizer consumes 28 million British thermal units multiplied by \$4.5, in addition to EGP 595 as basic cost, as well as the 5% sales tax and marketing expenses, where the fertilizers reach the farmer at [EGP 2,959.6 per ton](#).

At the time, the global price of natural gas was \$2.7 per million thermal units, which means that the government sells gas to companies [by 60%](#) over the global price, a rise equivalent to EGP 1,232 per ton, which is loaded to farms.

In addition, the government charges a 5% sales tax, not counting the cost of road fees paid to the army; and yet, the government claims that it sells fertilizers to farmers at a subsidized price.

In view of the exchange rates today that are lower than they were in 2017, the ministry's statement reveals that the increase in the price of fertilizers, compared to 2017, is unjustifiable.

Fifth: export against development

From mid-2016 up to mid-2020, the global price of fertilizers declined by 35%, reaching almost \$142 per ton, where the Egyptian fertilizer companies stopped exporting and preferred to sell their production in the domestic market. Despite this fact, prices did not go down in the domestic market, and farmers did not get any benefit from the abundance of local production, nor the drop in the global prices.

In the current crisis, the companies producing fertilizers prefer to export their production, rather than selling it in the domestic market, due to the rise in global prices to \$615 per ton, due to the lack of supply and the rising demand, not due to the increase in gas prices as the government claims. On the other hand, the government turns a blind eye to the companies' tendency to export their

production, hoping to collect an export fee of EGP 2,500 per ton exported by the producing companies.

On 3 June 2021, the Minister of Commerce issued a decision extending imposition of fees issued on nitrogenous fertilizer exports stipulated in ministerial [Decree No. 59 of 2021](#), provided that the category of these fees be adjusted to EGP 2,500 per ton.

However, fertilizer export fees do not appear in the state's general budget, a large amount that should have been used to support farmers and reduce the price of fertilizers allocated to the domestic market. But this did not happen, which is considered corruption and lack of transparency.

Egypt exports fertilizers worth \$1.4 billion, which ultimately leads to the emergence of a food gap that costs annual food imports worth \$15 billion, as the country imports 65% of its food needs, where it is considered the first importer of wheat across the world, at a rate of 12 million tons, and the second importer of corn, at a rate of 10 million tons; and it imports 95% of its needs of edible oils, which is a fragile situation for food security, and threatens a key component of Egyptian national security.

Sixth: suggested solutions

1) Establishment of governmental plants to produce nitrogenous fertilizers, provided that they be close to gas fields and far from residential communities, as Egypt has a comparative advantage in exporting nitrogenous fertilizers for:

- The availability of gas needed as a component of the industry,
- The availability of the necessary technical expertise, and
- Egypt's strategic location among the fertilizer consuming countries across the world.

2) Development of public sector companies that produce fertilizers, and stop selling them on the stock exchange, as they are considered a national wealth for the country.

- 3) Changing the fertilizer support system to cash support, so that the support reaches the land farmer, not its owner, with the liberalization of fertilizer trade and distribution. Also, it is preferable to link the support offered to farmers to application of the agricultural cycle and production of strategic crops.
- 4) Selling natural gas to companies at the global price without exaggeration, imposing fees on the export of all nitrogenous products, directing fees to supporting farmers and agricultural research, with the need to abolish value-added tax on fertilizers in the domestic market, similar to army projects, as well as abolition of road fees collected by the army².



² The views expressed in this article are entirely those of the author's and do not necessarily reflect the views of the Egyptian Institute for Studies.