Domestic marketing of agricultural products

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Abstract. This chapter deals with the domestic marketing of Egyptian agricultural products. The first part focuses on marketing activities in Egyptian agriculture and their institutional development over the last thirty years, bearing in mind that marketing in the past was characterized by economic freedom and that the co-operative marketing of the major field crops was initiated, and has undergone major developments, since 1961 to date. Emphasis was laid on the marketing institutions and regulations (obligatory delivery system/liberal marketing contracts).

The second part deals with marketing problems before the structural reform. The third part covers forms of government intervention and their impact on the pricing policy by shedding more light on the reasons and consequences of government control on the overall marketing system. The fourth part elaborates on marketing margins and efficiency considering that margins represent the indicators to be used in measuring the marketing efficiency. Definitions were given in the appropriate places, together with a classification of the related phenomena, such as the extent and impact of deviation from the concept of marketing efficiency. The fifth part explores the future of local marketing under the currently introduced structural adjustment programmes (SAPs), the problems of free-market economy and the role of the state in marketing under economic liberalization policies.

Keywords. Marketing channels – Structural adjustment – Cooperative marketing – Marketing margin – Efficiency

Résumé. Ce chapitre est composé de cinq parties :

• La première partie concerne la commercialisation dans l'agriculture égyptienne et son évolution institutionnelle durant les trente dernières années. La commercialisation des principales cultures à travers les coopératives a commencé en 1961, avec la mise en place du système de livraison obligatoire.

• La deuxième partie présente les problèmes de commercialisation avant la réforme structurelle de l'économie égyptienne.

• La troisième partie décrit les différentes formes d'interventions gouvernementales et leurs impacts sur la politique des prix.

• La quatrième partie concerne la marge de commercialisation considérée comme un indicateur de l'efficacité de la commercialisation.

• La cinquième partie explore l'avenir de la commercialisation sur le marché interne dans le contexte du programme d'ajustement structurel, les problèmes de l'économie du marché et le rôle de l'État dans la commercialisation dans le cadre des politiques de libéralisation économique.

I – Marketing Activities in Egyptian Agriculture and the Development of Marketing Institutions

Marketing of Egypt's agricultural output has been directly and indirectly exposed to government intervention over the last thirty years. The political and socio-economic conditions of the Egyptian society have made it imperative to apply more than one system for marketing agricultural commodities.

1. Historical Background

A. Cotton

The government’s interest in the cotton trade was, until the middle of the twentieth century, confined to the last stage of exportation from the Alexandria seaport. Little attention was given to the organization of cotton marketing which remained for years lacking legislative regulations outlining transactions among
dealers on the cotton market within the framework of direct supervision. Before 1961, the cotton trade took place in two types of free markets:
– on-the-spot market (in Mina El Bassal, Alexandria);
– future cotton trading (in Alexandria).

Prices in both markets were fixed according to supply and demand. Under such a market-oriented system, most producers had to sell their seed cotton just picked at a low price so as to pay their debts, such as rental, government dues and production loans. Large-scale producers, who usually got their cotton ginned and graded, preferred to sell their lint cotton by auction, thus gaining better prices.

Among the advantages of free marketing was the multiplicity of trading channels and price determination according to market mechanisms. Cotton trading on-the-spot and future cotton trading depended on organizing a market news and information service to assist the interior marketing operations. Gins used to receive seed cotton at successive periods during the harvesting season and, therefore, there was no stacking of cotton on gins’ storing yards. Under this free marketing system, brokers could not control supply and demand. Had this been the case, producers would have been exposed to violent shakes as a result of fluctuation of world prices (Al-Amir 1992).

B. Rice

Before the second World War, rice growers used to sell the surplus of household consumption paddy to the local traders, brokers who worked for large-scale merchants, or to rice mills or local hullers. Paddy was stored in the warehouses of the commercial banks. The needs of rice mills were drawn from this reserve stock. During the second World War, obligatory delivery of a certain quota of the per feddan yield was imposed by the government. The legislation exempted holders of less than one feddan from the quota system and prohibited the transportation of paddy from one district to another without prior governmental approval.

C. Wheat

Before the second World War, the government had played no active role in wheat marketing. Wheat producers used to sell their product to the local traders or to brokers who worked as agents of wholesale traders at Rod El-Farag and Ather Al-Nabi markets. Mills secured their needs from those traders under no government controls on the local market. During and after the second World War, the state imposed its control over the local wheat production which was not sufficient enough to fulfill the domestic demand. The Government imposed an arbitrary delivery system whereby producers had to deliver a predetermi-

ned quota for rice production to the Agricultural Credit Bank (ACB) within the framework of a special cropping pattern purposely designed to ensure grains availability in the local market. A certain percentage of the farmer's holding was compulsorily determined by government for wheat plantations. ACB paid the fixed price according to variety and grade. Premiums were given to deliveries beyond the set quotas and fines were imposed on producers who failed to fulfill the requirement. The legislation banned transporta-
tion of wheat or wheat flour without permission from the Ministry of Supplies (MOS).

In 1954, the Government amended the compulsory quota system in a manner that gave way to private wheat trade.

Producers were allowed to sell out their product through their co-operative which transported the crop to the ACB storehouses after weighing and grading. This period has witnessed the initiation of the co-operative marketing system with the enlarged base of small holdings after the 1952 revolution. Co-operative marketing was first initiated in the agrarian reform lands and was later generalized to cover all the country. Delivery was compulsory until 1974. From 1975 to 1983 delivery was optional and turned to be compulsory in 1984 and 1985. It again became optional by the 1987 season to this date.

2. Development of the Agricultural Co-operative Marketing System

Agricultural co-operatives entered into the marketing domain in the middle of this century. The first co-operative for flax producers was established in Cairo. Wheat and cotton’s co-operative marketing was ini-
tiated and vegetables and fruits co-operatives came into existence by that time. Sesame, tomato and
broad beans, rice, onion and garlic were covered by the co-operative marketing system in the 1960s,
whereafter most crops were incorporated into the system. The number of specialized marketing co-operatives increased to cover crops at present. Though the co-operative marketing started optional, it turned to be arbitrary for certain major field crops (cotton, rice, wheat, maize and sugarcane) during the seventies and until 1987 when the economic reform policies in the agricultural sector were introduced on the basis of liberalizing the production and marketing of almost all crops with the exception of cotton and sugarcane which will be soon liberalized.

The domestic marketing of the agricultural commodities and production inputs was correlated with the co-operative marketing system. The Central Agricultural Co-operative Union (CACU) represents the top of the Egyptian Co-operative Structure. It consists of three multipurpose co-operatives at national level. These are:

- the General Co-operative for Agricultural Credit (GCAC);
- the General Co-operative for Agrarian Reform (GCAR);
- the Agricultural Co-operatives which are established according to the need and the nature of the activity (e.g., the General Co-operative for Animal Wealth (GCAW), the General Co-operatives for Producers of Major Crops (potatoes, vegetables and fruits, oil crops, rice, onion, cotton and the like) and finally the General Co-operative for Agricultural Mechanization.

Both GCAC and GCAR represent a national co-operative in their respective areas of activity.

CACU performs several functions, such as the planning, co-ordination, and supervision of co-operative training and of the process of establishing the multipurpose and specialized co-operatives in the governorates.

The local co-operative follows up the implementation of the cropping pattern in its area of jurisdiction, decides the required extent of credit, secures loans from the available sources of finance for its production and service projects—in its legal capacity as an independent entity and for its members who seek such facilities in accordance with its constitution and the laws and by-laws that govern credit affairs at village banks. It also falls within its provinces to co-operatively market the crops of its members.

3. The Marketing System

A. The Quota System

An obligatory delivery system was imposed on certain commodities of greater demand such as rice, wheat and maize, or export and industrial crops such as cotton, flax, sesame and onion. Producers were obliged to deliver predetermined quantities of these crops to the state at predetermined prices.

The quota system aimed at ensuring the availability of these products for the local consumption and for the industrial sector, in addition to securing foreign currencies from export crops.

Procurement of the major crops was confined to the state agencies, such as the public sector Authority for Rice Mills, the Public Sector Authority for Wheat mills, Silos and Bakeries and the Public Sector Authority for Cotton Affairs. The Principal Bank for Development and Agricultural Credit (PBDAC), with its vast network, supervised the marketing operations of these crops. To guarantee high productivity, MOALR incorporated the major production areas into a crop rotation system and issued a legislation banning the private transportation and trading of these crops during the production seasons.

The percentages of crop delivery varied from one year to another according to the volume of domestic production, consumption and the appropriateness of importation terms. For example, in certain years, wheat was subjected to the quota system due to the relatively low wheat imports. Table 1 shows the percentages of obligatory and optional delivery of major crops. It indicates that the average percentage of wheat compulsory delivery reached 7.5% in 1984 and 1985, but the delivery was optional in the other years. The percentage of cotton delivery was 100% of the national production while that of rice was
48%. The percentage of sugarcane delivery was 72.4%–85.7% as the remaining percentage was contracted for sugarcane juice shops.

The crop quota system was characterized by lower procurement prices than the free co-operative marketing system wherein the producer had the liberty to make decision on the area and type of crop he might be willing to grow on the basis of contracts concluded before season to maximize his revenues and secure the subsistence needs of his household. The prices were normally fixed by market mechanisms.

*Tables 2 and 3 show the prices of major crops for 1980–1990.*

**B. The Contracting System**

In Egypt, this marketing system is applied to the agricultural crops and livestock products. A written contract is concluded between the producer (the vendor) and the procurer (who may be an individual or a company), whereby the first party is committed to deliver the second party an agreed quantity of the crop in question at an appointed place and time. The state, through its specialized institutions, often resorts to this system to secure the needs of the industrial sector, taking into consideration the quantity, quality and the suitable time of delivery. Also, the system is applied to consumer goods that need heavy subsidy to producers so as encourage them to maintain production of such commodities as poultry, the marketing of which is controlled by MOS and its agencies.

MOS secured its needs of locally slaughtered chickens by means of a tripartite contract concluded annually between MOS, MOALR, represented by the Public Company for Poultry (As-Salam Company) and the slaughter-house sub-sector. According to this contract, the company provided 60% of the chicks as well as the feeds to the slaughter house which, in turn, delivered it after being slaughtered to the marketing authority of the MOS.

With regard to the imported chickens, MOS, represented by its Public authority for Food Commodities, concluded contracts with the exporting countries according to certain price conditions and hygienic requirements.

The price stipulated in the contracts depended on the extent of the monopolistic position of any of the two parties and on the producer's ability to modify his cropping pattern. If the buyer's monopolistic position was stronger than the vendor's and if the latter's ability to modify his cropping pattern in favour of the crop, subject of contract, the price will be in the interest of the buyer as was the case between sugarcane producers and the Egyptian Sugar and Distillation Company.

The contracting system specifies the duration of the contract (one production season or more) at the end of which both parties have the liberty to discontinue the agreement.

Therefore, this system, in the absence of monopoly, is regarded as one of the best marketing systems, especially if the state is committed to implement plans for development.

**C. Free Marketing**

Many crops, such as vegetables and fruits, are marketed freely. The surplus production of crops that are subjected to the quota system, such as broad beans and maize, is likewise marketed freely.

The private sector plays a greater role under this system as compared to the co-operative sector. Wholesalers, their brokers (agents between producers and wholesalers and between the latter group and the retailers) and exporters have specific roles under this system. The private sector performs almost all the marketing functions starting with purchasing, transportation, storing, selling, financing and even risk-bearing.

Following are the salient features of the system which widely applied to horticultural and vegetable crops:  
- The commodity is procured by local brokers who may provide producers with finance needed for production. Those brokers are either working independently or representing others at the wholesale market.  
- When in bulks to the retailers or through an intermediary agent.
Retailers may have a direct access to the producers.

Consumers, at a very limited scale, may purchase their needs directly from the producer.

Co-operatives have a very limited role under this system. It is confined only to the marketing of potatoes and some other vegetable crops.

Government intervention is represented in fixing the price at the stages of wholesale and retail trade, with the purpose of protecting the consumer and ensuring the availability of the agricultural products at reasonable prices without ignoring the producer's right to achieve reasonable profit.

Due to the fact that supply at vegetable and fruit market is largely controlled by a limited group of wholesalers, the fixed price lists are, in most cases, not binding.

By the beginning of 1987, compulsory delivery and state-fixed prices of almost all crops were terminated with the exception of cotton and sugarcane. Floor prices were laid down for cereal crops for growers who desire to deliver their crops to the government. The purpose was to ensure price stability and avoid the bad effects of sharp price fluctuation on producers.

D. Role of the Private Sector in the Current Marketing Systems

With the exception of cotton and sugarcane, marketing of all crops has been fully liberalized. Floor prices have, however, been fixed for those producers who opt to sell their products to PBDAC or to MOS (wheat and broad beans producers).

Recently, importation and marketing of chemical fertilizers, seeds, pesticides and agricultural machinery have been liberalized. The public sector's agricultural companies have been privatized and turned into holding companies with subsidiary firms. It is expected that, by time, those companies will be turned into partnerships, the participation shares of which will be open to the public.

It is also expected that cotton production and marketing will be fully liberalized as from 1993–94. The problem yet to be solved is the modality of privatizing: cotton gins, export companies and companies for cotton industrialization with their heavy investments. This would depend mainly on the capability of the private sector to finance and manage these assets.

II – Marketing before the Structural Reform

1. Cotton Co-operative Marketing (Habashi 1987)

Despite the positive aspects of the co-operative marketing of cotton, represented in the limited number of brokers, the undertaking of all the marketing functions by the government, subsidizing production inputs and providing the necessary loans from PBDAC at subsidized interest rates, there exist a number of impediments in the cotton's co-operative marketing system, namely:

1. The system is, in itself, an embodiment of state monopoly represented in the delivery of the entire yield at a depressed administered price. This has left a negative impact on cotton area and production.

2. Selling seed cotton to unlicensed private ginneries although the laws prohibits such illicit practices.

3. Re-classing seed cotton at ginneries after it has been classed at the collection centres, thus adding to the marketing costs.

4. Interrupted flow of seed cotton as the rate of delivery increases at a certain period thus leading to stacking at the collection centres.

5. Facing some transportation problems during the marketing season.

6. Lack of trained manpower at the collection centres.

7. Repeated complaints by the producers of the existence of accountancy errors in their debts to PBDAC or the double deduction thereof from their financial dues.

8. Exaggerated number of committees in the cotton's co-operative marketing system.
2. Problems of the Rice Marketing System

The marketing of rice, together with the other grain crops, encounters similar marketing problems (Habashi 1992) which are:

1. The high percentage of quantitative loss over the successive marketing operations (from farm gate until the product reaches the consumer). This is largely due to the lack of efficient packaging and storing facilities and to the relatively inadequate credit and marketing services.

2. Administered prices, announced at an inappropriate time, did not encourage producers to abide by the quota system.

3. Irrationalized consumption patterns.

4. The absence of indicative studies of the local and world markets in order to make proper decisions on production and future expansion.

5. The lack of co-ordination between local production and domestic and foreign marketing policies.

3. Problems of the Wheat Marketing System

Wheat marketing encounters the problem of quantitative and qualitative loss during and post-harvest throughout the consecutive marketing stages. To reduce the loss, the storage capabilities have to be improved by building silos at seaports and inland locations. The currently used handling and transportation system need to be reviewed to reduce loss during loading and unloading. The overall marketing system, starting with the producer and ending with the consumer, must be turned into a more efficient system.

4. Problems and Determinants of Fruit and Vegetables Marketing

1. In many instances, classing and grading are not undertaken at the level of producers or wholesalers. Sometimes, producers perform some of these marketing operations but they lack adequate scientific bases, thus leading to more losses in the succeeding marketing operations.

Transportation is particularly important for fruit and vegetables marketing, in which time is a determinant factor. It is a seasonal marketing activity, the demand reaching its peak during September through December which synchronises with the marketing season for cotton and rice. During this period, producers have to resort to the private transport company in view of the transportation load shoulerdered by the Transport Co-operatives. As a result, the cost increases by 30%–50%. The lack of cooler vehicles adds to post-harvest losses during transportation, especially during the hot summer season. The loss is further aggravated when the roads are not properly paved.

2. The lack of storage facilities for vegetables and fruit at both wholesale or retail markets. In the traditional methods used for the storage of potato, the percentage of loss reaches 20% while in cooled rooms, mostly owned by the private sector, it reaches 1%–1.5%.

3. Cash or material credit for horticultural crops is not adequately available. Traders and brokers exploit small producers by providing them with loans in advance without much complications. But this directly affects the percentage of commission the wholesalers gain. Though officially set at 5%–8% of the commodity price, it actually reaches 20% due to credit interest rate and other charges.

4. The marketing margins for locally marketed vegetables range from 50%–60% of the retail price. This percentage is distributed between the wholesale and the retail trades which offer very modest services.

For example, the wholesalers do not offer such marketing services that improve the product’s quality. The wholesale traders conclude their transactions in small shops leased some forty years ago at nominal rental value. They confine their marketing service to unloading and the direct process of wholesale.

6. One of the major distortions of the existing marketing system of fruits and vegetables is the monopolistic position of wholesale dealers. A limited number of large-scale merchants control a large percentage of market transactions while a large number of small-scale merchants deal in a small percentage of the fruit and vegetables produce (in what may be termed as minority monopoly).

7. Small and dispersed area are cultivated with vegetables within the same region, which implies an increase in the marketing costs that include sorting, grading, packaging and transportation due to the
absence of vegetables and fruits collection centres where such processes are performed on a large scale.

8. The marketing infrastructures such as wholesale and retail markets, storehouses and brick cooling systems affect the efficiency of the overall fruit and vegetable marketing system. The existing markets are inadequate as far as capacity, location, hygienic supervision and other services are concerned. Rod El-Farag fresh products market in Cairo is an example of these inefficiencies. This resulted in disorganized markets taking the form of privately owned selling centres subjected to weak surveillance. Many a time, the idea of building new planned wholesale markets for fresh products has been frequently considered but received very little response from the wholesalers. The situation is further aggravated by the lack of sufficient investments in marketing compared to production in view of the fact that investment in the latter directly affects the output and thus has a direct bearing on returns while the former reduces post harvest losses or improves quality.

9. Packaging for local marketing is still primitive, thus increasing perishability during handling until the fresh product reaches the consumers. Primitive packs are still used for locally marketed fresh produce, thus leading to increased post-harvest losses as a result of mechanical damage. Improved packs are mostly used for export produce.

10. The processing companies depend largely on wholesalers for securing their needs of fresh fruit and vegetables and partly on growers; in both cases, the contracted quantities are not supplied in full, thus reducing the operational capacity of these factories. Moreover, the end-products, until recently, were priced below real cost due to subsidization of consumer goods. To reduce their losses to the least possible limit, the companies resorted to produce below their actual operational capacity, thus raising the average cost of the end-product.

11. Inaccessibility to market information such as the size of marketed quantities of a specific product, competing products, market conditions and other details that are taken into account in the decision-making process. In the absence of such information, producers are not in position to obtain lucrative returns from their fresh produce.

12. Marketing activities for the purpose of exportation face the problem of inadequate spaces in air freight, let alone the monopoly of these spaces by a limited number of exporters who prefer to use the national carrier which is cheaper than the international carriers, thus leading to an increased demand for a limited cargo space.

13. The lack of sufficient studies on foreign markets: especially consumption patterns and market capacity. Traditional markets have been lost to the Egyptian fresh produce as a result of competition in quality and packaging.

III – Local Pricing of Agricultural Products

In the past, pricing of some agricultural crops posed a major problem. Administered farm gate prices were fixed for cotton, grains and sugarcane while fruit, vegetable and feed crops were left to market forces. This has eventually led to a contradiction between the national and the individual interests. The administered prices were generally depressed in relation to world or free market prices of crops under quota system. Therefore, farmers became disinclined to grow crops subjected to government control due to their reduced profitability. Cotton was called “the government crop” as it was less lucrative when compared to the alternative rotations. The pricing policy was guided by the production costs plus the marginal profit equivalent to twofold the rental value of the agricultural land which was then fixed at seven times the land tax. The pricing policies of the sixties, the seventies through the mid eighties, were more in favour of the consumer and the other sectors of the national economy, at the expense of the agricultural sector. During the sixties, and partially through the seventies, the state’s goal was to support the industrial sector through the contribution of agriculture to the national economy.

These policies led to an uneven distribution of income, in disfavour to the agricultural sector which was burdened with indirect taxes in addition to the overvaluation of the local currency when fixing the farm gate prices on the basis of the export prices of cotton and rice. Until the seventies, the U.S. $ was officially fixed at L.E. 0.70 while its value at the “black market” reached L.E. 2.0 which constituted yet another indirect tax on growers of export crops.
Farm gate prices (whether for the arbitrary or the optional crop delivery system) were thus based mainly on production costs to which the cash rental value during crop season is added to allow a net revenue equivalent to that same rental value.

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\text{Farm gate price} = \text{Production cost (rental value included)} + \text{Rental value} - \text{Value of annual production}
\]

Average production per feddan for the main crops

Where production costs include recurrent costs (land preparation, seeds, pesticides, irrigation, fertilizers and other agronomic practices). Production costs comprise labour, seeds, fertilizers, pesticides, machinery and sundry expenses.

In addition to production costs, other methods were sometimes used for estimating the farm gate price, (such as the net revenues of the alternative more lucrative rotations) in order to achieve some degree of balance between return to producers under different cropping patterns. For example, if the net revenue of the wheat/rice rotation was more than that of the short season berseem/cotton rotation, the difference was added to the cotton-based rotation to make up for the deficit in price to producers.

World prices were also used as indicators in fixing the farm gate prices through applying a border price for delivery. This system, which lasted until 1987, has resulted in structural price distortions which were accompanied by distortions in the cropping pattern. The area cultivated with berseem has remarkably increased at the expense of the area cultivated with wheat as the profitability of the former is higher than that of the latter which was subjected to the obligatory delivery system. As a result, the prices of wheat by-products became higher than that of wheat grains due to their depressed farm gate prices while demand for wheat straws was exceedingly higher under the circumstance of dry fodder's shortage. This situation has led to the negligence of the primary crop (grains) for the sake of the secondary product (straw).

Producers sought to grow wheat varieties known for their high straw yield, which, in itself, was an inefficient use of the already scarce land resources. Until the early 1980s, Egypt produced only 20% of its wheat consumption needs.

The enforcement of the cotton area control by the government has deprived farmers from growing more lucrative crops, despite the fact that Egypt has a relatively high comparative advantage in cotton production.

The compulsory co-operative system was the only source of providing the farmers with production inputs at subsidized prices. Subsidization entailed heavy burdens on the state's treasury. In view of inputs shortage, especially fertilizers, producers had to procure them from the “black market” at almost double the government price. Some farmers resorted to selling out their quotas to producers of the more lucrative crops such as berseem, vegetables and fruits. This negatively affects the original crops to which fertilizers have been allocated and also the agricultural loans.

The obligatory pricing system of vegetables and fruits at both wholesale and retail markets and the oligopoly of the wholesale market by a limited number of traders have led to either a low quality of the marketed quantities or the control of the supply of the already perishable produce.

This has eventually led to a loss amounting to about 30% of the fresh produce. This system has had an indirect effect on prices to producers who paid very little attention to the marketing operations or to investment in the field of marketing which had a negative bearing on the marketing efficiency.

The over-valuation of the local currency vis-à-vis the U.S. $ constituted an implicit tax on producers, thus leading to the limitation of Egypt's agricultural exports.

In 1987, the government had a propensity towards economic liberalization. With the exception of cotton and sugarcane, the production of all crops was liberalized, and prices were left to market forces (Rice was liberalized in 1991). But it is noteworthy that prices during the transition period did not represent a genuine equilibrium of the market force, as the government intervened to favour supply of such commodities as wheat, maize and red meat through importation until 1990. The imported quantities was reduced over the last two years as a result of the increase in wheat production. Until the mid-eighties, almost 75% of wheat
consumption requirements were covered by importation. In 1991, this percentage was reduced to 50%–60%. Maize importation for feed industry was reduced from 50% to 30% over the same period.

IV – Marketing Margins Efficiency

1. Marketing margins

A marketing margin is defined as the difference in the value of physical qualities at the various levels of the marketing process. It represents the difference between farm gate and wholesale prices, or between wholesale and retail prices. The total marketing margins constitute price diffusion. The marketing margin includes the marketing costs plus brokers profits. The marketing costs are the actual expenditure born by the producer or the broker plus the recurrent costs, if any, during the commodity’s movement from producers to consumers.

Table 4 indicates the marketing margins of field and vegetable crops and the producer’s share in the consumer’s income units, which, to some extent, reflects the efficiency of the marketing system. But the high marketing costs—which constitute a large part of the marketing margin—does not necessarily reflect low marketing efficiency, especially if the increase in such costs implies marketing services required by the community of consumers. On the other hand, the broker’s marketing margin increasing without an equivalent increase in the marketing services would result in a reduced marketing efficiency wherein marketing profits would increase at the expense of marketing services supposedly provided by brokers. The marketing process, in such a case, is characterized by the existence of a parasitic group of brokers who gain much for minor services. When the marketing system achieves greater efficiency, those parasitic brokers can be impelled to leave the business, especially in the case of fresh produce marketing wherein the increased number of brokers reduces the producer’s share in the consumer’s unit of income.

The table indicates that the producer’s share in the consumer’s income unit ranged between 55%–75% for field crops, 23%–64% for vegetable crops and 32%–45% for horticultural crops. The producer’s share in the consumer’s income unit ranged between 55%–68% for orange, banana and grapes.

In the case of cotton and sugarcane which, until recently, were subjected to obligatory delivery, the marketing margins represent the difference between broker price and the state-fixed procurement price. If the difference between the world prices and the locally fixed prices is negligible, this can be taken as an indicator for an effective local market. But such was not the case for cotton and sugarcane, the prices of which were fixed by a number of economic and political factors previously elaborated. Production costs and revenues of the alternative (more lucrative) crop rotations may be a determinant factor in pricing. The world price is usually used as an indicator for setting a procurement price. In 1990/91 the cotton procurement price represented 55%–60% of the world price. In the past, the cotton procurement price represented 30%–40% of the world price. This indicates that the marketing margin for cotton constituted 40%–45% of its equivalent farm gate world price.

2. Marketing Efficiency

Due to government intervention in cotton and sugarcane production and pricing, the marketing efficiency was not attained. Similarly, technical efficiency was not realized as a result of the lack of technical expertise and/or of appropriate marketing facilities. This may also be attributed to the depressed farm gate prices which eventually led to negligence of such agronomic practices as picking in cotton, thus leading to a detrimental effect on the length of cotton staple; let alone the meagre price differences among the various grades. Among the factors that lead to inability to achieve technical efficiency in cotton marketing is the in-flow of the crop within a short period of time (more than 80% of the crop was delivered at collection centres over 45 days). This represents a heavy load on cotton gins beyond its storing capacities. Subsequently, cotton sacks, stored in the open air, are subjected to mechanical and biological loss. Due to synchronization with rice marketing, the marketing costs increase due to excessive demand for transportation services. This also applies to grain crops which undergo quantitative losses throughout the various marketing stages due to insufficient transport, storage, marketing and administrative capabilities, let alone the lack of co-ordination in the local production and marketing policies.
As for sugarcane, the present low levels of operational capacity impede the attainment of marketing technical efficiency. The operational capacity of the sugar factory at Deshna reached 64% compared to 72% at Armant (Habashi 1991). At Nagea Hammadi, the excessive quantities beyond the factory’s operational capacity are transferred to Gerga and Isna factories.

With regard to vegetable and horticultural crops, the marketing efficiency has not been attained yet, due to the lack of technical efficiency in handling until the product reaches the consumer. For example, sorting and grading processes are not performed at farm or wholesale market levels, thus leading to mechanical and biological losses in the next marketing stages. As previously stated, transport is extremely important for the perishable fresh produce. But transportation costs increase drastically during the high season of cotton and rice marketing. Vegetable and fruit producers encounter cash credit problems which force them, especially small-scale producers, to establish financial links with wholesalers who provide advance credit well before harvesting. This led to the control of the fresh produce market by a limited number of wholesalers. A glaring example of this form of oligopoly is the present vacuum between this group of wholesalers who refuse to move to Al-Uboor fresh produce market (which has been ideally designed and constructed to provide the badly needed facilities); on the pretext that it is remotely located outside consumption areas.

Market information is an important component of efficiency. A large sector of producers, consumers and even brokers lack ample information on supply and demand and prices prevailing in the various markets. But the establishment of an efficient marketing information system requires the creation of a grading and standardization system to be codified and enforced.

3. Marketing Services

Marketing services differ relatively with the degree of government intervention in crop marketing. The obligatory delivery of cotton and sugarcane at depressed procurement prices necessitated the provision of such services as cash and material loans by PBDAC’s village branches. A cotton grower was entitled to a picking loan of L.E. 50 per feddan (which would be increased at commercial interest rates on request). The General Co-operative of cotton producers specifies the number of collection centres and, in collaboration with PBDAC and cotton companies, the co-operative determines the number of cotton sacks needed by each governorate. Village co-operatives distribute sacks to producers according to the registered area of cotton and the village’s average production per feddan. The marketing committee at each governorate announces a time schedule for delivery at collection centres where weighing and classing take place on the same day of delivery in the presence of the producer, the procuring company’s representative and the co-operative’s representative. The cotton companies, to which the title deed is transferred, transport cotton to the ginneries where it is sorted out according to classes and grades. Final settlement between the village co-operatives and the procuring companies is decided on the basis of the ginning outturn in addition to the secondary products (seeds and scarto). Baled lint is then moved to the cotton pressing company in Alexandria where fumigation and pressing take place for export cotton. A large portion of cotton bales is also moved to domestic mills (Rihan n.d.).

With regard to sugarcane, the Egyptian Sugar and Distillation Company concludes contracts with producers whereby the latter deliver the yield of the contracted area on the day of harvesting. Almost 90% of the crops is transported from the fields to the factory by means of carts provided by the company. Once arrived at the factory’s site, the crop is weighed in the presence of producers’ representatives. The price is determined on the basis of the theoretical percentage of sugar (10.3%). A premium is added to price proportional to the increase in the real percentage of sugar (and vice versa).

With regard to fresh produce (vegetables and fruits), harvest is undertaken either by the producers or the brokers. Packaging and transportation are also undertaken by producers in case they opt to market their produce by themselves. The two marketing processes are sometimes undertaken by wholesalers or brokers to whom the title is transferred. Brokers may also sell out the horticultural or vegetable crops on behalf of producers in return for an agreed commission of the net price after deducting the cost of transport. In case the producer opts to transport his produce to the wholesale market, the wholesaler with whom he transacts unloads the consignment and sells it for him in return for an agreed commission. No sorting or grading is done in this case.
For exporting fresh produce, sorting and classing are two important marketing processes undertaken by exporters. Crediting is yet another important service done by brokers at the time of contracting. This entails an increase in marketing costs and subsequently a decrease in the producer's share in consumer prices.

Storage is a cost-effective marketing service for such crops as onion, garlic, potatoes and, sometimes, grapes. Sorting takes place either by producers or wholesalers for crops having high keeping ability. As for grapes, it is normally stored under cooling conditions.

V – Future of Domestic Marketing Under the Structural Adjustment Programmes (SAPs)

1. Privileges of SAPs

Under the economic liberalization policy, marketing institutions will work according to production functions that give maximum yield of the available resources, better known as technological marketing efficiency. The macro-economic reforms will make available complete information on new technology, training and incentive systems that raise efficiency. It is also expected that market mechanism, which will determine prices according to supply and demand force, will lead to allocative efficiency at which the marginal costs equates the marginal revenue. The marketing institution that works under both concepts of efficiency will eventually realize what is termed as economic efficiency, which means the efficient use of resources on a cost-benefit basis. It is important to distinguish between market functions and market role in price formation. Market functions such as collection, packaging, transportation and storage will be performed according to criteria of efficiency without necessarily having direct relationship with price formation. However, prices will be a function of commodity quality based on the effective performance of marketing functions which will lead to the reduction of quantitative and qualitative loss.

Changes in the cropping pattern will take place in view of price indicators and relative profitability. Similarly, changes in the food consumption pattern may occur in view of new price relationships and the relative costs of foodstuffs. Due to incentives to producers and marketers, quality will certainly improve to meet consumer's requirements, thus leaving a favourable impact on the overall marketing system. This will encourage investment in the field of marketing which will be affected by the world market for export-oriented commodities. The present export systems will be modified to cope with the requirements of the world markets. This will necessitate enhancing the capabilities of exporters unions to assess the world market changes including capacity-competition, requirements and time schedule of exportation. An accurate marketing information system will have to be established to assist in formulating plans for agricultural production, marketing and processing.

2. Problems of the Free Market Economy

Centrally planned and market-oriented economies have their pros and cons. We have discussed the positive impact of economic liberalization on marketing efficiency. But every economic system has two aspects. The first relates to efficiency and the second to justice which may not be within reach under economic liberalization policies which imply the phasing out of subsidy to producers and consumers, high interest rates on credit to producers, decontrolling exchange rates and exploitation by brokers. As a result, production and marketing costs will increase in a manner conducive to price instability. Producers may experience economic tremors as was the case before the sixties. Sharp fluctuations in cotton prices had resulted in great losses to producers. Such a shift from centrally planned to market economy will lead to an increase in the prices of consumer goods which soared in the last two years especially for low-income groups. But the high, unstable prices are not expected to continue beyond the transition period. Market incentives will increase production and improve its quality in a way that positively affects price stability and improve the agricultural trade and subsequently the national economy and consumer welfare.

3. The State's Marketing Role Under Economic Liberalization

Economic liberalization does not necessarily mean that the state will divest its role in the market. Even in countries that adopted liberalization policies well before us, the state intervenes indirectly in the produc-
tion and marketing systems. In the EEC countries, there still exists a system for subsidy to producers and exports. A protectionist policy is applied within the EEC to ensure preferentiality of their products. If this is the case with the advanced countries, it is more befitting for the Government of Egypt to play an indirect role in protecting both producers and consumers alike. It is well known that the international market prices do not reflect the real prices of commodities as a result of distortions attributed to subsidy systems applied in certain countries. This would affect market negatively through wrong indicatives used in orienting production and marketing and would have a direct bearing on the proportional relationship between both.

Therefore, it would be in the fitness of things to exercise a good degree of surveillance on the domestic market performance and the possible emergence of monopolistic or semi-monopolistic groupings. The state intervenes to ensure the application of floor prices if producers are expected to encounter market uncertainty. In the case of price deterioration, producers may deliver all or part of their crops to the government at pre-declared floor prices. The government should maintain a strategic stock of those crops that have strategic importance in order to intervene in times of need and in favour of supply when prices soar. In other words, the government should keep an eye on changes in supply and demand for agricultural commodities to guarantee price stability. It should also levy customs and duties on imports to stabilize the domestic market. However, the structure of price differences will not necessarily be affected by the difference between the local price and the border price of a commodity.

Meanwhile the government should adopt and provide a powerful market information system in order to improve market performance. Nonetheless, the government should provide indirect subsidy to low-income groups. The United States apply a similar system known as “Food Stamps” which give low-income consumers an access to certain commodities at low prices.

The government should encourage agricultural marketing co-operatives free from governmental interventions regarding their management. By so doing, the marketing co-operatives will make full use of mass marketing operations which will subsequently lead to the reduction of marketing costs and will help curb the manoeuvres of greedy brokers.

Arabic References


English References


106
Table 1. Percentages of Obligatory and Optional Delivery of Major Crops

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* Compulsory delivery ; ** Compulsory delivery in certain years.

The delivery of the remaining crops was optional.

Table 2. Prices of Major Agricultural Products, 1980/1990 (L.E./unit)

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Table 3. Effective Prices of Major Agricultural Products, 1981/1989 (L.E./unit)

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* Unavailable.

Table 4 (continued). Marketing Margins L.E./Ton

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