EGYPT

TRADE SUMMARY

The U.S. trade surplus with Egypt in 2001 was $2.9 billion, $453 million higher than in 2000. U.S. goods exports to Egypt totaled $3.8 billion, an increase of $444 million since 2000. U.S. imports from Egypt were $879 million, a decrease of $9 million since 2000.

The stock of U.S. foreign direct investment (FDI) in Egypt at the end of 2000 was $2.7 billion, an increase of 24.9 percent from 1999. U.S. FDI in Egypt is concentrated largely in the petroleum and manufacturing sectors.

IMPORT POLICIES

The Government of Egypt (GOE) has implemented a number of import policies to promote greater trade liberalization. Egypt became a member of the World Trade Organization in 1995 and has pledged to be in full compliance with its trade commitments to the WTO by 2005. Over the last two years, however, progress towards the goal of trade reform has been uneven. Although the government recognizes the need to eliminate non-tariff barriers to trade, red tape, cumbersome bureaucracy, and rigorous enforcement of Egyptian standards remain significant problems and add to the cost of doing business.

Tariffs

Egypt has made progress in liberalizing its tariff structure. In 1998 Egypt reduced the maximum tariff rate for most imports from a high of 50 percent to 40 percent. In keeping with its Uruguay Round commitments, over 98 percent of Egypt’s tariffs are bound tariffs. However, Egypt's tariffs remain relatively high, especially when compared with those of other developing countries with large internal markets and diversified industrial economies. In addition to tariffs, Egypt assesses a service and inspection fee of one percent on imports. Egypt also applies an additional surcharge of two percent on goods subject to import duties of 5 percent to 29 percent, and a surcharge of three percent on goods subject to duties of 30 percent or more. Egypt applies a discriminatory sales tax of 10 percent on high quality imported flour, which is not applied to locally produced flour.

Although the stated maximum tariff rate is 40 percent, Egypt maintains a number of exceptions to this level. In the fall of 2000 the GOE increased the tariff rate to 50 percent on non-fat powdered milk as a safeguard measure. In 2001, the non-fat powdered milk safeguard tariff was reduced to 15 percent and will be reduced further to 7 percent in 2002 and to 3 percent in 2003. A ban on fabric imports was lifted in 1998, and a ban on garment imports was lifted in January 2002, in accord with WTO requirements. However, tariffs on textiles are well over 50 percent, and as of January 1, 2002, garments are subject to a per piece duty ranging up to 1,400 Egyptian pounds per item. The tariffs on passenger cars with engines over 1,300 cc are 100 percent to 135 percent, and on poultry are 80 percent. There is a 300 percent duty on wine for use in hotels, and a 3,000 percent rate on alcoholic beverages for general importers. Foreign movies are subject to duties and import taxes of about 87 percent of the value of a film, as well as a 10 percent sales tax and a 20 percent box office tax (compared to a five percent box office tax for local films).

Mandatory quality control standards and other non-tariff barriers restrict imports of some U.S. products, thereby providing preferential treatment for domestic products over imports. For example, U.S. agricultural exports face a number of obstacles, including burdensome import licensing requirements, which, in the case of poultry and poultry parts, have the effect of blocking nearly all U.S. exports of these products. High tariffs restrict the competitiveness of U.S. food products such as canned peaches and U.S. chocolates and confections which face a 40 percent ad valorem duty, as do some dairy products. Forty percent tariffs also apply to U.S. apples, cherries and pears, and U.S. exporters report that Egypt's application of sanitary and phytosanitary measures to these products are non-transparent and burdensome. Processing of imports also adds significant real costs to imported merchandise. Exporters to Egypt report being hampered by non-transparent regulations and requirements. In addition to high tariffs, U.S. textile exports are effectively barred by a combination of hurdles, including complex and excessive customs procedures, customs surcharges, and costly and complex marking requirements for fabric. The U.S. textile industry estimates that U.S. textile exports to Egypt would be in the range of $10 million to $50 million if all barriers were removed.

Customs Procedures

On July 1, 2001, the Egyptian Customs Authority began implementing the WTO agreement on customs valuation, which bases customs duties upon the invoice for the importer's goods rather than the previous reference-based system. It will take some time for the invoice-based system to be fully implemented. In the meantime importers face a confusing mix of the new and old systems. Egypt originally was to have implemented the WTO system in July 2000, but it received a one-year extension. Computerization of customs operations should improve efficiency and reduce the time required to clear goods. In 1994 Egypt adopted the Harmonized System of customs classification.

Import Bans

Egypt lifted its ban on apparel imports on January 1, 2002, in accordance with its obligations under the WTO Agreement on Textiles and Clothing, and put in place excessive specific-rate duties for these products, effectively excluding imports from the market. The U.S. views the high effective rates of Egypt's new specific-rate duties on apparel products as violating Egypt's WTO obligations. Some of the new specific-rate duties range up to 1,400 Egyptian pounds per item ($300 at the January 2002 exchange rate), often many times the value of the garment itself and well in excess of Egypt's WTO bindings.

Customs duties on some food items have been decreased while those on electrical appliances have not changed. In 1998, Egypt issued a decree stipulating that imported automobiles can only be imported during their year of manufacture, effectively banning the importation of second-hand cars.

STANDARDS, TESTING, LABELING AND CERTIFICATION

Egypt has increased efforts to bring Egyptian mandatory regulations into conformity with international standards. However, many imports are subject to burdensome quality standards and inspections. Moreover, even as average tariffs have gone down, the number of imports subject to mandatory quality control has increased, climbing from 69 items in 1992 to 182 items in 1998. Among these items are foodstuffs, appliances, electrical products, and spare parts.

Standards are established by the Egyptian Organization for Standardization and Quality Control in the Ministry of Industry. However, verification of compliance is the responsibility of agencies affiliated with different ministries, including the Ministry of Health, the Ministry of Agriculture and, for imported goods, the General Authority for Export and Import Control in the Ministry of Foreign Trade. Administration of standards is made more complex by the fact that their formulation and enforcement is carried out

by different organizations within different ministries, with little or no inter-agency coordination. Egypt currently has some 4,000 standards, 10 percent of which are mandatory. Importers report that testing procedures are not uniform or transparent and that inadequately staffed and poorly equipped laboratories often yield faulty test results. Efforts are underway to improve Egyptian standards and testing. In 2001, the U.S. Department of Agriculture began implementation of a USAID-financed project to set up a model food laboratory in Alexandria/Dekhala to promote the use of modern procedures and internationally accepted standards.
Egypt is a key U.S. agricultural export market, and is the world's largest customer for U.S. wheat. Trade in agricultural products could be expanded, however, through elimination of the problems posed by some standards issues. Shelf-life standards required by the Government are rigid and do not recognize quality, safety and technological differences between producers. Many imports (mainly foodstuffs) entering Egypt must have 50 percent or more of their shelf-life remaining. Such standards can have the effect of blocking some U.S. exports, as in the case of some U.S. processed cheese products.

Food imports are sometimes subject to quality standards lacking in technical and scientific justification. For example, Egyptian Standard 1522 of 1991 requires that meat imported for direct consumption contain no more than seven percent fat, an unrealistically low level for premium beef. As a result, U.S. exporters lose an estimated $2 million in sales annually to Egyptian beef producers, who are not subject to this fat content restriction.

Food imports have a number of labeling and packaging requirements. Poultry and meat products must be shipped directly from the country of origin to Egypt and sealed in packaging with details in Arabic both inside and outside the package. This requirement raises processing costs and discourages some exporters from competing in the Egyptian market.

Textile fabric is also subject to costly and complicated labeling requirements. Imported fabric must have the name of the importer woven into the cloth. In addition, imported textiles are subject to quality control examination by a committee made up of members representing the domestic spinning and weaving industries. This group also has some influence with Egyptian Customs in setting the duties that are imposed.

GOVERNMENT PROCUREMENT

Egypt is not a signatory to the WTO Agreement on Government Procurement. In 1998, however, Egypt passed a law issuing new regulations for government procurement that are intended to make the tendering process more open and fair and to provide the Egyptian Government greater value for money. The new law mandates that technical factors, not just price, be considered in awarding contracts. The preference shown to parastatal companies has also been diminished, though not eliminated. Previously, publicly owned companies always received preference. Under the new law, this preference only applies when the bid of a publicly-owned firm is within 15 percent of other bids. Contractors receive certain rights under the law, such as speedy return of their bid bonds and an explanation of why a competing contractor won the bid. Many concerns about transparency remain, however. For example, the Prime Minister can authorize the method of tendering for specific entities according to terms, conditions, and rules that he determines.

Pharmaceutical Price Controls

The Government controls prices in the

pharmaceutical sector. In many instances, the Government has not allowed pharmaceutical prices to rise with general inflation and depreciation of the Egyptian pound, and there is discrimination against foreign companies in the granting of price increases. Most recently, in January 2002, the Ministry of Health allowed prices of the least expensive, domestically-produced pharmaceuticals to rise. Some products of American pharmaceutical firms were permitted to increase by 25-30 percent. In addition, there are regulations regarding the manufacture and registration of pharmaceuticals in finished dosage forms and requiring foreign companies to license the manufacture and sale of imported drugs to local companies.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Though it is a signatory to most of the international IPR conventions, adequate IPR protection is still lacking in Egypt. Each year since 1997, the U.S. Trade Representative has placed Egypt on the Special 301 Priority Watch List because of problems in patent protection and enforcement of copyright protection. Over the last five years the United States has sought through a USAID-funded project to assist Egypt's efforts to address its deficiencies in IPR protection. Through this USAID project progress has been made over the past five years in establishing and strengthening some of the government institutions necessary for an effective IPR regime. A modernized (and computerized) Patent and Trademark Office is now capable of processing and ensuring the protection of patent applications. The quality and transparency of the patent and trademark registration system has been significantly improved.

Since June 2001 a new intellectual property law has been under consideration in the People's Assembly (PA). The PA began a detailed debate of the law in mid-November 2001, and the law may be passed by mid-2002. An Egyptian delegation presented the draft law to the WTO Trade Related Aspects of Intellectual Property Rights (TRIPS) Council in June 2001, and member delegations subsequently forwarded questions about the draft law to the Egyptian government. The law addresses IPR issues in such areas as patents, trademarks (including industrial designs), copyrights (with enhanced protection to sound and motion picture recordings and computer software), and plant varieties. The law stipulates higher fines and prison sentences for convicted violators. While Egypt appears to have made an effort to draft a law consistent with the WTO TRIPS Agreement and other international IPR accords to which Egypt is a signatory, U.S. Government and industry are concerned that the draft lacks sufficient safeguards in key areas, including patent protection for pharmaceuticals, and lacks sufficient penalties for copyright enforcement.

According to the timetable laid out in the TRIPS agreement, two patent-related protections were to have entered into force on January 1, 2000 -- Exclusive Marketing Rights and Data Exclusivity. Prime Ministerial decrees on these provisions were issued in March 2000 for Exclusive Marketing Rights and in November 2000 for Data Exclusivity. In August 2001, the Government issued a U.S. pharmaceutical firm an Exclusive Marketing Rights certificate for a particular drug. A local pharmaceutical firm later filed a court case charging that the Ministry of Health and the Academy of Scientific Research acted illegally in granting the certificate. As of January 2002, the case was still pending. The government still has not issued implementing regulations for the Data Exclusivity decree. Egypt's commitment to fully protect the confidential test data of U.S. pharmaceutical firms therefore remains a concern. Copyright piracy currently affects most categories of works, including motion pictures (in video cassette format), sound recordings, printed matter, and computer software. Regarding computer software protection, the GOE has recently taken steps to ensure the authorized use of legitimate business software by national government departments. False licensing remains a problem in copyright protection where a local company receives a license to distribute pirated software, music, and films based upon fraudulent documentation. Infringement of trademark and industrial design piracy remains a problem, as does enforcement and prosecution of infringement violations. The new draft IPR law should offer improved protections for trademarks and industrial designs.

SERVICES BARRIERS

Egypt participated actively in the Uruguay Round negotiations on services but made commitments in only four sectors: construction, tourism, financial services, and international maritime transport. Egypt subsequently made commitments in the 1997 WTO agreement on financial services negotiations. Egypt's General Agreement on Trade in Services (GATS) commitments are gradually being implemented. Egypt joined the consensus in launching a new round of trade negotiations, including trade in services, at the WTO Ministerial meeting in Doha in November 2001.

Egypt has restrictions for most service sectors in which it has made GATS commitments. These restrictions place limits on foreign equity in construction, and transport services. Egypt restricts the employment of non-nationals to 10 percent of the personnel employed by a company, and there are restrictions on the acquisition of land by foreigners for commercial purposes.

In 1998, the Government passed legislation allowing private investment in Egypt's three state-owned insurance companies. The law removed the prohibition on majority foreign ownership of Egyptian private insurance firms, permitting up to 100 percent foreign ownership. In addition, the law eliminated the prohibition on foreign nationals serving as corporate officers of insurance companies. Four foreign insurance companies are now operating in the market; Alico and AIG-Pharonic of the U.S., Legal and General of the U.K., and Allianz of Germany. Local and international investment houses are evaluating the public insurance companies in preparation for their privatization, though this is happening slowly.

Also in 1998, legislation was passed to allow privatization of four state-owned banks that control over 50 percent of the banking sector's total assets. As of 2001, however, none of the four had been privatized, and the GOE has indicated that their privatization would have to be preceded by the divestiture of its ownership in joint venture banks. There are 63 banks in Egypt, 23 of which are joint ventures with foreign participation. In its 1997 WTO financial services commitments, Egypt did not limit foreign equity in such joint ventures and several foreign banks presently are majority or complete owners.

Egypt's WTO financial services commitment in the securities sector provides for unrestricted market access and national treatment in the sector. International investors are permitted to operate in the Egyptian stock market largely without restriction. Several foreign brokers, including U.S. and European firms, have established or purchased stakes in brokerage companies.

Telecommunications services have expanded rapidly in the past two years as the sector has been liberalized and opened to international competition. Telecom Egypt (TE) is still a state-owned monopoly, though the GOE has announced that it plans to offer up to 34 percent of the company to a strategic investor and additional shares on the stock exchange when market conditions are suitable. Attempts to find a strategic investor have been unsuccessful. The sale was supposed to be carried out by early 2001 but it was delayed due to poor market conditions. Private sector firms participate actively in Internet, cellular, and pay telephone services. Foreign firms compete for contracts offered by Telecom Egypt to modernize its networks and switching equipment.

Telecom Egypt has sought foreign participation in the management and operation of the national telecommunications grid, however it has not yet succeeded. Egypt is negotiating adoption of the basic telecommunications commitment undertaken by other WTO Members as part of the 1997 WTO Basic Telecommunications Agreement (BTA).

Maritime and air transportation services are being liberalized. A 1998 law ended the long-held government monopoly in maritime transport, and the private sector now carries out most maritime sector activities, including loading, supplying, and ship repair. Egyptian-flagged vessels now carry about 25 percent of Egypt's international trade. Egypt also passed a law permitting private firms to build and operate new airports. Six new build-own-operate-transfer (BOOT) airports were under construction at the start of 2001.

Egypt maintains several other barriers to the provision of services by American and other foreign firms. Foreign motion pictures are subject to a screen quota and limitations on the number of prints (five) of a foreign film a distributor may import. Private and foreign air carriers may not operate charter flights to and from Cairo without the approval of the national carrier, Egypt Air.

The Government applies a licensing fee of 10 percent of revenue with a minimum of approximately $70,000 per year on private express mail operators, a fee that negatively affects their competitiveness. Only Egyptian nationals may become certified accountants.

INVESTMENT

Under the 1992 U.S.-Egypt Bilateral Investment Treaty (BIT), Egypt committed to maintaining the critical elements of an open investment regime, including national and most-favored-nation (MFN) treatment of investment (with exceptions limited by the treaty), the right to make financial transfers freely and promptly, and international law standards for expropriation and compensation. The BIT also establishes formal procedures to enforce the treaty, including international arbitration.

Egypt offers new-to-market investors expedited approval to establish operations, and investors in 16 priority sectors (among them agriculture, housing, transportation, petroleum, and computer software) receive special advantages and incentives. Many incentives are geographically based to encourage investors to locate outside of the greater Cairo area. For example, investors locating businesses in parts of Upper Egypt can receive 20-year tax holidays. A dozen new industrial zones have been built in satellite cities in the desert areas outside of Cairo and Alexandria.

Egypt notified the WTO about a measure inconsistent with its obligations under the Agreement on Trade-Related Investment Measures (TRIMS). This measure deals with incentives to increase local content amounts. Proper notification allowed developing-country WTO members to maintain such measures for a five-year transitional period, ending January 1, 2000. In February 2001, Egypt submitted a request to the WTO for a five-year transition period. The United States is working with other WTO Members to conduct a case-by-case review of all TRIMS extension requests, with an effort to ensure that the individual needs of those countries that have made requests can be addressed. This process does not limit a Member's rights under the WTO Agreement.

ANTICOMPETITIVE PRACTICES

Egypt is in the process of drafting a comprehensive competition and antitrust law, which will address monopolies, price-fixing, and other efforts to disrupt the smooth flow of market processes. Most of Egypt's economic sectors are presently dominated by a few major firms. This applies to both the public and private sectors.

ELECTRONIC COMMERCE

Egypt is drafting an e-commerce law that will address such issues as electronic signatures, domain names, customs and duties, and creation of a certificate authority. The development of e-commerce in Egypt has been impeded by concern about the lack of security, the relatively high prices charged by Internet service providers, and the limited number of users in the country. Businesses are also required to pay high telephone fees for dedicated Internet lines. The duty rate on personal computers was reduced in 2000 from 20 to 10 percent, which may make more computers available to help grow the market for e-commerce. There are indications that Egypt may further reduce the duty rate for computers to 5 percent. In 1999, Egypt and the United States signed a Joint Statement on e-commerce and established an e-commerce task force to support the development of e-commerce in Egypt. The task force has identified security, public awareness, and the legal framework as priorities.