

EGYPT

Overview

Since 1991, the Egyptian Government has initiated a comprehensive economic reform package to achieve sustainable GDP growth as well as limit inflation and the increase in foreign debt. As a result of aggressive implementation of this program, GDP grew at approximately 3% in the early 1990s. However, the pace of economic reform has slowed which has led to lower growth rates in 1995 at 2% to 2.5% range.

Although reform efforts and GDP growth rates have slowed, the U.S. maintains 25% share of the \$11 billion Egyptian market. In the military sector, the Egyptian Armed Forces operate a large amount of U.S.- manufactured equipment which may provide a wide variety of business opportunities for U.S. firms.

Defense Industry Environment

The funds budgeted for defense is not released by the Egyptian government. However, various publications have placed defense expenditures at approximately \$3 billion per year. The U.S. provides \$1.3 billion annually to the Egyptian military in the form of Foreign Military Financing (FMF) grants.

Regarding indigenous manufacturing capabilities, the Ministry of Military Production operates twenty factories. In addition, the Arab Organization for Industrialization and the National Service Projects Organization operate nine and three facilities respectively. The type of military goods produced in Egypt include: small caliber and heavy ammunition, mortars, mines, grenades and other explosives, antitank rockets, rocket motors, radars and electronic equipment, smoke and pyrotechnic devices, rifles, pistols (Beretta licensee) and machine guns, jet trainer aircraft (Alpha and Tucano), armored personnel carriers, Alpha jet engines, field and aircraft communications equipment, Gazelle helicopters and engines, gyroscopes, weapon sights, binoculars, and periscopes.

U.S. Suppliers of Defense Items to Egypt

Listed below are U.S. firms that supply the Egyptian Armed Forces with a wide range of defense equipment.

AAI Corporation	Combat Vehicle Development
Alcan (Hughes)	Tow Missile Program
Alliant Techsystems	Ammunition
Allison Transmissions	Transmissions
Bell Helicopter-Textron	Helicopters/Maintenance
BMY	Combat Systems
CACI	Automation Support

Chamberlain Manufacturing
Develop Sciences Corporation
Devileg-Sundstrand, Inc.
Detroit Diesel
Emerson Electronics
Environmental Tech. Group
United Defense
Rockwell
General Dynamics
General Electric
GTE
Northrop/Grumman Aerospace
Harris Corp.
Alliant Techsystems
ITT Defense
Lockheed/Martin

Oshkosh Truck
Pratt & Whitney
Raytheon
Teledyne-Brown Eng.
Texas Instruments
Textron
Westinghouse

Ammunition
Skyeye RPV
Machine Tools
Engine Parts
Optical Depot, F1st-V Vehicles
NBC Equipment
Combat Vehicles
Air Defense System
Combat Vehicle
Radar
Electronics
Aircraft Support
Communication Equipment
Electronic Systems, Tow Missile
Electronic Systems
Aircraft
Electronics
Smart Munitions
Vehicles
Engines
Air Defense Systems
Engineering Support
Thermal Sights
Technical Support
Electronics

The Egyptian Armed Forces will continue to operate and maintain the U.S. weapons systems currently in their force structure for the foreseeable future. Thus, they will have procurement interests in the following categories:

Land Forces: Spare parts and major assemblies support for M1A1 tanks, M60 series tanks, M113 series APC's, M109A2 SP artillery pieces, M88 recovery vehicles, and numerous tactical wheeled vehicles.

Air Force: Ongoing technical support, maintenance support and spare parts for C-130, F-4, F-16, E2-C, CH-47, Apache, and Black Hawk aircraft. There is also a requirement for control tower equipment and simulator support for these aircraft.

Air Defense: Technical and maintenance support for TPS-63 and other air defense radars. Technical and maintenance support for HAWK, Chaparral and Sparrow Air Defense Systems.

Non-Service Specific: Spare parts for engineer equipment and tools and test equipment for upgrading depot support of all the U.S. systems listed above, plus an integrated IFF system for all Egyptian Armed Forces.

The Egyptian Armed Forces are currently trying to complete their modernization of Central European and ex-Soviet equipment with western systems. Based on these requirements plus Egyptian inquiries for information, the Egyptian Government may consider the purchase of the following new systems: modern anti-tank weapons, air defense radars, frequency hopping radios, diesel submarines, Perry class frigates, coastal patrol craft, night vision equipment of all types, and antisubmarine helicopters.

Defense Plan

Although the Egyptian Armed Forces tightly control information about their various five year defense plans, it is very likely that in addition to the new platforms listed above, they will be interested in the purchase of the following equipment to complete force modernization:

- Additional F-16 Aircraft
- Additional HAWK or other mid-range air defense systems.
- Additional air defense radars
- RPV systems
- Additional scout vehicles (HMMWV or similar vehicles).
- Armored Personnel Carriers
- Mine hunters
- Engineer equipment
- GPS equipment
- Modern NVG equipment of all types
- Additional Apache Helicopters
- Short range air defense systems
- Other training equipment for establishing a National Training Center
- Improvements/upgrades to Egyptian Air Defense Command and Control systems
- Improvements/upgrades to strategic communications networks
- Additional cargo aircraft to support unit deployments

Diversification/Commercial Opportunities

The following industry sectors have been identified as good potential markets for U.S. firms.

Telecommunications

With the modernization of Egypt's telecommunication's network, state-of-the-art satellite equipment is needed to upgrade TV broadcasting and for the rapidly growing private user market. The Egyptian market for satellite telecommunications equipment is expected to continue increasing at a rate of 30%. The current telephone density of three per 100 persons is planned to increase to seven per 100 by the year 2010. This will require the installation of 250,000-400,000 lines per year. The current five year plan 1992-1997 includes \$700 million for the telephone and communications sector. The U.S. has the largest share, 65%, mainly due to high

quality and durability. Most promising subsectors include: satellite telecommunications equipment, cellular telecommunications, fiber optic cables, and telephone cable.

Aircraft and Parts

The U.S. is the major supplier of aircraft and parts to Egypt. Almost 50% of the civilian fleet (43 aircraft) is of U.S. origin. France has the remaining portion of the aircraft market. On the military side, over 90% of the Egyptian Air Force consists of U.S. aircraft. As a result of the domination of the aircraft market by U.S. firms, demand for U.S. manufactured spare parts and engines will continue. The Egyptian Government has allocated \$350 million in its third five year plan (1992-1997) to purchase aircraft engines, parts, and simulators. In 1992, the U.S. share of the total market size of civil aircraft and parts exceeded 85%, in addition to the U.S. export of military aircraft and parts worth \$620 million, which is partially included in the above figures. Additional growth areas for U.S. firms include: aircraft engines, airborne equipment, general aviation equipment, and large transport aircraft.

Oil and Gas Field Machinery

Future growth in this industry is expected to be mainly in gas exploration projects, new refineries and petrochemical plants. Local industry produces iron, steel, and plastic pipes required for the energy sector while the majority of equipment is imported. The Ministry of Petroleum invested over \$40 million in an isomerization project. Recently the government has approved establishing of two refineries that will be owned and operated by the private sector, a program valued at \$2.6 billion. Heavy investment by the Government and private firms provide many opportunities for U.S. firms in this area.

Airport and Ground Support Equipment

The majority of the airport equipment currently utilized in Egyptian Airports are of French origin. In September 1994, the U.S. Trade and Development Agency (TDA) assigned the Air Traffic Control Association to undertake a regional project identification and investment study for the modernization and rehabilitation of aeronautical communication and navigation installations in airports in Egypt and other Middle East countries. The Government of Egypt has indicated its interest in modernizing and upgrading NAVAIDS equipment in its 18 civilian airports. In addition, growth subsectors for U.S. firms include: radars; communication systems; security systems; navigational systems; runway construction, and supply of airport lighting systems.

Computers & Peripherals

The computer market has experienced strong growth in recent years and will continue to expand in the medium term. The excellent reputation of U.S. technology enhances sales generated by U.S. computer firms. There is a small indigenous computer industry which is limited to the assembly of imported computer components. The upgrading of the telephone network has facilitated the use of computer, laptops, and modems for interconnecting systems. Subsector

markets such as personal computers, local area networks, and laptops continue to grow for U.S. industry.

Medical Equipment

There is very little indigenous medical equipment manufacturing in Egypt. While the use of sophisticated medical equipment is growing, total expenditures are still small for a country of 60 million. The Government has developed an ambitious plan to upgrade more than forty general hospitals, and construct twelve new hospitals within in the next two years. Most promising subsector for U.S. firms include dialysis equipment and medical lasers.

Pollution Control Equipment

The current five year plan (1992-1997) has allocated almost \$500 million for environment projects. Growth areas for U.S. industry include water treatment, air pollution control, machinery and technology for recycling.

Business Equipment

The business equipment market is rapidly expanding especially for photocopiers, fax machines, and electric typewriters. Xerox assembles copying machines locally and has captured a 70% of the Egyptian market. There is a market, however, for additional suppliers who can offer competitive prices. Japan has a growing presence in the business equipment sector through several suppliers including Ricoh, Minolta, and Canon. Most promising subsectors include: photocopiers, fax machines, and typewriters.

Privatization

The Government of Egypt's (GOE) privatization program covers approximately 314 public sector manufacturing and service companies. Less than three dozen have been brought to the point of sale, and only four have actually been sold. The four include soft drink bottling facilities purchased by joint ventures that include Pepsico and Coca Cola, a boiler manufacturer purchased by Babcock and Wilcox, and the Sheraton Cairo Hotel, part of whose shares were purchased by a Libyan/Egyptian/Saudi consortium.

Many of the government-owned companies lose money and are deeply in debt, thus making them unattractive to potential buyers. However, other profitable GOE companies offered for sale have attracted numerous bids from both Egyptian and foreign entities.

Build-Own-Transfer (BOT) is a new concept in Egypt that has begun to interest the government in areas of power production, road/turnpike development, and airport operation. A call for pre-qualification information was issued in June 1996 for the BOT operation of a proposed tourism airport on the Red Sea at Marsa Alaam. 800 kilometers south of Cairo, Egyptian authorities are proposing a possible BOT airport at Ras Banas.

The Egyptian Government as well as the people of Egypt are of mixed mind about the value of foreign investment. They recognize its theoretical value in symbolizing confidence in Egypt's economy and polity, but they fear loss of control. This explains why Egypt has not dramatically encouraged new foreign investment through the privatization program or otherwise. Nonetheless, foreign investment is welcome, and Egyptian investment laws and related treaties such as the U.S.-Egyptian Bilateral Investment Treaty, ensure fair treatment, profit and capital repatriation rights, and equal access to incentives. Several dozen existing U.S. investments, mainly in the form of joint ventures, are profitable. Many factories are expanding capacity for domestic consumption and for exports.

U.S. firms interested in buying an Egyptian public sector company should contact the government agency responsible for the privatization program:

Public Enterprise Office (PEO)
1 Latin America Street
Garden City, Cairo
Tel.: 3559244, 3559288, or 3559287
Fax: 3559233

Egyptian authorities have stressed that all sales will be "transparent" through public bids; there will be no sole-source negotiations; and in practice contracts are signed only after long, intensive negotiations.

Military production plants are not scheduled for privatization and are unlikely to be sold. Twenty-six of these plants produce both military and civilian goods, and many managers of these plants are interested in licensing arrangements with foreign firms to enhance their production mix and improve quality.

The M1-A1 tank facility (Military Factory 200) outside Cairo, is one of the largest military manufacturing facilities in this part of the world. Its American-trained Egyptian workforce is highly skilled and has access to state-of-the-art production and maintenance machinery. Since the production of M1-A1 tanks will end in 1997, Egyptian authorities are interested in attracting large-scale medium and heavy industrial producers to produce other products at this excellent facility either under license or in joint venture.

Examples of civilian products currently manufactured at twenty-six of Egypt's military factories include: medical and diagnostic equipment; domestic appliances; fire extinguishers; ammunition; machine shop equipment such as lathes, drills, and grinders; generating and welding sets; electric motors; television receivers; computers; batteries; electric and water meters; agricultural machines; kitchen equipment; mobile water purifiers; circuit boards; calibration equipment; Chrysler Jeep-brand vehicles; laser alignment instruments; and microscopes.

Three entities are responsible for Egypt's military production plants and are listed below.

- Ministry of Military Production

5 Ismail Abaza Street
Cairo, Egypt
Tel: 355-3063
Fax: 355-3617

This ministry supervises 20 factories of which 14 also produce civilian goods.

- Arab Organization for Industrialization (AOI)
P.O. Box 770
Cairo, Egypt
Tel: 282-2087
Fax: 826010

AOI is jointly owned by the GOE, Saudi Arabia, United Arab Emirates, and Qatar, whose nine factories in Egypt produce civilian and military goods

- National Service Projects Organization (NSPO)
10 Mahmoud Talaat St.
Nasr City, Cairo, Egypt
Tel: 600236 or 601684
Fax: 604203

NSPO operates three production companies that produce military equipment.

There are thirty-three ministries in the Egyptian government. Key ministries that procure goods supplied from the U.S. include the ministries of: Agriculture and Land Reclamation; Economy and Foreign Trade; Education, Electricity, and Energy; Health, Housing and New Communities; Industry and Mineral Resources; Interior, Petroleum, Public Works and Water Resources; Supply and Internal Trade; Tourism: and Transport-Communications-Civil Aviation.

Other important specialized agencies include the Arab Republic of Egypt National Telecommunications Organization (ARENTO), the Cabinet Information and Decision Support Center, the Central Agency for Public Mobilization and Statistics, the Egyptian Environment Affairs Agency, and the Egyptian General Petroleum Corporation. Each of 26 provincial administrations such as those of Cairo, Giza, Alexandria, and Port Said also have procurement authority.

The GOE agencies listed above will not respond to foreign requesters of routine information. Instead, U.S. firms should find a local private Egyptian agent or consultant to pursue projects, tenders, or questions of interest. The Agent/Distributor Service (ADS), sold by all U.S. Department of Commerce District Offices in 70 U.S. cities, can identify prospective representatives for U.S. firms in Egypt.

Doing Business in Egypt

This section excerpts relevant information pertaining to the procurement of defense related equipment and services. For more detailed information and for advice on marketing to the private sector, appointment of private sector agents and distributors, and investing in Egypt, please see the Country Commercial Guide for Egypt (1995), prepared by the American Embassy staff in Cairo. The Guide is available in the National Trade Data Bank (NTDB) or on CD-ROM by purchase (\$59 per monthly issue) or subscription (\$575 per year) from the U.S. Department of Commerce, Washington, D.C., Tel. 202-482-1986, FAX: 202-482-2164. The NTDB is available at over 900 Federal Deposit Libraries, at Department of Commerce District Offices, and elsewhere throughout the United States.

Tenders Law No. 9 of 1983, supplemented by implementing regulations issued by the Ministry of Finance (Decree 157 of 1983, as amended), governs Egyptian Government procurement by all civilian and military agencies unless they are specifically exempted from this law. This law covers sole-source and competitive procurement procedures. Agents may not be used by foreign firms bidding on military tenders, however, use of "consultants" is permitted. Many retired military officers operate legal businesses as consultants to foreign suppliers of defense equipment.

Several key requirements of the Tenders Law include: open competition; bid bonds of one percent and performance bonds of five percent; and fraud, bribery ("either personally or through a third party, directly or indirectly") or bankruptcy by the contracting party voids the contract and allows outstanding bid or performance bonds to be confiscated.

Problems with tendering procedures include: (a) no time limit for the decision-making committees to meet, or to make, or announce their decision, thus bidders must pay the cost of repeated renewals of their bid bonds justified by the most frivolous of reasons; (b) bidders cannot withdraw from a competition without risking loss of their bid bond; (c) Government clients often delay giving "final acceptance" of a contract, which holds up the final payment and final retirement of the performance bond; (d) contract change orders must be endorsed by a special "price study committee" which sometimes takes years to approve the action. The contractor is nevertheless expected to fulfill the revised contract without delay; and (e) dispute settlement procedures are not defined by the Tenders Law, leaving this subject discretionary. Such procedures should therefore be included in the contract.

Intellectual Property Rights (IPR)

IPR has been weakly enforced in Egypt. However, a new copyright law meets international standards. A draft patent law is expected to be approved within the coming year. The trademark law dates from 1939 and needs improvement in content, enforcement, and understanding by the courts.

U.S. Government Points of Contact

The following is a list of useful contacts for U.S. firms interested in the Egyptian market.

U.S. Embassy

John Priamou
Senior Commercial Officer
American Embassy Cairo
Unit 64900, Box 11
APO AE 09839-4900
Tel: 011-20-20357-2230
Fax: 011-20-2-355-8368

LTC. Bernard J. Witten
Defense Industrial Coordinator
Office of Military Cooperation
American Embassy Cairo
Unit 64901, Box 29
APO AE 09839-4901
Tel: 011-20-2-357-3844
Fax: 011-20-2-357-2273

Trade Associations in Egypt

There are no specialized defense industry trade associations in Egypt. However, the key American business interest group (which includes U.S. defense suppliers as members) is the following:

American Chamber of Commerce in Egypt
Shafik Gabr, President
Suite 1541
Marriott Hotel
Zamalek, Cairo, Egypt
Tel: 011-20-2-340-8888, ext. 1541
Fax: 011-20-2-340-9482