EGYPT

TRADE SUMMARY

The U.S. goods trade surplus with Egypt was $1.1 billion in 2005, a decrease of $716 million from $1.8 billion in 2004. U.S. goods exports in 2005 were $3.2 billion, up 3 percent from the previous year. Corresponding U.S. imports from Egypt were $2.1 billion, up 63 percent. Egypt is currently the 38th largest export market for U.S. goods.

The stock of U.S. foreign direct investment (FDI) in Egypt in 2004 was $4.2 billion, up from $3.5 billion in 2003. U.S. FDI in Egypt is concentrated largely in the mining sector.

IMPORT POLICIES

Over the past decade, the Government of Egypt (GOE) has gradually implemented a number of import policies to promote greater trade liberalization. Progress in economic reform was halting during the last several years, but received renewed impetus with the appointment of Prime Minister Ahmed Nazif and a new ministerial economic team in July 2004. Under the leadership of Prime Minister Nazif, the GOE has adopted a wide range of significant reform measures, but problems still remain that add to the cost of doing business. The GOE will have to continue efforts to reduce red tape, reduce corruption, reform the cumbersome bureaucracy, and eliminate unreasonable and excessive Egyptian health and safety standards.

Tariffs

On September 8, 2004, the GOE announced a new tariff structure. The government removed services fees and import surcharges, reduced the number of *ad valorem* tariff rates from 27 to 6, dismantled tariff inconsistencies, and rationalized national sub-headings above the six-digit level of the Harmonized System (HS). The new tariff structure includes six tariff rates, pegged to the degree of processing of the good that range from 2 percent on raw materials, spare parts, and primary feeding products to 40 percent on durable consumer goods. The changes in tariffs reduced the officially announced weighted average tariff rate from 14.6 percent to 9.1 percent. The government also eliminated services fees and import surcharges ranging from 1 percent to 4 percent. The GOE replaced its 13,000-line ten-digit tariff structure with a six-digit structure with less than 6,000 tariff lines. This change should reduce disputes over product classification for customs purposes. Additionally, the GOE eliminated export duties on 25 products that were in short supply on the domestic market. Although the Finance Minister announced his intention to reduce tariffs further by mid-2005, to date, no further reductions have been made. Meanwhile, a number of high tariffs still exist, including duties on poultry, alcoholic beverages, tobacco and cigarettes, and passenger vehicles with a cylinder capacity (cc) above 2,000.

All goods are subject to sales tax ranging from 5 percent to 25 percent. Egypt applies a sales tax of 10 percent on high-quality imported flour that is not applied to locally produced flour. In December 2004, the Ministry of Finance passed an amendment to the sales tax law aimed at reducing prices and attracting new investment opportunities. In early 2005, Law No. 9 was issued, which exempted capital goods from the sales tax. The Finance Minister has emphasized that some additional amendments to the sales tax will be introduced in 2006 to unify sales tax categories, establish new tax rebates, and raise the minimum requirement for sales tax registration to exempt small producers and traders.

The current minimum registration amounts are annual sales of LE 150,000 (approximately $26,100) for traders and LE 54,000 (approximately $9,400) for producers and service-providers.

In January 2004, the GOE formally repealed a long-standing ban on commercial clothing and fabric imports and replaced per-piece tariffs on clothing (which the United States had challenged in the WTO in December 2003) with *ad valorem* tariffs consistent with Egypt's WTO commitments. In December 2004, Egypt reduced tariffs for certain textile and apparel products and committed to a further round of tariff cuts for additional textile and apparel products that is expected to take place during the first parliamentary session in mid-2006. Currently the tariff rate on apparel is 40 percent. A February 2004 ministerial decree required companies wishing to export to Egypt to register with the Egyptian General Organization for Import and Export Controls (GOIEC) and to certify their compliance with international labor, health, and environmental standards through on-site inspections by GOIEC inspectors. The decree was amended in October 2004 to remove the inspection obligation, but maintained the registration requirement.

Tariffs on passenger cars with engines under 1,600cc were reduced in September 2004 to a maximum of 40 percent, while cars with engines over 1,600cc now have a tariff rate of 135 percent. The tariff rate on poultry was reduced to 32 percent; although the GOE maintains a ban on U.S. poultry imports citing Halal concerns (see below). There is a 300 percent duty on wine for use in hotels, and a tariff ranging between 1,200 percent and 3,000 percent on alcoholic beverages for general importers. Foreign movies are subject to duties and import taxes of about 46 percent of the value of a film (32 percent for a copy of the movie, 12 percent on posters and 2 percent on the movie reel), 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).

High tariffs restrict the competitiveness of U.S. food products such as U.S. apples and pears, which face a 40 percent *ad valorem* duty and U.S. exporters report that Egypt's application of sanitary and phytosanitary measures to these products are non-transparent and burdensome.

In March 2005, the Parliament passed legislation that included provisions to reduce taxes on soft drinks from a high of 60 percent to an effective sales tax rate (after government-approved deductions) of about 18 percent. Customs Procedures Egypt adopted the WTO customs valuation system in July 2001. The system has not been fully implemented, and thus importers sometimes face a confusing mix of the new (invoice-based) and old (reference price) valuation systems depending on the type of imports.

The Ministry of Finance is trying to assist customs officials by translating and simplifying the WTO valuation system, which uses seven valuation methods. The Ministry of Finance has committed to a comprehensive program to reform Egypt's customs administration, and a priority is to complete implementation of the WTO Customs Valuation Agreement. USAID is funding a six-year, $30 million customs reform project to support the Ministry of Finance's efforts. The Ministry of Finance is also working with other donors, including the European Union, on customs reform issues. In this context, a comprehensive amendment of the Executive Regulations of the Customs Law has been prepared by the Ministry and is now being circulated in the private sector for comment, after which it will be submitted to Parliament for discussion and ratification. The amendment would further address customs valuation and other problems. As of December 2005, however, the amendment had not been submitted to Parliament.

The September 2003 inauguration of the Cairo Model Customs and Tax Center was an important step in modernizing customs and tax administration in Egypt. Taxpayers registered in greater Cairo can use this “one-stop shop” to settle income taxes, sales taxes and customs duties for goods passing through any of Egypt's ports. Two model customs centers were opened in Alexandria and Suez in 2005, and two others (in Dekheila and Port Said) are expected to open in 2006.

Import Bans and Barriers

Passenger vehicles may only be imported within one year after the year of production. Egyptian regulations do allow investors to import a vehicle for private use without restriction on the year of manufacture, provided that an approval is obtained from the Chairman of the General Authority for Investments and Free Zones (GOIEC). Pending customs regulations would allow Egyptian expatriates who are returning to depreciate the value of their personal cars by ten percent of the FOB value for the first year after manufacture and five percent for every subsequent year.

According to the Egyptian Ministry of Health's regulations, natural products, vitamins, and food supplements are prohibited from importation into Egypt in their finished form. The only way these items can be marketed in Egypt is through a local manufacture under license, or by sending ingredients and premixes to a local pharmaceutical firm to be prepared and packed in accordance with the specifications of the Ministry of Health. Only local factories are allowed to produce food supplements and import raw materials to be used in the manufacturing process.

Egypt also bans the importation of used and refurbished medical equipment and supplies. The ban does not differentiate between the most complex computer-based imaging equipment and the most basic of supplies.

Egypt continues to block imports of U.S. poultry and poultry products based on concerns that U.S. industry does not meet Egyptian Halal requirements. Despite technical meetings and a June 2003 written submission on steps by U.S. industry to assure Halal treatment, the ban continues. The ban was discussed at Trade and Investment Framework Agreement (TIFA) meetings in November 2005, and the GOE gave assurances that it would address this issue in the near future.

STANDARDS, TESTING, LABELING AND CERTIFICATION

Standards are established by the Egyptian Organization for Standardization and Quality Control (EOS) in the Ministry of Trade and Industry. Verification of compliance, however, is the responsibility of agencies affiliated with various ministries, including the Ministry of Health, the Ministry of Agriculture and, for imported goods, GOIEC in the Ministry of Foreign Trade and Industry.

Egypt has increased efforts to bring mandatory regulations into conformity with international standards. Of Egypt's 3,387 standards, 387 are Egyptian technical regulations or mandatory standards. Of these, the majority concern food products, engineering goods and textiles and clothing. In the absence of a mandatory Egyptian standard, Ministerial Decree Number 180/1996 allows importers to choose a relevant standard among seven international systems: including ISO, European, American, Japanese, British, German and, for food, accepts Codex standards. Importers, however, report that despite having met international standards and/or displaying international marks, products often are subjected to standards testing upon arrival at the port. Product testing procedures are not uniform or transparent, and inadequately staffed and poorly equipped laboratories often yield faulty test results and lengthy delays. Procedures seem to be particularly cumbersome for the products falling under the purview of the Ministry of Health.

Egyptian standards are reviewed periodically, usually once every five years, to ensure their relevance to current requirements. In December 2004, Egypt embarked on a program to ensure that all its standards comply with international standards. The EOS completed the examination of all 387 mandatory standards and 2,000 of the voluntary standards in 2005. It began reviewing the remaining 1,000 voluntary standards in the beginning of 2006.

In addition to standards, the EOS also issues quality and conformity marks. The conformity marks are mandatory for certain goods that can affect health and safety. The quality mark is issued by the EOS upon request by a producer and is valid for two years. Goods carrying the mark are subject to random testing.

In October 2005, Egypt's testing requirements improved with the issuance of new import/export regulations, which completely replaced the old regulations with more transparent and liberalized rules designed to facilitate trade. The new regulations reduced the number of imported goods subject to inspection by GOEIC.

They also permitted importers to rely on certifications of conformity from any internationally accredited laboratory inside or outside of Egypt for those goods still subject to inspection by

GOEIC. As noted above, although the inspection regime has been liberalized in practice, the new regulations are not applied consistently or uniformly.

The new import/export regulations also transferred responsibility for issuing and reviewing certificates of origin from GOEIC to the Egyptian Customs Administration, introduced a mechanism for enforcing intellectual property rights at the border, and extended the preferential inspection treatment given to inputs for manufacturing to include inputs for the service industry. An explicit list of the chemicals that cannot be imported into Egypt was issued with the new regulations, thus clarifying a previously ambiguous procedure.

In response to U.S. requests, in 2004 Egypt took steps to address barriers to imports of U.S. and other foreign textiles and apparel, including modifying costly and complicated labeling requirements and testing procedures. The new export/import regulations eliminated the previous factory inspection requirement for garment imports. Egypt also committed to expedite the customs clearance process for apparel and textile imports.

With respect to agricultural products, Egyptian tariff and non-tariff barriers adversely impact bilateral trade. While Egypt is a key U.S. agricultural export market and a major purchaser of U.S. wheat and corn, certain imports, like poultry parts, are banned. Others, including beef, apples and pears, are subject to sanitary and phytosanitary measures that are non-transparent and burdensome. Food imports are sometimes subject to quality standards that appear to lack technical and scientific justification, and exports may have to comply with burdensome labeling and packaging requirements. For example, meat products can only be imported directly from the country of origin and must include details in Arabic sealed inside and listed on the outside of the package. This labeling requirement raises processing costs and discourages some exporters from competing in the Egyptian market.

The Ministry of Trade and Industry is working with other ministries, especially with the Ministries of Health and Agriculture, to review sanitary and phytosanitary standards and the inspection of food products to ensure WTO compliance and prevent duplicative inspection. The new export/import regulations eliminated the requirement that perishable products have at least one-half of their shelf life remaining at the time of import, but further amendment of an Egyptian standard may be required before this can be fully implemented.

GOVERNMENT PROCUREMENT

Egypt is not a signatory to the WTO Agreement on Government Procurement. The 1998 law governing government procurement mandates that technical factors, not just price, be considered in awarding contracts. A preference is granted to parastatal companies when the bid of a publicly-owned firm is within 15 percent of other bids. In the Small and Medium-Sized Enterprises (SMEs) Development Law, issued in 2004, SMEs were given the right to supply 10 percent of the value of all government procurement denoted in any tender

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.

In August 2004, the Prime Minister issued a decree stipulating strict adherence by all government ministries to the provisions of the Tenders and Auctions law that limit direct orders to cases of national security or emergency. An amendment to the Tenders and Auctions Law is being finalized that will require governmental authorities to fulfill 95 percent of the value of procurement within 60 days or pay compensation if they fail to do so. The amendment also stipulates compensating contractors for price fluctuations that might occur during the first year of the contract. Egypt supports discussion of transparency in government procurement in the WTO.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Though Egypt is a signatory to many of the international intellectual property conventions, intellectual property rights (IPR) protection was well below international standards until 2002. In 2002, Egypt took important steps to strengthen its IPR regime through improvements in its domestic legal framework and enforcement capabilities. In May 2002, Egypt passed a comprehensive IPR law to protect intellectual property and to attempt to bring the country into line with its obligations under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The law addresses IPR protection in areas such as patents, copyrights (with enhanced protection for sound and motion picture recordings and computer software), trademarks, geographical indications, plant varieties, industrial designs, and semiconductor chip layout design. With respect to certain violations, the law stipulates higher fines and prison sentences for convicted violators. Although the law has certain shortcomings, its passage demonstrated a marked improvement in Egypt's IPR regime, offering protection for the first time for several types of intellectual property. The executive regulations dealing with patents, trademarks, and plant variety protection were issued in June 2003. Regulations protecting copyright and related rights were also issued in June 2003. The U.S. government continues to work with the Government of Egypt to resolve remaining deficiencies in Egypt's IPR regime.

Responding to Egypt's improved IPR protection, in May 2003 the United States Trade Representative (USTR) moved Egypt from the Special 301 "Priority Watch List" (a designation that Egypt had retained since 1997) to the "Watch List." However, the U.S. government was deeply concerned by Egyptian government approval in late 2003 for local manufacturers to produce patent-infringing copies of several U.S. pharmaceutical products, an action that runs contrary to Egypt's obligations to protect the holder of the intellectual property rights of such products. As a result of these approvals, in 2004 USTR again elevated Egypt to the "Priority Watch List."

Egypt's inadequate protection of the intellectual property of U.S. and other foreign pharmaceutical firms continued to raise serious concerns during 2005. In late 2004 and early 2005, there were indications that the Egyptian Ministry of Health was preparing to approve a significant number of unauthorized copies of U.S. pharmaceutical products for marketing in Egypt based on reliance upon confidential test data submitted by U.S. firms. The U.S. government strongly expressed its concern that such approvals would violate Egypt's obligations under TRIPS, its own IPR law, Prime Ministerial Decree 2211, and assurances Egypt has given the U.S. government that it will provide strong data protection. The Health Ministry abstained from approving of unauthorized copies in 2005 until late December, when an unauthorized generic version of a flagship product of a U.S. pharmaceutical company was introduced to the Egyptian market. In another development, an Egyptian court rescinded a U.S. firm's exclusive marketing rights for a product pending patent approval. With patent approval in Egypt requiring at least two to three years and the Egyptian Government failing to assure protection of confidential test data and prevention of unauthorized copes of U.S. pharmaceutical products, this development further weakened protection of intellectual property in this sector.

Substantial and meaningful progress has been made in establishing and strengthening some of the government institutions necessary for an effective intellectual property protection regime, and the enforcement of IPR has improved in 2005 compared with 2004. Provisions of the new IPR Code allowing for the protection of pharmaceutical products became effective on January 1, 2005. A modern, computerized Egyptian Patent Office operating under the authority of the Ministry of Higher Education and State for Scientific Research has been working to improve its ability to receive and examine paper or electronically filed patent applications. This office has also significantly improved the quality and transparency of Egypt's trademark registration system.

Egypt has taken advantage of various technical assistance opportunities provided by both the USAID and the United States Patent and Trademark Office (USPTO) on topics such as patent and trademark examination, specialized pharmaceutical patent examination, and industrial design examination. The Patent Cooperation Treaty (PCT) entered into force in Egypt in September 2003. In 2005, Egypt began reviewing PCT patent applications filed for approval in Egypt. Currently, Egypt is the eighth largest filer of PCT patent applications among developing-country PCT members. In accordance with its TRIPS obligations, the Egyptian Patent Office opened the “mailbox” for pharmaceutical patent applications on January 1, 2005, and began examining the approximately 1,500 pharmaceutical patents that had been submitted for approval through this process. In addition, the World Intellectual Property Organization (WIPO) has designated Egypt as a regional patent training center. The Egyptian Patent Office also is in the process of adopting a manual of patent examination procedures to promote quality, consistency, and transparency.

The new IP law offers trademark protection for 10 years. Concerns remain, however, regarding key TRIPS obligations including the lack of a specific grant of trademark rights in accordance with Article 16.1 of TRIPS.

In addition, the new IP law lacks a specific provision implementing TRIPS Article 23, which requires members to provide the legal means to prevent the use of geographical indications for wines and spirits where the goods do not come from the place named, even if consumers are not misled.

The Egyptian Trademark and Industrial Designs Office, as well as market inspectors responsible for non-copyright related IPR enforcement are located in the Ministry of Trade and Industry. In 2005, the Trademark Office eliminated a five-year backlog of pending trademark applications. It currently takes one year to register a mark in Egypt. The Ministry relocated the Trademark and Industrial Designs Office to a modern facility in December 2005. The process of registration is being fully automated, and the new offices have access to the Internet for international searches for the first time, as well as other communications improvements. Industrial design applications are now being examined, and the offices are developing transparent procedures for filing and examination.

Infringement of trademarks, textile designs, and industrial designs remains a problem, but the GOE has taken steps to improve enforcement in this area by training civil inspectors in IPR enforcement, issuing improved inspections procedures and taking steps to implement measures at its borders to prevent the importation of counterfeit and pirated goods. New regulations and procedures to implement TRIPS border measures are also being developed.

In October 2004, the Ministry of Agriculture established a new Plant Variety Registration Office. However, articles still exist in the Egyptian 2002 IPR law that make it very difficult for applicants to meet the requirements to register for protection of their new, distinct, uniform, and stable plant varieties. As of December 2005, no new plant varieties have been registered by the office. The Ministry of Agriculture has formed a committee to resolve the problems associated with granting plant variety protection in Egypt, but no action has yet been taken. U.S. companies are still advised not to export new breeding material or new plant varieties to Egypt until the issues are addressed. Egypt is working on reforming the administration of its IPR laws, including protection of plant varieties, as part of its efforts to join the International Union for the Protection of New Varieties of Plants.

High levels of piracy adversely impact most of the copyright industries in Egypt, including motion pictures (in video cassette format), sound recordings, and books and other printed matter, and computer software. Improvements have occurred with regard to computer software protection, and the GOE took steps to ensure the authorized use of legitimate business software in civilian government departments and schools. Major U.S. software and computer companies operating in Egypt report a piracy rate in business software under 50 percent and improved enforcement in 2004 and 2005. Unfortunately, there continues to be a problem with false licensing, where a local distributor presents documents purporting to authorize the distribution of a work, but the documents are supplied by a party that lacks the authority to grant the authorization. Even when the Ministry of Culture is convinced that the documents are fraudulent, the distributor is permitted to rely upon Ministry of Culture approval and to distribute pirated software, music, and films. This practice undermines copyright protection in Egypt. The Egyptian government took steps to revoke such approvals for well-known pirates. The lack of further action against false licensing is reported to be a result of the government's inadequate human and physical resources in this area.

A USAID technical assistance program is working with several Egyptian Ministries to strengthen IPR enforcement and increase public awareness. Reports indicate an increase in police and ministry involvement in IPR protection in 2004 and 2005. The USAID program is also working with the Ministry of Justice on IPR enforcement issues, including on efforts to increase the legal awareness of judges on IPR issues and to build institutional capacity to handle infringement cases. In 2005, approximately 450 judges received local training in intellectual property rights enforcement through the project, and Egyptian judges also participated in IPR enforcement training programs in the United States. In addition, 150 civil inspectors have been trained in IPR enforcement procedures.

SERVICES BARRIERS

GATS Commitments

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. Egypt is gradually implementing its General Agreement on Trade in Services (GATS) commitments. Egypt supported launching a new round of trade negotiations, including trade in services, at the WTO Ministerial meeting in Doha in November 2001. In late June 2005, Egypt revised its services offer and included a number of new sectors: computer services, courier services, air transport services, some construction sub-sectors (building and finishing works), and some insurance sub-sectors.

Egypt has restrictions for most service sectors in which it has made GATS commitments. These restrictions place a 49 percent limit on foreign equity in construction and transport services. In the computer services sector, larger contributions of foreign equity may be permitted, such as when the Ministry of Communication and Information Technology determines that such services are an integral part of a larger business model and will add value to the country. With courier services, some cases require special authorization from the Egyptian National Postal Organization (ENPO). Egypt restricts the employment of non-nationals to 10 percent of the personnel employed by a company. Limitations on foreign management also apply to computer-related services (60 percent of top-level management should be Egyptian after three years of the start up date of the venture). Restrictions on the acquisition of land by foreigners for commercial purposes were amended in 2002 to allow the acquisition of land by non-Egyptians under certain criteria and procedures.

Insurance

Foreign firms may own up to 100 percent of Egyptian private insurance firms, although the market remains closed to foreign intermediaries. There are currently at least six foreign insurance companies operating in the market. There are eleven private sector insurance companies, three of which are joint ventures with U.S. firms.

The Egyptian market remains small and underdeveloped due to many factors including the excessive stamp duties and premium taxes. The market remains dominated by the four state-owned insurance companies that controlled over 75 percent of the non-life insurance market and 56.2 percent of the life insurance market in 2004. In September 2005, the Ministry of Investment announced that Egypt had commissioned an international consortium to restructure its four state-owned insurance companies, opening the way for their privatization. The ministry has selected the Paris-based BNP-Paribas, Egypt's Commercial International Bank (CIB), and the New York-based insurance consulting firm Milliman to do the job. The "privatization team" continues to work on a privatization plan for one or more of the state-owned insurance companies, but there is no timetable or absolute commitment and all the companies will not be privatized.

Banking

There are 61 banks in Egypt, 22 of which are joint ventures with foreign participation. As a result of its commitments under the 1997 WTO Agreement on Financial Services, Egypt does not limit foreign equity participation in local banks. Several foreign banks have majority shares in Egyptian banks, while other foreign banks are registered as branches of the parent bank (rather than subsidiaries). In all cases, these foreign banks can conduct all banking activities in Egypt. New foreign banking entrants face barriers, however. Because the government believes there are too many banks in Egypt, it has not issued a new banking license in at least ten years and it plans in the next five years to reduce the number of banks in Egypt to 21. As a result, the only way a foreign bank can enter the market in Egypt is to purchase an existing bank. The United States views licensing restrictions on U.S. financial institutions as a serious concern.

In 2002, the Central Bank of Egypt (CBE) required that banks raise their capital adequacy ratios to meet Basel II standards. The 2003 banking law substantially raised minimum capital requirements for all banks to LE 500 million (approximately $ 87 million), mandating that banks unable to meet this requirement either merge with other banks or exit the market. The deadline of June 2005 for banks to meet the capital increase was finally adhered to after several postponements. Four banks failed to achieve the new threshold and are to undertake subsequent procedures such as merging with larger institutions. Although the government has advocated the merger of some smaller banks since early 2001, it was not until late 2004 that two banks merged and three applied for CBE approval. More progress was made in 2005 with the merger of two large state banks, Banque Misr and Banque du Caire, and the merger of the National Societe Generale Bank (NSGB) with Misr International Bank. The GOE has also been proceeding with plans to divest its shares in joint venture banks. To date, six joint venture banks have been divested of public shares.

Progress has been slow in the government's plans to privatize the four state-owned banks that control over 50 percent of the banking sector's total assets. In 2004, the government appointed new, western-trained senior management teams for the four banks. Government plans to privatize one public bank (the Bank of Alexandria) were announced following the appointment of a new Cabinet in July 2004. This privatization was expected to be completed by the end of 2005, but a revised forecast now anticipates that the privatization will occur in early 2006. The downsizing and privatization of Egypt's banking sector should strengthen it and improve implementation of market-based financial operations.

Securities

Egypt's WTO financial services commitment in the securities sector provides for unrestricted market access and national treatment for foreign companies. 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. In May 2002, the Minister of Finance issued a decree to establish the Primary

Dealers System, which started operating in July 2004. The new system allows financial institutions that are registered with the Ministry of Finance, currently including 13 banks, to underwrite primary issues of government securities and to activate trading in the secondary market through sale, purchase, and repurchase of government securities. The government is using the primary dealers system to manage its public debt, secure non-CBE finance, and create a market-based yield curve for public debt.

Telecommunications

Telecommunications services have expanded rapidly in the past four years as the sector has been liberalized and opened to international competition. The impetus for the liberalization came from Egypt's accession in June 2002 to the WTO Basic Telecommunications Agreement and to the WTO Information Technology Agreement in April 2003. These agreements required the liberalization of telecommunication services, full autonomy of the National Telecommunications Regulatory Authority by January 2006, and the phasing out of tariffs on all information technology imports from WTO members. In February 2003, Egypt's parliament approved a new telecommunications law that established the framework for the government to meet these commitments. More progress, however, is needed in establishing full autonomy for the National Telecommunication Regulatory Authority. The 2003 law provides for the termination of Telecom Egypt's monopoly of domestic and international telephone service by January 2006. While domestic service is now open to competition and steps are underway to implement the 2003 law for international service, new entrants have yet to begin to operate in these areas of Egypt's telecommunications sector.

Egypt has made significant progress in meeting its WTO telecommunications-related commitments. The GOE began dismantling its state-owned Telecom Egypt monopoly in December 2005 by privatizing 20 percent of its assets. International firms actively participate in Internet and cellular services, and are eligible to bid on licenses for new telecommunications services and 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, although no agreements have yet been signed.

In the cellular service market, which currently consists of two private GSM operators, the government plans to allow more competition by issuing a third license through public tender in 2006. The license will stipulate that the winner employ neutral second- or third-generation technology (either GSM or CDMA). The GOE has set the second quarter of 2007 as the target date for the third mobile company to be fully operational.

At least one major U.S. carrier reports serious difficulty in interconnecting its network with Egypt’s monopoly carrier, Telecom Egypt (TE), based on TE reluctance to negotiate. USTR has requested that both Egypt’s regulator and its Ministry of Communications work to resolve this issue.

Transportation

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 conducts most maritime activities, including loading, supplying, ship repair, and, increasingly, container handling. The new Ain Sukhna port is the first privately owned and operated Egyptian port and East Port Said port, which was inaugurated in October 2004, is the second. Egypt Air's monopoly on carrying passengers has been curtailed, and several privately owned airlines now operate regularly scheduled domestic flights and international charter services, although the national carrier remains by far the dominant player in the sector. The United States Air Transport Agreement with Egypt was concluded in 1964 and has been changed only twice in the past 37 years. In 1991, a security article was added. In 1997, the delegations agreed to amend the agreement with the addition of limited cooperative marketing arrangements; some increased routing and operational flexibility, and a safety article. The agreement remains very restrictive, with no provisions on charter services, and Egypt has repeatedly declined our proposals to conclude an Open Skies air services agreement. Private and foreign air carriers may not operate charter flights to and from Cairo without the approval of the national carrier, Egypt Air.

Other Services

Egypt maintains several other barriers to the provision of certain services by U.S. and other foreign firms. Foreign motion pictures are subject to a screen quota and distributors are allowed to import only five prints of any foreign film. The GOE applies to private express mail operators a postal agency fee of 10 percent of annual revenue from shipments under 20 kilos, a fee that negatively affects their competitiveness.

Shipments weighing more than 20 kilos are treated as freight and are not subject to the 10 percent fee. According to the Egyptian labor law, foreigners cannot be employed as export and import customs clearance officers or tourist guides.

INVESTMENT BARRIERS

Under the 1992 United States-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 (with exceptions specified in the treaty), the right to make financial transfers freely and promptly, and international law standards for expropriation and compensation. The BIT also established formal procedures to enforce the treaty, including international arbitration.

In 1999, Egypt and the United States signed a Trade and Investment Framework Agreement (TIFA) that established a TIFA Council designed to facilitate the discussion of bilateral trade and investment issues. The Council met most recently in November 2005 to review the findings of 14 working groups that are examining technical issues related to every sector of the economy. The results of the TIFA process will be used to strengthen bilateral trade and investment relations, with the goal of establishing a solid foundation for any future trade negotiations.

In June 2005, a new income tax law was passed by the Egyptian Parliament. The law reduced and simplified tax rates on corporate profits and personal income. The corporate tax rate was reduced from 42 percent to 20 percent (but maintained at 40.55 percent for oil companies). The new legislation also eliminated all previous exemptions and tax holidays. The law included provisions to expand the tax base, including incentives for people and companies working in the informal sector to legalize their status. The Investment Incentives Law No.8/1997 was extensively amended in June 2005, in order to conform to the new income tax law. The system of preferences and incentives that had been accorded to new investors in priority sectors, such as agriculture, housing, transportation, petroleum, and computer software, was eliminated. The amendments, however, allow for limited exceptions to be made for multinational firms or other large investors, subject to approval by the Prime Minister. Investment incentives granted to new investors before the law was amended continue under a "grandfather" clause.

ANTICOMPETITIVE PRACTICES

In January 2005, the Egyptian parliament approved an antitrust bill that does not focus on preventing monopolies *per se*, but on intentional monopolistic practices such as lowering prices or supply to the detrimental effect of smaller competitors. According to the law, a company holding 25 percent or more market share of a given sector may be subject to investigation, if suspected of illegal or unfair market practices. Penalties on companies found to have engaged in monopolistic practices range from LE 13, 000 (approximately $ 2,260) to LE 10 million (approximately $ 1.7 million). The law is implemented by an independent governmental body, The Egyptian Competition Authority that reports to the Prime Minister and is funded by direct government appropriations and/or donations from professional or academic bodies

However, the law will not be applied to utilities and infrastructure projects, such as water supply, sewage, electricity, telecommunications, transportation and natural gas. The executive regulations of the law were issued in August 2005 by Prime Ministerial decree.

ELECTRONIC COMMERCE

Egypt's Electronic Signature Law 15 of 2004 regulates electronic signatures and establishes the information technology industry development authority. Egypt is deferring a broader e-commerce law that will address such issues as domain names, customs and duties, and creation of a certificate authority to verify e-signatures. The development of e-commerce in Egypt has been impeded by concern about network security, the relatively high cost of Internet access, and the limited number of Internet users in the country.

OTHER BARRIERS

Pharmaceutical Price Controls

The Egyptian government controls prices in the pharmaceutical sector and does not have a transparent mechanism for pharmaceutical pricing. The Ministry of Health reviews prices of various pharmaceutical products and negotiates with companies to adjust prices of pharmaceuticals based on nontransparent criteria. The Ministry has not allowed complete adjustment of pharmaceuticals prices to compensate for general inflation and depreciation of the Egyptian pound since 2000. For example, although the Egyptian pound has fallen 80 percent in value against the U.S. dollar since June 2000, the government has granted price increases for only some pharmaceutical products. Because both domestic and foreign pharmaceutical companies rely heavily on imported inputs, profitability has dropped sharply and some companies claim to be operating at a loss. In September 2004, the government cut customs duties on most imports of pharmaceutical inputs and products from 10 percent to 2 percent. The government claims this step will allow local pharmaceutical companies to compensate for some of their losses from the devaluation. In November 2004, the Ministry of Health lifted restrictions on exporting pharmaceuticals to encourage pharmaceutical investment and exports and announced its intention to create a fund to stabilize prices of local pharmaceutical products. Some reports indicate the fund will mainly support local companies' research and development efforts. Further details about the fund's operations are not available. During 2005, the government approved price increases on select foreign and domestic pharmaceutical products.

Export Restrictions

In August 2004, the Ministry of Agriculture removed restrictions on exporting cotton. The government had imposed restrictions on the export of long and medium-long staple cotton to make these cotton varieties more available for local mills, presumably sold at lower prices than in foreign markets. The Minister of Foreign Trade and Industry then announced that all types of cotton would be available for exporting in the 2004/2005 season, and that the government would not interfere in cotton pricing. However, the U.S. government continues to have concerns about Egypt's Alexandria Cotton Exporters' Association (ALCOTEXA), which controls all cotton export pricing and policies.