EGYPT

TRADE SUMMARY

The U.S. trade balance with Egypt in 2000 was $2.4 billion, based on U.S. Government statistics, $33 million higher than in 1999. While the bilateral trade balance was essentially unchanged, the value of trade increased in 2000. U.S. merchandise exports to Egypt totaled $3.3 billion, up from $3 billion in 1999. U.S. imports from Egypt were $888 million, an increase over the prior year's $617 million.

The stock of U.S. foreign direct investment (FDI) in Egypt at the end of 1999 was $2.2 billion, an increase of 8.7 percent from 1998. U.S. FDI in Egypt is concentrated largely in the petroleum, manufacturing, and banking 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. For example, Egypt's implementation of its obligations under the WTO Customs Valuation Agreement was delayed, although Egypt is expected to be in compliance by summer 2001. In the fall of 2000 the GOE abruptly announced tariff adjustments on some 55 products and placed a 45 percent tariff increase (up to 50 percent) on non-fat powdered milk as a safeguard measure.

Though many imports make their way onto the market, domestic products may receive preferential treatment over imports from the Government. Despite a general reduction of tariffs in keeping with WTO commitments, tariff rates on a number of products remain high, and mandatory quality control standards and other non-tariff barriers restrict imports of some U.S. products. For example, U.S. agricultural exports face a number of obstacles. These barriers include burdensome import licensing requirements and reference pricing which, in the case of poultry and poultry parts, have the effect of blocking nearly all U.S. imports of these products. High tariffs restrict the competitiveness of U.S. food products such as canned peaches which face a 40 percent ad valorem duty, as well as some dairy products. Processing of imports also add significant real cost to imported merchandise. Exporters to Egypt also report being hampered by nontransparent regulations and requirements. U.S. textile exports are effectively barred by a combination of hurdles, including high tariffs, complex customs procedures, customs surcharges, bans on some products 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 to $50 million if all barriers were removed.

TARIFFS

In keeping with its commitments to the WTO, Egypt has made progress in liberalizing the tariff structure. In the Uruguay Round, Egypt bound over 98 percent of its tariffs. Egypt's tariffs remain relatively high, however, 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 to 29 percent, and a surcharge of three percent on goods subject to duties of 30 percent or more.

Although the maximum tariff rate is 40 percent, Egypt maintains a number of exceptions to this level. For example, tariffs on textiles are 54 percent, on passenger cars with over 1300 cc engines are 100 to 135 percent, and on whole poultry are 80 percent. There is a 300 percent duty on wine for use in hotels, and a 2,000 percent rate on wine 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). Egypt applies a discriminatory sales tax of 10 percent on high quality imported flour which is not applied to locally produced flour. The Government of Egypt took a safeguard action with respect to non-fat dry milk (NFDM) on September 23, 2000, due to alleged import surges in 1999 and 2000. This action increased tariffs on NFDM to 50 percent for 200 days. The Government is currently considering a final determination regarding the safeguard action.

Customs Procedures

Egypt adopted the Harmonized System of Customs Classification in 1993 and has pledged to begin the WTO customs valuation procedures by July 1, 2001. All importers must be Egyptian nationals and must register with the Government. All goods must be accompanied by a customs declaration except goods destined for the free zones. Exporters and importers complain that duty valuation is arbitrary and that rates charged are higher than prescribed in the tariff code. Presently, tariffs are calculated using the so-called "Egyptian selling price," based on the commercial invoice accompanying a product the first time it is imported. Customs authorities retain information from the original commercial invoice and expect subsequent imports of the same product (regardless of the supplier) to have no lower price than that noted on the invoice from the first shipment. As a result of this presumption of level or increasing prices, and the belief that under-invoicing is widely practiced, customs officials routinely increase invoice values from 10-30 percent for customs valuation purposes. As customs procedures become increasingly automated through the use of computers, and after WTO customs valuation procedures come into use, this subjective and imprecise system of valuation will be replaced.

Import Bans

Egypt has eliminated most outright import bans, but apparel products and cotton fabrics are notable exceptions. The ban on apparel is to be lifted in 2003 in accordance with Egypt's obligations under the WTO Agreement on Textiles and Clothing. 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 quality standards and inspections that are burdensome. 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, the Atomic Energy Authority and, for imported goods, the General Authority for Export and Import Control in the Ministry of Economy and 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 will implement a USAID-financed project to set up a model food lab 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. For example, exports of live U.S. dairy cattle to Egypt have also been effectively frozen out by new animal health requirements instituted by the Government. 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 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 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 which are intended to make the tendering process more open and fair, and to provide the customer, 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 which he determines.

INTELLECTUAL PROPERTY RIGHTS PROTECTION

Though it is a member of the major intellectual property rights (IPR) international fora and a signatory to most of the international IPR conventions, adequate IPR protections are still wanting in Egypt. Each year since 1997, the U.S. Trade Representative has placed Egypt on the Special 301 Priority Watch List because of lack of progress in patent protection and enforcement of copyright protection. With the help of a USAID-funded project, SIPRE (Strengthening Intellectual Property Rights in Egypt), considerable progress has been made over the past five years in setting up 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 vastly improved.

In 2000, the Government of Egypt set up a process for the granting of exclusive marketing rights and issued a decree for the protection of confidential data, though neither has been implemented. Also in 2000 a new IPR law was drafted. The law was approved by the Cabinet and submitted to Parliament for approval early in 2001. The Government hopes to pass the IPR law this year. While Egypt appears to have made a good faith effort to craft a law consistent with the WTO Trade-Related Aspects of Intellectual Property (TRIPS) Agreement and other IPR international accords to which Egypt is a signatory, U.S. industry is concerned that the draft lacks sufficient safeguards in key areas of copyright and patent protection. Egyptian drafters of the IPR law received many suggestions from SIPRE and the World Intellectual Property Organization (WIPO) regarding the law's compliance with TRIPS and other agreements. It is hoped that these will be incorporated in the new law. The Government will likely opt to take advantage of the additional five-year transition period (to 2005) granted to certain developing countries under the TRIPS Agreement for providing patent protection for pharmaceuticals.

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 software by national government departments. Infringement of trademark and industrial design piracy remains a problem, as does enforcement and prosecution of infringement violations. The new IPR law will offer improved protections for trademarks and industrial designs.

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 foreign companies occasionally allege discrimination in the granting of price increases. 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.

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 has restrictions for most service sectors in which it has made GATS commitments. These restrictions place limits on foreign equity in construction, insurance, 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 also removed restrictions on majority foreign ownership of Egyptian private insurance firms, and the prohibition on foreign nationals serving as corporate officers of insurance companies. By 2000, there were five private insurance companies in Egypt, three of which are joint ventures with American insurance firms.

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 2000, however, none of the four had been privatized, and the GOE has indicated that their privatization would not occur in the near future. 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 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 is still a state-owned monopoly, though the GOE has announced that it plans to sell up to 20 percent of the company to private shareholders and may do so in 2001. 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, but Telecom Egypt has not sought foreign participation in the management and operation of the national telecommunications grid. Egypt has not yet undertaken commitments pursuant to the WTO Basic Telecommunications Agreement, though GOE officials have indicated that Egypt will do so in 2001.

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. About 25 percent of Egypt's international trade is now carried by Egyptian-flagged vessels. 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.

OTHER SERVICES BARRIERS

Egypt maintains several other barriers to the provision of services by American and other foreign firms. Foreign motion pictures arc 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 operators, a fee that negatively affects their competitiveness. Only Egyptian nationals may become certified accountants. Private Egyptian firms dominate advertising, accounting, car rental, and consulting services.

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.

New-to-market investors are offered 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 a measure inconsistent with its obligations under the WTO 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 effect 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.

ANTI-COMPETITIVE PRACTICES

Egypt is drafting a comprehensive competition and antitrust law which will address dumping, monopolies, and price-fixing. 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. 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.