EGYPT

TRADE SUMMARY

The U.S. goods trade surplus with Egypt was $3.7 billion in 2008, an increase of $690 million from $3.0 billion in 2007. .S. goods exports in 2008 were $6.0 billion, up 12.8 percent from the previous year. Corresponding U.S. imports from Egypt were $2.4 billion, down 0.3 percent. Egypt is currently the 36th largest export market for U.S. goods.

The stock of U.S. foreign direct investment (FDI) in Egypt was $7.5 billion in 2007 (latest data available), up from $6.5 billion in 2006. U.S. FDI in Egypt is concentrated largely in the mining sector.

IMPORT POLICIES

In recent years, the Egyptian government has gradually liberalized its trade regime and economic policies, although the reform process has been somewhat halting. Under the leadership of Prime Minister Ahmed Nazif and a new ministerial economic team in place since 2004, the government has adopted a wide range of significant reform measures. However, the government needs to continue to reduce corruption, reform the cumbersome bureaucracy, and eliminate non-science based health and safety standards.

Tariffs

In 2004, the Egyptian government reduced the number of *ad valorem* tariff bands from 27 to 6, dismantled tariff inconsistencies, and rationalized national sub-headings above the six-digit level of the Harmonized System (HS). The government also eliminated services fees and import surcharges ranging from 1 percent to 4 percent. The government reduced its 13,000 line tariff structure to less than 6,000 tariff lines. These and other changes have significantly reduced requests for customs arbitration over the past four years.

In February 2007, a presidential decree further reduced import tariffs on 1,114 items, including foodstuffs, raw materials, and intermediary and final goods. The government also adopted the World Customs Organization (WCO) HS-2007 for classifying commodities. The changes reduced the weighted average of applied tariffs from 20.1 percent to 16.7 percent. These goods include many foodstuffs, raw materials, and intermediate goods, as well as some finished goods such as heaters. Vehicles, alcohol, and tobacco are the only items on which tariffs are still 40 percent or greater. Passenger cars with engines under 1,600 cc are taxed at 40 percent; cars with engines over 1,600 cc at 135 percent. In addition, cars with engines over 2,000 cc are subject to an escalating sales tax of up to 45 percent. Clothing also faces relatively high tariffs, although the 2007 decree reduced the rate from 40 percent to 30 percent. Tariffs on cloth were reduced from 22 percent to 10 percent, and yarn from 12 percent to 5 percent. In April 2008, Presidential Decree 103 introduced further reductions to customs tariffs on several items including processed foods, agricultural goods, paper products, cement and steel and related products, and some durable household goods. Various items such as rice, soya bean oil, cement (portland, aluminous, hydraulic, and white), toilet paper, and similar paper are now exempt from custom tariffs.

The 2007 decree also reduced tariffs on several agricultural commodities and food products. Among the reductions were those for fresh fruit, which dropped from 40 percent to 20 percent. Fruit represents less than 1 percent of U.S. agricultural exports to Egypt. Most key U.S. agricultural product exports to Egypt now enter at duties of 5 percent or lower; however, a number of processed food products such as potatoes and frozen vegetables retain tariff rates in excess of 30 percent. The value of total U.S. agricultural products to Egypt in 2007 was $1.8 billion. In the 2007 tariff reduction, Egypt lowered four tariff lines to make them consistent with Egypt's WTO bound tariff rates.

Significant barriers to trade for U.S. agricultural products remain, particularly for those of animal origin. In addition, the government continues to make abrupt import regime changes without notification or opportunity for comment. In 2006, the tariff rate on poultry was reduced from 32 percent to zero, but in 2007, the government re-imposed the 32 percent tariff. There is a 300 percent duty on wine for use in hotels, plus a 40 percent sales tax. The tariff for alcoholic beverages ranges from 1200 percent to 3000 percent.

Foreign movies are subject to tariffs and sales tax of about 30 percent for the complete version of the movie and 12 to15 percent for the negative.

Customs Procedures

The Ministry of Finance has committed to a comprehensive reform of Egypt's customs administration, reorganizing the Customs Authority to meet international standards. Modern customs centers are being established at major ports to test all proposed procedures, such as risk management, and new information technology systems are being implemented to facilitate communications among ports and airports. These systems are expected to be fully operational by June 2009. The Ministry of Finance in August 2008 finalized the draft of a new customs law to streamline procedures and facilitate trade. The draft has been shared with the private sector and other stakeholders. Once vetted by the Minister, the draft law will be sent to the Parliament for discussion and a possible vote.

Egypt joined the International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention), completing its accession in 2007, upon ratification by the Egyptian parliament. Joining the convention requires participating governments to harmonize all customs procedures with those of the WCO standard to reduce barriers to trade and commerce. In complying with the convention, the Egyptian Customs Authority is adopting measures and procedures and retrofitting portions of the organization.

Import Bans and Barriers

Passenger vehicles may only be imported into Egypt within 12 months of the year of production.

The Egyptian Ministry of Health (MOH) prohibits the importation of natural products, vitamins, and food supplements. These items can only be marketed in Egypt by local companies that manufacture them under license, or prepare and pack imported ingredients and premixes according to MOH specifications. Only local factories are allowed to produce food supplements and to import raw materials used in the manufacturing process.

The Nutrition Institute and the Drug Planning and Policy Center of the MOH register and approve all nutritional supplements and dietary foods. The approval process requires 4 months to 12 months. Importers must apply for a license for dietary products. Annual renewal of the license costs approximately $500. However, if a similar local dietary product is available in the local market, registration for an imported product will not be approved.

The MOH must approve the importation of new, used, and refurbished medical equipment and supplies to Egypt. This requirement does not differentiate between the most complex computer-based imaging equipment and basic supplies. The MOH approval process entails a number of demanding steps.

Importers must submit a form requesting the MOH's approval to import, provide a safety certificate issued by health authorities in the country of origin, and submit a certificate of approval from the U.S. Food and Drug Administration or the European Bureau of Standards. The importer must also present an original certificate from the manufacturer indicating the production year of the equipment and certifying that new equipment is indeed new. All medical equipment must be tested in the country of origin and proven safe. The importer must prove it has a service center to provide after-sales support for the imported medical equipment, including spare parts and technical maintenance.

The Egyptian government supports the production of agricultural biotechnology and regulations exist for the review and approval of biotechnology seed. Recently, insect resistant corn was approved for planting. There are no specific regulations for the importation of genetically modified agricultural products. The Egyptian government maintains a general policy that allows agricultural commodities, such as corn and soybeans, produced through biotechnology to be imported, as long as the product imported is also consumed in the country of origin.

Other U.S. agricultural products, particularly those of animal origin, face barriers. Requirements for *Halal* certification complicate poultry importation. The government bans the import of poultry parts, such as leg quarters, and requires that Ministry of Agriculture officials be present to observe proper *Halal* slaughter, even though the poultry industry in the United States contracts with the Islamic Council of the United States to perform that service. More information on these regulations is available from Egypt's Trade Agreements Sector at http://www.tas.gov.eg/english.

STANDARDS, TESTING, LABELING, AND CERTIFICATION

The Egyptian Organization for Standardization and Quality Control (EOS), which is affiliated with the Ministry of Trade and Industry, issues standards and technical regulations through a consultative process with other ministries and the private sector. Verification of compliance with standards and technical regulations is the responsibility of agencies including the Ministry of Health, the Ministry of Agriculture and, for imported goods, the General Organization for Import Export Control (GOEIC) in the Ministry of Trade and Industry.

Of Egypt's 5,000 standards, compliance with 543 is mandatory. EOS reports that it has harmonized such "mandatory standards" with international standards and that about 80 percent of its mandatory standards are based on standards issued by "international institutions" such as the Geneva-based International Organization for Standardization (ISO). In the absence of a mandatory Egyptian standard, Ministerial Decree Number 180/1996 allows importers to choose a relevant standard from seven "international systems" including ISO, European, American, Japanese, British, German, and for food, Codex. However, importers report that products that meet international standards and display international marks are often still subjected to standards testing upon arrival at the port of entry. Product testing procedures are not uniform or transparent, and inadequately staffed and poorly equipped laboratories often yield faulty test results and cause lengthy delays. Procedures are particularly cumbersome for products under the purview of the Ministry of Health.

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

Import and export regulations put in place in 2005 increased transparency and liberalized procedures to facilitate trade. These regulations reduced the number of imported goods subject to inspection by GOEIC and allowed importers to use certifications of conformity from any internationally accredited laboratory inside or outside of Egypt for those goods still subject to inspection by GOEIC. The regulations also 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. While these measures have improved Egypt's inspection regime, some exporters to Egypt report that the regulations are not applied consistently or uniformly. Garment exporters also report that decrees such as 515 and 770, which require garments to include the stitched name of the exporter, result in increased costs and delivery delays.

SANITARY AND PHYTOSANITARY MEASURES

In recent years the Egyptian government has made great strides in reducing the bureaucratic hurdles and time required for customs clearance of agricultural products by taking a more scientific approach to sanitary and phytosanitary (SPS) measures, which are designed to keep the food supply safe. Despite these improvements, importers of U.S. agricultural commodities continue to face non-transparent and arbitrary treatment of imports in a number of cases. For example, U.S. beef and beef products are still subject to strict import requirements that are not consistent with the World Organization for Animal Health (OIE) guidelines for trading with a "controlled" risk country. Eligible product only includes boneless beef including livers, hearts and kidneys from cattle less 30 months of age that originated in Mexico, Canada, or the United States.

Other food imports are sometimes subject to standards that appear to lack technical and scientific justification. Also, imports may have to comply with labeling and packaging requirements that some importers find burdensome. In addition, meat products can only be imported directly from the country of origin.

The Ministry of Trade and Industry is working with the Ministries of Health and Agriculture, among others, to review SPS standards and food product inspection procedures to ensure WTO compliance and prevent duplicative inspection. Egypt is in the process of strengthening the Technical Barriers to Trade (TBT) and SPS enquiry points under the EOS and Ministry of Agriculture. In July 2007, Ministry of Trade and Industry proposed the idea of establishing a food safety authority to be responsible for all food safety issues including standards and inspections. The idea was welcomed by Ministry of Health and Ministry of Agriculture that share responsibilities regarding food safety. A high-level steering committee of the three concerned Ministries was constituted, and working groups were initiated to prepare the necessary regulations, conduct gap analysis and study the current situation. As a result of these efforts, a law for the establishment of a new food safety authority was drafted and is already approved by the Cabinet of Ministers. The Parliament is discussing this law in the current session.

GOVERNMENT PROCUREMENT

Egypt is not a signatory to the WTO Agreement on Government Procurement (GPA).

A 1998 law regulating government procurement requires that technical factors, not just price, be considered in awarding contracts. A preference is granted to parastatal companies where their bid is within 15 percent of the price in other bids. In the 2004 Small and Medium-Sized Enterprises (SMEs) Development Law, SMEs were given the right to supply 10 percent of the goods and services in every government procurement. Egyptian law grants suppliers certain rights, such as speedy return of their bid bonds and an explanation of why a competing supplier was awarded a contract. However, concerns about transparency remain. For example, the Prime Minister retains the authority to determine the terms, conditions, and rules for procurement by specific entities.

In 2006, the executive regulations of the Tenders and Bids Law were amended to streamline procurement procedures. The changes shorten the period required between announcing tenders and the submission of bids, reduce the cost for tender documents, require procuring entities to hold pre-bid meetings to clarify items in tenders and include model contract terms that set out the rights and obligations of contractors. The amendments allow SMEs to obtain tender documents at cost.

Egyptian law also forbids the use of direct purchasing except for cases involving national security or national emergency, and a 2004 Prime Ministerial decree stipulates that all ministries must adhere strictly to that law.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Although Egypt has improved its IPR regime over past years, the United States still has significant concerns about IPR protection and enforcement in Egypt. The Egyptian government has made progress in strengthening some IPR laws and enforcement procedures, and engagement between the United States and Egypt on IPR issues has remained strong.

The Egyptian Patent Office reports that it has completed its technical examination of all applications filed in the "mailbox" for pharmaceutical patents; however, the United States is monitoring the situation to ensure the actual disposition of all applications filed in the mailbox and appropriate notifications to patent applicants.

The United States was encouraged by the Egyptian government's announcement in January 2007 of a new 120 day streamlined drug registration system for drugs carrying a U.S. FDA or European approval, although the United States continues to monitor the full implementation of this system. The United States continues to seek written clarification that Egypt's Ministry of Health provides adequate and effective protection against reliance on test and other data submitted for marketing approval of pharmaceutical products, and will continue to raise this issue in discussions with Egyptian IPR officials.

The U.S. copyright industry continues to report high levels of piracy in Egypt, including pirated movies, sound recordings, books and other printed matter, and computer software. The GOE has improved protection of computer software and taken steps to ensure that civilian government departments and schools use legitimate software. The Egyptian Center for Intellectual Property and Information Technology reports that Egyptian authorities are increasingly willing to enforce copyright protections related to information and communication technology. Egyptian IPR enforcement officials have been working closely with U.S. industries during the past year.

SERVICES BARRIERS

Egypt restricts foreign equity in construction and transport services to 49 percent. 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 benefit the country. Egypt limits the employment of non-nationals to 10 percent of an enterprise's general workforce and in computer-related industries requires that 60 percent of top-level management must be Egyptian within 3 years from the start-up date of the venture.

Banking

No foreign bank seeking to establish a new bank in Egypt has been able to obtain a license in the past 10 years.

The Government has divested itself from many joint venture banks; however, the efforts to restructure the remaining three state-owned banks have been mixed. The three remaining state-owned banks still control about 50 percent of the banking sector's total assets and the share of non-performing loans remain high.

Telecommunications

Telecom Egypt continues to hold a *de facto* monopoly since additional fixed-line licenses have not yet been issued by the National Telecommunications Regulatory Authority (NTRA.) The NTRA postponed a plan to issue a second license in mid-2008, as a response to the changes taking place in the international markets.

Transportation

The government is liberalizing maritime and air transportation services. The government's monopoly on maritime transport ended in 1998, and the private sector now conducts most maritime activities including loading, supplying, ship repair, and, increasingly, container handling. The Port of Alexandria now handles about 60 percent of Egypt’s trade. Renovations underway at the Port of Alexandria, thus far at a cost of about LE 300 million ($55 million) have increased handling capacity to 44 million tons per year, up from 32 million tons per year in 2004. The renovations included construction of deeper quays to receive larger vessels; re-design of storage areas, warehouses, and associated infrastructure; installation of new fiber optic cables for data transmission; installation of a more automated cargo management system; and renovation of the passenger cruise ship terminal. These renovations have resulted in a smoother flow of goods and services and have, combined with reforms in the Customs Authority, produced a sharp decrease in customs clearance times from three to four weeks in 2004 to about one week at present. However, when shipments are required to be approved by the General Organization for Import and Export Control (GOIEC), customs clearance may take between 11 days to 20 days.

Egypt and the United States concluded an Air Transport Agreement in 1964, and the countries have modified the agreement only twice since then, adding a security article in 1991, and in 1997 adding an amended route schedule, a limited agreement on cooperative marketing arrangement,s and a safety article. The agreement remains very restrictive and has no provisions on charter services. In the past, private and foreign air carriers have not been able to operate charter flights to and from Cairo without the approval of the national carrier, Egypt Air. The United States remains interested in replacing the restrictive 1964 agreement with an Open Skies air services agreement. In June 2008, Delta Air Lines resumed operation of non-stop service between Cairo International Airport and New York’s John F. Kennedy Airport. Egypt Air joined the Star Alliance in July of 2008 and has entered into a code share agreement with United Airlines.

Courier and Express Delivery Services

Private courier and express delivery service suppliers seeking to operate in Egypt must receive special authorization from the Egyptian National Postal Organization (ENPO). In addition, although express delivery services constitute a separate for-profit, premium delivery market, private express operators are required to pay ENPO a "postal agency fee" of 10 percent of annual revenue from shipments under 20 kilos. At the end of 2007, the government of Egypt announced its intent to take actions that caused significant concern for private courier and express delivery companies. These new policies would appear to grant ENPO even more extensive regulatory oversight over the private express delivery sector by increasing considerably the fees paid to ENPO and requiring private express delivery companies to receive prior ENPO authorization for their prices and other polices. Given that ENPO is not an independent regulator, there are strong concerns that these new proposed policies will negatively impact competition in the express delivery sector.

Other Services Barriers

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 may import only five prints of any foreign film. According to the Egyptian labor law, foreigners cannot be employed as export and import customs clearance officers, or as tourist guides.

INVESTMENT BARRIERS

Under the 1986 United States-Egypt Bilateral Investment Treaty (BIT), Egypt committed to maintaining an open investment regime. The BIT requires Egypt to accord national and MFN treatment (with certain exceptions) to U.S. investors, to allow investors to make financial transfers freely and promptly, and to adhere to international standards for expropriation and compensation. The BIT also provides for binding international arbitration of certain disputes.

Based on a review of Egypt's investment policies, the OECD has invited Egypt to adhere to the OECD Declaration on International Investment and Multinational Enterprises. Egypt signed the Declaration in 2007, becoming the first Arab and first African country to join. During this process, Egypt agreed to review the restrictions on investors identified in the OECD's 2007 Investment Policy Review of Egypt, such as certain limits in the tourism sector as well as the discriminatory treatment of foreign investors in construction and courier services.

ANTICOMPETITIVE PRACTICES

Under Egyptian competition law, a company holding 25 percent or more market share of a given sector may be subject to investigation if suspected of certain illegal or unfair market practices. The law is implemented by the Egyptian Competition Authority, which reports to the Minister of Trade and Industry. However, the law does not apply to utilities and infrastructure projects, which are regulated by other governmental entities.

In June 2008, Law 3/2005 on Protection of Competition and Prohibition of Monopolistic Practices was amended and passed by the People's Assembly under Law 190/2008. The amendment sets the minimum fine for monopolistic business practices at LE 100,000 ($17,755) and the maximum at LE 300 million ($53.3 million). It also provides for doubling the penalty in cases where violations are repeated. The first trial under both new laws involved a cement cartel and was concluded in September 2008 with convictions and substantial fines. An appeal is now pending.

ELECTRONIC COMMERCE

Egypt's Electronic Signature Law 15 of 2004 established the Information Technology Industry Development Agency (ITIDA) to act as the e-signature regulatory authority and to further develop the information technology sector in Egypt. ITIDA would also supervise cyber crime under a draft law. The Ministry of State for Administrative Development (MSAD) is implementing an e-government initiative to increase government efficiency, reduce services provision time, establish new service delivery models, reduce government expenses, and encourage e-procurement. For example, the e-tender project is designed to allow all government tenders to be published online. Implementation required new legislation such as the Electronic Signature Law, Information Security and Cyber Crime Law, and Right to Information Law, which is being drafted.

OTHER BARRIERS

Pharmaceutical Price Controls

The Egyptian government controls prices in the pharmaceutical sector to ensure that drugs are affordable to the public. The government does not have a transparent mechanism for pharmaceutical pricing. The Pharmaceutical Committee in the MOH reviews prices of various pharmaceutical products and negotiates with companies to adjust prices based on a cost-plus formula. This method, however, does not allow price increases to compensate for inflation and the pricing policy has failed to keep pace with the rising cost of raw materials. About 85 percent of active pharmaceutical ingredients in Egypt are imported, and the depreciation of the Egyptian Pound has made imports increasingly expensive. In 2007, the government granted price increases for selected pharmaceutical products. However, the approved price increases to offset the negative impact on profit margins caused by the devaluation of the Egyptian Pound since mid-2000 have been minimal. In 2004, the government reduced customs duties on most imports of pharmaceutical inputs and products from 10 percent to 2 percent. In that same year, the MOH lifted restrictions on exporting pharmaceuticals to encourage pharmaceutical investment and exports.