EGYPT

TRADE SUMMARY

The U.S. trade surplus with Egypt was $1.5 billion in 2002, a decrease of $1.2 billion from $2.7 billion in 2001. U.S. goods exports in 2002 were $2.9 billion, down 19.6 percent from the previous year. Corresponding U.S. imports from Egypt were $1.4 billion, up 53.3 percent. (Note: $400 million of Egypt's exports to the United States in 2002 were antiquities in an exhibition currently touring the country. They will depart the country following the tour. End Note.) Egypt is currently the 33rd largest export market for U.S. goods.

The stock of U.S. foreign direct investment (FDI) in Egypt in 2001 was $3.1 billion, up from $2.3 billion in 2000. U.S. FDI in Egypt is concentrated mainly in the petroleum sector.

IMPORT POLICIES

The Government of Egypt (GOE) has gradually implemented a number of import policies to promote greater trade liberalization. The list of goods requiring prior approval before importation was eliminated in 1993. 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. Most recently, over the last two years, progress on trade reform has been uneven. Although the government recognizes the need to eliminate non-tariff barriers to trade, red tape, cumbersome bureaucracy, and rigorous enforcement of Egyptian standards remain significant problems and add to the cost of doing business. The government's decision in January 2003 to float the value of the pound will serve to facilitate bilateral trade and investment.

Tariffs

Egypt has made progress in liberalizing its tariff structure. In 1998 Egypt reduced the maximum tariff rate for most imports from a high of 50 percent to 40 percent. In keeping with most of its Uruguay Round commitments, over 98 percent of Egypt's tariffs are bound tariffs. Egypt's average weighted tariff rate is 27.5 percent. However, Egypt's tariffs remain relatively high, especially when compared with those of other developing countries with large internal markets and diversified industrial economies. In addition to tariffs, Egypt assesses a service and inspection fee of one percent on imports. Egypt also applies an additional surcharge of two percent on goods subject to import duties of 5 percent to 29 percent, and a surcharge of three percent on goods subject to duties of 30 percent or more. All goods are subject to sales tax ranging from 5 percent to 25 percent. Egypt applies a discriminatory sales tax of 10 percent on high quality imported flour, which is not applied to locally produced flour.

Although most tariffs range between 5 percent to 40 percent, Egypt maintains a number of tariff spikes for "luxury goods" (including most automobiles, tobacco, alcoholic beverages and clothing). A ban on fabric imports was lifted in 1998, and a ban on apparel imports was lifted in January 2002, in accordance with WTO requirements. However, tariffs on textiles are well over 50 percent, and as of January 1, 2002, garments are subject to a specific-rate, per-piece duty ranging up to 1,400 Egyptian pounds ($300) per item. The tariffs on passenger cars with engines over 1,500 cc are 100 percent to 135 percent, and on poultry are 80 percent. There is a 300 percent duty on wine for use in hotels, and a 3,000 percent rate on alcoholic beverages for general importers. Foreign movies are subject to duties and import taxes of about 87 percent of the value of a film, as well as a 10 percent sales tax and a 20 percent box office tax (compared to a five percent box office tax for local films). Soft drinks face an excise tax of 50 percent to 60 percent, while competing beverages such as bottled water, juices, teas and coffees are taxed at 10 percent. In 2002, the government reduced the non-fat powdered milk safeguard tariff to 7 percent from 50 percent in 2000, and will reduce it further to 3 percent in 2003.

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

Customs Procedures

Egypt announced implementation of the WTO customs valuation system in July 2001, but the government acknowledges that the system has not been implemented. In the meantime importers face a confusing mix of the new invoice-based and old reference-price valuation systems. The Ministry of Finance has committed to a comprehensive program to reform the customs system, and one of the priority goals is to implement the WTO Customs Valuation Agreement. USAID has agreed to fund a five-year, $30 million customs reform project to support the Ministry of Finance's efforts.

In June 2002, the parliament approved a new Export Promotion Law. The law reinforces the coordinating authority of the Ministry of Foreign Trade's General Organization for Import and Export Control (GOIEC) for all import inspection procedures, though the Ministries of Health and Agriculture maintain their own inspection units and procedures. A focus of the law is to improve the duty drawback and temporary admission systems for exporters by establishing a central unit under the joint supervision of the Ministries of Finance and Foreign Trade to monitor and streamline the systems. The law also establishes an "export promotion fund," but does not go into details.

In November 2002, the Ministers of Foreign Trade and Finance inaugurated the new temporary admissions unit at the Port of Alexandria, a first step in a plan to upgrade operation of the temporary admissions system at all ports of entry in the country.

Import Bans

Egypt lifted its ban on apparel imports on January 1, 2002, in accordance with its obligations under the WTO Agreement on Textiles and Clothing, and put in place excessive specific rate duties (per piece rather than *ad valorem*) on over 1000 categories of clothing, effectively excluding imports from the market. The U.S. views the high effective rates of Egypt's new specific rate duties on apparel products as violating Egypt's WTO obligations. Some of the new specific rate duties range up to 1,400 Egyptian pounds per item ($300), often many times the value of the garment itself and well in excess of Egypt's WTO tariff bindings, which are less than 50 percent. The Egyptian Government is currently discussing a draft law that would bring Egypt's tariffs on apparel products into conformance with WTO bound rates. 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 mandatory regulations into conformity with international standards. However, many imports are subject to burdensome quality standards and inspections. The import process remains opaque despite a 1999 Presidential decree designating GOIEC as the coordinator for all import inspections. Moreover, even as average tariffs have gone down, the number of imports subject to mandatory quality control has increased from 69 to 131 categories of items including 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 several ministries, including the Ministry of Health, the Ministry of Agriculture and, for imported goods, GOIEC in the Ministry of Foreign Trade. Administration of standards is made more complex by the fact that their formulation and enforcement is carried out by different organizations within different ministries, with little or no inter-agency coordination. Egypt currently has over 4,500 standards, seven 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. USAID and the U.S. Department of Agriculture currently are working with GOIEC to develop a state of the art food laboratory in Dekhaila port near Alexandria. The laboratory should be operational by mid-2003. The privately-run port of Ain Sukhna also will soon have a qualified inspection laboratory on its premises.

Egypt is a key U.S. agricultural export market and is the largest customer for U.S. wheat worldwide. Trade in agricultural products could be expanded, however, through elimination of the problems posed by some standards issues. Shelf-life standards required by the Government are rigid and do not recognize quality, safety and technological differences between producers. Many imports (mainly foodstuffs) entering Egypt must have 50 percent or more of their shelf life remaining. Such standards can have the effect of blocking some U.S. exports, as in the case of some U.S. processed cheese products. Moreover, Egypt applies shelf life standards to certain non-food imports such as syringes and catheters.

Product specification can also be a barrier to trade. Food imports are sometimes subject to quality standards lacking in technical and scientific justification. For example, Egyptian Standard 1522 of 1991 requires that frozen beef imported for direct consumption contain no more than seven percent fat content, a requirement not imposed on domestically graded premium beef.. As a result, U.S. exporters lose an estimated $2 million in sales annually. Egyptian beef producers are not subject to this fat content restriction.

Food imports face a number of burdensome 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.

Egypt maintains restrictions on the importation of health food products such as dietary goods. For example, import permits are not issued for products that compete with local products.

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, Egypt passed a law setting new regulations for government procurement to make the tendering process more open and fair and to provide the Egyptian Government greater value for money in its procurements. The new law mandates that technical factors, not just price, be considered in awarding contracts. The preference shown to parastatal companies has been diminished but not eliminated. Previously, publicly owned companies always received preference. Under the new law, this preference only applies when the bid of a publicly owned firm is within 15 percent of other bids. Contractors receive certain rights under the law, such as speedy return of their bid bonds and an explanation of why a competing contractor won the bid. Many concerns about transparency remain, however. For example, the Prime Minister can authorize the method of tendering for specific entities according to terms, conditions, and rules that he determines. The United States and Egypt discuss government procurement in a working group established under the U.S.-Egypt Trade and Investment Agreement Council and Egypt supports discussion of transparency in government procurement in the WTO.

EXPORT SUBSIDIES

Egypt only rarely provides agricultural export subsidies. There was a small export subsidy for rice (about $19 million dollars total) in existence ran from September 2000 to September 2001. This program ended and was not renewed by the government.

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INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Though it is a signatory to most of the international intellectual property (IP) conventions, adequate intellectual property rights (IPR) protection consistent with international standards and obligations is still lacking in Egypt. Each year since 1997, the U.S. Trade Representative has placed Egypt on the Special 301 Priority Watch List because of problems in patent protection and enforcement of copyright protection. In May 2002, the Egyptian Government passed a comprehensive law to protect intellectual property. The law was drafted with the intention of bringing Egypt into line with its obligations under the World Trade Organization 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, 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. A number of TRIPS compliance issues remain and executive regulations for the law still were not issued as of March 2003.

Egypt's commitment to protect the confidential test data of U.S. pharmaceutical firms as required by the WTO TRIPS Agreement remains a concern. A U.S. pharmaceutical company filed the first compensation lawsuit against an Egyptian pharmaceutical company demanding the payment of LE 6 million. The U.S. company claims that the Egyptian company violated the Prime Minister's decree on data protection and Egypt's 2002 intellectual property law by producing without authorization a cardiac disease medicine patented by the American company. U.S. companies continue to experience considerable losses and are closely monitoring whether pending implementing regulations will help to further strengthen data protection.

The United States has sought, through USAID-funded projects, to assist Egypt's efforts to address its deficiencies in intellectual property (IP) protection. Substantial and meaningful progress has been made in establishing and strengthening some of the government institutions necessary for an effective IP regime. A modern, computerized Egyptian Patent Office is now capable of processing and ensuring the protection of patent applications, and the quality and transparency of the trademark and industrial design registration system has been significantly improved. Egypt has taken advantage of numerous technical assistance opportunities at the United States Patent and Trademark Office (USPTO) on topics such as computerized patent and trademark application searching, patent, trademark, and design application examination, and the processing of applications under the Patent Cooperation Treaty (PCT).

Copyright piracy currently affects most categories of works, including motion pictures (in video cassette format), sound recordings, printed matter, textile designs and computer software. Regarding computer software protection, the Government of Egypt (GOE) recently has taken steps to ensure the authorized use of legitimate business software by civilian government departments and in schools. False licensing, where a local unauthorized distributor receives and is permitted to rely upon Ministry of Culture approval to distribute pirated software, music, and films remains a problem and undermines copyright protection in Egypt. The Egyptian government, however, has recently taken steps to revoke such approvals for well-known pirates. Infringement of trademark, textile design and industrial designs remains problematic, though there are signs of improvement. Cairo police recently arrested a criminal gang that copied trademarks of foreign brands of electronic equipment and affixed them to low quality goods. In addition to arresting the perpetrators, the police confiscated computers, stickers, and other equipment used in the fraud. However, prosecution and issuance of deterrent penalties for piracy and counterfeiting in Egypt requires further attention by the Government of Egypt.

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 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.

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

In 1998, the Government passed legislation allowing privatization of Egypt's four state-owned insurance companies. The law removed the prohibition on majority foreign ownership of Egyptian private insurance firms, permitting up to 100 percent foreign ownership. In addition, the law eliminated the prohibition on foreign nationals serving as corporate officers of insurance companies. There are currently at least four foreign insurance companies operating in the market: Alico and AIG-Pharaonic of the U.S., Legal and General of the U.K., and Allianz of Germany. There are eleven private sector insurance companies, three of which are joint ventures with U.S. firms. Plans to prepare the four state-owned insurance companies for privatization are progressing slowly.

Also in 1998, legislation was passed to allow privatization of four state-owned banks that control over 50 percent of the banking sector's total assets. There is no clear time frame for the government’s plans to privatize any of these banks. There are 63 banks in Egypt, 23 of which are joint ventures with foreign participation. As a result of its 1997 WTO financial services commitments, Egypt does not limit foreign equity in such joint ventures and several foreign banks presently are majority or complete owners. Since early 2001 the government has advocated the merger of some smaller banks, though little has happened in this regard.

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, though it has yet to be implemented. The new system will allow financial institutions that are registered with the Ministry of Finance, including banks and bond dealers, to underwrite primary issues of government securities and to activate trading in the secondary market through sale, purchase and repurchase of government securities.

Telecommunications services have expanded rapidly in the past two years as the sector has been liberalized and opened to international competition. Telecom Egypt (TE) is still a state-owned monopoly, though the GOE has announced that it plans to offer up to 34 percent of the company to a strategic investor and additional shares on the stock exchange when market conditions are suitable. Attempts to find a strategic investor have been unsuccessful. An initial public offering of TE stock was originally planned for late 2000, but it was delayed due to market conditions.

Private sector firms participate actively in Internet, cellular, and pay telephone services. Foreign firms compete for contracts offered by TE to modernize its networks and switching equipment.

Telecom Egypt has sought foreign participation in the management and operation of the national telecommunications grid, however no agreements have yet been signed. In June 2002, Egypt acceded to the WTO Basic Telecommunications Agreement (BTA). It also undertaking steps to participate in the WTO Information Technology Agreement (ITA), which would lead to phasing out tariffs on all IT products.

Maritime and air transportation services are being liberalized. A 1998 law ended the long-held government monopoly in maritime transport, and the private sector is responsible for most maritime activities, including loading, supplying, and ship repair, and private companies are becoming increasingly involved in container handling. The new Ain Sukhna Port is the first facility in Egypt to be owned and operated by the private sector. 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. Egypt passed laws in 1996 and 1997 permitting private firms to build and operate new airports. Private concessions can operate businesses and provide services in airports, but private ownership of airports is still not permitted. Six new build-operate-transfer (BOT) airports were under construction at the start of 2001. One of these, at Marsa Alam, opened at the end of 2001. The GOE plans to increase the number of airports in the country from the current 18 to 31 over the next decade.

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

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

INVESTMENT BARRIERS

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.

In 1999, Egypt and the U.S. 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 October 2002, and it established at that time four working groups to review technical issues related to agricultural trade, customs administration, and government procurement. Other issues, including IPR, Egypt's foreign exchange regime, and specific commercial issues are discussed in the Council itself and in less formal groupings.

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

In1995, Egypt notified the WTO about a measure inconsistent with its obligations under the Agreement on Trade-Related Investment Measures (TRIMS). The notified measure granted customs duty reductions to investments that met certain conditions with respect to resource exploitation, technology transfer, and export performance. By making this formal notification, Egypt qualified for a five-year transitional period for phasing out the relevant measure. In February 2001, Egypt submitted a request to the WTO for an additional five-year transition period. This request, which was received after the initial transition-period had ended, was never formally granted by the WTO. The United States is seeking to confirm whether Egypt is now fully in compliance with its TRIMS obligations.

ANTICOMPETITIVE PRACTICES

Egypt is in the process of drafting a comprehensive competition and antitrust law, which will address monopolies, price-fixing, and other efforts that disrupt the smooth flow of market processes. The draft antitrust and competition law is on parliament's agenda for discussion and ratification in the current session November 2002-June 2003). Domination of the market for a particular good by a small number of companies is common in many sectors of the Egyptian economy, though it is not clear that this has uniformly led to monopolistic practices.

ELECTRONIC COMMERCE

Egypt has drafted an electronic signature law, deferring until later the larger 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 Cabinet passed the e-signature law and will forward it to parliament during the 2002-2003 session. The development of e-commerce in

Egypt has been impeded by concern about the lack of security on computer networks, 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 percent to 5 percent, which may make more computers available to help expand the market for electronic commerce.

OTHER BARRIERS

Pharmaceutical Price Controls

The Government controls prices in the pharmaceutical sector, and it has not allowed pharmaceutical prices to rise with general inflation and depreciation of the Egyptian pound. This policy impacts foreign and domestic companies. In the past two and a half years, pharmaceutical manufacturers have been squeezed by the combination of higher costs of imported inputs, due to the depreciation of the pound, and fixed retail prices. In January 2002, the Ministry of Health allowed prices of the least expensive, domestically produced pharmaceuticals to rise. Some products of American pharmaceutical firms were permitted to increase by 25-30 percent. In addition, there are regulations regarding the manufacture and registration of pharmaceuticals in finished dosage forms.