EGYPT

TRADE SUMMARY

The U.S. trade surplus with Egypt was $1.8 billion in 2004, an increase of $311 million from $1.5 billion in 2003. U.S. goods exports in 2004 were $3.1 billion, up 19.1 percent from the previous year. Corresponding U.S. imports from Egypt were $1.3 billion, up 16.4 percent. Egypt is currently the 36th largest export market for U.S. goods.

U.S. exports of private commercial services (i.e., excluding military and government) to Egypt were $3.3 billion in 2003 (latest data available), and U.S. imports were $1.7 billion. Sales of services in Egypt by majority U.S.-owned affiliates were $1.1 billion in 2002 (latest data available), while sales of services in the United States by majority Egypt-owned firms were $325 million.

The stock of U.S. foreign direct investment (FDI) in Egypt in 2003 was $3.0 billion, up from $2.9 billion in 2002. 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. 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. Progress in economic reform was halting during the last several years, but received renewed impetus with the appointment of Prime Minister and ministerial economic team in July 2004. Under the leadership of Prime Minister Nazif, the GOE has taken several positive steps (outlined below). Significant problems still remain and add to the cost of doing business. The GOE will have to continue efforts to reduce red tape, reform the cumbersome bureaucracy, and eliminate unreasonable and excessive Egyptian standards.

In January 2003, the government partly floated the Egyptian Pound (LE). Both government and business hoped the move to a flexible exchange rate would improve access to foreign exchange, but foreign exchange liquidity and turnover remained problems until a new Central Bank Governor was appointed in December 2003. During 2004 the foreign exchange market stabilized with increased availability of hard currency and the disappearance of backlogs in business requests. By December 2004 the parallel foreign exchange market, which had emerged in 2001, had largely disappeared and the official U.S. dollar exchange rate stabilized at LE6.25/$. Prime Ministerial decree 506 of 2003, which established a surrender requirement for all foreign exchange generating transactions, was annulled in December 2004 by a court decision and a Prime Ministerial decree. There are no reported delays in firms' requests for foreign currency for imports and loan repayment and imports have increased by 20 percent from fiscal year 2002/2003 to fiscal year 2003/2004.

Tariffs

Egypt significantly reduced tariffs in late 2004. In 1998 the GOE 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 was 27.5 percent, which was relatively high when compared with other developing countries with large internal markets and diversified industrial economies. In addition to tariffs, the GOE levied service fees on the value of imported shipments in exchange for inspection, listing, classification and reexamination of shipments. An inspection fee of one percent was levied on all imports. The GOE also applied 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.

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, including sharp escalation and reverse progression on tariff rates, 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, that range between 2 percent on raw materials, spare parts, and primary feeding products and 40 percent on durable consumer goods. The changes in tariffs brought down 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 to 4 percent. The GOE replaced its 10-digit thirteen thousand-line tariff structure with a six-digit structure with less than six thousand 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. A number of high tariffs still exist, including duties on imported alcoholic beverages, tobacco and cigarettes and passenger vehicles with cylinder capacity (CC) above 2000.

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.

A ban on fabric imports was lifted in 1998, and a ban on apparel imports was lifted in January 2002. However, tariffs on textiles were well over 50 percent, and starting January 2002, garments were subject to a specific-rate, per-piece duty ranging up to 1,400 Egyptian pounds ($230) per item. 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 U.S. had challenged in the WTO in December 2003) with *ad valorem* (percentage of value) tariffs consistent with Egypt's commitments to the WTO. (Currently rates are 40 percent for apparel.) 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 a process which would have included visits to the their factories (at factory expense) by GOIEC inspectors. Although removal of the ban on apparel imports and change in nature of tariffs on imported apparel was a positive step, exporters considered the inspection process required for registration a non-tariff barrier that did not effectively allow importing of apparel. The registration regulation decree was amended in October 2004 to remove the inspection stipulation while maintaining registration with the GOIEC.

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 in 2005.

Tariffs on passenger cars with engines under 1,600cc were reduced in September 2004 to a maximum of 40 percent, while engines over 1,600cc now have a tariff rate of 135 percent. The tariff rate on poultry was also reduced to 5 percent and on poultry parts to 32 percent. There is a 300 percent duty on wine for use in hotels, and a tariff ranging between 1,200 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).

Soft drinks face a statutory excise tax of 50 percent to 60 percent (though various government-approved deductions result in an effective tax rate between 25 and 30 percent). By comparison, competing beverages such as bottled water, juices, teas and coffees are taxed at 10 percent**.** To address this issue, the GOE drafted amendments to the sales tax law and referred them to Parliament in the 2004/2005 round. Expected to be adopted in mid-2005, the amendments will decrease the statutory tax on soft drinks to 25 percent and the effective sales tax rate to 17 percent.

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.

Customs Procedures

Egypt announced implementation of the WTO customs valuation system in July 2001. The system has not been fully implemented, and 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 the customs system, and a priority is to implement the WTO Customs Valuation Agreement. USAID has funds available for a six-year, $30 million customs reform project to support the Ministry of Finance's efforts. The Ministry of Finance is working with other donors, including the European Union, on customs reform issues.

The September 2003 inauguration of the Model Customs and Tax Center (MCTC) was an important step in modernizing customs and tax administration in Egypt. The Cairo MCTC is a "one-stop shop" where taxpayers registered in Greater Cairo can settle income taxes, sales taxes and customs for goods passing through any of Egypt's ports. Another model customs center will be established in Alexandria in 2005.

In June 2002, the parliament approved a new Export Promotion Law (Law 155). The law reinforces the coordinating authority of the Ministry of Foreign Trade and Industry'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 established an "export development fund" to promote Egyptian exports and increase their share of foreign markets with the assistance of the Egyptian Center for Export Development. The fund's specific activities are not clear. To date the fund has not been used to subsidize exports. As of December 2003 the law's executive regulations were drafted but not yet issued.

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. USAID assisted the Government of Egypt to set up three other sites for temporary admissions and duty drawback in Suez, Port Said, and Damietta. The three sites have begun operation.

Import Bans and Barriers

As noted earlier, Egypt lifted its ban on apparel imports on January 1, 2002, replacing it with high specific-rate duties. In January 2004 the GOE issued a decree replacing these specific-rate duties with *ad valorem* (percentage of value) tariffs that appear to be consistent with Egypt's commitments to the WTO.

In 1998, Egypt issued a decree stipulating that passenger vehicles can only be imported during their year of manufacture, effectively banning the importation of second-hand cars. In 2000 the decree was amended adding one year after the year of production to the period during which passenger vehicles can be imported.

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

In December 2003 Egypt suspended the issuance of import licenses for all U.S. ruminant and ruminant products, including beef and beef liver, due to a single case of BSE in an imported cow. Egypt still maintains a prohibition on U.S. beef, despite significant U.S. actions to ensure the safety of all beef. This fall the United States hosted a visit of Egyptian officials to review U.S. safeguards for BSE. The United States continues to vigorously press for the lifting of Egypt's import restrictions on these products.

Egypt continues to block imports of U.S. turkey and chicken parts based on reported concerns that U.S. industry cannot verify that it meets Egyptian Halal requirements. Despite technical meetings and a June, 2003 written submission on steps by U.S. industry to assure Halal treatment, Egypt has not addressed U.S. concerns.

STANDARDS, TESTING, LABELING AND CERTIFICATION

Mandatory quality control standards and other non-tariff barriers appear to 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 industry reports that imports are subject to different inspections by agencies from a number of ministries. Egypt currently has over 4,500 standards, seven percent of which are mandatory. There is little or no inter-agency coordination in the formulation and enforcement of standards. Standards are established by the Egyptian Organization for Standardization and Quality Control in the Ministry of Foreign Trade and 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 and Industry.

Egypt has increased efforts to bring mandatory regulations into conformity with international standards. On February 22, 2005, the Minister of Industry and Foreign Trade issued decree number 130 for 2005, which obligates importers and producers of certain food products and commodities to comply with only essential Egyptian standards and specifications. However, many imports are still 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, 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.

Egypt has increased efforts to bring mandatory regulations into conformity with international standards. However, importers report that product 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 worked with GOIEC to develop a state-of-the-art food laboratory in Dekhaila port near Alexandria. The laboratory became operational in March 2004. 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 a major purchaser of U.S. wheat and corn. Trade in agricultural products could be expanded, however, through the elimination of tariff and non-tariff barriers. U.S. exporters report that Egypt's application of sanitary and phytosanitary measures on a number of agricultural products are non-transparent and burdensome, including beef, apples and pears.

Shelf-life standards required by the Government are rigid and do not appear to 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 may have the effect of blocking some U.S. exports, such as U.S. processed cheese products. Moreover, Egypt applies shelf life standards to certain non-food imports such as syringes and catheters.

Food imports are sometimes subject to quality standards that appear to lack 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, a requirement not imposed on domestically graded premium beef. As a result, U.S. exporters lose an estimated $2 million in sales annually. In early 2005, Egypt announced that it would issue a decree to eliminate this requirement.

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.

In response to U.S. requests, Egypt in 2004 took steps to address barriers to imports of U.S. and other foreign textile and apparel, including removing costly and complicated labeling requirements. Egypt ended the requirement that the country of origin must be identified in a continuous band along the entire length of the imported fabric. In addition, fabrics are no longer subject to testing, and measures requiring that apparel labels be written in Arabic to include importer information were eliminated. Egypt also committed to expedite the customs clearance process for apparel and textile imports.

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 diminished, but not been 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. In August 2004 the newly appointed 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. The United States and Egypt have a working group on government procurement established under the U.S.-Egypt Trade and Investment Framework Agreement Council, and Egypt supports discussion of transparency in government procurement in the WTO.

EXPORT SUBSIDIES

The GOE mandated a $43 million subsidy program for Egyptian cotton in October 2002 to encourage the use of local cotton by textile mills. The program ended during the first half of 2003, with no payments made to growers. There are no plans to renew this program. 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.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Though Egypt is a signatory to many of the international intellectual property (IP) 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, the Egyptian Government passed a comprehensive IPR law to protect intellectual property and to attempt to bring 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, 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. In June 2003, the Executive regulations dealing with patents, trademarks, and botanical varieties were issued. The executive regulations covering copyright protections remain under review. 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.”

In 2004, however, Egypt lost ground in important areas of IPR protection. The U.S. government was deeply concerned by Egyptian government approval in late 2003 for local manufacturers to produce copies of several U.S. pharmaceutical products contrary to Egypt's obligations to protect the holder of the intellectual property rights of such products. As a result of these approvals, USTR in 2004 again elevated Egypt to the Priority Watch List. The data protection problem appeared to worsen in late 2004 when the Egyptian Ministry of Health apparently embarked on the approval of a significant number of copies of pharmaceutical products for marketing in Egypt. The U.S. Government is concerned that a number of these approvals would violate Egypt's obligations under TRIPS, its own IPR law, Prime Ministerial Decree 2211 and assurances it has given the U.S. Government on data protection. Other significant IPR problems in Egypt include lack of protection for new plant varieties and false licensing of some copyrighted works.

The United States has sought over the last ten years through USAID-funded projects to assist Egypt's efforts to build its capacities in intellectual property protection. Substantial and meaningful progress has been made in establishing and strengthening some of the government institutions necessary for an effective IP regime.

For example, in October 2004 the Ministry of Agriculture established a new plant variety registration office. However, articles in the Egyptian IPR law that require registration and certification by the plant variety registration office need to be modified to facilitate the process and provide adequate protection for new varieties. As of December 2004 no varieties have been registered with the office, prompting the Ministry of Agriculture to form a committee to resolve the problems associated with granting plant variety protection in Egypt. However, no action has yet been taken. Egypt's IPR law does not address "essentially derived varieties", thus leaving them without protection. U.S. companies are advised not to export new breeding material or new plant varieties to Egypt until the issues are addressed. Egypt is working on reforming administration of its IPR laws, including plant varieties, as part of its efforts to join the International Union for the Protection of New Varieties of Plants (UPOV).

A modern, computerized Egyptian Patent Office operating under the authority of the Ministry of Higher Education and State for Scientific Research now is capable of processing patent applications and granting patent protection. This office has significantly improved the quality and transparency of Egypt's trademark and industrial design registration system. 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, examination of trademark, and design applications, and the processing of applications under the Patent Cooperation Treaty (PCT). In preparation for the new WTO patent regime, in effect as of January 1, 2005, the Ministry began hiring new technical examination staff in 2003. It took appropriate steps to prepare for the processing of some 1,500 pharmaceutical patent applications that are expected to be in the "mailbox" when the new regime comes into effect. Egypt has become a receiving office under PCT for neighboring countries. This development should expand Egypt's regional role as a center for Arabic language training.

Counterfeiting and piracy adversely impact most of the intellectual property industries in Eygpt, including motion pictures (in video cassette format), sound recordings, books and other printed matter, textile designs, and computer software. The third chapter of the Egyptian IPR law's executive regulations covering copyrights and related issues has been under review by the Ministry of Culture for over two years. Regarding computer software protection, the GOE took steps to ensure the authorized use of legitimate business software by civilian government departments and in 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. 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, took 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.

A USAID technical assistance program is working with several Egyptian Ministries to strengthen IPR enforcement and increase public awareness. Protection against false licensing is reported to be due to the government's inadequate human and physical resources. The USAID program is working with concerned government authorities to improve enforcement. Reports indicate an increase in police and Ministry of Culture involvement in IPR protection in 2004. The USAID program is 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. The program also works with law schools in five Egyptian universities to increase awareness and training on IPR issues. In addition, the program included cooperation with the Ministry of Internal Trade and Supply to set up a specialized IPR unit and modernize the trademark office that provide technical assistance to in-house inspectors. The Ministry of Foreign Trade and Industry established in mid-2004 a special unit for intellectual property rights protection.

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 (foreign capital equity should not exceed 49 percent of the total capital of some activities). Egypt restricts the employment of non-nationals to 10 percent of the personnel employed by a company.

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.

In 1998, the GOE 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 six foreign insurance companies operating in the market: Alico, AIG, ACE and ACE AIIC (U.S.), Legal and General (U.K.), and Allianz (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 appear to have made little headway in the past two years. In December 2004 the Minister of Investment, who is responsible for privatization of public and joint venture companies, announced government plans to privatize public insurance companies. One public insurance company is expected to be privatized by the end of 2005.

There are 61 banks in Egypt, 22 of which are joint ventures with foreign participation. As a result of its 1997 WTO financial services commitments, 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 announced 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. 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 mandating that banks unable to meet this requirement either merge with other banks or exit the market. Since early 2001 the government has advocated the merger of some smaller banks but little happened in this regard until late 2004 when two banks merged and three applied for CBE approval. More mergers are expected in 2005.

Also in 1998, legislation was passed to allow privatization of the four state-owned banks that control over 50 percent of the banking sector's total assets. Progress on privatization has been slow. In 2004, the government appointed new, western-trained senior management teams for the four banks. Government plans to privatize one public bank were announced following the appointment of a new Cabinet in July 2004, and this privatization is expected to be completed by the end of 2005. The downsizing and privatization of Egypt's banking sector should strengthen it and improve implementation of market-based financial operations.

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 starting 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 services have expanded rapidly in the past three years as the sector has been liberalized and opened to international competition. Telecom Egypt will continue to be a state-owned monopoly until the end of 2005. At that time, the GOE 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. An initial public offering of Telecom Egypt stock was originally planned for late 2000, but it was delayed due to market conditions.

Private-sector firms participate actively in Internet services and cellular services. Foreign firms compete 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, however no agreements have yet been signed. In February 2003, Egypt’s parliament approved a new telecommunications law (Law 10). It stipulates, in compliance with Egypt's WTO commitments, that Telecom Egypt will relinquish its monopoly status as Egypt’s domestic operator and sole international operator by January 2006 and provides for greater price flexibility for Telecom Egypt shares in a future public offering. In June 2002, Egypt acceded to the WTO Basic Telecommunications Agreement (BTA), which requires the liberalization of telecommunication services and full autonomy of the national telecom regulatory authority by January 2006. In April 2003, Egypt joined the WTO Information Technology Agreement (ITA), which requires the eventual phasing out of tariffs on all information technology imports from WTO members. Egypt has made significant progress in meeting its WTO telecommunications-related commitments. More progress is required to achieve full autonomy in National Telecommunication Regulatory Authority (NTRA) operations.

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. Another port, East Port Said port, was inaugurated in October 2004. 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. Private and foreign air carriers may not operate charter flights to and from Cairo without the approval of the national carrier, Egypt Air. 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 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 25 over the next decade.

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 and tourist guides.

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 specified in 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 established 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 meetings.

Egypt offers first-time investors expedited approval to establish operations, and special advantages and incentives are given to investors in 16 priority sectors (among them agriculture, housing, transportation, petroleum, and computer software). 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. The government drafted a new income and corporate tax law which will be referred to parliament in the 2004/2005 session. The draft bill reduces income and corporate taxes by 50 percent, imposes flat rates, reforms tax administration, and eliminates tax holidays.

In 1995, 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.

ANTICOMPETITIVE PRACTICES

The Government of Egypt has drafted a comprehensive competition and antitrust law that would prohibit monopolistic behavior that negatively impacts prices and quantities in local markets, and would call for monitoring companies that exceed a specific benchmark market share. The government circulated the draft law in the business community for discussion in the past year and made several amendments to accommodate international standards and the structure of the Egyptian economy. The law has been approved by the Egyptian Cabinet and is expected to be considered during the current session of parliament (November 2004-June 2005).

ELECTRONIC COMMERCE

Egypt issued the electronic signature Law 15 of 2004 which regulates authorization of 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 the lack of security on computer networks, the relatively high prices charged by Internet Service Providers, and the limited number of Internet users in the country.

OTHER BARRIERS

Pharmaceutical Price Controls

The 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 restrictions to export pharmaceuticals were removed to encourage pharmaceutical investment and exports. In November the Ministry of Health announced it will create a fund to stabilize prices of local pharmaceutical products. Some reports indicate the fund will mainly support local companies' research and development efforts. Details about the fund's operations are not available.

Export Restrictions

In August 2004 the Ministry of Agriculture removed restrictions on exporting cotton. The Minister of Foreign Trade and Industry then announced that all types of cotton will be available for exporting in the 2004/2005 season, and that the government will 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. The USG raised its concerns at the WTO's Working Party on STEs in November 2003 and awaits a response from the Egyptian government.