EGYPT

TRADE SUMMARY

The U.S. goods trade surplus with Egypt was $3.0 billion in 2007, an increase of $1.2 billion from 2006. U.S. goods exports in 2007 were $5.3 billion, up 29.4 percent from the previous year. Corresponding U.S. imports from Egypt were $2.4 billion, down 0.7 percent. Egypt is currently the 35th largest export market for U.S. goods.

The stock of U.S. foreign direct investment (FDI) in Egypt was $5.9 billion in 2006 (latest data available), up from $5.4 billion in 2005. U.S. FDI in Egypt is concentrated largely in the mining sector.

IMPORT POLICIES

The Egyptian government has gradually liberalized its trade regime and economic policies in recent years. The reform process had been somewhat halting until the appointment of Prime Minister Ahmed Nazif and a new ministerial economic team in 2004. Under Nazif's leadership, the government adopted a wide range of significant reform measures. However, to maintain its reform momentum, including in the trade sector, the government needs to continue to reduce corruption, reform the cumbersome bureaucracy, and eliminate unreasonable and nonscience 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 subheadings 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 3 years. Additionally, the government eliminated export duties on 25 products in short supply on the domestic market.

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 import tariffs from 9.1 percent to 6.9 percent. Ninety percent of imported goods now face tariffs below 15 percent. These goods include many foodstuffs, raw materials, intermediate goods, and some finished goods such as refrigerators, heaters, and televisions. Other products, around 8.5 percent of the total, are subject to no tariffs at all. 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; and in addition, cars with engines over 2,000 cc are subject to an escalating sales tax up to 45 percent. Clothes also face relatively high tariffs, though the 2007 decree reduced the rate from 40 percent to 30 percent. Tariffs on cloth were also reduced from 22 percent to 10 percent, and yarn from 12 percent to 5 percent. The decree eliminated the 2 percent tariff on nitrogen and phosphate fertilizers.

The decree also reduced import duties on several agricultural commodity 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. Of the $1 billion in U.S. agricultural products shipped to Egypt in 2006, about 80 percent were eligible for duty free entry as a result of the tariff changes. In the 2007 tariff reduction, Egypt lowered four tariff lines to make them consistent with its WTO commitments.

However, significant barriers to U.S. agricultural products remain, particularly for those of animal origin, and the government still occasionally makes abrupt import regime changes without notification or opportunity for comment. In July 2006, the tariff rate on poultry was reduced from 32 percent to zero, but in March 2007, the government reimposed 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 1,200 percent to 3,000 percent.

The tariff schedule for foreign movies is complex but, in general, foreign movies are subject to duties and import taxes of about 46 percent (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 5 percent box office tax for local films). The government no longer requires companies wishing to export to Egypt to register with the Egyptian General Organization for Import and Export Controls (GOIEC).

Customs Procedures

Egypt adopted the WTO customs valuation system in 2001. Although the government reports that it has fully implemented the system, some importers say they continue to 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 has committed to a comprehensive reform of Egypt's customs administration. USAID has financed valuation training for nearly 200 customs officials and representatives of the private sector and sponsored the publication and dissemination by the customs authority of a valuation reference manual, part of a 6 year program by USAID to support reform efforts. The Ministry of Finance is currently reviewing a new customs law to improve the valuation system and otherwise facilitate trade.

Import Bans and Barriers

Passenger vehicles may only be imported within 1 year after the year of production. Egyptian regulations allow foreign investors to import a vehicle duty free for their private use in the year of manufacture, provided that approval is obtained from the Chairman of the General Authority for Investments and Free Zones.

The Egyptian Ministry of Health prohibits the importation of natural products, vitamins, and food supplements in finished form. These items can only be marketed in Egypt by local companies that manufacture them under license, or by local pharmacies that prepare and pack imported ingredients and premixes according to Ministry of Health rules. 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 Ministry of Health 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. The license is valid from 1 year depending on the product. After the license expires, the importer must request a renewal, which 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 Ministry of Health 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 Ministry of Health'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 continues to maintain a general policy that allows agricultural commodities (such as corn and soybeans) produced through biotechnology to be imported, so long as the product imported is also consumed in the country of origin. However, other U.S. agricultural products, particularly those of animal origin, face significant barriers. Requirements for *Halal* certification complicate beef and whole 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. Egyptian Veterinary Service officials must approve U.S. beef plants for *Halal* slaughter before the individual plants can be approved for export to Egypt. 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, GOEIC in the Ministry of Trade and Industry.

Of Egypt's 5,000 standards, 543 are Egyptian technical regulations or mandatory standards. EOS reports that it has harmonized 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. 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 standards. 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 2 years. Goods carrying the mark are subject to random testing.

In 2005, new import/export regulations increased transparency and liberalized procedures to facilitate trade. The new 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 new import/export 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 importers report that the new regulations are not applied consistently or uniformly.

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 nontransparent and arbitrary treatment of imports in some cases. For example, the Plant Quarantine office rejected a $15 million U.S. wheat shipment in June 2007, on the grounds of pest infestation, despite evidence to the contrary. U.S. beef, apples, and pears are subject to nontransparent and burdensome SPS measures. Other food imports are sometimes subject to quality 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. For example, meat products can only be imported directly from the country of origin and must include content details in Arabic sealed inside and listed on the outside of the package. This labeling requirement raises processing costs and discourages some U.S. exporters from competing in the Egyptian market.

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.

GOVERNMENT PROCUREMENT

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

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 when their bids are 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 value of all government procurement in any tender. 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. Many concerns about transparency remain, however. For example, the Prime Minister has the authority to determine the terms, conditions, and rules for procurement by specific entities.

In September 2006, the executive regulations of the Tenders and Bids Law were amended to streamline procurement procedures. The changes shorten the period required for announcing tenders and evaluating bids, reduce the cost for tender documents, require procuring entities to hold prebid meetings to clarify items in tenders and include model contract terms that set out the rights and obligations of contractors. The amendments allow small- and medium-sized enterprises 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 adhere strictly to that law.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Although Egypt is a signatory to many international intellectual property conventions, the United States has significant concerns about IPR protection and enforcement in Egypt. In 2002, Egypt strengthened its IPR regime through improvements in its domestic legal framework and enforcement capabilities. Egypt also passed a comprehensive IPR law to protect intellectual property and designed to bring the country into compliance with its obligations under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

The adequacy of Egypt's protection of the intellectual property of U.S. and foreign pharmaceutical firms, however, continues to raise concerns. 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. The government's ability to implement this system is not yet clear.

Patents

The Egyptian government has made progress in establishing and strengthening some governmental institutions necessary for protecting intellectual property. Provisions of the new IPR Law allowing for patenting pharmaceutical products took effect on January 1, 2005, when the Egyptian Patent Office opened the mailbox for pharmaceutical patent applications. The Egyptian Patent Office then began examining the approximately 1,500 pharmaceutical patent applications submitted for approval. In March 2007, the Egyptian Patent Office granted its first pharmaceutical product patent from the "mailbox." According to the Patent Office, it has completed its technical examination of all filed applications. However, further clarity is needed regarding the actual disposition of all applications filed in the mailbox and the status of notifications to patent holders.

Copyrights

High levels of piracy adversely impact most copyright industries in Egypt, including movies, sound recordings, books and other printed matter, and computer software. The government of Egypt has improved protection of computer software and has taken steps to ensure that civilian government departments and schools use legitimate software. However, the International Intellectual Property Alliance estimated piracy rates in the Egyptian market for business software at 60 percent and music at 75 percent in 2007. Book piracy remains a particular concern in Egypt, due to weak enforcement in this area.

Although the Ministry of Culture had taken the lead in enforcement of exclusive rights for software, copyright regulations issued in 2006 appear to give the Information Technology Industry Development Agency (ITIDA) under the Ministry of Communications and Information Technology the lead on copyright law enforcement for software and databases. Technical expertise in ITIDA is expected to improve enforcement for software in Egypt. ITIDA has conducted IPR public awareness events with local partners and provided expert opinions in judicial matters relating to IPR infringement for software products.

SERVICES BARRIERS

GATS Commitments

Egypt has restrictions for most services sectors in which it has made GATS commitments. These restrictions place a 49 percent limit on foreign equity in construction and transport services. In the computer services sector, larger contributions of foreign equity may be permitted, such as when the Ministry of Communication and Information Technology determines that such services are an integral part of a larger business model and will benefit the country. Egypt restricts companies from employing non-nationals for more than 10 percent of their workforce. Limitations on foreign management also apply to computer related services (60 percent of top-level management must be Egyptian after 3 years from the start-up date of the venture). A prohibition on the acquisition of land by foreigners for commercial purposes was amended in 2002 to allow such acquisition under certain circumstances.

Insurance

Foreign firms may own up to 100 percent of Egyptian private insurance firms, although the market remains closed to foreign intermediaries. Investors acquiring more than a 10 percent stake in an insurance company require approval from the Egyptian Insurance Supervisory Authority. There are currently 21 insurance companies operating in the market, including at least 9 foreign companies. Since Egypt is a member of the African Union, direct insurers are required to cede 5 percent of their reinsurance business to Africa Re, an African reinsurance corporation.

Banking

Egypt permits unrestricted foreign participation in existing local banks. However, no foreign bank seeking to establish a new bank in Egypt has been able to obtain a license in 10 years. Furthermore, Egypt plans to reduce the number of banks in Egypt from 39 to 21 in the next 5 years.

Progress has been slow in the government's plans to restructure the four state-owned banks, which control over 50 percent of the banking sector's total assets. In October 2006, the first of these – the Bank of Alexandria – was privatized through a multiple round auction that concluded with the sale of 80 percent of the bank's shares to a foreign bank. In July 2007, the government announced it would sell its 80 percent stake in Banque du Caire to a strategic investor, while 15 percent will be put up for an initial public offering (IPO) and 5 percent will be held by employees. The announcement signaled the reversal of the government's original plan, announced in September 2006, to merge Banque du Caire with Banque Misr. The government's reversal has been met with criticism from factions of parliament and the public concerned by the growing level of foreign ownership of Egyptian assets. This opposition has resulted in a slowdown in the execution of the revised plan originally slated to be completed in September 2007; the Egyptian government is also likely to reconsider the portion of shares offered in an IPO. The government has set a new timeline for the first quarter of 2008 to complete the sale.

Telecommunications

Egypt's accession to the WTO Basic Telecommunications Agreement in 2002 and the WTO Information Technology Agreement in 2003 required the liberalization of telecommunications services, independence for the National Telecommunications Regulatory Authority (NTRA) by 2006, and the phasing out of tariffs on all information technology imports from WTO Members.

In 2003, Egypt's parliament approved a new telecommunications law that established the framework for the government to meet these commitments. More progress, however, is needed in establishing full autonomy for the NTRA. Although the 2003 law stipulated the end of Telecom Egypt's monopoly of domestic and international telephone service by January 2006, Telecom Egypt continues to hold a *de facto* monopoly since additional fixed line licenses have not yet been issued by the NTRA. The United States is concerned that the lack of competitive alternatives to Telecom Egypt undermines Egypt's commitment to liberalize the sector.

The government began divesting state ownership of Telecom Egypt in 2005 by privatizing 20 percent of its assets. International firms actively participate in Internet and cellular services and are eligible to bid on licenses for new telecommunications services and for contracts offered by Telecom Egypt to modernize its networks and switching equipment.

The cellular service market currently consists of three private global systems for mobile communications operators. Egypt awarded the most recent license to a cellular operator through a public tender in 2006. Currently, there are more than 23 million mobile subscribers and the wireless communications sector is growing at a rate of more than 30 percent per year. However, companies continue to complain that regulators are stifling competition to the benefit of Telecom Egypt by not licensing companies seeking to provide voice over Internet protocol (VoIP). In addition, Telecom Egypt has been slow in negotiating interconnection arrangements and international gateway accessibility with carriers. Though a previous complaint on the VoIP issue has been resolved, the lack of a publicly available reference interconnection offer by Telecom Egypt continues to introduce delays for carriers seeking interconnection.

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 £E 300 million ($55 million), have increased handling capacity to 44 million tons/year, up from 32 million tons/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 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 limited cooperative marketing agreements and a safety article in 1997. The Agreement remains very restrictive and has no provisions on charter services. Private and foreign air carriers may not operate charter flights to and from Cairo without the approval of the national carrier, Egypt Air. U.S. and Egyptian officials have discussed the possibility of an Open-Skies air services agreement to replace the 1964 Agreement and have agreed to maintain contact and exchange views to move the process forward.

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 Most Favored Nation (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 July 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

Egyptian antitrust law focuses on preventing intentionally unfair or abusive practices such as lowering prices to the detriment of smaller competitors or limiting supply to the market to the detriment of consumers. A company holding 25 percent or more market share of a given sector may be subject to investigation if suspected of illegal or unfair market practices. Penalties for companies found to have engaged in monopolistic practices range from £E 13,000 ($2,400) to £E 10 million ($1.8 million). 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.

ELECTRONIC COMMERCE

Egypt’s Electronic Signature Law 15 of 2004 established the Information Technology Industry Development Agency (ITIDA) to act as the electronic signature regulatory authority and to further develop the IT sector in Egypt.

The Ministry of State for Administrative Development (MSAD) is implementing an electronic government initiative to increase government efficiency, reduce services provision time, establish new service delivery models, reduce government expenses, and encourage electronic procurement. For example, the electronic tender project is designed to allow all government tenders to be published online. The implementation required new legislation such as electronic signature, approved in 2004; information security and cyber crime, which is expected to be considered in 2008; and right to information, which is being drafted.

OTHER BARRIERS

Pharmaceutical Price Controls

The Egyptian government controls prices in the pharmaceutical sector and does not have a transparent mechanism for pharmaceutical pricing. The Ministry of Health (MOH) reviews prices of various pharmaceutical products and negotiates with companies to adjust prices of pharmaceuticals based on nontransparent criteria. The Ministry of Health has not allowed pharmaceutical prices to adjust completely to compensate for inflation and the depreciation of the Egyptian pound since 2000. For example, the Egyptian pound fell 40 percent in value against the U.S. dollar since 2000 (although the trend reversed somewhat in 2007), but 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 2004, the government reduced customs duties on most imports of pharmaceutical inputs and products from 10 percent to 2 percent. The government claims this step allowed local pharmaceutical companies to compensate for some of their losses from the depreciation of the pound in recent years. Also in 2004, the Ministry of Health lifted restrictions on exporting pharmaceuticals to encourage pharmaceutical investment and exports, and it announced plans to create a fund to stabilize prices of local pharmaceutical products. During 2005 and 2006, the government approved price increases on select foreign and domestic pharmaceutical products.