

Overview on the Egypt's Trade Policy

by

Dr. Hossam Younes

**Senior Researcher & Trade Facilitation Manger
Ministry of Industry & Foreign Trade**

2011

Overview of the Egypt's Trade Policy

1. Recent Economic Developments

Egypt has a territory of 1,001,450 square kilometres and a population of some 81.5 million. Located in the north-eastern corner of Africa, it is bordered by the Libya to the west, the Gaza Strip and Israel to the north-east, and Sudan to the south. Egypt has a coastline of about 2,450 kilometres on the Mediterranean Sea and the Red Sea. Per capita income was about US\$ 682 in 1990 compared with US\$ 2699 in 2010 (Table I).

GDP growth, which ranged between 4% and 6% during the second half of the 1990s, declined steadily to 2.3% in 2002. Since then, a recovery has taken place, driven mainly by public consumption and net external demand (despite a decline in aggregate investment), with a growth rate of 7.1% in 2008 and declined to 5.2% in 2010. Nevertheless, with annual population growth at about 1.75%, GDP growth rates are still rather low to have a significant impact on poverty. Unemployment has persisted at a relatively high level of 9.4% in 2009.

Table 1: Main Economic Indicators, 2010

| | | | |
|--|--------------|--------------------------------------|--------------|
| Population, total | 81.1 | Trade per capita (US\$, 2008-2010) | 1,356 |
| Population growth (annual %) | 1.75 | Trade to GDP ratio (2008-2010) | 56.8 |
| Unemployment (annual %: 2009) | 9.4 | <u>Rank in world trade:</u> | |
| Inflation, GDP deflator (annual %) | 10.1 | Merchandise Export | 63 |
| GDP (current US\$ billions) | 219.0 | Merchandise Import | 49 |
| GDP growth (annual %) | 5.2 | Merchandise trade (% of GDP) | 49.5 |
| GDP, Per Capita GDP (current US\$) | 2,699 | Share in world total exports | 0.17 |
| Merchandise exports, f.o.b. (billion US\$) | 26.4 | Commercial services exports (b US\$) | 23.6 |
| Merchandise imports, c.i.f. (billion US\$) | 52.9 | Commercial services imports (b US\$) | 13.0 |

Source:

1. World Bank, WDI database, 2011.
2. WTO, Statistics Database, 2011.
3. UN, National Accounts Statistics database, 2011.

The share of agriculture in GDP has been declining for nearly three decades, although the sector is still important for employment and generates about 10% of GDP earnings. Production of different industries accounts about 29.0% of GDP. The services sector constitutes the backbone of the Egyptian economy in terms of GDP share, employment, and exports (61.0%) in 2010.¹

¹ World Bank, WDI database, 2011.

In order to avert and contain further pressures on the local currency, Egypt shifted to a flexible exchange-rate regime in 2001 after a series of forced devaluations. As a result, Egypt saw its exports increase and was able to reduce domestic interest rates, thereby stimulating investment. The increase in both exports and investment appear to have contributed positively to the growth rate of real GDP, with an increase during the period 2002-2010. Other contributing factors to the high real GDP growth rates have been the entry into force of the bilateral trade agreement between Egypt and the European Union in 2004, and the subsequent increase in bilateral trade; and workers' remittances from Egyptian labour in the GCC countries.

2. Trade policy

2.1 Trade Policy Formulation and Implementation

Trade policy is implemented by the Ministry of Foreign Trade and Industry, established in November 2004 through a merger of the Ministry of Foreign Trade and the Ministry of Industry and Technological Development. The Ministry coordinates implementation with other state entities (where necessary), most notably, the Ministries of Agriculture and Finance (table 2). Inter-ministerial consultations are also carried out to assess the impact of major policy changes on various sectors of the economy.

Table 2: Ministerial responsibility for trade-related issues.

| Ministry/Agency | Competence |
|---|---|
| Ministry of Agriculture and Land Reclamation | Agriculture, including phytosanitary standards |
| Ministry of Communication and Information Technology | E-commerce, postal services |
| Ministry of Civil Aviation | Air transport |
| Ministry of Culture | Copyright (books) |
| Ministry of Electricity and Energy | Energy |
| Ministry of Finance | Public procurement |
| Customs Authority | Customs tariff, valuation, rules of origin |
| Ministry of Trade and Industry | Trade policy, foreign trade, contingency measures, export promotion |
| Egyptian Organization for Standardization and Quality | Standards |
| General Organization for Export and Import Control | Import and export inspections, including quality control |
| Ministry of Health | Sanitary standards |
| Ministry of Higher Education and Scientific Research | Research and development |

| | |
|---|--|
| Ministry of Investment | Foreign investment |
| General Authority for Investment and Free Zones | Investment |
| Ministry of Petroleum | Petroleum and natural gas |
| Ministry of State for Economic Development | 5-year plans, general expenditure planning |
| Egyptian Insurance Supervisory Authority | Insurance |
| Ministry of Tourism | Tourism |
| Ministry of Transport | Maritime transport, ports |

Source: Information provided by the Egyptian authorities.

The responsibility of trade policy formulation continued to be under the supervision of the Ministerial Economic Committee, under the chairmanship of the Prime Minister.

Egypt's foreign trade policy encompasses:

- ✓ Import, export and foreign exchange policies that are formulated by the ministry of trade and industry;
- ✓ The customs tariff policy, which is laid down by the ministry of finance in collaboration with the ministry of trade and industry and in consultation with the productive sector; and
- ✓ The ministry of trade and industry monitors the implementation of these policies.

Egypt's trade policy objectives are:

- ✓ Pursuing trade liberalization within the context of the structural adjustment reform programme;
- ✓ Implementing Egypt's commitments under the WTO;
- ✓ Reducing the deficit in the balance of trade;
- ✓ Increasing exports and ensuring their diversification;
- ✓ Strengthening Egypt's position in its export markets and creating opportunities for new markets;
- ✓ Enhancing Egypt's trade relations with its partners, especially countries with which Egypt has preferential trade relations;
- ✓ Ensuring fair trade through the creation of a mechanism to reflect its rights and obligations within the context of the WTO;
- ✓ Achieving substantial economic growth and an improvement in living standards; and
- ✓ Increasing further the role of the private sector.

2.2 Trade policies and practices by measure Affecting Exports

2.2.1 Registration, documentation, and controls

Egypt does not require any export approval. Conditions to be fulfilled by exporters are laid down in Articles 63 to 69 of the Import and Export Regulations. Exporters must be registered in the Commercial Register with the General Organization for Export and Import Control.

Certificates of origin, required by Egypt's trading partners under bilateral and regional agreements, may be issued by the General Organization for Export and Import Control. Applications for a certificate of origin must be accompanied copies of the invoice and the bill of lading, as well as a declaration that the consignment fulfils the rules of origin of the agreement under which the consignment is exported. The General Organization for Export and Import Control is bound to issue the certificate of origin within 24 hours of submission of the complete application.

All exports are subject to random inspection by the General Organization for Export and Import Control, which may check between 1% and 10% of each exported consignment to ensure compliance with export conditions and specifications, and any quality control requirements, before issuing a clearance certificate. The inspection must be carried out within one week of presentation of the goods (24 hours in the case of perishable goods). The certificate, if requested, must be issued within 24 hours of the inspection and sooner in the case of perishable goods or goods shipped by air.

2.2.2 Export taxes, charges, and levies

Egypt does not apply any export taxes, charges or levies. However, according to Article 8 of the Import and Export Regulations, a duty of up to 100% of the value of the good may be imposed at any time by the Minister responsible for trade; according to the authorities, this duty has never been imposed. Exports are exempt from the GST.

2.2.3 Export prohibitions, restrictions, and licensing

Pursuant to Article 7 of Law 118/1975, the export of certain commodities can be prohibited or restricted through Ministerial decree. The authorities indicate, however, that Egypt does not maintain any export quotas, licences, or prohibitions.

2.2.4 Export subsidies, and duty and tax concessions for exports

However, various incentives are granted to encourage export-oriented activities. Enterprises located in free zones are eligible for various incentives.

Under Articles 102 to 106 of the Customs Law, the duty drawback scheme allows a full refund of customs duties paid on imports of inputs and components used in the manufacture of finished products provided that the finished products are exported or shipped to a free zone within two years of the date of payment of the duties. All excise duties incurred on local inputs are also refunded.

2.2.5 Free zones and special economic zones

Since 1974, the Government of Egypt has been promoting the establishment of free zones. Free zones may be established by the Council of Ministers under Article 29 of Law 8/1997. The incentives offered in the free zones are meant primarily to attract investment, to provide employment for Egyptians, and to encourage exports.

There are two types of free zone: public and private. Public free zones are established for projects licensed under the provisions of Law 8/1997, whereas private free zones are established and confined to one specific project or company. Individual public free zones are managed by a Board of Directors, which licenses projects within the zone. Overall management of the zones is carried out by the General Authority for Investment and Free Zones (GAFI), which may also establish private free zones if appropriate. There are seven major public free zones in Egypt (table 3); three additional zones are under consideration by GAFI. There is a customs office in each free zone.

Enterprises installed in free zones benefit from complete exemption from import tariffs and service charges, income taxes and the general sales tax. However, enterprises established in the free zones are subject to a duty of 1% on the annual value added for manufacturing or assembly projects. There are no restrictions on the type of investment activities; many types of manufacturing and service activities take place in the free zones. Free-zone investors may sell all or part of their products on the Egyptian market after payment of the relevant customs duties on the goods.

Table 3: Egypt's major free zones, 2010

| | Number of companies | Cumulative investment (US\$ million) | Employment |
|------------------------------|---------------------|---|----------------|
| Alexandria | 315 | 7,233 | 21,497 |
| Nasr City | 189 | 2,803 | 38,298 |
| Port Said | 100 | 1,890 | 23,005 |
| Suez | 68 | 3,666 | 11,367 |
| Ismailia | 51 | 116 | 12,075 |
| Damietta | 26 | 1,783 | 5,266 |
| Shebin El Kom | .. | .. | .. |
| Keft | .. | .. | .. |
| Media Production City | 29 | 1,330 | 3,239 |
| Total | 778 | 18,821 | 114,747 |

Source: Information provided by the General Authority for Investment.

2.2.6 Export finance, insurance, and guarantees

The Export Development Bank of Egypt (EDBE), established in 1983, provides short- and medium-term loans to finance capital assets of export companies, and bank guarantees required for financing exports. The guarantees are granted either directly to the exporter, or through other banks. EDBE also provides credit to finance imports primarily meant as inputs for export production, and acts as an insurer for exports against commercial and non-commercial risks.

2.2.7 Export promotion and marketing assistance

The main government agencies responsible for export promotion are the Commercial Representation Body; the General Organization for International Exhibitions and Fairs; the Egyptian International Trade Point (EITP) under UNCTAD's initiative; and the Egyptian Export Promotion Centre (EEPC). All these agencies are affiliated to the Ministry of Trade and Industry.

In 2001, the government adopted a new export development strategy, focussing on three main areas: (i) solving exporters' bureaucratic problems and assisting them to overcome marketing and financing obstacles; (ii) enhancing the performance of Egyptian exporters in traditional markets such as the EU, Arab countries, and the United States; and (iii) opening up new markets for Egyptian products such as the members of MERCOSUR, the West African Economic and Monetary Union, and SADC.

At the sectoral level, Egypt's export development strategy efforts focus on five priority areas: agricultural products, processed food products, textiles and garments, chemicals and pharmaceuticals, and building materials. In cooperation with the private sector, the Ministry of Trade and Industry tries to address problems specific to each of these industries.

In 2002, Egypt adopted a new Export Promotion Law (Law 155/2002). The Law established an export promotion fund with a view to increasing exports. According to the authorities, the fund is not used to subsidize exports. The Law also provides for the establishment of a Central Unit within the Ministry of Finance. The Unit, which consists of representatives from both the Customs Authority and the General Organization for Import and Export Control, is responsible for implementing the drawback system provided for by the Customs Law.

3. Overview of international trade relations

3.1 Trade Agreements

3.1.1. World Trade Organization

A contracting party to the GATT since 1970 and a WTO Member since 30 June 1995, Egypt participates actively in the multilateral trading system. It grants at least MFN treatment to all its WTO trading partners. Egypt actively participated in the Uruguay Round negotiations and its subsequent rounds (Egypt is a founding member of the WTO). Since then, Egypt has followed a steady plan to meet its WTO commitments. It has removed most non-tariff barriers, decreased tariffs, liberalised foreign investment policies, and privatised public sector companies. Egypt has also liberalised the foreign exchange market, which has helped to boost its exports in the processed food sector.

3.1.2. Preferential trade agreements

Since its last Review, Egypt has signed a number of bilateral and regional trade agreements. Negotiations on a free-trade agreement are ongoing with EFTA and Turkey. Egypt has not been involved in any trade dispute outside the WTO since 1999.

a. EU-Egypt Association

The Agreement between Egypt and the European Union entered into force on 1 June 2004, replacing the 1977 Cooperation Agreement. The trade and trade-related provisions of the agreement had entered into force on a provisional basis on 1 January 2004 through an interim agreement. This agreement is of particular importance for Egypt, as the European Union is its most important trading partner, its main source of FDI, and its principal bilateral donor. The agreement also includes provisions on political, scientific, technological, and cultural cooperation. It establishes an Association Council, which will meet at ministerial level once a year, and an Association Committee, which is responsible for the implementation of the agreement.

b. Agadir Agreement

On 25 February 2004, Egypt signed a free-trade agreement with Jordan, Morocco, and Tunisia. The so-called AGADIR Agreement commits the parties to removing substantially all tariffs on trade between them by 1 January 2005, and to intensifying economic cooperation with regard to standards and customs procedures. The agreement also covers government procurement, financial services, contingency measures, intellectual property, and dispute settlement. The conclusion of this agreement is considered to be a major step towards the objective of creating a Euro Mediterranean free trade-zone in 2010, as it also contains rules on bilateral and diagonal cumulation.

c. Greater Arab free-trade area

The Greater Arab free-trade area (GAFTA) programme, signed on 19 February 1997 to implement the Agreement on Facilitation and Development of Trade among Arab Countries, entered into force on 1 January 1998. This agreement is considered to be the backbone of Arab economic integration. It encompasses all the members of the Arab League, and aims to create a vast Arab free trade area by 2007 by dismantling customs tariffs by 10 percentage points annually over a decade. The principal entity responsible for implementing the programme is the Economic and Social Council of the Arab League. In addition, the Union of Arab Chambers of Commerce has been tasked to produce a half-yearly report on the difficulties encountered by traders with the customs administration and regulatory agencies of individual member countries. Currently, 17 members are implementing the programme (Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, and Yemen).

d. Common Market for Eastern and Southern Africa (COMESA)

Egypt became a member of the 20-nation COMESA in June 1998. COMESA aims to deepen and expand the integration process for member countries by adopting general measures to liberalize trade. These include the removal of all tariff and non-tariff barriers and the adoption of a common external tariff; free movement of capital, labour and goods, and the right of establishment in the region; the adoption of a common set of standards, technical regulations, quality control procedures, certification systems, and sanitary and phytosanitary regulations; tax harmonization (including VAT and excise duties), and provisions on industrial cooperation in spheres such as company law, intellectual property, and investment; implementation of a harmonized competition policy; and the establishment of a monetary union. The COMESA has been notified to the WTO under the Enabling Clause.

3.1.3. Other arrangements

a) The Free Trade Agreement between Egypt and Turkey

Egypt and Turkey have signed on December 27, 2005 a free trade agreement. The Agreement is drafted in accordance with the provisions of the chapters related to the free trade area in the Association Agreement between Egypt and the EU. According to the Agreement, imports into Turkey of industrial products originating in Egypt shall be allowed free of customs duties and other charges having equivalent effect, upon the entry into force of the Agreement. On the other hand, customs duties and other charges having equivalent effect on imports into Egypt of industrial products originating in Turkey shall

be gradually abolished according to the schedules of four lists which are identical to the lists attached to the Association Agreement. The dismantling of customs duties on Turkish goods of each list shall be affected one year behind the similar list of EU.

Regarding agricultural processed agricultural and fishery products, the two parties have agreed to grant each other concessions either as free tariff quotas or reduction of the customs duties on lists of these products. The two parties have agreed to apply the Pan – Euromed Rules of Origin on the goods exchanged among themselves. Egypt and Turkey are now in the process of ratifying the Agreement. Once this process been finalized the Agreement shall enter into force.

b) Egypt- USA Trade and Investment Framework Agreement (TIFA)

In July 1999, Egypt and the United States signed a Trade and Investment Framework Agreement, a preliminary step toward a free-trade agreement. The agreement established a Council on Trade and Investment composed of representatives of both governments, and chaired by the USTR and Egypt's Ministry of Economy and Foreign Trade. The Council meets regularly to discuss specific trade and investment matters; working groups have been established on customs administration and reform, government procurement, SPS issues, and agricultural tariff issues.

c) Qualified Industrial Zone (QIZ)

Under the U.S. umbrella, Egypt signed a trade protocol with Israel on 14 December 2004. The protocol establishes what are called "qualified industrial zones" in Egypt. Products from these zones will enjoy duty-free access to the United States, provided that 35% of their components are the product of Israeli-Egyptian cooperation.

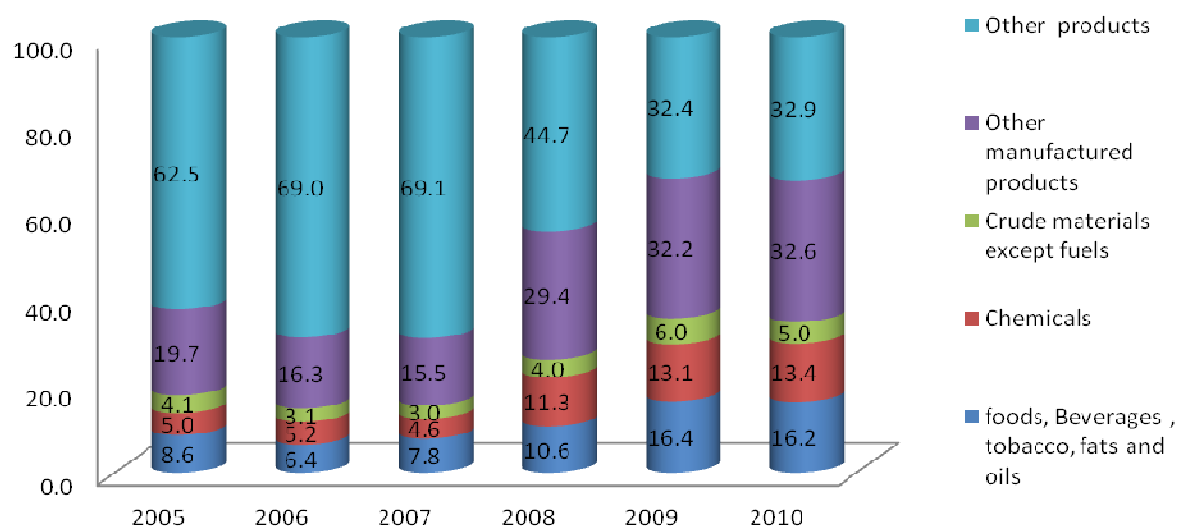
4. Egypt's commodity composition and destinations

The structure of Egyptian exports by product and geographical destination changed considerably during the 2005-2010 period. The contribution of foodstuff, chemicals and other manufactured products in exports has increased, in contrast of products in the categories of raw material that rose slightly and other products which dominated by fuel declined sharply.

The structure of Egyptian exports by product (one-digit category of the Standard International Trade Classification (SITC), indicates that, the combined share of foodstuff,

chemicals and other manufactured products¹ in total Egyptian exports increased from 33.4% in 2005 to 62.2% in 2010 (Figure 1).

Figure 1: Commodity composition of Egyptian exports
(% share in total exports value)



Source: Author calculations from COMTRADE database.

The value of the Egyptian exports in 2010 was \$26.4 billion. The ranking of the top importing region placed the EU at first place 30.3% of the total Egyptian exports. Saudi Arabia was in the second place with 5.9% followed by USA with also 5.9%, and India and Libya with 4.7% and 4.6% respectively.

On the other hand, the value of the Egyptian imports in 2010 was \$52.9 billion. The ranking of the top exporting region are the EU at 32.3% of the total Egyptian imports. USA comes in the second place with 9.4% followed by China at 9.2%, and Saudi Arabia and South Korea with 4.0% and 3.6% respectively.²

¹ The product categories presented here correspond to the one-digit SITC codes in parentheses, as follows:

- Foodstuff products: food and beverages (1), tobacco (2) and fats and oils (4).
- Raw materials excluding fuel (2).
- Chemicals: chemical and pharmaceuticals (5).
- Other manufactured products: manufactured products classified by raw material (6), Machinery: mechanical and transportation equipment (7) and other manufactured products (8).
- Other products: Mineral fuels (3) and Commodities and transactions not classified elsewhere in the SITC (9).

² WTO, Statistics Database, 2011.