

Trade Policy Review Body

TRADE POLICY REVIEW

EGYPT

Report by the Secretariat

This report, prepared for the second Trade Policy Review of Egypt, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the Government of Egypt on its trade policies and practices.

Document WT/TPR/G/55 contains the policy statement submitted by the Government of Egypt.

Note: This report is subject to restricted circulation and press embargo until the end of the meeting of the Trade Policy Review Body on Egypt

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SUMMARY OBSERVATIONS

(1) INTRODUCTION

1. Egypt's economic stabilization programme launched in 1990/91 has resulted in a significant improvement in most macroeconomic and trade indicators since Egypt's previous Trade Policy Review in 1992. Much progress has been made in reducing trade barriers: most non-tariff measures have been removed and tariff protection has been sharply reduced. MFN duties currently average about 27% compared to 42% in 1991. The removal of export bans and reduced domestic restrictions on pricing and distribution has also reduced the anti-export bias in the economy. More liberal investment policies and a programme to reform and privatize public sector companies have widened the choice of sectors for domestic and foreign private investors in Egypt.

2. Egypt's economic growth has been achieved in the presence of external shocks and despite a relatively uneven programme of structural reform which, although clearly positive overall, has allowed the persistence of some distortions rooted in past inward-looking economic policies and a long tradition of widespread state intervention in the economy. Reduced border protection has brought out more clearly the potential benefits of rationalizing the remaining import prohibitions, lowering tariff peaks and escalation, and narrowing the list of imports subject to compulsory quality control inspection. Tariffs on a number of products are applied in excess of WTO bound rates. Although transparency has clearly improved, the degree of discretion that remains in the system, including with respect to legislative change, adds an element of unpredictability for traders. Thus far investment appears mainly to have taken place in the non-tradable sectors with the result that growth has not led to significantly improved export performance.

3. Egypt's reform strategy reflects the need to maintain social consensus around reform but it may be the case that further

economic gains could be secured by stepping up the pace of internal reform both to forge a more uniform, predictable set of economic incentives, and to achieve the faster growth that the Government seeks. The Government believes that the key factors in improving growth are an increased level of investment and an acceleration in export growth to at least 10% annually. This would require further trade reform, especially through a more uniform tariff structure and continued duty reductions, including for the sectors currently excluded from the tariff reform programme. Continued reform could also help to attract more investment, particularly to the tradable sector, thus allowing trade to play a greater role in fostering Egypt's economic development.

4. Other factors that may also need to be addressed include industrial restructuring, especially of important export industries such as textiles and clothing, and continued deregulation, especially of key service activities. Maintaining the pace of reform would thus complement the stabilization programme and allow Egypt to improve growth and employment opportunities for its growing labour force and help it to become more closely integrated into the international economy.

(2) TRADE POLICY FRAMEWORK

5. Egypt's trade and structural reforms have been carried out within the framework of a stable political and institutional environment, with only a few changes in the policy-making structure since the previous Review. New and amended legislation requires passage through the People's Assembly, although the President and Ministers enjoy discretionary powers to issue amendments that have the force of law. Frequent modifications to trade-related legislation, including recent changes that require imports to be shipped directly from the country of origin, reduce predictability in government policy and may create uncertainty among traders. Enhanced transparency with respect to laws and regulations would help

consolidate the considerable gains achieved in this respect since the previous Review.

6. Egypt has notified the WTO of new legislation on anti-dumping, countervailing and safeguard measures that it adopted in 1998. New laws are being introduced to ensure compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights); Egypt already provides a mailbox facility for patent applications as required under the Agreement. Legislative amendments in other trade and related areas, including preferential rules of origin, have not yet been notified to the WTO.

7. Under the General Agreement on Trade In Services (GATS), Egypt made commitments in construction and related engineering services, financial services, tourism and transport services. In some cases, notably financial services, recent liberalization goes beyond Egypt's GATS commitments but in general Egypt's GATS commitments focus on binding the current policy framework.

(3) TRADE AND TRADE-RELATED REFORMS

8. Since its last Review, Egypt's trade policy goals have been twofold: to reduce the number of products subject to non-tariff barriers, such as export or import bans, and thus to rely increasingly on the tariff as the only trade policy instrument; and to reduce tariffs and rationalize the tariff structure. Since 1992 Egypt has removed export bans and reduced the products subject to import bans to clothing and some poultry products; it has also removed whole poultry and textiles from the list of products subject to import bans as committed to under the Uruguay Round; the former was tariffed at 80% and the latter at 54%. All MFN import licensing requirements appear to have been discontinued. Products removed from the list of banned imports have tended to be placed on a list of imports subject to quality control requirements. As a result, the list of products subject to quality control inspection on entry

into Egypt grew from 69 at the time of the previous Review to 182 in 1998.

9. In 1994 Egypt adopted the Harmonized System of Tariff Classification. An ongoing programme of tariff reductions has resulted in a significant reduction in MFN tariff rates; the simple average MFN tariff has fallen to 26.8% (30.2% with a surcharge and customs service fee) in 1998, from 42.2% in 1991. Tariff reform has also reduced the maximum MFN tariff from 100% in 1991 to 40% in 1998. Thus the overall degree of protection granted to the Egyptian economy, through tariff and non-tariff barriers, has declined significantly since Egypt's last Review. There has also been a decline in tariff escalation as duty reductions have introduced a greater degree of tariff uniformity across sectors. However, overall tariff dispersion has increased, in part due to the reduced average tariff highlighting tariff peaks in key sectors not subject to tariff reductions, including some motor vehicles, textiles and alcoholic beverages from tariff reductions. Tariff dispersion is reinforced by a number of temporary exemptions for imports of inputs and capital goods and for goods imported by assembly industries.

10. As a result of the Uruguay Round, Egypt bound over 98% of its tariff, compared to an average of 73% for developing countries. The overall average bound tariff was 45% in 1998, well in excess of the current average applied tariff, and is expected to decline to 37% by the end of the implementation period in 2005. In most cases the current applied tariff is considerably lower than the bound rate. However, in 1998, some 12% of the tariff had applied rates in excess of their bound levels, and almost 2% of the tariff had applied rates in excess of their initial Uruguay Round base rates.

(4) OTHER MEASURES AFFECTING TRADE

11. Macroeconomic and trade reform has been complemented by domestic deregulation and liberalization, which has concentrated

mainly on reducing government intervention in the economy. The process has been gradual mainly to allow economic agents to adjust to reduced state intervention and to adapt to market signals.

12. Domestic reform has mainly consisted of reduced state intervention, through a reduction of pricing and distribution controls and through an ambitious programme of privatization of public sector companies. Since Egypt's previous Review in 1992, price controls have been lifted on all but a few industrial products such as pharmaceuticals, sugar and edible oil, and there appear to be no restrictions on distribution.

13. The privatization programme has accelerated since 1995, with almost 200 out of an initially selected 314 companies expected to be fully or partially privatized by the end of 1999. The programme has focused, in the main, on non-financial public sector companies which account for around a quarter of total government and public sector output; most of the remaining entities in the public sector are not being considered for privatization at the present time. The Government has also taken action to reform and restructure public sector companies in the services sector, notably in banking, insurance and telecommunications. Privatization to date has been largely through the stock market and, thus, has generated increased foreign portfolio investment.

14. In an attempt to raise private investment both by Egyptians and by foreign companies, the Government provides a number of mainly tax and tariff incentives in certain sectors. Since its previous Review, Egypt has considerably liberalized its investment regime, first by reducing the negative list of sectors in which private investment was discouraged, and then by replacing it with a positive list of sectors in which investment is encouraged. The new Law of Investment Guarantees and Incentives passed in 1997 is likely to increase foreign direct investment in the coming years. Efforts are also being made to bring greater

competition into the economy through the introduction of competition policy, for which legislation is presently being drafted.

15. Although not a member of the WTO Agreement on Government Procurement, Egypt introduced a new Tenders Law in 1998 which introduces greater transparency in the process of public procurement; the new Law, while allowing price preferences for Egyptian suppliers, is likely to lead to improvements in procurement practices in Egypt.

(5) **SECTORAL POLICIES**

16. Sectoral reform has made significant strides in some areas, while in others it has lagged, reflecting the difficulty of overcoming decades of government intervention in the economy. Agriculture has received closer attention than manufacturing, while some services are only gradually being liberalized. Reform in agriculture, which began in the 1980s, has concentrated on reducing the degree of government control over production, pricing and distribution. As a result, there appear to be no major remaining restrictions on annual production and most agricultural products are freely tradeable and may be sold directly to private sector traders.

17. Despite a decline in production, petroleum exports still make an important contribution to the economy. Production is undertaken through production sharing agreements between the state-owned Egyptian General Petroleum Company (EGPC) and a number of foreign companies. Reforms in the sector since Egypt's last Review include a reduction in price controls and an opening of the oil distribution sector to private investment. Natural gas, whose production has been rising, is mainly used for domestic consumption, although the Government expects it to substitute for oil exports in the future. As for petroleum, the Government has reduced price regulation for natural gas, and gas distribution has been opened for private sector investment.

18. Reform in the manufacturing sector has continued although not as rapidly as in other activities. All import and export bans and quotas have now been abolished with the exception of a ban on imports of clothing, which will be removed in 2002. There are no foreign investment restrictions and investment incentives are provided for manufacturing activities, under the new Investment Law. Tariff reductions and exemptions have been concentrated in intermediate and capital goods as a result of which tariff escalation remains high in industries such as food, beverages and tobacco, and textiles and leather. Continued protection for finished products and tariff concessions for assembly industries such as motor vehicles, in combination with a liberal investment environment, has led to tariff jumping foreign investment. The good performance of industries such as food processing (excluding alcoholic beverages) suggests the desirability of widening the scope of trade and internal reform to other key sectors such as textiles and clothing.

19. With the need for higher economic and export growth, the Government seeks to eliminate bottlenecks created by a number of service activities. For example, significant headway has been made in reforming the financial sector, which has recently been completely opened to foreign investment; the telecommunications sector is gradually being opened to competition, notably in mobile telephony and value added services. In addition, since the mid 1990s, the Government has opened to the private sector a number of infrastructure services, such as port services, and energy generation and distribution networks. In general, although the Government retains control of the existing services infrastructure, most new projects are run as build-own-operate-transfer (BOOT) schemes and are likely to help producers and exporters.

(6) TRADE POLICIES AND TRADING PARTNERS

20. Trade policy reform has been pursued mainly under an autonomous programme of trade liberalization. An active member of the WTO, Egypt is also committed to meeting its Uruguay Round requirements, utilizing in many cases the permitted implementation period for developing countries. Concurrently, Egypt has focused on preferential trading agreements as a means for increasing trade flows, joining regional agreements such as the Common Market for Eastern and Southern Africa (COMESA) and the Greater Arab Free-Trade Area (GAFTA). It has also signed a number of bilateral trade agreements to accelerate regional trade liberalization. The completion of negotiations for the Euro-Mediterranean agreement with the European Union (EU) will further deepen the process of preferential trade liberalization and should improve Egypt's access to its largest export market; as in similar cases, the agreement raises questions about possible trade diversion.