
IV. TRADE POLICIES BY SECTOR

(1) OVERVIEW

1. Egypt's sectoral policy objectives continue to focus on making the economy more responsive to market signals and integrating it more closely into the international market. The overall thrust of sectoral policies has been unequivocally positive. Based on the information available, the pace of reform appears to have been steady but cautious, in part to ensure adequate popular support for change and to minimize social friction. However, in some cases it has been difficult to wean consumers and producers from decades of government intervention either directly through price controls and production quotas or through public sector enterprises. As a result, sectoral reform has been uneven, with agriculture receiving closer attention than manufacturing and a number of services undergoing considerable change while others continue to hinder economic growth.

2. Agriculture, which was the first sector subject to economic reform, has seen government intervention in cropping, distribution and marketing decline since the late 1980s. Procurement price controls appear to have been removed, and farmers are free to sell to private agents. Similarly, all export and import controls in agriculture have been lifted although the grain and cotton trades seem to be carried out largely by public sector agencies. Reduced intervention in the sector resulted initially in a major change in cropping patterns as farmers shifted production to crops with higher returns on the market. Egypt's output of cereal crops has increased and the Government is presently trying to address storage and distribution problems.

3. Petroleum and natural gas, although only around 7% of GDP, are vital to export earnings. Major reforms in the sector include a reduction in price controls and opening of the distribution network to the private sector. As petroleum output declines, the Government relies increasingly on new discoveries of natural gas, which it hopes will compensate for falling oil production and exports.

4. Reform in the manufacturing sector has been slow and piecemeal. Much of it has been confined to a reduction in direct government intervention, notably price controls and conditional import bans. Notwithstanding recent liberalization, the public sector still dominates the sector and there appears to be little progress in improving competitiveness. In key industries such as textiles and clothing, which account for almost half of manufacturing exports, there has been little or no reform. Industries such as textiles and clothing, beverages, and motor vehicles have been largely excluded from tariff reductions although import bans on textiles have been removed; maximum applied tariff rates in these industries are considerably in excess of the maximum rate of 40%, set as a policy objective. On the other hand, industries such as food processing (excluding alcoholic beverages), where there has traditionally been little government intervention, have seen output rise with the increased privatization and deregulation in the economy. However, the inefficiency of a number of services is a handicap for trade and growth, even for the more efficient industries.

5. Reform of a number of service sectors began in the early 1990s mainly to encourage exports, but also indirectly as a result of the economic reform programme. Early reform of financial services, for example, was mainly the result of exchange-rate and interest-rate liberalization. Services such as transport, port facilities, and to some extent, telecommunications have been deregulated, in part because they had become serious bottlenecks to trade; and the Government has opened up some services to private and foreign investment. However, the public sector's role remains pervasive and could well slow export and economic growth until the reform process is deepened to include it.

(2) AGRICULTURE**(i) Main features**

6. Agricultural cultivation in Egypt is confined to around 3% of its surface area; around three quarters of the fertile agricultural land is found along the Nile Delta. The almost absolute lack of rainfall makes the sector entirely dependent on irrigation, presently provided through a system of canals, which draw water from the Nile. The sector currently accounts for around 18% of GDP and 31% of total employment. The main crops are wheat and clover in winter, and cotton, rice and maize in the summer. Vegetable and, to a lesser extent, fruit production has also been growing in importance (Table IV.1).

Table IV.1
Agricultural output in Egypt, 1992-98
(Thousand tonnes)

	1992	1993	1994	1995	1996	1997	1998
Wheat	4,618	4,833	4,437	5,722	5,735	5,580	5,585
Maize	5,069	5,039	5,112	4,535	5,165	5,247	5,330
Cotton lint	370	416	255	242	346	342	227
Sugarcane	11,708	12,412	13,822	14,105	13,958	13,726	13,850
Rice, paddy	3,910	4,161	4,583	4,788	4,895	5,580	5,585
Vegetables ^a	9,332	9,491	9,683	10,237	11,695	12,192	12,314
Fruit ^b	5,257	5,133	5,133	5,695	6,048	5,946	5,989

a Including melons.

b Excluding melons.

Source: Food and Agriculture Organization statistical database.

7. A little under half of Egypt's total cultivated area is used for perennial crops such as fruit and sugarcane while the rest is double-cropped and divided evenly between winter and summer crops. Mixed farming is common, with a variety of crops being combined with a few head of cattle, sheep or poultry.¹ Most agricultural land is privately owned. Around two million feddan (800,000 hectares) of "reclaimed new lands", which were owned and operated by the Government through public-sector enterprises, have gradually been sold.² According to the authorities around 80% of this new land is currently operated by the private sector.

8. Egypt continues to record a large agricultural trade deficit, which grew from US\$1.9 billion in 1994 to over US\$2.8 billion in 1997 (Chart IV.1). The country is a large net food importer, with cereals as its principle imports, including wheat, whose share declined from 31% of total agricultural imports in 1994 to just over 25% in 1997, and maize whose share increased slightly from 11% to 12% over this period.³ Other important imports are edible oils, whose share has almost doubled, and sugar and sugar confectionery whose share increased from 5% to 11%.

9. A large net food importer since the early 1970s, Egypt receives food aid from donors such as Australia, Canada, the United States, and the European Union; however, this has been decreasing as part of a global decline in food aid. According to data submitted to the WTO Committee on

¹ Ministry of Foreign Affairs (1998).

² One hectare is equal to approximately 2.4 feddan.

³ The figures in Chart IV.1 may differ from figures used in Chapter I because of different definitions used; this chapter includes only the period from 1994 because data on earlier years were based on the CCCN nomenclature rather than the HS or ISIC nomenclatures currently in use.

Agriculture, Egypt's receipts of such aid declined from approximately 294,000 tonnes in 1994 to 70,200 tonnes in 1997. The main food aid products are cereals, whose import declined from 278,000 tonnes to 66,500 tonnes over the period.⁴ Declining food aid may, in part, explain why cereal imports have remained substantial despite an increase in cereal production in Egypt.

10. Egypt's exports of agricultural products have declined in value since 1994, primarily because of lower cotton output and prices. This resulted in a sharp fall in the share of cotton in total agricultural exports from 42% in 1994 to almost 25% in 1997; vegetable exports in contrast have expanded; their share increasing from just over 16% to almost 23% during the period.

11. Policy changes implemented in the late 1980s resulted in a substantial shift in agricultural output patterns; the cultivated areas for wheat and rice, as well as for horticultural products, rose considerably in a few years.⁵ Production of cereal crops such as wheat and maize and of horticultural crops has continued to rise, especially since 1994. Cotton output has experienced sharp fluctuations, falling in 1994 and 1995 before recovering in 1996; production has declined since, partly in response to a relaxation in government controls on cropping and distribution, allowing farmers to grow other crops (section (ii)). The authorities also note that the self-sufficiency ratios of food crops have increased as a result of rising yields in these crops.⁶ However, the gains made through higher yields and increased output are partially offset by product losses through poor storage, processing, and marketing. It is estimated that as much as 20% of the annual crop is lost as a result of poor infrastructure and processing techniques.⁷ The Government is attempting to address this problem by establishing marketing boards for individual crops to improve storage and distribution facilities.

(ii) Policy reforms

12. Until the mid-1980s policy in the agricultural sector was dominated by government intervention in the form of price controls, crop area targets, controls on imports and exports, subsidies on inputs and distribution, and marketing controls through public sector agencies and cooperatives.⁸ The amount that farmers were entitled to borrow from agricultural banks, based on land area farmed and the type of crop cultivated, as well as the farmers' input or technology requirements, were determined by the Government.⁹ The combined effect of these policies gradually led to a decline in agricultural output per capita and a shift away from controlled crops, such as cereals and cotton, towards crops that were relatively free of controls, such as vegetables, maize and clover.¹⁰ Partly as a result, Egypt has become one of the major net food importing countries in the world.

⁴ WTO document G/AG/W/36, 3 November 1998.

⁵ Between 1986 and 1992, for example, wheat production rose by 140% and rice production by 58% (Meyer, 1996).

⁶ Government of Egypt (undated)(a).

⁷ Ministry of Foreign Affairs (1998).

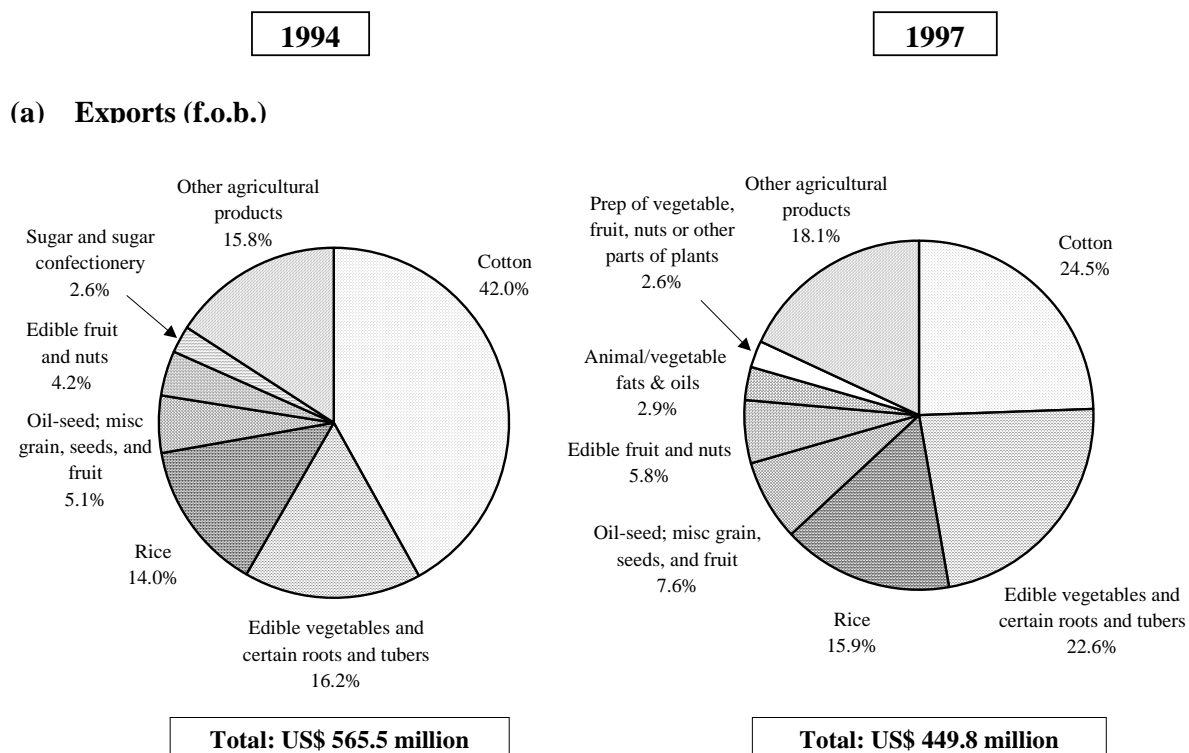
⁸ Farmers were required to deliver a "compulsory" share of their yield per feddan to the Government at pre-announced prices for most crops; for cotton and sugarcane, the entire crop had to be sold to the Government for use in the textiles and sugar industries (Harik, 1997).

⁹ Moore (1997).

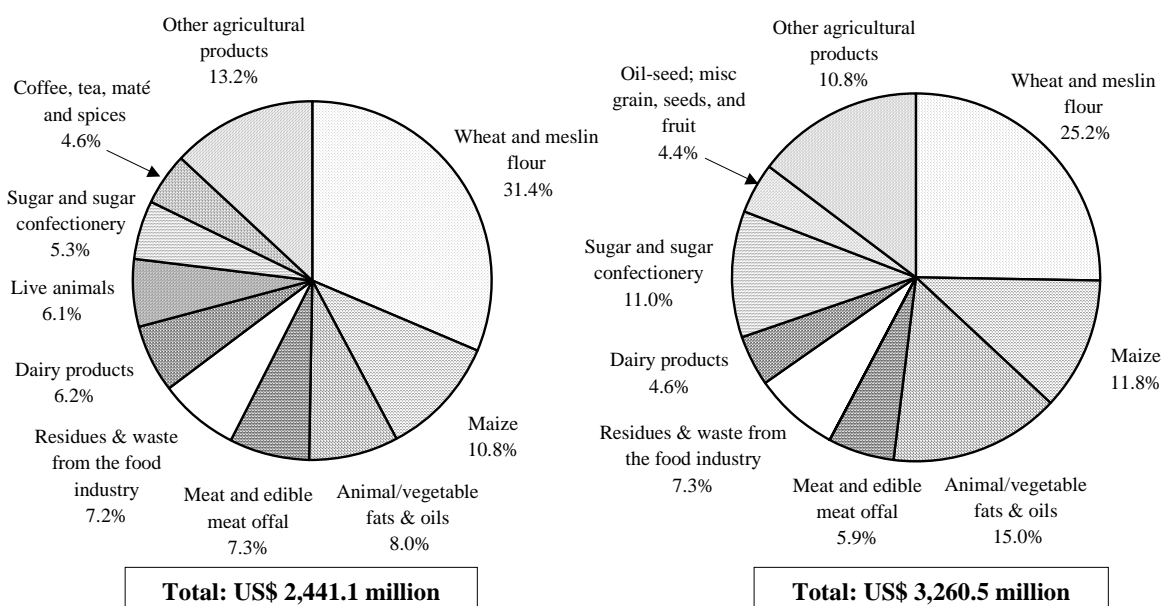
¹⁰ Meyer (1996).

Chart IV.1
Trade in agricultural products, 1994 and 1997

Per cent



(b) Imports (c.i.f.)



Note: Agricultural products by HS chapter, as defined under the Uruguay Round, excluding beverages, spirits, and tobacco.

Source: UNSD, Comtrade database.

13. Agriculture was one of the sectors in which economic reforms were initiated at a relatively early stage. The main measures undertaken between 1986 and 1998 include:

- removal of crop area allotments, with delivery quotas at fixed procurement prices for all major crops¹¹;
- reduction of subsidies for inputs such as fertilizers and pesticides; these had been expected to be phased out by 1995;
- reduction of certain services for farmers, such as agricultural credit at concessional interest rates and provision of machinery;
- privatization of parts of agricultural land held by public sector companies;
- increased private sector processing and marketing of agricultural products; and
- reduction of most non-tariff barriers to imports and exports and a move towards the tariff as the only trade instrument.¹²

14. Crop-specific subsidies and support measures were also removed. In addition, laws on rental values for land, which formed a disincentive to landowners to rent their land instead of cropping it themselves at sub-optimal rates, were reformed in 1992 to allow market determined prices to prevail.¹³ In 1993/94, most pricing, production, marketing, and ginning restrictions for the cotton crop were removed. The private sector may now freely import cotton; exports of cotton are carried out at export prices declared by the Federation of Cotton Exporters (Chapter III(3)(ii)(c)). In April 1994, the Alexandria cotton exchange was re-opened.

15. In addition to opening up international trade to the private sector, most import bans relating to agricultural products appear to have been lifted; whole poultry was tariffed at 80% in July 1997. However, a number of the products previously subject to import bans are now subject to apparently stringent quality control and radiation requirements (Chapter III(2)(xiv)).¹⁴ In the WTO Committee on Agriculture, a number of Members have sought clarification of Egyptian standards on meat imports, which require that these imports not contain more than 7% fat (20% for meat parts). According to Members, the restrictions could not be justified under WTO provisions.¹⁵ The authorities noted that these specifications on imports of frozen meat are due to constraints on technology, transport, handling, storage and the Egyptian climate, and do not, in their opinion, constitute a quantitative restriction on imports.

¹¹ The Government does, however, provide voluntary guarantee prices for certain strategic crops, from time to time.

¹² World Bank (1992).

¹³ Law 96, enacted in 1992, raised rental rates to 22 times the land tax (around LE 20 per feddan) for a transitional period up to 1996/97; at the end of this period, land rents would be freely determined by the market and owners would be able to terminate their contracts with tenants (World Bank, 1992).

¹⁴ Products currently subject to quality control include live animals, fish, milk, eggs, vegetables and plants, fruit, grains, oilseeds and edible oils, processed and canned meat and fish, sugar, cocoa, starches, processed vegetables and fruit, and tobacco. Radiation is required for foodstuffs; oils and fats and their products; live animals, except camels imported from Sudan; plants and seeds; animal fodder; milk substitutes; and tobacco.

¹⁵ WTO document G/AG/R/13, 19 December 1997.

16. The average tariff on sectoral imports (ISIC 1) was 18.5% in 1998, ranging from 1% to 40% (excluding the customs fee and surcharge); the average tariff for agricultural imports according to the Uruguay Round definition was 64.9% (21.4% excluding alcoholic beverages).

17. Egypt appears to apply no agricultural export restrictions, although press reports indicate that the Minister of Agriculture and Land Reclamation recently imposed a restriction on exports of "baby" potatoes not cultivated on farms of a specified area (Chapter III(3)(ii)); according to the authorities, this is to comply with technical requirements in the European Union.

18. There are no specific measures to attract investment to the sector, other than investment incentives provided under the Law of Investment Guarantees and Incentives (8/1997). Under Law 15 of 1963, foreigners may not purchase agricultural land (Chapter II(5)(i)).

19. The Government's current strategy for agriculture is aimed at improving the allocation of agricultural inputs, especially land and water, while encouraging their sustainable use and development; increasing exports and overall food security, based on comparative advantage; and creating new opportunities for employment in the rural areas.¹⁶ To this end, Egypt has developed a number of high-priority projects, including on irrigation, soil and water management; agricultural research, extension, marketing and export promotion; intensive agricultural production in the new and old lands; and, technical assistance to improve policy-making at the Ministries of Agriculture and of Public Works and Water Resources, to enhance the role of women in rural development and to restructure and strengthen the system of agricultural cooperatives. These efforts are expected to increase Egypt's self-sufficiency in food production in the long run.

20. The authorities are concerned, however, about the short-term impact of agricultural reforms by its main suppliers, on the overall price of agricultural products. They note that research conducted by the Food and Agriculture Organization (FAO) and by UNCTAD, shows that the implementation of the Uruguay Round would result in an increase in the prices of Egypt's main food imports, including wheat, edible oil and sugar. For this reason, Egypt, as a net food importer, has expressed its dissatisfaction with the implementation of the WTO Agreement on Agriculture. However, research on the impact of Uruguay Round reforms on net food importing countries has shown that because of the uneven impact of reform on food prices, the net result on the food import bill should be negligible.¹⁷

21. As part of the effort to help farmers, the Government plans to establish a Price Stabilization Fund for cotton, as has recently been established for other agricultural products. The Ministry of Agriculture also suggests indicative cropping patterns to farmers, based on international prices and demand, to safeguard farmers from fluctuations in prices. The Government will also be seeking to strengthen the Agricultural Prices Stabilization Fund, and plans to initiate a Voluntary Agricultural Insurance Scheme to provide some stability for farmers' incomes and protection from the impact of structural reforms.¹⁸

(iii) Government assistance

22. During the Uruguay Round, Egypt notified the WTO that it had no subsidies that were required to be reduced or phased out under the WTO Agreement on Agriculture. The Committee on

¹⁶ The new strategy was developed in discussions with political parties and international organizations including the Food and Agriculture Organization, the United Nations Development Programme, the United Nations Environment Programme, the World Bank and the World Food Programme.

¹⁷ Hoekman and Subramanian (1996).

¹⁸ Government of Egypt (undated)(a).

Agriculture was notified in May 1999 that Egypt does not provide export subsidies to agricultural products, and that all domestic support provided is exempted from reduction commitments ("Green Box" subsidies) under the Agreement.¹⁹

23. Financial assistance to the agricultural sector was traditionally provided in the form of subsidized inputs, such as for fertilizers, infrastructure, electricity, and water, the latter being provided almost free of charge to farmers. The subsidized inputs were provided mainly to compensate farmers for low producer prices set by the State and for the state controls on production and distribution. The controls were imposed to ensure adequate supplies for the Government's food distribution system and to keep the overall cost of this system at manageable levels (Box IV.1). Since Egypt's previous Review, the Government has removed fertilizers and pesticides from the list of products subject to price controls. However, key inputs such as electricity and water are provided to farmers almost free of charge. The subsidization of water for irrigation, despite its scarcity, has distorted production in favour of water-intensive crops such as sugarcane and rice, and potentially creates environmental problems.

Box IV.1**The Government's food distribution system**

The Egyptian Government introduced food rationing in 1941 to provide essentials, such as bread, oil, sugar, and tea to all holders of a ration card on a monthly basis. During the 1970s the system was extended to include beans, lentils, frozen fish, frozen meat and chicken. By 1991/82 the food subsidy included almost 20 items; the food subsidy bill was equal to almost 20% of total government expenditures.

Increasing pressure on public expenditure has, however, led the Government to reduce the size of the subsidy since the early 1980s. This has been done through a combination of increased prices of subsidized items; reduced number of ration card holders; and, reduced quantity and number of items available through the food subsidy.

By 1995, four food items remained subsidized: bread, wheat flour, sugar and oil; bread and wheat flour are available to all Egyptians without restriction, while sugar and oil are distributed monthly to consumers through ration cards.

Since the early 1980s the Ministry of Supply has been increasing prices for subsidized food products. Prices for bread were increased in 1983/84 and again in 1988/89; the price of sugar was increased in 1990/91, 1992/93 and 1994/95; and oil prices have been increased at regular intervals since 1986/87.

The number of ration card holders has been reduced moderately. In 1989 around 90% of the Egyptian population held ration cards; this number declined to 79% by 1994. The Government also divided all ration card holders into fully subsidized (green card) and partially subsidized (red card) holders to try to reduce the size of the subsidy. However, the total number of partially subsidized holders remains relatively small.

Source: Ali, S. M. and R. H. Adams (1996), "The Egyptian Food Subsidy System: Operation and Effects on Income Distribution", *World Development*, Vol. 24, No. 11, pp. 1,777-1,791.

24. The rising overall cost of government subsidies, estimated to have reached around 13% of GDP in the early 1980s²⁰, increased the need for substantial reform to the coverage and scope of the food distribution system. The Government's response has been to focus subsidized food towards the

¹⁹ WTO document G/AG/N/EGY/1, 7 May 1999.

²⁰ World Bank (1992).

low income groups, while at the same time phasing out the number of products regarded as "essential" and hence worthy of inclusion in the food subsidy. The latter strategy has been more successful than the former.²¹ By 1995/96, the Government appeared to have reduced the total budgeted cost of subsidies to LE 4.4 billion, or around 1.5% of GDP; over half was used to support the food distribution system.

(3) PETROLEUM AND NATURAL GAS

(i) Petroleum

(a) Main features

25. Egypt's proven oil reserves are estimated at 3.4 billion barrels, around 0.4% of the world's total proven reserves.²² In 1997, Egypt had 98 crude-oil producing fields, located mainly in the Gulf of Suez region (around 70% of production) and the Western Desert (around 16%).²³ The sector has been a major contributor to exports, and also to Egypt's GDP, although production from mature oilfields has been declining. The sector's overall contribution to GDP declined from almost 10% in 1992 to around 6% in 1997. Crude petroleum production declined from 45.5 million tonnes in 1993 to an estimated 41.3 million tonnes in 1997 (Chart IV.2). Production for 1998 is expected to be around 42.1 million tonnes.

26. Despite the decline in production, exports of petroleum and petroleum products continue to play an important role, especially in earning foreign exchange. Since Egypt's previous Review in 1992, the sector has almost consistently been Egypt's third largest foreign exchange earner, after remittances from Egyptians working abroad, and tourism. Falling output and international oil prices in recent years, however, have resulted in declining export revenue from crude petroleum; according to the authorities, this revenue fell from US\$2.7 billion in 1996 to US\$2.4 billion in 1997. The continued decline in international oil prices in 1998 and 1999 is likely to have exacerbated this trend.²⁴ However, the Government expects that a number of new oil discoveries in the Western Desert will boost Egypt's oil production by around 40,000 barrels per day when new fields come on line in the next few years.

27. Petroleum production is dominated by one state-owned company, the Egyptian General Petroleum Corporation (EGPC), formed as the General Petroleum Authority (GPA) in 1956. The activities of EGPC, itself under the jurisdiction of the Ministry of Petroleum and Mineral Resources, include the supervision of all oil exploration and production in Egypt as well as its own exploration and production activities.

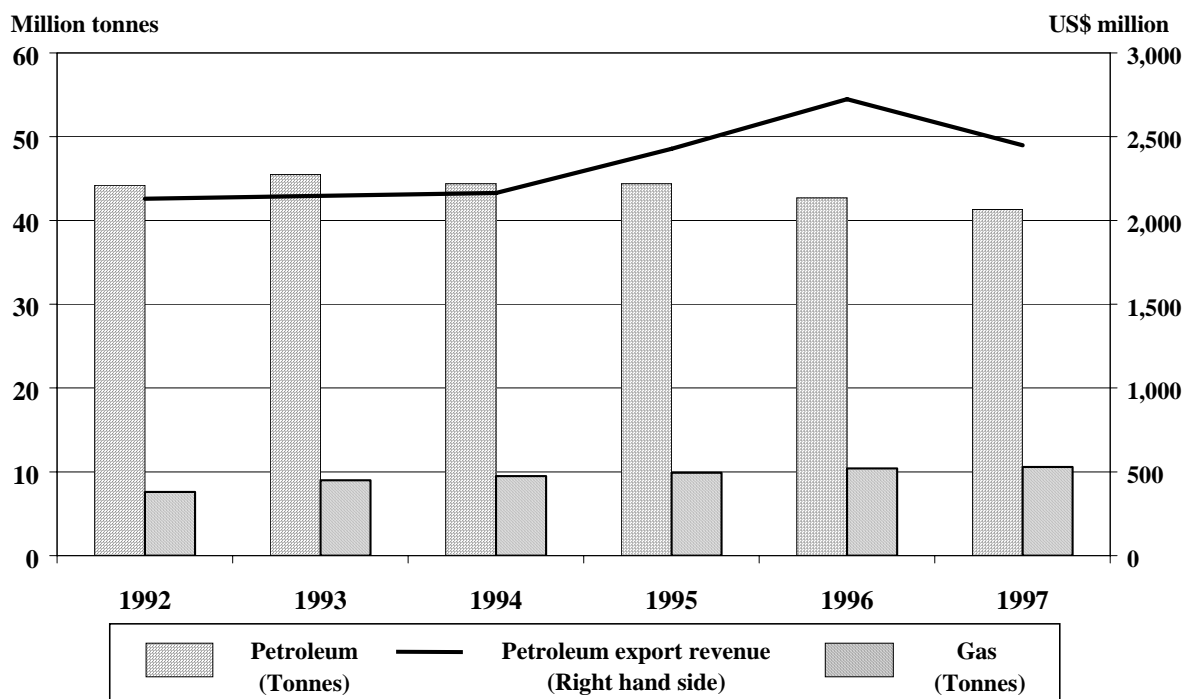
²¹ Ali and Adams (1996).

²² International Energy Agency (1996).

²³ United States Energy Information Administration (1999).

²⁴ Although not a member of OPEC, Egypt announced in March 1998 that it would cut production by around 20,000 barrels per day to help stabilize prices (United States Energy Information Administration 1999).

Chart IV.2
Crude petroleum and gas output, and export revenue, 1992-97



Source : Based on data provided by the Egyptian authorities.

28. The EGPC also controls the six state-owned companies²⁵, which operate Egypt's eight oil refineries. Refining capacity at present is around 540,000 barrels per day; the largest refinery, Mostorod, has a capacity of 141,000 barrels per day. Two further private refineries are planned, at Alexandria and Suez, and are expected to be operational in 2000. The Government plans to increase production of lighter products, petrochemicals and higher octane gasoline, by expanding and upgrading existing facilities. Five new refineries and petrochemical plants are planned, at an estimated cost of US\$2.5 billion.²⁶

29. In addition to its exports of petroleum, Egypt earns substantial revenue from the Suez Canal and more recently from the Suez-Mediterranean (SUMED) oil pipeline. The Canal is currently undergoing deepening to accommodate large crude-oil tankers and to increase revenue, which has been declining in recent years (section (5)(v)).

(b) Policy

30. Traditionally the price of all petroleum products in Egypt was subject to controls by the Government. However, since 1990, the Government has been gradually raising domestic prices with the aim of achieving international price parity. At present price ceilings for distributors are set by the

²⁵ These are the El Nasr Petroleum Company, the Ameriya Petroleum Refining Company, the Suez Petroleum Processing Company, the Cairo Petroleum Refining Company, the Alexandria Petroleum Company and the Asyut Petroleum Refining Company.

²⁶ United States Energy Information Administration (1999).

Ministry of Petroleum and adjusted every two years. The Government encourages local consumption of natural gas as a substitute for petroleum.²⁷

31. Imports of gasoil may only be carried out by the EGPC but all other petroleum products may be imported by the private sector subject to a tariff of 5% (8% including the customs fee and import surcharge). The Government grants tariff concessions on imports of capital goods for the construction of oil wells for the duration of production.

32. The Government's policy of encouraging foreign investment to help expand petroleum output is implemented in the context of a 1963 decision requiring all foreign oil companies to work with the EGPC on a 50-50% joint-venture basis. Production sharing agreements (PSAs) are signed between the EGPC and the foreign company; the first 42% of the oil produced is to be retained by the company to cover its costs and as profits (30 percentage points as cost recovery and 12 as profits from production); the remainder is split between the foreign company and the EGPC in proportions ranging from 60/40 to 90/10 in favour of the EGPC. Before PSA awards of this nature take effect, they must be approved by the Ministry of Petroleum and Natural Resources, the Council of Ministers, the People's Assembly, and the President. The EGPC also takes a 50% stake in joint-venture companies created to exploit newly discovered oil fields; for example, Egypt's largest oil producing company, the Gulf of Suez Petroleum Company (GUPCO) is owned jointly by EGPC and Amoco.²⁸ There are currently 17 joint-venture production companies.²⁹ In 1990, the oil distribution sector, previously a state monopoly, was opened to the private sector. The Government has also announced a shift in emphasis towards exports of higher-value refined products.³⁰

33. As Egypt's reserves of crude oil decline, efforts are being stepped up to substitute the use of gas, especially for domestic consumption, freeing up oil production for exports. At the same time, new exploration agreements are being signed with international companies to keep the production of oil stable, including through the discovery of new reserves.

(ii) Natural gas

(a) Main features

34. Egypt's proven natural gas reserves are currently estimated at around 31.5 trillion cubic feet and are expected to continue rising in the next few years. Although active exploration for gas began only in the early 1990s, the discovery of significant deposits in the Nile Delta and Western Desert have created a potential replacement for declining petroleum reserves. Annual production of natural gas increased from around 6 million tonnes in 1989/90 to 9.1 million tonnes in 1993/94 and to 10.6 million tonnes in 1997 (Chart IV.2). The Government expects production to double by 2000/01.³¹

35. A major contribution to this growth has been made by foreign investment in the sector. Egypt's largest natural gas producer is the International Egyptian Oil Company (IEOC), a subsidiary of ENI, Italy. Other major producers are British Petroleum and Amoco. As a result of increased foreign investment during the 1990s, several new fields are expected to come on line in the Western Desert in 1999 and in the Nile Delta by 2000.

²⁷ According to data provided by the Government, while domestic consumption of petroleum increased from 19.3 million tonnes in 1992 to 21.6 million tonnes in 1997, consumption of natural gas increased from 7.5 million tonnes to 10.4 million tonnes during this period.

²⁸ International Energy Agency (1996).

²⁹ Economist Intelligence Unit (1999).

³⁰ Economist Intelligence Unit (1999).

³¹ *Dow Jones Newswires*, 22 May 1998.

36. Natural gas is also likely to play an increasingly important role in Egypt's domestic economy. Until recently its use was mainly for electricity generation, substituting for oil, which was exported; around 65% of Egypt's total gas consumption is currently for the production of thermal power. However, declining production from Egypt's mature oil fields and alternative uses for natural gas, for example, as a substitute for gasoline for automobiles, fertilizer production and for use in heavy industry, is heightening interest in natural gas production.

(b) Policy

37. The increase in production has come about mainly as a result of a change in government policy. Before 1980 the Government owned all discovered gas unless it was used in oil production operations. As a result of a number of policy changes, by 1986, private companies were allowed to own and commercially exploit natural gas in Egypt. Increased exploration activity has also been accompanied by increased production in response to the Government's willingness to pay higher domestic prices for natural gas. Consumers of natural gas are served by four private gas distributors, franchised in 1998, who negotiate prices individually with the EGPC. Gas prices have been controlled by the Government. However, the Government has recently reduced price controls; on December 1997 the Cabinet approved a price rise of around 17%, effective January 1998. To encourage domestic consumption of gas, however, price increases will be limited, until 2005, to around 25% of the 1998 rate.³²

38. The Government's intention is to use natural gas mainly for domestic consumption, although export agreements are currently being discussed with Israel, Jordan, Turkey and the Palestinian Authority. Egypt and Turkey signed a Memorandum of Understanding in 1996 to export LNG to Turkey. The project is expected to consist of two joint ventures, one between EGPC and Amoco (and later with an affiliate of ENI, Italy) for liquefaction facilities, and another with Turkey's Botas Petroleum Pipeline Company (BOTAS) for re-gasification facilities. The project is to be operational by 2000 and is expected to cost between US\$2 million and US\$4 million; at present, however, there appear to be disagreements over gas pricing.³³ The EGPC has also commenced construction of pipelines to transport natural gas to neighbouring countries (section (5)(v)). The Government also plans to open its natural gas pipeline and marketing sectors to private participation.

39. The Government aims to increase proven natural gas reserves through further exploration, with eventual excess supplies to be exported to neighbouring countries. In 1993, the Government established attractive financial incentives, both for exploration and for production, to encourage foreign and domestic companies to invest in the sector.

(4) MANUFACTURING

(i) Overview

40. In 1996/97, the manufacturing sector accounted for around 18% of Egypt's GDP and employed almost 14% of its total workforce. The sector's share of GDP has remained almost unchanged since Egypt's previous Review, rising slightly from 17% in 1992. Exports as a share of total merchandise exports have risen from 35% in 1992 to over 40% in 1997.

41. The major industries, in terms of exports, are refined petroleum products, whose share in manufactured exports increased from around 22% to 33% between 1994 and 1997; and textiles and clothing, whose share (including leather products) declined from almost 38% in 1994 to 27% in 1997

³² United States Energy Information Administration (1998).

³³ United States Energy Information Administration (1998).

(Chart IV.3). Imports are comprised mainly of machinery and equipment, whose share in manufactured imports has remained almost stable at around 25%; chemicals, whose share went from 16% to 17%; and food, beverages and tobacco products whose share increased from just over 15% to almost 17%.³⁴

42. The average tariff on manufactured (ISIC 3) imports into Egypt was 27.6% in 1998, 31.0% including the surcharge and customs service fee (Table AIV.1). The tariff distribution for the sector is skewed because of prohibitive tariffs on imports of alcoholic beverages, which are discouraged on moral and social grounds; average tariffs for beverages (ISIC 313) were close to 1,500% in 1998, ranging from 5% to 3,000%. The simple average tariff for manufactured imports excluding alcoholic beverages was 21.3% in 1998 (24.7% including the surcharge and customs service fee).

43. As a result of the Uruguay Round, Egypt bound 97% of its industrial tariffs at an average rate of 45.2% to decline to 37.9% by 2005. Although Egypt's current applied tariff in the manufacturing sector is considerably lower than its bindings, applied rates in a number of industries, notably chemicals, textiles, machinery and electrical machinery and equipment, are in excess of their bound levels (Chapter III(2)(iv)(c)).

44. Recent effective rate of protection (ERP) calculations for Egyptian manufacturing industries show that, in 1997, overall effective protection, at 34.2% (30.5% excluding beverages and petroleum refining), was higher than nominal protection (Table IV.2).³⁵ Another study found ERPs in manufacturing for 1996 to be higher, at an average rate of 70%, although if efficiency-reducing inputs such as services and infrastructure were to be included in the calculations, ERPs would be lower.

45. While these ERP estimates vary with the methodology used, they all show that average effective protection for all industries has decreased since Egypt's previous Review, following the trend in nominal tariffs during the same period. The current pattern of effective protection across activities is comparable with that described in the previous Review, the highest protection being accorded to industries such as textiles, clothing, footwear, plastic products and transportation equipment; as in the past, cotton ginning continues to be disadvantaged by the current tariff structure. Other activities with effective protection considerably below average include chemicals, petroleum refining and machinery and appliances. The estimates in Table IV.2 thus support the observation of an uneven structure of intervention across industries.

46. After decades of protection and strict government controls on prices and trade, the reform programme has attempted to reduce the degree of regulation in the manufacturing sector. Price controls on most industrial products have been removed, with the exception of pharmaceuticals, cigarettes, rationed sugar and rationed edible oils; the provision of subsidized inputs to the public sector has been reduced, although public sector companies still appear to receive "temporary exemptions" from import duties; and there has been a reduction in direct controls exerted by ministries on public sector companies.

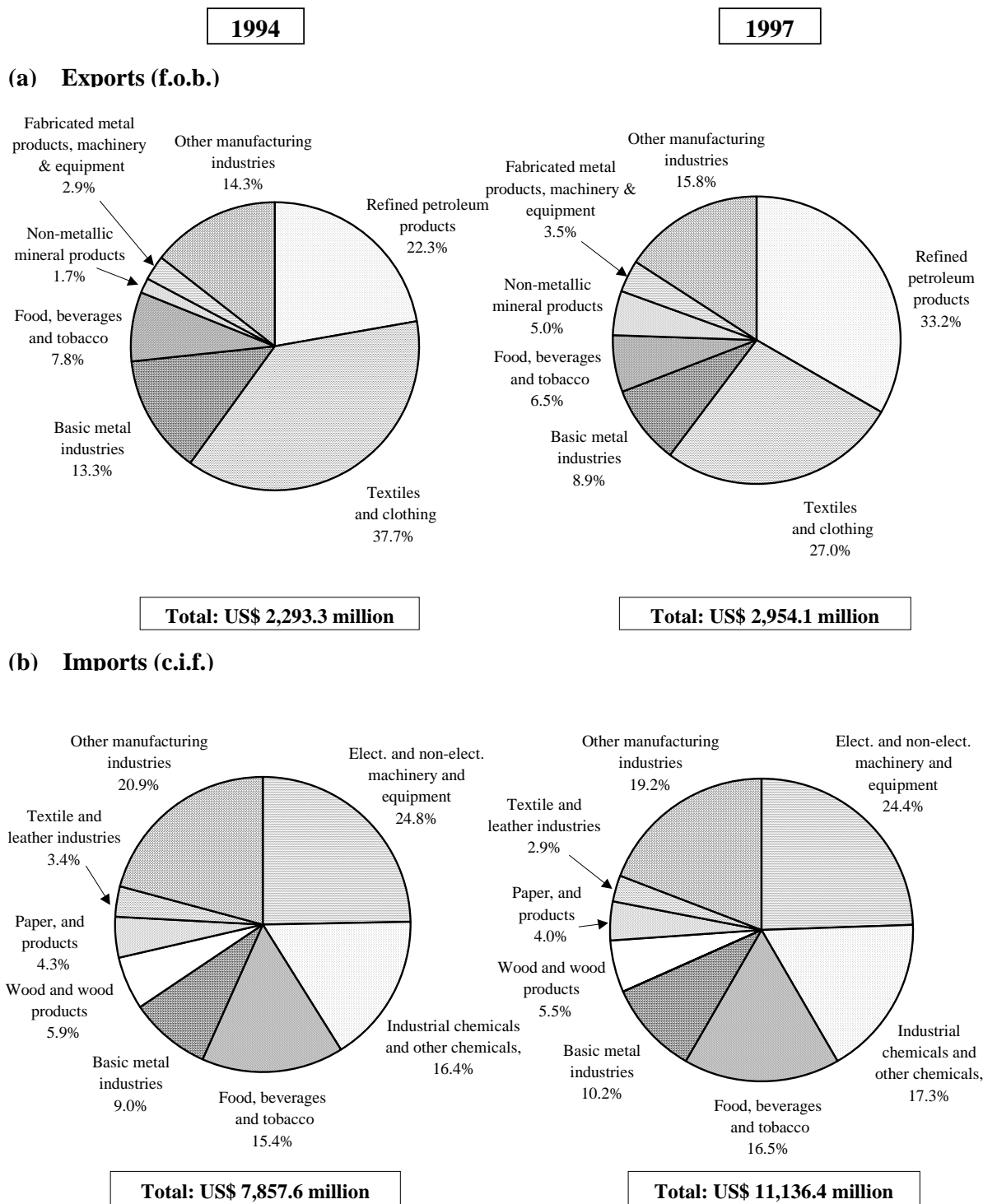
³⁴ Figures in this Chapter may vary from those in Chapter I due to differences in ISIC and SITC definitions.

³⁵ Reflecting the nominal rate of tariff protection accorded to the inputs used by and product from an industry or sector, the effective rate of protection (ERP) measures the net effect of protection given to value added. A detailed discussion of ERP measures is provided in GATT(1992).

Chart IV.3

Trade in manufactured products by ISIC categories, 1994 and 1997

Per cent



Source : UNSD, Comtrade database.

Table IV.2
Effective rates of protection for selected manufacturing industries
(Per cent)

Industries	GATT (based on Kheir El-Din et al.)	Hoekman and Djankov	DEPRA Project
Food processing (ISIC 311, 312)	17.0	72.0	6.4
Cotton ginning (ISIC 3216)	-68.0	14.0	-10.9
Spinning and weaving (ISIC 321 excl. 3216)	788.0	51.0	47.6
Clothing (ISIC 322)	348.0	162.0	55.9
Leather and leather products ((ISIC 323)	35.0	28.0	47.6
Footwear (ISIC 324)	160.0	301.0	50.8
Wood and wood products (ISIC 331)	40.0	66.0	6.1
Furniture (ISIC 332, 3812)	296.0	118.0	83.8
Paper and printing (ISIC 341, 342)	36.0	90.0	17.8
Chemicals (ISIC 351, 352)	75.0	21.0	9.2
Petroleum refining (ISIC 353)	--	83.0	14.8
Rubber and plastic products (ISIC 355)	563.0	33.0	43.1
Porcelain, china and pottery (ISIC 361)	214.0	115.0	56.0
Glass and products (ISIC 362)	54.0	109.0	23.2
Non-metallic products (ISIC 369)	1.0	--	18.5
Steel, iron and metallic products (ISIC 371)	120.0	14.0	18.1
Machinery and appliances (ISIC 382, 383)	39.0	33.0	14.5
Transportation equipment (ISIC 384)	628.0	90.0	55.6
Average manufacturing	176.2	70.0	30.5^a

a Excluding beverages and petroleum refining.

Source: Hoekman and Djankov (1997) "Effective Protection and Investment Incentives in Egypt and Jordan during the Transition to Free Trade with Europe", *World Development*, Vol. 25, no. 2, pp 281-291; US AID (DEPRA Project) (1998), *Enhancing Egypt's Exports*, June; and GATT (1993), *Trade Policy Review - Egypt* (1992), Geneva.

47. Despite these reforms, manufacturing appears to have made little progress in improving its external competitiveness, but some industries, notably food processing and clothing, have been more successful than others in expanding exports. Although information on policy reform since the previous Review is scant and statistics unavailable, it appears that the industries least exposed to reform and international competition, such as textiles and clothing, remain far from achieving their full potential.³⁶ In addition, tariff reforms, while reducing protection for a large proportion of the manufacturing sector, have left key industries such as textiles and clothing, automobiles, and beverages, relatively untouched. Tariff rates for these industries are still considerably higher than the current ceiling tariff of 40% applied to the rest of the manufacturing sector, and are not subject to overall reductions (Chapter III(2)(iv)).

³⁶ Kheir El-Din and El-Sayed, for example point out that due to its relatively low labour costs, Egypt potentially has comparative advantage in labour-intensive industries, such as textiles, and especially clothing. Without economic reform, however, the industry is unlikely to realize this potential.

(ii) Recent developments in key industries**(a) Food processing³⁷**

48. The food processing industry accounted for 15% of value added and 20% of employment in manufacturing in 1996. The industry consists of around 1,500 establishments, the majority of which are privately owned. The main activities of the industry include wheat milling and bread making; edible oil production; and production of soft drinks and alcoholic beverages. Egypt's main exports of food products are milled grain products, canned vegetables and fruit, and sugar products. Exports of these products, as a percentage of manufactured exports, increased from around 6.5% in 1994 to 7.9% in 1997. Imports are mainly edible oils, sugar products, other food products and animal feeds, and meat and dairy products.

49. With bread forming the single most important component of the Egyptian diet, wheat milling is an important and sensitive activity. Egypt has eight wheat milling companies, six of which were recently partially privatized through the stock exchange; the importance of the industry led the Government to privatize only minority shareholdings in the companies. Together, the companies own 113 mills, which produced 6.5 million tonnes of milled wheat in 1996 and are expected to increase output to over 8 million tonnes by 2000. The soft drinks industry is dominated by carbonated drinks, with a small share for fruit juices and mineral waters. The industry provides direct employment to around 25,000 people; some estimates suggest that indirect employment is provided to an additional 215,000 people, or around 11% of the manufacturing sector's total workforce. For alcoholic beverages, the dominant market share (over 85%) is held by the Al-Ahram Beverages Company (ABC), also recently partially floated on the stock exchange. A private joint venture between Löwenbräu, Germany and the Orascom Group of Egypt was expected to start production of beer in 1998. Since beer imports face prohibitive customs duties of up to 1,200%, local production of another brand would introduce a degree of competition in the Egyptian market, currently all but absent.

50. Average tariffs on imports of food, beverages and tobacco range from 21.8% and 22.6% for food products (ISIC 311 and 312) to 1,489% for alcoholic beverages. For religious reasons, Egypt maintains prohibitive tariffs on imports of alcoholic beverages. Alcoholic beverages imported under a licence issued by the Ministry of Tourism face import duties of 300%, instead of up to 3,000%. Tobacco products have an average tariff of 72%.³⁸

51. Foreign investment for the production of alcoholic beverages is not encouraged under the Law of Foreign Investment Guarantees and Incentives (8/1997)³⁹, and appears only to be allowed through joint ventures with Egyptian companies. Investment has occurred mainly in confectionery and the processing of vegetables and fruit, where there are no specific restrictions.

³⁷ Unless otherwise indicated, this section (on the food processing industry) is based on Moore (1997).

³⁸ 17 tariff lines at the HS 8-digit level, relating to tobacco products, are subject to specific tariff rates and were therefore excluded from the tariff analysis, which is based on *ad valorem* tariffs only.

³⁹ Law on Investment Guarantees and Incentives (8/1997), Part I: Conditions and Limits of Fields of Investment, Article 1.

(b) Textiles and clothing

Recent Developments

52. Textiles and clothing together account for around 50% of all exports by the manufacturing sector (around 27% under the ISIC description)⁴⁰; the industry employed 0.5 million persons in 1993/94 (around 25% of employment in the manufacturing sector). Textiles and clothing owes much of its development to the abundant production of high-quality cotton in Egypt; its traditional exports are also high-quality raw cotton and yarn. Egypt's imports of textiles, clothing and leather products account for around 3% of imports of manufactured goods.

53. The structure of the textiles subsector is considerably different to that of clothing. Along with a few joint-venture companies, the public sector dominates the textiles industry, accounting for around 98% and 52% of yarn and fabric output, respectively, and absorbing around 80% of domestically produced cotton. In contrast, in 1993/94 the private sector produced over 85% of clothing output (Table IV.3).⁴¹ In 1995 there were over 900 companies in the sector, whose activities included spinning, weaving, dyeing, and clothing production; 31 were public sector companies affiliated to three holding companies, operating under Law 203/1991 (Chapter III(4)(iii)).

Table IV.3
Evolution of the textiles and clothing industry, 1992-95^a
(LE million and per cent)

Production	1992/93	1993/94	1994/95
Yarn	2,017 (97.6)	2,052 (97.5)	2,060 (97.7)
Cotton	1,799	1,833	1,804
Wool	233	238	225
Jute	33	32	31
Fabrics	1,540 (60.5)	1,295 (51.3)	1,302 (51.9)
Cotton	1,351	1,236	1,138
Wool	147	120	119
Jute	42	39	45
Clothing	1,540 (8.0)	1,642 (9.0)	1,767 (14.0)
Carpets	89 (23.0)	89 (24.0)	86 (29.0)
Blankets	111 (62.0)	112 (60.0)	115 (57.0)

a Figures in parenthesis refer to the total public sector share in production.

Source: Kheir El-Din, H. and H. El-Sayed (undated), *Potential Impact of a Free Trade Agreement with the EU on Egyptian Textile Industry*, Cairo.

⁴⁰ The analysis in the section on textiles and clothing is based on SITC, primarily to examine the whole period under review, from 1992 to 1997; this is not possible under an ISIC classification, for which Egyptian statistics are available from 1994 to 1997. Under ISIC, textiles and clothing exports as a share of manufactured exports was 27% in 1997 (Chart IV.3); the difference is primarily because of the large share of cotton exports, which under ISIC are counted as part of agriculture.

⁴¹ Kheir El-Din and El-Sayed.

54. With the exception of clothing, overall production in the industry has either remained stable, as in the case of yarn, or has declined since 1992/93.⁴² The decline is partly a response to restructuring under the economic reform programme; the lifting of pricing restrictions on raw cotton in 1996, for example, led to an increase in cotton prices. The increase in clothing production appears to demonstrate greater adaptability by clothing producers to these changes. According to press reports, the Government was considering an indirect subsidy to textiles manufacturers in 1997 to offset the cost of domestic cotton which appears to be high relative to international prices, presumably because of continued controls on trade and production in addition to price support.⁴³

55. As a share of total manufacturing exports, the share of textiles declined from 37% to 32% between 1992 and 1997, while the share of clothing exports grew from 15% to 17%.⁴⁴ Exports of textiles and clothing tended to fluctuate a great deal between 1992 and 1997, in part due to adjustments in policy relating to cotton production and pricing. Exports of textiles peaked in 1994, fell until 1996, then recovering in 1997; clothing exports fluctuated in a similar fashion (Chart IV.4). Cotton lint production in Egypt reached lows of 255,000 tonnes and 242,000 tonnes in 1994 and 1995, respectively, suggesting one reason for the decline in exports of both textiles and clothing in 1996. The fluctuating fortunes of the two subsectors therefore appears to reflect both the declining productivity of public sector enterprises, which dominate the textiles sector, and the relative success of the private sector in expanding market share in clothing production and exports.⁴⁵

56. The notable change in the direction of exports of textiles and clothing resulted from the loss of the Russian and East European markets. Whereas Russia accounted for 7.5% of Egypt's exports of clothing in 1992, its share had declined to under 0.01% in 1997. The largest markets for clothing exports, however, continue to be the United States, followed at some distance by the European Union (EU). Together the two markets accounted for 92.3% of Egyptian exports of clothing in 1998, up from 78.7% in 1992. In the case of textiles, the EU is the dominant destination for exports, increasing its share from 61.7% in 1992 to 70.4% in 1997. The EU is followed by the United States, whose share increased from 10.6% to 12.8% over the same period.

Domestic and trade policies

57. Despite the importance of the industry to Egyptian manufacturing and export earnings, textiles and clothing appears to have remained relatively untouched by the economic reform programme. A recent study by UNCTAD finds that Egypt's spinning and weaving industries are characterized by a lack of investment in new machinery, and poor maintenance, resulting in lower productivity and quality.⁴⁶ The need for financial restructuring of public sector companies in the textiles sector was stressed by a report submitted by the Central Auditing Agency to the People's Assembly in 1997. The report suggested that losses incurred by the 31 public sector textile companies had risen from LE 0.7 billion at end June 1995 to LE 2.3 billion by the end of 1996 and were expected to rise to LE 4 billion by the end of 1997.⁴⁷

⁴² Kheir El-Din and El-Sayed.

⁴³ *Financial Times* Survey of Egypt, May 1997. The Government sets a price floor for cotton; if prices fall below the floor, the Government procures cotton at the price floor.

⁴⁴ These shares are based on SITC classifications and may therefore differ from the share of textiles and clothing in total exports of manufactures according to the ISIC classification.

⁴⁵ Kheir El-Din and El-Sayed.

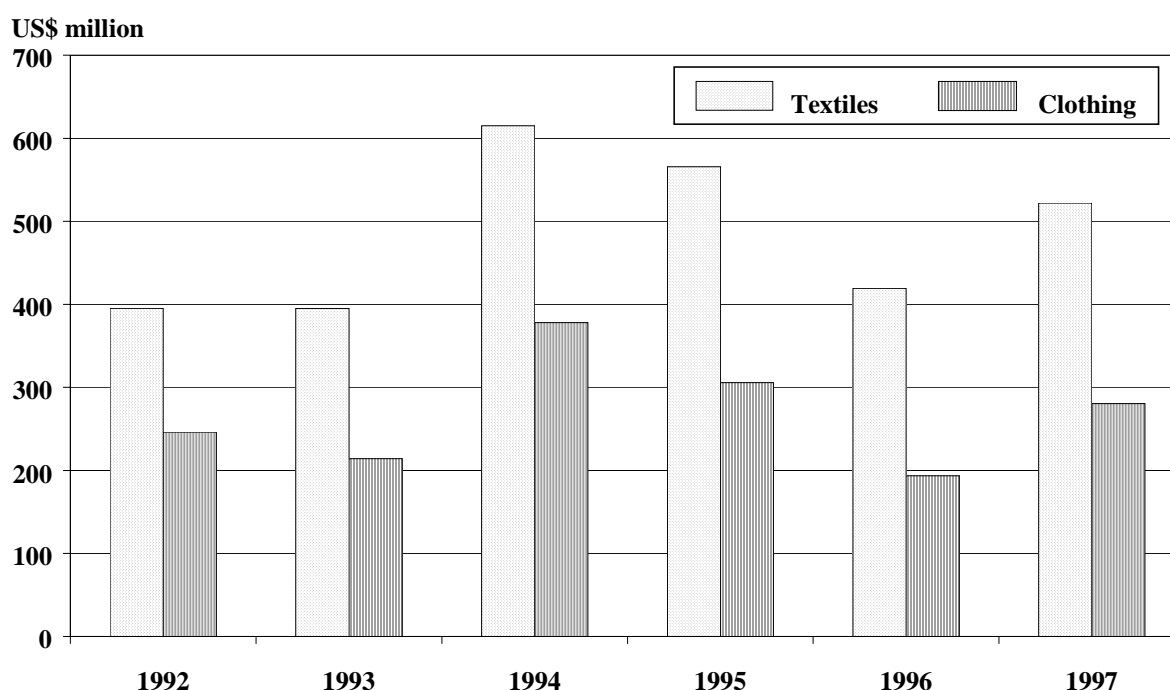
⁴⁶ UNCTAD (1999).

⁴⁷ Reasons for these losses included an increase in the price of cotton from LE 300 to LE 500 per kg., technical problems, modest productive and marketing capacities, and a long record of debt to commercial banks (Moore, 1997).

58. The textiles and clothing industry has also been relatively protected from imports through non-tariff and tariff barriers. Imports of both textiles and clothing were on the banned list until recently. As part of its Uruguay Round Schedule, Egypt made a commitment to remove textiles and clothing from the list of imports subject to import bans; textiles were removed from the list in 1998 and tariffed at 54% (higher than the previously applied rate of 40%) and clothing will be removed by 2002.

Chart IV.4

Evolution of textiles and clothing exports, 1992-97



Source: UNSD, Comtrade (SITC Rev.1).

59. The current simple average tariff on imports of textiles into Egypt is 36% (40% with the customs service fee and surcharge), with tariffs ranging from 5% to 54%; clothing imports are subject to an average tariff of 39% (43% with the customs service fee and surcharge), with tariffs ranging from 30% to 40%, in addition to the "conditional import" ban (Table AIV.1). Tariffs in the sector are also characterized by high and negative tariff escalation with tariffs rising from 11.6% for unprocessed products to 38.4% for semi-processed products and falling to 36.9% for finished textiles.

60. For the first stage of the WTO Agreement on Textiles and Clothing (ATC), Egypt integrated into GATT 16.13% of 1990 imports (by volume); the products included items from each of the four groups: tops and yarns, fabrics, made-up textile products, and clothing, and comprised 22 HS lines (at the 8-digit level) or 0.37% of all Egypt's tariff lines (2.54% of textiles and clothing (HS 50,51, 53-63)).⁴⁸ For its second integration stage, Egypt notified a list of products from each of the four categories accounting for not less than 17% of the total volume of its 1990 imports, as

⁴⁸ WTO document, G/TMB/N/196, 22 November 1996.

required under Article 2(8)(a) of the Agreement.⁴⁹ This represents seven tariff lines or around 0.12% of Egypt's tariff (0.81% of textiles and clothing tariffs).

61. Egypt has quotas on its exports to the United States on 16 categories and two sub-categories of textiles and clothing.⁵⁰ Under Article 2.18 of the ATC, the United States provides higher quota growth rates to 22 small supplier countries, including Egypt. In June 1996, the United States informed the WTO Textiles Monitoring Body that quotas for countries qualifying under this provision would be increased by 25% for the first stage of integration, rather than the 16% increase for other trading partners subject to ATC quotas; during the second stage of integration the quota increase for 23 small suppliers, including Egypt, would be 27% instead of 25%.⁵¹

62. Egypt maintains "consultation levels" on its exports into the EU market of specified products as part of the preferential Cooperation Agreement signed in 1977. These will be eliminated once the customs union between the two is completed under the Euro-Mediterranean agreement (Chapter II(4)(ii)). Under the present agreement, Egypt's annual exports of cotton yarns and fabrics to the EU were restricted to 47,270 and 15,901 tonnes, respectively in 1995; these levels were raised to 56,500 and 20,000 for 1998 and to 58,500 and 20,700 for 1999.⁵² Egypt's exports of these products to the EU are subject to the EU MFN tariff rates on the items.

63. The rate of Egypt's quota utilization with the United States over the last two years shows that Egypt has been more successful at filling its quotas for clothing products (categories 338/339, 340/640, 369 and 448) than for textiles and yarns (218-220, 224-227, 300/301, 313-315 and 326). Quota utilization rates for 1997 and 1998 for clothing varied between 78% to 93% for knitted shirts and woollen trousers, and between 42% and 47% for non-knitted shirts.⁵³ In the context of its high rates of quota utilization for knitted shirts, the Egyptian Government came to an agreement with the United States allowing Egypt to utilize its 1999 quota for shirts (338/339) in 1998; for every shirt sold over the 1998 limit, however, the United States would deduct 1.25 shirts from the 1999 quota.⁵⁴

64. Quota utilization for Egypt's textile products onto the U.S. market was more varied during this period. Egypt utilized between 72% and 97% of its quota for plain yarn (300/301) and 0% for coloured yarn (218); the utilization rates for fabrics were low, ranging from 0% to 20% over the same period.⁵⁵ Consultation levels with the EU, which is Egypt's largest market for textiles, do not appear to have been a serious constraint to Egyptian exports into that market during the early 1990s.⁵⁶

65. Egypt has expressed its dissatisfaction with the implementation of the ATC, in particular with what it sees as the tendency of its industrialized trading partners to integrate products of interest to Egypt only at a later stage of implementation of the ATC.⁵⁷ However, for a majority of categories relating to fabrics, and to some extent for yarn, it is unclear whether Egyptian producers would be able to increase exports to keep up with their annual quota increases despite the considerable potential for increased clothing exports. It remains uncertain, moreover, in which areas Egyptian producers of

⁴⁹ WTO document G/TMB/N/221, 14 February 1997.

⁵⁰ These comprise yarns, fabrics, cotton shirts and blouses (knitted and not-knitted), towels, and wool slacks and shorts (WTO document G/TMB/N/63/Add.3, 14 September 1995).

⁵¹ WTO documents G/TMB/N/184, 26 July 1996, and G/TMB/N/311, 18 December 1997.

⁵² WTO documents G/TMB/N/65, 28 April 1995, and G/TMB/N/314, 30 January 1998.

⁵³ U.S. Customs Service (1999).

⁵⁴ *Journal of Commerce*, 2 December 1998.

⁵⁵ U.S. Customs Service (1999).

⁵⁶ Kheir El-Din and El-Sayed.

⁵⁷ According to the authorities neither the U.S. nor the EU have included quota items of interest to Egypt in the first or second stages of integration.

either textiles or clothing would be able to compete with other international producers once all quotas are integrated into the GATT unless substantial reform and restructuring takes place in the industry.⁵⁸

(c) Motor vehicles

66. According to recent estimates, car sales in Egypt were around 75,000 units in 1995, a considerable increase over the 20,000 units sold in 1992. The Egyptian motor vehicle industry expects sales to double by the year 2000.⁵⁹

67. As a result of considerable liberalization in Egypt's foreign investment policy, especially with the passage of the Law of Investment Guarantees and Incentives (8/1997), a number of new joint ventures between foreign automobile producers and Egyptian companies have been formed.⁶⁰ According to the authorities, there are currently 15 joint ventures in the motor vehicles industry in Egypt including with BMW, Chrysler, Citroën, Daewoo, General Motors, Hyundai, Isuzu, Lada, Mercedes Benz, and Peugeot.

68. Imports of automotive products (ISIC 3843) into Egypt rose from US\$420 million in 1992, 8.5% of total imports of manufactures, to US\$723 million in 1994 (12.1%), and amounted to US\$666 million in 1997 (8.1%). Imports of passenger motor vehicles rose in value from some US\$116 million to US\$182 million between 1992 and 1997, representing a relatively stable share of just over a quarter of total imports of automotive products.

69. Local production is carried out mainly by the state-owned El Nasr Automotive Manufacturing Company (Nasco); General Motors Egypt (GME), a joint venture between General Motors and Isuzu Motors Limited; and more recently by a joint venture between Hyundai Motors and Itamco.

70. Since Egypt's previous Review, there has been a degree of liberalization in import policy with respect to motor vehicles, and transport equipment more generally. Motor vehicles are no longer subject to conditional import bans, although imports of second-hand cars are allowed only under special conditions, which were made more stringent recently with the issuing of Decree 580 in 1998, which defines "second hand" as the current year of manufacture; previously, cars up to two years old could be imported provided that they met the required standards. The average tariff on sectoral imports is 34.8%, although there is considerable variation in the tariff, which ranges from 5-135%. Tariffs are especially high for passenger motor vehicles, which are subject to an average tariff of 98.4%, compared to an average tariff rate of 20% for vehicles for the transport of goods (Table IV.4). Tariffs are also considerably lower for parts and accessories for cars, on average 17%, than for the vehicles themselves, suggesting a considerable incentive for local assembly. In addition, the industry has generally been exempted from the tariff reductions affecting other sectors (Chapter III(2)(iv)); nevertheless, the tariff for the motor vehicles industry has declined from 160% at the time of Egypt's last Review to 135% currently.⁶¹

⁵⁸ A recent report by the U.N. Economic and Social Commission for Western Asia, on the textiles and clothing industry in a number of Arab countries, for example, predicts heavy losses for these countries once quotas are integrated by 2005 in the GATT (*Reuters*, 24 November, 1998).

⁵⁹ Moore (1997).

⁶⁰ At the time of Egypt's previous Review, assembly industries, including motor vehicles, were on a "negative list" of sectors in which investment was not encouraged. Moreover, companies wishing to invest in the sector had to guarantee a local-content use of 40% in order to obtain investment approval.

⁶¹ Average tariffs in 1998 are not strictly comparable to average tariffs in 1991 because of the change in nomenclature from CCCN to HS in 1994.

71. The combination of high tariffs and a more liberal investment environment since the previous Review has in all likelihood led to tariff-jumping investment; automobile companies find it easier to establish market share in Egypt by investing in Egypt rather than paying high customs duties. Since the previous Review, local-content requirements have been removed and replaced with an incentive scheme under which assembly industries are granted tariff concessions depending on the percentage of local content in their product (Chapter III(3)(v)). High tariffs, moreover, guarantee protection from international competition and thus support the continued operation of the small and fragmented domestic automotive industry, to the cost of Egyptian consumers.

Table IV.4
Average tariff for motor vehicles, 1998

Description	HS 4-digit	Average tariff	Average tariff with surcharge and customs fees
Motor cars and vehicles			
Motor vehicles for the transport of ten or more persons	8702	40.0	44.0
Other motor vehicles for the transport of persons	8703	98.4	102.4
Motor vehicles for the transport of goods	8704	20.0	24.3
Engines and parts			
Spark-ignition, reciprocating or rotary internal combustion piston engines	8407	14.6	17.9
Compression-ignition internal combustion piston engines	8408	22.5	26.0
Engine parts for ignition	8409	25.0	28.8
Parts and accessories	8708	16.9	20.0

Source: WTO Secretariat based on data provided by the Egyptian authorities.

(5) SERVICES

(i) Overview

72. Services account for around 58% of Egypt's GDP. The sector is divided into production services (33% of GDP); social services (18% of GDP); and construction and electricity (around 7% of GDP). Unless specified, this section discusses only production services.

73. The largest shares in the services sector are held by the trade and retailing subsector, whose share has remained relatively stable since 1992/93 at 51%; communications and transport whose share increased to 21.2% in 1996/97 and the financial services subsector (excluding insurance), whose share grew to 12.1% during the period (Table IV.5). The Suez Canal continues to make an important contribution to national income, accounting for around 10% of GDP in 1996/97.

74. The fastest growing service subsectors between 1994/95 and 1996/97 were financial services, averaging growth of over 7%, annually, and communications and transport at 5.5%. Tourism (restaurants and hotels), with the exception of a decline in 1993/94 of almost 19%, registered growth rates in excess of 12% during the same period.

Table IV.5
Value added in the services sector, 1992-97
(LE billion and per cent)

	1992/93	1993/94	1994/95	1995/96	1996/97
Total	44.5	45.6	47.9	50.7	53.9
Of which:			Per cent		
Communications and transport	20.5	20.4	20.7	20.7	21.2
Finance	10.6	11.2	11.5	11.6	12.1
Insurance	0.2	0.2	0.2	0.2	0.2
Restaurants and hotels	5.6	4.4	4.8	5.1	5.4
Suez Canal	13.3	12.9	11.5	11.1	10.0
Trade	50.1	51.1	51.4	51.3	51.2

Source: Data provided by the Egyptian authorities.

75. The activities of the State remain pervasive in the services sector. However, this may change as part of the Government's efforts to raise overall exports by 10% per year as a means of increasing GDP growth to 7-8% per year (presently 5%). The authorities consider that infrastructure and transport services, much of which remains in the hands of the public sector, are adequate, but recent surveys of business have identified transport services as one of the key cost-raising inputs for exporters.⁶² In another study on the calculation of effective rates of protection for manufacturing, the inefficiency of services was seen as an implicit tax on manufacturing.⁶³ Important services subsectors, such as tourism, also suffer due to poor infrastructure services.

76. To address this problem, the Government is gradually opening up some infrastructure services to private and foreign investment. New infrastructure development, including new power stations, ports, pipelines and mobile telephone networks is taking place, in part, with the help of build-own-operate-transfer schemes to attract foreign investment. The Government has been slower in reducing its role in the sector, notably due to the role played by the Economic and Service Authorities, most of which are not currently subject to privatization (Chapter III(4)(iii)).

(ii) Commitments under the General Agreement on Trade in Services (GATS)

77. Egypt participated actively in the Uruguay Round negotiations on services and has made specific commitments in four out of the 12 sectors in the WTO Secretariat classification (Table AIV.2).⁶⁴ In general, Egypt's GATS commitments tend to bind the existing policy framework. In some cases, such as insurance services, recent changes have made the applied policy more liberal than Egypt's commitments.

78. Egypt's Schedule under the GATS restricts the entry and temporary stay of foreign natural persons; under the Labour Code (Law 137/1981) the number of these persons is limited to 10% of the total personnel employed by a company. In addition there are restrictions on the acquisition by foreigners of land for commercial purposes except within free zones, for which no permission is

⁶² Fawzy (1998).

⁶³ Hoekman and Djankov (1997) estimate the "tariff equivalence" of this inefficiency in construction, communications, financial services, business and professional services, distribution, transport and storage, to be around 15%.

⁶⁴ These are: business services, communication services, construction and related services, distribution services, education services, environmental services, financial services, health-related and social services, tourism and travel related services, recreational, cultural and sporting services, transport services, and other services not included elsewhere.

required (Table AIV.2). Egypt also has restrictions on commercial presence for most sectors it has included in its GATS Schedule. The restrictions generally relate to limits on foreign equity participation, up to 49% or 51%, such as in construction, insurance, and transport services; an economic needs test is used to determine commercial presence in the banking and insurance sectors. In the fifth Protocol to the GATS, Egypt made commitments to allow foreign equity participation outside the free zones to rise from a maximum of 49% to 51% by 31 December 1999; and to relax its economic needs test in life, health, and personal accident insurance in the year 2000, and in non-life insurance in the year 2002.

79. Egypt's MFN exemptions under Article II of the GATS offer national treatment in all services sectors to personnel from Greece, Jordan, Libya, Qatar, Sudan, United Arab Emirates, Yemen and the possibility of including other countries (Table AIV.3). Additional sector-specific exemptions are provided for transport and communication services, related mainly to MFN treatment extended to countries with which Egypt has bilateral or regional trading agreements.

80. Egypt did not participate in the negotiations on Basic Telecommunications Services and has no commitments in this sector.

(iii) Financial services

(a) Banking

81. The Egyptian banking sector currently consists of 63 banks, of which 28 are commercial banks and 31 are investment and business banks; in addition there are two real estate banks, one agricultural and one industrial bank. Of the 63 banks, 24 are foreign owned or have a significant share held by foreign individuals or companies; the State has a majority share in nine banks. In 1998, the sector had total assets of US\$93 billion and deposits of US\$61 billion. The banks operate through a network of over 2,200 branches throughout Egypt. The largest subsector consists of the commercial banks, which account for over 75% of total capital reserves, distribute around 75% of loans, and account for around 90% of available deposits.

82. Of the commercial banks, four state-owned banks, (the National Bank of Egypt, the Bank of Alexandria, the Banque de Caire and the Banque Misr) account for almost 70% of the banking sector's total assets and around 40% of capital, reserves, and provisions. Egypt's largest bank, the National Investment Bank, holds long-term social security resources and accounts for around 25% of total bank deposits. The four state-owned banks also have substantial, although declining, shareholdings in five of 24 joint-venture banks.

83. Despite recent reforms (Box IV.2), the sector remains dominated by the four state banks which, according to the IMF, appear to be less efficient than the private sector or joint-venture banks.⁶⁵ In May 1998 new laws allowing privatization of the four banks, and four insurance companies remaining in the public sector were adopted by the Economic Committee of the People's Assembly.⁶⁶ The Assembly subsequently passed legislation in June 1998 to privatize one of the banks by the end of 1998. The privatization has not yet taken place. Legislation granting independence to the Central Bank is currently being drafted.

⁶⁵ IMF (1998).

⁶⁶ *Marché Tropicaux*, 1176, 5 June 1998. Shortly after, the Minister of Public Enterprises announced that although the Egyptian Government had no objection to selling its majority ownership in the banks, no single private investor or group of investors would be allowed to hold more than 10% equity in any of these banks. He also added that although the Government encouraged foreign investment in the sector, it would ensure that the banks remained under Egyptian control (*Dow Jones Newswires*, 28 May 1998).

84. The banking sector is regulated by the Central Bank of Egypt (CBE), an autonomous body under the Ministry of Economy. The CBE carries out both off-site reviews and on-site examinations to assess compliance and levels of liquidity and capital adequacy. As part of new regulations, banks are required to be audited by two independent auditors, who must be changed every two years.⁶⁷ The Egyptian Bank Union, a private, independent, juridical body, provides an interface between the banking industry and the CBE.

85. Present regulatory criteria include an initial capital of at least LE 100 million per bank and a capital adequacy ratio of at least 8%. According to the IMF, all four public sector banks and all but three joint-venture and private banks met the Basle standard of 8% minimum capital adequacy ratio by the end of June 1997. Non-performing loans, which were high largely because of loans made to loss-making public sector companies, had declined to 14.7% of total loans at the end of June 1996 and to just over 13% by June 1997.⁶⁸

86. Under current legislation, banks and their branches are required to register with the CBE Banking Control Department. Registration requirements include the submission of documents relating to the nationalities of the founders and their share of the bank's initial capital, which should meet the requirement that the share of each individual not exceed 10%.⁶⁹ The registering bank is also required to specify the percentage of its shares that would be offered through a public issue.⁷⁰

87. In order to increase competition in the economy and reduce the Government's presence in the banking industry, the Government has focused on privatization and liberalized foreign investment laws. Under Law 155 passed in 1998, moreover, the dominant four state-owned banks were required to reduce their stake in joint ventures with foreign and private banks to under 20%.⁷¹ According to the authorities, the Government presently holds shares of up to 20% in five joint-venture banks.

88. Foreign investment in the sector has also been liberalized; up to 100% foreign equity has been allowed since 1996, under Law 97. Previously, under Law 43 of 1974, foreign banks were allowed to hold a maximum equity of 49% in any joint-venture bank. As a result of the liberalized foreign investment and privatization laws, foreign players have increased their share in the joint-venture companies, including large foreign banks such as Société Générale, Crédit Commercial de France and Banque Nationale de Paris. A number of international investment banks have also been established in Cairo.⁷²

⁶⁷ Moore (1997).

⁶⁸ IMF (1998).

⁶⁹ Article 4 of Law 187/1993 issuing the executive regulations of the banks and credit law.

⁷⁰ Banks are required to offer at least 49% of their shares as public offerings in Egypt.

⁷¹ *International Herald Tribune*, 8 October 1998.

⁷² *International Herald Tribune*, 8 October 1998.

Box IV.2: Reform of the banking system

The banking sector initially benefited from the stabilization policy initiated in the early 1990s, especially the reform of the exchange rate and interest rate regimes. To address the immediate problem of growing dollarization in the economy, bank lending and deposit rates were liberalized in 1991, followed by the removal of ceilings on bank lending to the private sector, and bank specific restrictions on lending to public sector companies, in October 1992 and July 1993, respectively. For demand deposits, a prohibition on interest payments was removed in May 1993. In addition, previous measures that favoured the public sector banks were reduced, notably the requirement that public sector companies obtain authorization from a public bank before dealing with any bank. In addition, the public sector banking system was streamlined by merging 15 development banks with the main development bank in Cairo in December 1992.

The response of the banking sector to these reforms was positive, reflected by a significant increase in returns on domestic currency bank deposits and a decline in the share of foreign currency deposits in broad money, from 51% in June 1991 to 29% in December 1992.

Longer term strengthening of the banking system was planned through improved supervision and restructuring, and privatization of public sector institutions. Until the late 1980s, banks were, in general, not subject to a number of prudential guidelines such as capital adequacy or foreign currency exposure, except as required at start up. New prudential guidelines were introduced in 1991 for foreign currency exposure, capital adequacy, asset classification and provisioning, bank liquidity, and auditing. This was followed in 1992 and 1993 by guidelines for investment concentration abroad and regulations on credit concentration. According to the IMF, by 1996 the regulatory framework of the banking system was broadly in line with international practice.

To improve transparency further, in 1997 the authorities introduced new requirements on banks to prepare and publish financial reports on the basis of international accounting standards. The Central Bank would also begin publishing aggregate data on key performance ratios for the banking system in 1998. Supervision manuals have been published with the assistance of the United States Agency for International Development (US AID) and an early warning system is being developed, with the help of US AID and the European Union, which will allow the Central Bank to monitor capital adequacy and loan concentration in individual banks.

Source: IMF (1998), *Egypt, Beyond Stabilization: Toward a Dynamic Market Economy*, Occasional Paper 163, IMF, Washington D.C., May.

89. Foreign banks require, *inter alia*, written approval from their head office to establish a branch in Egypt, and at least US\$15 million for their activities in Egypt.⁷³ Under the Banking Law (No. 97), the CBE may be directly involved in the appointment of directors and senior managers of newly established banks. The decision to allow foreign banks to set up branches in Egypt is also based on an "economic needs test", as Egypt has indicated in its GATS Schedule. The test includes criteria to determine whether the establishment of a new company is necessary and not destabilizing for the Egyptian market, and whether the company can provide the required service (Table AIV.2). A decision to allow a foreign bank to establish local branches must be taken within three weeks from submission of the completed application along with supporting documents. Permission to set up local representation may also be obtained from the Central Bank upon submission of documents including copies of the head office's balance sheet for the two previous fiscal years, and evidence to show that the head office is under the supervision of the monetary authority in the country of origin.⁷⁴

⁷³ Article 6 of Law 187/1993 issuing the executive regulations of the banks and credit law.

⁷⁴ Law 187/1993, Article 9-10.

(b) Insurance

Structure

90. The insurance industry in Egypt consists of 12 companies (including two in the free zones), of which five are involved only in non-life insurance activities. The industry is highly concentrated; four public-sector insurance companies, one of which is a reinsurance company, dominate the sector. The largest of these accounts for 50% of both life and non-life business, and three companies account for 93% of life and 89% of non-life markets.⁷⁵ The rest of the market is divided between three joint-venture companies (with the public and private sectors) and three private companies. There are also currently two joint ventures with foreign companies, which operate in the free zones and one company, under the Egyptian Bank for Export Development, which is involved only in the provision of export guarantees. There are no wholly foreign-owned insurance companies operating in Egypt.

91. Investment by the industry grew by 18% per year between 1990/91 and 1994/95 to LE 5.4 billion by 30 June 1995. Life insurance premiums to GDP are relatively low, at 0.2% in 1995, compared to a 6% average in industrialized countries; total assets as a percentage of GDP were about 4% in 1995, compared to 38% in industrialized countries.⁷⁶

Regulatory framework

92. Legislation governing insurance supervision is contained in Act No. 10 of 1981, amended by Act No. 91 of 1995. The 1995 Act established the Supreme Council of Insurance (replacing the Supreme Council of Commercial Insurance, set up by Law 516 of 1976). The Supreme Council is the main policy-making body in the sector. It is chaired by the Minister of Economy and its members include the Chairman and Deputy Chairman of the Egyptian Insurance Supervisory Authority (EISA), the main supervisory authority; the Chairmen of the boards of insurance and reinsurance registered under the Act; a representative of the Insurance Fund; two academics with expertise in insurance matters; and representatives from the Ministries of Planning and Finance.

93. The EISA is an independent corporate entity, subordinate to the Minister of Economy, and is charged with supervising all insurance activities in Egypt. The Authority's objectives include protecting the rights of policyholders, beneficiaries and third parties; achieving insurance-related economic and social objectives; limiting the outflow of national savings and foreign currency from the country; securing the financial soundness of insurers and preventing conflict between them; developing insurance awareness; and strengthening cooperative ties with other authorities regionally and internationally.⁷⁷

94. In addition to Act 91 of 1995, new regulations for the insurance sector were issued in June 1996. The new regulations stipulate requirements related to solvency, investment by insurance companies, and separation of reserves for life and non-life insurance activities; and deregulate the pricing of most insurance products, replacing price controls with price reporting. The exceptions are for fire and motor vehicle insurance, which are expected to be deregulated in 1999.⁷⁸

95. Policy in the insurance sector is currently determined by Law 156, passed in 1998. Law 156 removed restrictions on private and foreign investment in insurance and reinsurance activities in

⁷⁵ World Bank (1997).

⁷⁶ World Bank (1997).

⁷⁷ Act No. 10 of 1981, amended by Act No. 91 of 1995, Insurance Supervision and Control in Egypt, Chapter Four.

⁷⁸ World Bank (1997).

preparation for the introduction of greater competition in the market; this has resulted in faster liberalization of foreign investment in the sector than that committed to in Egypt's Schedule under the GATS. Law 156 allows foreign equity ownership of up to 100% and removes previous restrictions on foreigners being on the board of directors of insurance companies. However, investment approval remains subject to an economic needs test; Egypt intends to relax this economic needs test for life, health and accident insurance in the year 2000, and for non-life insurance in the year 2002. In addition, under Law 91 of 1995, any new companies entering the market may sell only one kind of insurance.⁷⁹ The Government is also hoping to encourage international firms to invest in Egypt by seeking their assistance in formulating insurance legislation on par with international norms.

96. Investors in the sector, whether Egyptian nationals or foreigners, with over 5% of the shares in any insurance company, must notify the EISA; approval of the Minister of Economy and of the Prime Minister is required before any individual shareholder may increase shareholdings to above 10% of total investment. Insurance companies are also required to reinsure part of their direct insurance transactions in Egypt with the EISA. The new Law also envisages privatization of one of the four state-owned insurance companies.

97. Under Law 156, foreign companies may establish representative offices to advertise and promote life insurance activities but may not sell their services directly except through licenced companies.⁸⁰

(iv) Telecommunications

98. In 1997, Egypt had a total of 5 million operational telephone lines, or just over eight lines per 100 inhabitants, up from 1.6 million in 1990, (three per 100 inhabitants) (Table IV.6). Around 75% of the network is digital, in addition to an optical fibre transmission network that links all major cities. The Government expects telephone density to double by the year 2002.⁸¹ The existing system has been supplemented by mobile telephone licences granted to two consortiums in 1998. Mobile telephone services currently have 200,000 subscribers.⁸² Other services recently introduced include paging services and a packet switched data network that covers all major cities.

99. Despite this progress the supply of telecommunications services appears inadequate; the estimated waiting list in 1995 was nearly six years.⁸³ The International Telecommunications Union estimates that meeting this pent-up demand will involve an additional investment of US\$567 million up to the year 2000.

100. Telecom Egypt (the Egyptian Company of Telecommunications), the public sector operator which, until 1996, was known as the Arab Republic of Egypt National Telecommunications Organization (ARENTO), was removed from the direct control of the Ministry of Transport and Communications by Law 19 of 1998; it is now overseen by the Telecommunications Regulatory Authority. As part of the Government's privatization programme, the company is currently undergoing an evaluation in preparation for the sale of 20% of its shares.

⁷⁹ Insurance companies established and selling both life and non-life insurance before the 1995 law, however, may continue to do so.

⁸⁰ Previously under a Law passed in May 1995, foreign investors were restricted to holding equity of up to 49%.

⁸¹ Ministry of Economy (undated).

⁸² *La Lettre Afrique Expansion*, No. 584, 1 March 1999.

⁸³ International Telecommunications Union (1997).

Table IV.6
Main indicators in the telecommunications sector, 1990 and 1995

	1990	1995
Number of telephone lines ('000)	1,602	2,716
- per 100 inhabitants	3.01	4.63
Residential lines ('000)	..	1,759
- per 100 households	..	15.3
Payphones ('000)	..	4.13
- per 100 inhabitants	..	0.7
Tariffs (US\$)		
Residential		
- connection	..	118
- monthly subscription	..	1.1
Business		
- connection	..	266
- monthly subscription	..	1.8

.. Not available.

Source: Data provided by the Egyptian Authorities; and International Telecommunications Union (1997), *World Telecommunications Development Report, 1996/97*, ITU, Geneva, February.

101. Ministerial Decree 101 of 1998 established the Telecommunications Regulatory Authority (TRA). The Authority, which is chaired by the Minister of Transport and Communications, oversees the activities of Telecom Egypt, grant licences to new service providers, and determine tariffs.

102. The telecommunications sector in Egypt continues to be mainly owned by the State. Since the mid 1980s, however, there has been a cautious opening of the sector, primarily to introduce competition in selected services, notably for value-added services. In an effort to improve Egypt's telecommunications infrastructure service and telephone penetration rates, Telecom Egypt is seeking participation by the private sector. It aims to achieve a 50% increase in the number of fixed telephone lines to 8.5 million by 2002 and has recently reached agreement with three foreign companies to do so. Efforts are also being made to improve telecommunications services in different parts of Egypt. Japan's NEC, for example, was awarded a contract to install 81,000 telephone lines in Upper Egypt and will provide digital public switching systems for the Red Sea and Mediterranean coasts.

103. The Government recently issued two licences to establish and operate public payphone systems, of 20,000 lines each, within five years. The licences were issued to the Minatel and Nile companies.⁸⁴ Minatel, which has a contract for ten years, will pay the Government 66% of its revenue from the licence, estimated at around US\$590 million, over the whole period of the licence; the Nile Telecom Company will operate the second licence under similar conditions. In 1996, Alcatel, France was licenced to establish, but not operate, a 70,000-subscriber global system for a mobile cellular telephone system for Telecom Egypt.⁸⁵ Two companies have also been licensed to provide satellite communication services. Value-added services were also opened up to competition from the private sector.

⁸⁴ The Minatel Company is a consortium led by France Telecom and Telecom Egypt; the Nile Telecom Company has Landis and Gyr, and Misr Bank as the main shareholders.

⁸⁵ The network includes the Greater Cairo area, Tenth of Ramadan and Sixth of October cities, Alexandria and the Northern Coast, Luxor, Aswan, and the desert roads between Cairo and Alexandria, and Cairo and Ismailia.

104. In 1998, two mobile telephone licences were granted. The first, Misrfone, a consortium led by Vodaphone, was granted a contract worth LE 1.8 billion (US\$529 million). Telecom Egypt will retain a 2% share in Misrfone.⁸⁶ The company will pay Telecom Egypt LE 1.75 billion (US\$516 million) in royalties.⁸⁷ The other mobile telephone company, MobiNil, was granted a contract worth LE 2.2 billion (US\$647 million) in July 1998.⁸⁸ The goal of the Government is to increase access to portable phones to two million people in five years.

105. Although the licences with these two companies were negotiated in mid 1998, the Government was required to enact new telecommunications legislation to change the status of Telecom Egypt in order to finalize the licences. Previously, Telecom Egypt had sole authority to form joint ventures for the provision of wireless and wireless services. Under the new legislation, Law 19 of 1998, Telecom Egypt is exposed to competition in mobile telephone, payphone and VSAT services. However, it retains its monopoly on fixed telephone services. International competition, for example through the use of call-back services, is not permitted.

106. As with telecommunication services, the market for telecommunications equipment is partially open to competition. According to the authorities telecommunications equipment for value-added services, such as fax and paging services and for mobile telephony, are open to all suppliers. The authorities also note that Telecom Egypt may procure equipment from any source. At present there are two companies manufacturing equipment for basic telecommunications services, one of which is a public sector company. The second, a joint venture between Siemens, Germany and Telecom Egypt, mainly produces digital equipment.

(v) Transport

(a) Maritime transport

107. Around 70% of Egypt's national and international trade is transported by sea; thus, the maritime transport sector plays an important role in Egypt's infrastructure and economy. In 1998, Egypt's national fleet consisted of 123 vessels with a dead weight tonnage of two million; 24 of these vessels were state owned.

108. Egypt's maritime transport regime is governed by a number of general and specific laws and regulations (Table IV.7). Law 1 of 1998 amended Law 12 of 1964 to allow private-sector participation in the sector. Egypt has no specific policy or legislation on multi-modal transport. Cargo sharing on a 40-40-20 basis takes place under bilateral agreements with Bangladesh and Saudi Arabia.⁸⁹

109. Government or public sector cargo may only be transported by state-owned or Egyptian-owned vessels or by foreign flagged vessels chartered by the supplier or importer.⁹⁰

110. Around 25% of Egypt's international trade is carried by ships flying the national flag. Egypt provides a number of incentives for companies flying the national flag, including up to 75% discount on supplies and the use of infrastructure owned by the General Authority for Ports; up to 50%

⁸⁶ The other owners are MSI Engineering (UK), Air Touch (USA), CGSat (France) and Alkan and EFG-Hermes (Egypt).

⁸⁷ *Marchés Tropicaux*, 1561, 24 July 1996.

⁸⁸ The owners of MobiNil are Telecom Mobile International (France), Motorola Network Management Group (USA) and Orascum (Egypt).

⁸⁹ WTO document S/NGMTS/W/2/Add.9, 31 January 1995.

⁹⁰ WTO document S/NGMTS/W/2/Add.9, 31 January 1995.

discount on service charges by the General Authority of Red Sea Ports, for vessels using Safaga Port; and discounts on agency fees and use of ports for a period over 48 hours.

Table IV.7
Legislation applied to the maritime sector

Legislation	Application
Law 84 of 1949	Registration of merchant vessels under the Egyptian flag
Law 232 of 1989	Safety
Law 8 of 1990	Law of maritime trade
Law 94 of 1996	Exemptions from payment of customs duties and sales tax
Law 1 of 1998	Establishment of the Egyptian Maritime Authority
Ministerial Decree 105 of 1990	Nationality of crew on Egyptian vessels
Ministerial Decree 21 of 1996	Private sector ownership and access to services
Ministerial Decrees 30 and 31 of 1998	Conditions of licensing for maritime transport and related activities

Source: Information provided by the Egyptian authorities

111. Egyptian nationals or companies with majority Egyptian shareholdings are eligible to fly the Egyptian flag. Companies may be registered under the Companies Law 230/1981 or the Law of Investment Guarantees and Incentives, 8/1997; they must obtain a shipping licence from the General Authority for Investment and Free Zones. Ships registered under the national flag must meet specified safety and design conditions; these include a maximum-age requirement for the vessel, set at 20 years (15 years in the case of passenger vessels). Companies established in the free zones are exempt from these requirements.

112. For shipping companies registered in Egypt, there are restrictions regarding nationality: only 5% of the crew may be foreign nationals, and the Chairman of the company and the majority of the Board of Directors must be Egyptian nationals (for companies providing auxiliary services, foreign nationals on the Board of Directors may exceed 50%).

113. Private investment in the sector was restricted until 1982. Under Article 7 of Law 12/1964 only companies with over 25% of their equity held by the public sector could participate in the sector. This was amended in 1982. More recently, Law 1 of 1998 cancelled Article 7 of Law 12/1964, thereby appearing to lift all constraints on private sector participation in the sector.

(b) Port services

114. Egypt's ports, including Alexandria, Damietta, Port Said, Safaga and Suez, handled 50 million tonnes of cargo and were visited by 50 international maritime lines in 1996.⁹¹ No details were available on the overall capacity and average turnover times of Egyptian ports although a study conducted in 1996 found that ports were approaching maximum capacity.⁹² Port services are generally considered to be poor; discharging, loading and storage charges are considerably higher than in competing ports in the region.⁹³ It is estimated, moreover, that port service charges account for around 10% of the total cost of inputs of Egyptian industry, thereby reducing its international

⁹¹ Ministry of Economy (undated).

⁹² Study carried out by the US AID (Depra Project) on Maritime Port Services, quoted in US AID (Depra Project, 1998,b).

⁹³ According to reports, the Federation of Egyptian Industries found that container discharging costs at Alexandria were double those of ports in Cyprus and three times as high as in Lebanon (Economist Intelligence Unit, 1997).

competitiveness. Poor infrastructure appears to be aggravated by the Government's monopoly on loading and shipping services.

115. However, port services are being gradually opened up to greater competition and to the private sector. Ports are owned and run by the Port Authorities and the Suez Canal Authority, which, until recently, have provided all services and facilities connected with ports. Law 1 of 1996 opened a number of services to the private sector and allowed private companies to be involved in the establishment of specialized ports. Further changes to legislation include Law 22 of 1998, which allowed the private sector to establish new commercial ports and docks on a build-own-operate-transfer (BOOT) basis. In the context of this last provision, Egypt's first port to be financed using a BOOT system is to be established by 2002 in the free-trade zone planned in the north of Suez. Similarly, the inland port of Athr al-Nabi has been offered to the private sector for expansion under a BOOT arrangement, to increase the use of Egypt's inland waterways. The private sector may also undertake ship bunkering operations and maritime works at all Egyptian seaports; 642 licences have been granted.

116. To facilitate exports, the Government provides a number of tax incentives. These include an exemption from customs duties and sales taxes, granted to ocean vessels, under Law 94 of 1996; and, under Ministerial Decree 2 of 1996, a reduction on storage charges, to LE 0.51 per tonne (instead of LE 0.68 per tonne) on public goods, to LE 0.2 per tonne or cubic metre (instead of LE 3.4) for goods meant for re-export, and to LE 1.3 per tonne (instead of LE 1.7) for packed goods.

(c) The Suez Canal

117. The Suez Canal accounts for around 10% of Egypt's total external current account receipts. It is also an important transport route for petroleum and petroleum products in the region, although its use by oil tankers has been declining since the early 1990s. Total Suez Canal traffic in 1995 was around 15,000 ships (declining from 16,300 ships in 1994), transporting almost 300 million tonnes of cargo. The share of petroleum transported through the Canal has dropped from almost three quarters of total tonnage in the 1970s to around 14% in 1995. The decline appears to be due mainly to the inability of the Canal to accommodate large crude oil tankers, and the completion of alternative forms of transportation for hydrocarbons, such as the Suez-Mediterranean (SUMED) pipeline (Box IV.3).

118. Competition from other forms of transportation for petroleum and gas especially is likely to increase with the completion of new pipelines currently being constructed across the Sinai to provide gas to Jordan and to the Palestinian Authority, and which may be extended to provide gas to the Lebanon, and perhaps Israel at a later date. The Government's policy to open the service to the private sector has also resulted in the signing of new agreements, such as that with a consortium, led by British Gas, to build a pipeline from Cairo to Asyut in Central Egypt.⁹⁴

⁹⁴ *Financial Times*, 21 May 1998.

Box IV.3: Developments affecting the Suez Canal

The Suez Canal, wholly owned by the Egyptian Government, is an important transportation route for petroleum and petroleum products in the region. The Canal earns around US\$1.8 billion per year through fees, although this revenue has been declining. The main reason for declining fees is reduced usage of the canal, especially by very large crude carriers (VLCCs) and ultra large crude carriers (ULCCs), which cannot transit the Canal fully laden, and are required to offload some of their cargo before entering the Canal.

Another reason for declining use of the Canal was the completion of the Suez-Mediterranean (SUMED) oil pipeline, in which the Egyptian Government has a 50% stake, which began operations in 1977. The pipeline had an initial capacity of 1.6 million barrels a day but as a result of expansion in the early 1990s, capacity almost doubled. Additional facilities to increase storage and offshore projects relating to loading and unloading operations at both ends have also increased. Expansion of the SUMED and additional supporting facilities were originally built to complement the Suez Canal, which was unable to accommodate large ships; the SUMED provided offloading facilities for these ships. The success of the SUMED has led to its subsequent expansion, which, combined with a flexible tariff system introduced in 1993, has increased competition with the Canal. The success of the SUMED has also, in part, led the Government to open infrastructure services, including oil and gas pipelines, to foreign and private investment.

The Suez Canal Authority (SCA) has tried to increase the Canal's attractiveness to oil exporters by freezing tolls at the 1994 level and by offering discounts of between 5% and 30% for oil and up to 35% for liquid natural gas, for use of the Canal. The SCA has also announced a project to deepen the Canal in order to make it accessible to tankers up to a draft of 72 feet (currently 58 feet) and is seeking an agreement with the SUMED to bar any tanker small enough to use the Canal from using the pipeline. In addition, in 1996, a Permanent High Authority was created to coordinate all oil transportation between the SUMED pipeline and the Suez Canal.

Source: International Energy Agency (1996), *North Africa Oil and Gas*, OECD, Paris; and United States Energy Information Administration, February 1998 and February 1999.

(vi) Tourism

(a) Structure

119. Tourism, by far the largest foreign currency earner in Egypt's services sector, accounted for US\$3.2 billion in revenue (almost 4% of GDP) in 1996, or about 23% of foreign earnings from services. The industry provided direct employment to around 145,000 people in 1996/97.⁹⁵

120. The sector's receipts have experienced considerable variations due to sporadic security concerns. Total revenue fell from LE 9.2 billion in 1992 to LE 6.1 billion in 1993 before recovering to LE 11.6 billion in 1997 (Table IV.8). The number of tourists visiting Egypt rose from a low of 2.5 million in 1993 to 3.9 million in 1996. It was estimated that by 1995 Egypt accounted for around 80% of all tourism receipts generated in the Middle East.⁹⁶ The majority of tourists come from Europe, followed by countries in the Middle East and North America.

⁹⁵ According to the authorities, statistics on employment in the sector are fragmented and restricted to direct employment provided by tourism establishments licenced by the Ministry (Ministry of Tourism, 1997). Indirect employment provided by the sector is therefore likely to be considerably higher.

⁹⁶ Moore (1997).

Table IV.8
The tourist industry, 1992-98
 (LE billion and per cent)

	1992	1993	1994	1995	1996	1997 ^a
Tourism receipts (LE billion)	9.2	6.1	6.8	9.1	10.9	11.6
Percentage of services receipts	30.9	28.5	20.5	24.1	28.3	32.4
Growth rate of hotel capacity (%)	..	5.7	3.9	6.4	8.5	6.1
Occupancy rate of hotel rooms (%)	58	43	55	57	63	67
International arrivals (000s)	3,207	2,508	2,582	3,133	3,896	3,518
Percentage change	..	-30.9	2.3	32.5	16.2	18.7

.. Not available.

a Provisional estimate.

Source: Data provided by the Egyptian Authorities.

121. The authorities estimate that tourism will continue to grow in the coming years despite security-related concerns. The 1997/98 Tourist Development Plan is aimed at increasing the number of tourists from 3.8 million in 1996/97 to 5.2 million by 2001/02. Hotel capacity is expected to rise to 75,500 rooms in 1997/98 and to 112,700 rooms by 2001/02, and overall tourism receipts are expected to increase to almost LE 18 billion by 2001/02.⁹⁷

122. Although Egypt relies mainly on its pharaonic monuments and archeological sites for tourism, the emphasis of tourism development has shifted in recent years. Egypt is trying to diversify tourist activities, including yachting, for which the first marina in Sharm El Sheikh on the Red Sea was recently inaugurated; desert safaris; and therapeutic visits to hot springs. The Tourism Development Authority is also encouraging the development of tourist resorts in the Red Sea area and archeological sites in Upper Egypt.

123. Security concerns also appear to have had an impact on foreign investment, which according to data provided by the authorities declined from LE 1.4 billion in 1993 to LE 262 million in 1997. However, Egyptian private investment continues to rise, growing from LE 1.5 billion in 1993 to LE 2.8 billion in 1997. Much of the investment appears to be in projects to build large tourist complexes and villages, especially in coastal resorts.⁹⁸ The Government is also privatizing a number of hotels owned by its four affiliated public sector companies.

(b) Policy and regulatory framework

124. Tourism regulation and development is carried out by the Ministry of Tourism and the Tourism Development Authority (TDA). All companies or individuals wishing to become registered tourism-related establishments or tour operators must register with the Ministry of Tourism. Until 1992, the Ministry imposed ceilings on rates charged by hotels; these ceilings have been discontinued although the Ministry continues to rate all tourist establishments and approves prices of services.⁹⁹ Egyptian nationals and residents are eligible for a mandatory 50% discount on prices charged by hotels.

⁹⁷ Government of Egypt (undated)(b); and Ministry of Tourism (1997).

⁹⁸ Recent private sector projects in the sector include the Cairo Plaza Project, costing LE 200 million; development of the Ras Al Hekmah area on the northern coast at a cost of LE 3 billion; a tourist village at Ismailia worth LE 2 billion; development of the Ras Binas area around the Red Sea at a cost of LE 18 billion; and the Coral Hilton village in Noweiba (Government of Egypt, 1997).

⁹⁹ UNCTAD (1999).

125. The TDA is the main public authority in charge of investment promotion in designated tourism development areas. It also monitors individual tourism projects and ensures that they meet minimum standards as stipulated in the law. The Government's annual budget for tourism promotion is around US\$20 million a year.¹⁰⁰

126. Private investment has been encouraged for several years in the tourism sector, beginning with Law 1 of 1970, which provided a number of incentives for investment in the sector. Subsequent investment laws, including Investment Law 230, replaced by the Law of Investment Guarantees and Incentives (8/1997), provide a wide range of incentives for national and foreign investors (Table IV.9). As for all other companies registering under the Law of Investment Guarantees and Incentives (8/1997), investors in the tourism sector are required to register with the General Authority for Investment and Free Zones (GAFI) before they become eligible for these benefits. The sector is also given special customs privileges, paying a reduced rate of 300% (instead of up to 3,000%) on imports of alcoholic beverages, as well as tax and customs-duty exemptions if established in the New Industrial Zones or outside the Old Valley. In addition, Law 93 of 1996 reduces fees for tourist and passenger ships entering Egyptian ports by up to 75% of the normal rate.

Table IV.9
Investment incentives in the tourism industry

Scheme	Exemptions or concessions
Taxes	All tourist establishments except restaurants are exempt from paying taxes for 5 years in Cairo; 10 years in remote areas; and 20 years in El Wady El Gedeed and Toshka areas under the Law of Investment Guarantees and Incentives (8/1997). Rebuilding and expansion activities of tourist-related premises are exempt from taxes on 50% of income. Law 93 of 1996 allows a reduction up to 75% of fees for tourist and passenger ships entering Egyptian ports.
Customs duty	Under Decree 11 of 1996, there appears to be a 5% rate of customs duty on all imported equipment, except for restaurants. Imported limousines by tour operators are exempt from duty. Motor vehicles for public transport imported by tourist resorts established in remote areas appear to receive duty reductions of 5%. Alcoholic beverages may be imported by hotels at a rate of 300% duty. ^a
Land acquisition/development	Law 5/1996 allows ownership or lease of state-owned lands in desert areas. Low interest loans are provided to developers for infrastructure services, by the Tourism Development Authority. Law 72 of 1996 allows the expansion of tourist facilities and exemptions for tourist projects. The Tourism Development Authority offers land to private developers for a nominal rate of US\$1 per square metre in designated tourist areas.

a MFN rates on alcoholic beverages range from 1,200% for beer to 3,000% for spirits.

Source: Information provided by the Egyptian authorities.

¹⁰⁰ UNCTAD (1999).

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