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TRADE POLICY REVIEW

Report by

EGYPT

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Egypt is attached.

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I. EGYPT AND THE WTO

1. Egypt was a contracting party to the GATT as early as 1970, and has been a member of the World Trade Organization as of 1995. All legislation relating to WTO agreements became applicable to Egypt since that date. During that period and until now, Egypt has been keen in ensuring that we utilize the multilateral trading system to achieve Egypt's economic objectives. The WTO, as a forum leading to open and frictionless movement of goods and services at the global level, gradually ensures the realization of this collective objective of its 148 members.

2. Egypt remains to be a committed and active member of the WTO. Since the last trade policy review for Egypt in 1999, Egypt's delegations participated actively in Ministerial Conferences in Seattle in 1999, in Doha, 2001, in Cancun in 2003 and we are participating in Hong Kong later this year. We believe that the multilateral trading system by all WTO members in the direction of further agreement on pending issues is the only vehicle for improving the global trade environment and ensuring that the complexities of today's trade flows hinder past efforts to liberalize trade.

3. Under the Doha Development Agenda, Egypt has, either on its own or in conjunction with other Members, submitted proposals on agriculture, non-agricultural market access, special and differential treatment, dispute settlement, rules, services, and trade facilitation. The theme of our position, which is reflected in these proposals, emphasizes the need to rely on the multilateral trading system to effect significant liberalization of the agriculture sector and towards ensure market access for non-agricultural goods. However, the principles of special and differential treatment and less than full reciprocity must be reflected in the negotiations.

4. Egypt became party to the Basic Telecommunication Agreement in 1997 and party to the Information Technology Agreement in 2003. We are also a signatory to the Plurilateral Agreement on Trade in Civil Aircraft. We participate actively in most WTO meetings, and are active in submitting proposals concerning various pending issues in WTO negotiations.

II. ECONOMIC VISION

5. The core of Egypt's vision for economic reform is the promotion of a competitiveness-enhancing business environment that encourages further integration of Egypt into the global economy. A vision that targets the productive employment for Egyptian youth and raising living standards for Egyptians guides the country's long-term strategy of ensuring diversification of the Egyptian economy away from resource-based activities.

6. The country's economic strategy, envisions an economy where the private sector leads activity in all sectors and the government role is limited to the role of the enabler of economic activity, guaranteeing competition, providing a stable macro environment, and protecting the rights of different parties. Success of government efforts in this regard will depend on the confidence of the private sector in the sustainability, coherence, and stability of government policies.

7. Creating a private sector led economy requires strengthening our efforts to attract investment, whether local or foreign. In this regard, we are particularly interested in attracting foreign direct investment, as it is perceived to be a primary vehicle to modernize local production standards and improve management systems.

8. Financial investment is also encouraged, particularly to help speed up divestiture of public assets and to help inject capital in large and medium private firms. The government focuses especially on developing the stock market and setting rules that are consistent with international guidelines to

enhance the transparency and efficiency of the market and produce the governance vehicles to expand its base.

9. Egypt's current laws and regulations are still, in very few circumstances, remnants of the era of public sector dominance and control. To strengthen the legal infrastructure for a market-based economy, we are currently in the process of reviewing all laws and regulations related to business activity in Egypt. The principles guiding these reviews include the reduction of the discretionary role of the state and reducing government intervention to policies that are consistent with market economy principles, allowing more transparency and predictability in all government functions related to business environment.

10. A main pillar of Egypt's current economic strategy is its integration into the global economy. For the past decade, a number of trade liberalization policies faced obstacles from policies in other segments of the economy that were not consistent with trade liberalization. As a result, the focus in the country's trade policy framework is on trade specific policies while establishing the necessary infrastructure of policies in other areas of the economy that enable the country to make significant progress in foreign trade liberalization. .

11. We have also in the past six years been active in utilizing other tools for trade liberalization such as unilateral tariff reductions, foreign currency liberalization, various trade facilitation and business environment simplification initiatives that collectively improve the environment for ensuring competition and transparency in economic activity in Egypt. A number of critical laws and policies were implemented during this period that significantly changed the business environment in Egypt. Details of the policies and laws passed are presented in section III and V below.

12. In terms of economic performance indicators for Egypt over the period 1999-2004, GDP grew by an annual average of 3.5%. Average annual inflation rate ranged between 2.4 and 4.9 for 1998/9-2003/04. Fiscal deficit as a percentage of GDP grew from a low of 2.9% in 1998/9 to 5.9 % in 2003/04 (Table A.1).

13. The current account was in surplus in the past 3 years reaching $ 3.4 billion, which is equivalent to 4.8% of GDP in 2003/04. For services, Egypt's main sources of revenues are Travel and Tourism and Suez Canal ($5.5 billion and $2.8 billion respectively in 03/04 (Table A.2).

14. Many challenges exist, however, that slow down the progress of economic reform policies as well as the realized impact of these efforts. Egypt still faces a growing population creating pressures on education policy to enhance literacy rates. Unemployment rates are still high, and around 500,000 new jobs are needed annually. This emphasizes the need to attract FDI investment and facilitate business further. Other pressures on the economy stem from fiscal deficit rates that reached 5.9% of GDP in 2003/04.

III. A COHERENT TRADE POLICY FRAMEWORK

15. With the objective of enhancing integration in the global economy as a strategic target, Egypt's trade policy framework utilizes multilateral, regional and bilateral agreements to expand market access for Egyptian exports and to facilitate access by domestic firms to inputs necessary for production. At the same time, we are conscious of consumers' right to choose from a variety of products that provide price-quality combinations that satisfy their needs. We also understand- very clearly- that the country's international obligations require that imports coming from other countries must be granted national treatment in Egyptian markets.

16. A component that is gaining attention of the government is trade facilitation role of government. There are legitimate roles for customs, food inspection, IPR enforcement, origin verification, etc at the border, yet these roles have to be conducted with the objective of reducing the financial, time, and uncertainty burden on importers and exporters. Policies to benchmark the performance of Egyptian customs and inspection procedures at the borders with international norms are on the agenda of all ministries involved.

17. Various services liberalization initiatives were introduced since the last trade policy review. A sector where significant liberalization initiatives materialized is telecommunications where Law 10/2003 establishes the National Telecommunications Regulatory Authority (NTRA), with overall responsibility for regulating telecommunications in Egypt. There is no discrimination between domestic and foreign companies. In insurance, economic needs, tests were eliminated for life, health & personal accident insurance sub-sectors in 2001 and for the non-life sub-sector in 2003.

18. The banking sector is under significant restructuring because of the Central Bank Law and of the government initiative to sell its share in joint venture banks and one of the four big public sector banks.

19. In addition, synchronization of foreign trade policies with economic policies outside foreign trade take up an important position in the current phase of the country's foreign trade policy formulation. We are conscious of the need to 1) ensure that all trade policy tools work in tandem toward achieving trade liberalization and that 2) other economic policies are enabling the economy to achieve the maximum benefit from trade liberalization. We utilize various trade policy tools that contribute towards implementing this trade policy framework. These tools include:

(1) TARIFF REDUCTION

20. We started last year by reducing and simplifying the tariff schedule. The objective is to move Egypt toward integration of production and foreign trade in global networks of production and distribution. In September 2004, Egypt's tariff schedule was simplified significantly and the number of tariff lines was consolidated, reducing tariff lines from 13,000 to around 6,000.

21. Currently, we have six tariff bands with special rates for alcoholic beverages, tobacco products and cars with engines over 1600 cc. Previously, there were over 25 tariff bands with vastly different rates applied to slightly differentiated items which created significant classification problems.

22. The recent tariff reduction decree reduced the weighted average tariff from 14.6% in 9%. Tariff rates on components that were linked to their assembled finished goods were all eliminated. Currently, all applied tariff rates are well below Egypt's WTO tariff bindings.

(2) STANDARDS HARMONIZATION

23. The government of Egypt realizes that standards and the resulting inspection at the border represent an area of concern to other WTO members. Transparency and predictability of these procedures represent the foundation of the WTO Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) agreements. We also realize that our efforts to adhere to national treatment and most favored nation principles of the WTO require that treatment of locally produced goods is not more favorable that treatment of imports. In addition, national standards that are not based on guidelines of international organizations such as CODEX, OIE, IPPC and others are typically perceived as an unnecessary barrier to trade.

24. In this setting, the government of Egypt has invested in a program that harmonizes Egyptian mandatory standards with international norms and separated essential requirements to those related to health, safety and impact on environment, from other requirements (Ministerial Decree 130/2005). In addition, the Egyptian system allows Egyptian producers and importers to bring to the market commodities that are produced according to 6 other internationally recognized standards including those of the EU, Britain, the US, Germany, and Japan (Ministerial Decree 180/1996).

25. At the same time, we understand from our trading partners that some sanitary and phyto-sanitary measures that are implemented at the Egyptian border are perceived as non-transparent or unpredictable. To address this problem, we have devised a coordination mechanism that ensures that all technical requirements that fall under the auspices of different ministries are consistent with TBT and SPS obligations and follow the notification and transparency requirements of these agreements (a Prime Ministerial Decree is currently being drafted).

26. These harmonization and coordination efforts, in conjunction with trade facilitation and customs reforms (discussed in the following section), are expected to produce a noticeable impact on the time required and predictability of import inspection at the border.

(3) TRADE FACILITATION AND CUSTOMS REFORM

27. Consolidation of all inspection entities under GOEIC- Accreditation of labs, various regulations that reduce the frequency of inspection for imports of manufactured goods. A number of Presidential, Prime Ministerial and Ministerial Decrees were issued over the past few years, streamlining procedures of import inspection, consolidating the authority to complete the necessary inspections under the authority of GOEIC. Other Decrees issued recognize certification of inspections conducted by outside accredited agencies (primarily Presidential Decree 106/2000, Ministerial Decree 552/2000, Ministerial Decree 515/2003 and Prime Minister's Decree and Prime Ministerial Decree 1186/2003).

28. Egypt is moving ahead in lab accreditation under various programs. The National Council for Accreditation (AGAC) currently devises a system that ensures that labs follow guidelines of the ISO regulations concerning lab accreditation standards for inspection and testing while preparing for pertinent arrangements between this Council and the International Lab Accreditation Council (ILAC), which in turn will internationally certify Egyptian lab results.

29. In addition, GOIEC -the agency responsible for conducting inspection at the border- has a plan for the enhancement and accreditation of all its labs in ports that comply with technical standards set according to relevant international organizations to ensure higher degree of accuracy. In addition, the objective of bringing lab procedures and the quality of staff responsible for conducting tests with international norms will enhance the acceptance of lab results originating in Egypt, thus reducing the financial cost inspection on both imported and exported goods subject to inspection requirements in Egypt or in export markets.

30. In 2001, Egypt incorporated the WTO customs valuation principles in customs procedures. Customs authorities constantly refine implementation resulting in fewer disputes. We also passed Law 15/2004 concerning the adoption of electronic signature. This law will expedite many procedures in customs and port procedures of clearance.

31. In 2004, Presidential Decree 300 eliminated remaining export taxes and eliminated the 1-4% customs surcharge on imports. Electronic signature law will facilitates pre-shipment inspection. Various risk management principles are applied currently in customs to reduce the time required for

clearance. Further work in this area will have a noticeable impact on time of clearance averages in customs.

32. Modern clearance centres have been established at the Ports of Alexandria, Cairo, Port Said and Suez to simplify entry procedures. Procedures to facilitate customs procedures for large importers are currently in place. The adoption of these procedures will be generalized to cover all port in the near future.

(4) RELIANCE ON WTO INSTRUMENTS AGAINST UNFAIR TRADE PRACTICES

33. In the context of protecting Egyptian industry against unfair practices, Egypt relies on WTO instruments granted to members in Anti dumping, subsidy countervailing duties and safeguards. Between August 1999 and January 2005, Egypt initiated 17 anti-dumping investigations, of which 14 resulted in the imposition of definitive anti-dumping duties. As at 31 December 2004, Egypt had 14 definitive anti-dumping duties in force, most of which were on electric lamps and tires.

34. Since its last TPR in 1999, Egypt has been a defendant in one dispute and reserved its third party rights in another. The case involving Egypt as a defendant relates to definitive anti-dumping measures on steel rebar from Turkey. The panel report concluded that Egypt acted consistently with its obligations under the WTO Anti-dumping Agreement and only acted inconsistently with its obligations under Articles 3.4. and 6.8. of the WTO Agreement on Anti-dumping. Based on the recommendations of the panel, Egypt modified its measures and both Turkey and the Dispute Settlement Body approved the modifications. Egypt was involved as a third party in only one case that relates to anti-dumping duties imposed by the European Communities on imports of cotton-type bed linen from India, Pakistan, and Egypt.

35. For subsidies, Egypt only initiated a countervailing subsidy case in 1999 against sugar imports from the European Union. The Egyptian authorities terminated the investigation, however, because analysis revealed that injury suffered by the complaining industry was caused by factors other than subsidies.

36. Since its last TPR in 1999, Egypt has imposed safeguard measures on two products, common fluorescent lamps and powdered milk. Investigations relating to the importation of common fluorescent lamps resulted in an additional duty of 30% for one year as of February 2000. In February 2001, the additional duty was reduced to 25%. For imports of powdered milk, a provisional safeguard measure in the form of an additional duty of 45% entered into force in September 2000. A definitive duty of 15% was imposed in April 2001, declining to 7% in April 2002 and 3% in April 2003.

IV. EGYPT'S TRADE POLICY AT THE GLOBAL AND REGIONAL LEVEL

37. Egypt's integration in the global economy strengthened in the period 1999 to the present. Export proceeds more than doubled from $4.4 billion in 1998/99 to $10.5 billion in 2003/04, an increase of 135%. Similarly, non-oil merchandize exports grew from $3.4 billion in 1998/9 to $ 6.5 billion in 2003/04. Currently non-oil exports represent 63% of total exports. Imports increased over the same period from $ 17 billion in 1998/9 to $18.3 billion in 2003/04. The faster growth of exports compared to imports reduced the trade balance from $12.6 billion in 1998/9 to $ 7.5 billion in 2003/04 (Table A.2).

38. In terms of comprehensive openness index (exports + imports)/GDP, Egypt's performance improved significantly over the period since its last TPR. In 1998/99 the value of the openness index was 24% while the value of the index in 2003/04 is 37%. Adding services international trade in calculating the index, we observe an increase in its value from 43% in 1998/9 to 62% in 2003/04.

39. Egypt's major trading partners continue to be the EU, the US, and Arab countries. The share of the EU in Egypt's total exports was in the range of 30% over the period, while Egyptian exports to the US market represented 35-45 percent of total exports. Egyptian exports destined to Arab countries remain in the range between 10-13 percent of total exports (Table A.3).

40. Sources of Egyptian imports exhibit the same pattern, with the EU accounting for 33% of import value. The US contributes an additional 24 % of Egypt's imports. Asian countries follow, from where around 15% of Egypt's imports originate.

41. Commodity groups such as textiles and clothing, processed food products, chemicals and pharmaceuticals, and construction and building materials represent the main categories of Egypt's non-oil exports. Egyptian imports are dominated by imports of capital goods, intermediates and raw materials accounting collectively for over two-thirds of Egypt's import bill.

42. In addition to unilateral policies to liberalize trade, Egypt relies heavily on cooperation with other countries at the regional and bilateral levels. The main regional agreements that Egypt is party to are the following: Egypt-EU, The Greater Arab Free Trade Area (GAFTA), and the Common Market for East and South Africa Agreement (COMESA). The following sections highlight the main developments in Egypt's relations under each of these agreements.

(1) THE EGYPT-EU PARTNERSHIP AGREEMENT

43. Egypt's Partnership Agreement with the EU entered into force in July 2004. Provisional implementation of trade-related provisions started in January 2004. The Agreement also includes provisions on political, scientific, technological, and cultural cooperation.

44. The Agreement is a free trade area that reduces tariffs between the two partners over a period of twelve years. Quantitative restrictions and other measures having equivalent effect on trade were abolished when the Agreement entered into force. With the exception of a number of products (including wool, cotton, hides and skins, various oils), imports into the EU, of non-agricultural products originating in Egypt enter the EU duty free. Customs duties on EU imports into Egypt are phased out over the twelve-year period according to the annexes to which the product belongs (there are four annexes attached to the agreement). The Agreement also specifies that the EU and Egypt shall gradually liberalize a greater share of their trade in agricultural and fisheries products. Discussions regarding this issue started in February 2005.

45. In 2004, Egypt signed the Agadir Agreement with three Arab countries; Jordan, Morocco, and Tunisia. In tariff reduction, the Agreement has provisions to strengthen economic cooperation in areas such as standards, customs procedures, government procurement, financial services, intellectual property rights, and dispute settlement. It also represents a major step for the four participating countries to achieve cummulation of origin for their products entering the EU market in the context of their respective EU partnership agreements.

(2) THE GAFTA AGREEMENT

46. The GAFTA, entered into force in 1998. Its objective is to create Pan Arab Free Trade Area by dismantling all customs duties. GAFTA represents the umbrella agreement governing all bilateral agreements between Egypt and Arab countries. Customs duties on imports from participating Arab countries reached zero in January 2005.

47. The Agreement encompasses 17 countries: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Sudan, Syrian

Arab Republic, Tunisia, United Arab Emirates, and Yemen. The objective of the Agreement is to create a vast Arab free-trade area by 2007. The principal entity responsible for implementing the program is the Economic and Social Council of the Arab League. Further info on GAFTA

(3) THE COMESA AGREEMENT

48. Egypt became a member of the twenty-nation COMESA Agreement in 1998. The Agreement aims to deepen and expand the integration of member countries by adopting measures to remove all tariffs and not tariff barriers. The adoption of a common external tariff, free movement of capital and labor, liberalization of establishment in member countries, common standards, certification systems, tax harmonization, competition policy, and others are areas that COMESA aspires to achieve beyond tariff reduction.

49. Egypt eliminated duties on imports from COMESA countries in 2000. Pending issues in the COMESA are the timing of implementing the Common External Tariff (CET) and the revision of rules of origin applicable to goods moving among member countries.

50. A monetary harmonization program is to be implemented in four stages between 1992 and 2025. A protocol on free movement of persons is to be implemented in several stages. Only Kenya, Rwanda, Zimbabwe signed the Protocol. Egypt did not sign the protocol, even on a reciprocal basis.)

V. ENABLING POLICIES ENHANCING FOREIGN TRADE PERFORMANCE

51. In terms of creating the enabling business environment for various trade liberalization policies, Egypt in the past six years has implemented reform in various areas that reflect a more mature market-based economy that acknowledges the policy stability and the necessity of creating the right incentives for participants, Egyptian or Foreign. The following areas represent highlights of these reforms.

(1) MONETARY AND FISCAL POLICY ENSURES STABILITY AND PREDICTABILITY

52. The Government is taking a number of steps to improve our fiscal stance. Reforms in customs and taxation are considered as a huge incentive to businesses replacing the tax holidays that existed in the previous system. We expect that base broadening efforts and administrative reforms, combined with increased economic activity will yield higher revenues to address budget deficits pressures that are currently financed through local debt.

53. On the expenditure side, we are introducing performance-based budgeting to control expenditures and improving our management of debt while carefully reviewing all consumer subsidies to ensure that they are properly targeted and supportive of our goals. Maintenance of public assets is as important as new investment in promoting the efficiency and step up capabilities of public resources. New public expenditures are scrutinized in terms of strict economic and social cost benefit criteria. Finally, we are ensuring the human resource and technical capabilities of staffs responsible for preparation and implementation of appropriations. Efforts to enhance the performance of existing economic authorities are crucial toward achieving fiscal as well as economic efficiency objectives.

54. On the monetary side, we have institutionalized a number of measures that are consistent with monetary management of a mature economy. Central Bank independence is strengthened in the current law. Government borrowing is controlled under the law, public debt issues are auctioned on the market among primary dealers. Problems of non-performing loans that characterized the recession period are currently handled through plans between banks and companies.

55. Foreign currency is under a floating system. Despite imbalances in the past few years, the Egyptian Pound is allowed to move (up and down) to adjust to the real value of the currency and in accordance with the economy's strengths and weaknesses.

(2) ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS LAW

56. Egypt enacted Law 82/2002 bringing Egypt's situation with TRIPS compliance and ensuring the product of Egyptian creativity and development under the protection of the law. The law protects patents, utility models, trademarks, copyrights, and undisclosed information.

57. Egypt joined The Nice Agreement for Registration of marks. In addition, Egypt began implementation of the Patent Cooperation Treaty, which we have joined and ratified a year ago.

58. With respect to enforcement of IPR in computer software, we have established in the Ministry of Information and Telecommunication a new unit for licensing software. Enforcement procedures are currently being drafted and a decree will come out soon that outlines the necessary procedures that govern the new unit's activity. Even before this regulation, piracy rates in software are already around 50%, down from over 70% five or six years ago.

59. Similar enforcement systems are set up in the Ministry of Culture, responsible for enforcement of audiovisual products. Similarly, the Ministry of Trade and Supply has enforcement offices for IPR enforcement of trademarks. Offices in all governorates of Egypt are being established and staffs are trained to accomplish this task.

60. Trademark registrations in Egypt, which had a backlog resulting in delays reaching over five years, are now by over 40%. The target is that registration of a trademark takes under two years.

61. For pharmaceutical patents, Egypt opened a mailbox for patents and begun examination of applications in January 2005.

62. Regulations on IPR enforcement at the border are currently being drafted. These will strengthen enforcement on infringing and counterfeited imported goods in the Egyptian market that enter through ports.

(3) PASSING OF LAW ON PROTECTING COMPETITION AND PROHIBITION OF MONOPOLISTIC PRACTICES

63. The Egyptian Parliament passed Law 3/2005 on the Protection of Competition and the Prohibition of Monopolistic Practices. A Commission responsible for implementation of the Law is due to be operational in June. Companies (public or private) that are established as for-profit companies are subject to the Law.

64. Together with trade liberalization trends, the law is expected to inject health competition in the Egyptian economy that strengthens competitiveness of Egyptian products in the local and international markets.

(4) MOMENTUM IN PRIVATIZATION PROGRAM

65. The Ministry of Investment is also responsible for privatization of remaining public sector firms, injecting management and capital in existing firms or selling public sector firms to strategic investors capable of re-orienting these firms' activities subject to the necessary guidelines that govern utilities performance in market-based developed economies. Private participation in ownership and

management is slowly introduced; the private sector (local or foreign) will be invited to provide various services in ports, after it already is providing some services in some Egyptian airports.

66. Since it began its privatization program in 1991, the Government sold 195 (63%) of the 314 companies initially identified for disposal. By 2001, about 85% of manufacturing was done by the private sector. Though the pace of privatization slowed somewhat in recent years due to the global economic downturn, the Government took action in September and October 2004 to speed up the privatization process and restructure public enterprises.

67. The new Ministry of Investment and Public Enterprises announced the first batch of companies and assets for privatization as part of its 2004-2007 privatization program. They include enterprises involved in cotton, spinning and weaving; trade; metallurgical industries; chemical industries; food industries; housing, tourism and cinemas; maritime and inland transport; and ten other companies operating in a range of fields.

68. The Ministries of Transportation, Housing and New Communities, and Power and Electricity continue to offer Build-Own-Operate-Transfer (BOOT) schemes. The Government welcomes contractual agreements, according to which the private sector finances, constructs, operates and maintains the facility.

(5) BANKING SECTOR AND FINANCIAL SERVICES REFORM

69. Banking reform is underway with the objective of making this key sector stronger and more dynamic and competitive. In this regard, financial instruments, which are consistent with the increasing needs of markets and capital providers, are being established. We are also activating existing instruments, like mortgages under our new Mortgage Law. These financial issues are handled by a newly established Ministry of Investment Development that sets clear, transparent and predictable guidelines for domestic and international investors' activity in Egypt.

70. The privatization program also encompasses reform of the banking sector, including the privatization of one or more of the four public banks, establishment of the Arbitration Committee in the Central Bank of Egypt, and the establishment of a new unified financial supervision system for banks, capital markets, mortgages, and insurance. State-owned banks will sell their holding in joint venture banks within a timeframe of 12-18 months. The Bank of Alexandria, the fourth largest state-owned commercial bank in Egypt, has been selected as the first bank to be privatized by the end of 2005/early 2006 at the latest.

71. The Government has taken various measures to bring Egypt's capital market closer to international standards. Companies listed on the CASE are required to use international accounting and disclosure standards. New listing and delisting rules have been issued for stricter standards and the quality of the listed companies. Egypt's capital markets are regulated by Law 95/1992 and its Executive Regulations issued by Ministerial Decree 135/1993. The Law covers joint-stock companies that publicly offer their shares, as well as companies that deal in securities and shares. The Law defined the rights and obligations of the Capital Market Authority as the main supervisory body. Particular attention is being paid to provisions on shareholders rights in listed companies and on obligations to disclose information.

72. As for insurance services, the government is committed to privatizing 4 state-owned insurance companies as allowed under Insurance Law no. 10/1981 amended by Law 156/1998. These companies are currently evaluated by international investment banks. Whether under public or private ownership, The Egyptian Insurance Supervisory Authority (EISA) is responsible for the enforcement of the Insurance Law and for regulating the Egyptian insurance sub-sector.

(6) INDUSTRY MODERNIZATION PROGRAM AND INDUSTRY RESTRUCTURING

73. The Industry Modernization Program, implemented in cooperation with EU is a program initiated to assist existing and potential private sector industrial establishments perform in a more liberalized and private sector dominated environment that results from the implementation of the Egypt EU partnership Agreement. One of the main areas of focus for the program is the initiative to upgrade private sector enterprises in Egypt. The Industrial Modernization Council provides the strategies and guidelines for the Industry Modernization Center. Currently, the IMC focuses on technical support in areas of standards, metrology, quality, testing, R&D, productivity and SME extension. It also works with bodies of the Ministry of Foreign Trade and Industry to upgrade their IT infrastructure and other services that support industries in identifying and integrating in global markets while overcoming the disadvantage of being a late comer.

74. In addition to enterprise upgrading, the IMC provides sectoral support through the establishment of twenty business-resource centres throughout Egypt and the identification and promotion of local or sectorial clusters of enterprises sharing the same needs including new SME business associations. IMC also provides policy support that aims at strengthening the legal and policy environment as a means to ensure sustainability of efforts after completion of the program.

(7) TOURISM SECTOR GROWTH

75. Tourism remains the service contributing most to Egypt's services account in the Balance of Payments, and thus one of Egypt's main four sources of foreign exchange rate. Tourism receipts in current account receipts were $ 2.9 billion rising to $ 5.5 billion in 2003/04, an increase of close to 90%. The most significant annual increase in revenues happened between 2002/03 and 2003/04 from $ 3.8 billion to $ 5.5 billion.

76. The number of tourists arriving in Egypt shows a corresponding pattern, with the number of tourists arriving in 2003 reaching 6 million tourists, up from 3.9 million in 1997. In the period from January to September 2004 only, 6.1 million tourists were recorded, raising expectations that Egypt will receive around 8 million tourists in 2005. European tourists from Western and Southern Europe represent the highest share in arrivals representing around 60% of total tourist arrivals.

77. The World Travel an Tourism Council estimates that Egypt's tourism activity contributes around 8.3 % of Egypt's GDP and around 7% of total employment. Adding the indirect effect of the activity, the shares rise to 15%, and 13% respectively. These estimates are echoed in studies conducted by the Ministry of Tourism which suggest that tourism industry is one of the most important services sectors in Egypt to contribute to strategic goals of employment and service exports.

78. The Government of Egypt's current plans focus on expanding geographic markets currently not sufficiently represented in tourist arrivals, strengthening their efforts in non-traditional types of tourism such as business tourism, R&R and sports tourism. Plans also include expanding resort tourism activity that produced positive results on the Red Sea resorts in Sharm and Hurghada to the North Western Coast between Alexandria and Matrouh.

(8) PLAIN LEVEL FIELD FOR INVESTMENT AND REDUCED BUSINESS AND INCOME TAXES

79. A draft income tax law is being discussed at Parliament. The new law reduces and unifies income taxes in Egypt. Top brackets are reduced from 40% and 32% to 20%. Personal exemptions are also raised to reflect better cost of living changes. The new law consolidates different sources of income and is perceived to bring Egypt's income tax burden closer to that in other countries. With efforts to expand the tax base, the lower rates will produce a positive impact reducing tax evasion, increasing the perception of fairness and reduce various distortions in the system.

80. Similarly, the proposed law removes tax holidays for new investment. Lower rates are used to attract investment, local and foreign, without creating incentives to invest in projects with short turnover cycles.

81. Law 13/2004 was passed to simplify administrative procedures required for establishment of new investments under the General Authority for Investment (Law 13/2004)

(9) NATIONAL COMMITTEE TO UPDATE COMMERCIAL AND BUSINESS LAWS

82. A National Committee was established under the auspices of the Prime Minister's Office to review economic regulations that are necessary for laying the foundation for efficient performance of economic and financial laws and institutions.

83. On the list of laws already on the agenda of the Committee are the law on governing the accounting and auditing profession, the new customs law, the companies law, and economic courts law. Additional laws that require review can be presented to the Commission.

(10) CONSUMER PROTECTION LAW

84. With a more liberalized economy, it is important to ensure that mechanisms are in place to protect the consumer. Serious attention is being paid to this area, not just in terms of the passing and implementation of the Consumer Protection Law, but also through education, transparency and building the necessary trust in private producers and government on one side, and consumers on the other. A draft for a new consumer protection law is currently before the Cabinet before presentation to Parliament. The new law is perceived as a necessary tool for allowing Egypt to move further in the direction of trade liberalization and encouragement of private participation without compromising the government's obligation to provide legitimate protection to consumers.

VI. FUTURE ECONOMIC POLICY DIRECTION

85. The direction of future economic policy, and necessarily foreign trade policy, stems from the strategic objectives of the country. These are summarized in following two strategic objectives: 1) creating productive employment opportunities for Egypt's growing young population; 2) improve the quality of life for lower income groups in Egypt.

86. Pillars to achieve these objectives are categorized under six sub-areas where the government has action plans to set the priority of short, medium and long term objectives for the country in the current phase of economic development. The six areas are the following:

- poverty reduction and standard of living alleviation for lower income groups;
- ensuring the well-functioning of competition in various markets and the enhancement of protection provided to Egyptian consumers;
- overhaul of taxes and customs systems conducive to improving business environment for Egyptian and foreign firms;
- effective management of public sector assets that are accumulated over the past five decades;
- reform of the financial sector in its broad sense;
- guarantees on the disclosure and transfer and communication of statistics and information necessary for the operation of various parties in the market.

87. Under each of these pillars, the government of Egypt has developed medium term objectives that move the country toward the long-term goals.

Table A1
Macroeconomic Overview, Selected Economic Indicators, 1998/99-2003/04

	1998/9	1999/00	2000/01	2001/02	2002/03	2003/04
Real GDP Growth Rate (%)	5.4	5.9	3.4	3.2	3.1	4.1
Average Annual Inflation (%)	3.8	2.8	2.4	2.4	3.2	4.9
Unemployment Rate (%)	8.1	9	9.2	9	9.9	9.9
Fiscal Deficit / GDP (%)	2.9	3.9	5.5	5.9	6.1	5.9
Current Account/GDP (including official transfers) %	-1.9	-1.18	-0.04	0.7	2.8	4.8
Foreign Debt (% GDP)	31.2	28.2	28.5	32.6	35.6	37.8
Total Debt % Exports (G&S)	182.4	156	141.5	171.3	154.1	123.5
Debt Service Ratio	7.2	8	7.3	9.5	9.8	9.2
Reserves/months of imports	12.7	10.2	10.4	11.6	12	9.9

Source: Quarterly Economic Digest, Ministry of Foreign Trade and Industry, October-December 04.

Table A2
Balance of Payments, 1997/98- 2003/04
(Million $)

	97/1998	98/1999	99/2000	2001/00	02-Jan	03-Feb	*2004/03
Trade Account Balance	**-11771**	**-12563**	**-11472**	**-9363**	**-7517-**	**-6615**	**-7834**
Export Proceeds	**5128**	**4445**	**6388**	**7078**	**7121**	**8205**	**10453**
Petroleum Exports	1729	1000	2273	2632	2381	3161	3910
Other	3400	3445	4115	4446	4740	5045	6542
Imports	-16899	-17008	-17860	-16441	-14637	-14820	-18286
Services (net)	**4692**	**5970**	**5630**	**5588**	**3878**	**4949**	**7318**
Receipts	**10455**	**11026**	**11426**	**11696**	**9618**	**10441**	**12981**
Transportation, of which	2457	2637	2635	2704	2715	2965	3755
Suez Canal	1776	1771	1781	1843	1820	2236	2848
Travel and Tourism	2941	3235	4314	4317	3423	3796	5475
Investment Income	2081	1933	1833	1850	938	641	485
Government Services	303	308	110	190	188	253	179
Other Receipts	2673	2913	2535	2636	2354	2786	3086
Payments	**5764**	**5056**	**5796**	**6109**	**5740**	**5493**	**5663**
Transportation, of which	362	377	457	429	420	393	668
Travel	1307	1104	1028	1054	1208	1372	1315
Investment income, of which	868	928	901	778	842	749	692
Interest paid	716	789	770	728	689	626	586
Other payments	2371	2136	2943	3260	2609	2524	2499
Balance of Goods and Services	**-7079**	**-6593**	**-5843**	**-3776**	**-3638**	**-1666**	**-516**
Transfers	4600	4869	4680	3742	4252	3609	3934
Official (net)	883	1097	932	769	1144	664	888
Private (net), of which:	3718	3772	3747	2973	3109	2946	3046
Remittance of Egyptians working abroad	--	--	--	2843	2953	2963	3000
Current Account Balance	**-2479**	**-1724**	**-1163**	**-33**	**614**	**1943**	**3418**
Capital and Financial Account	**3387**	**919**	**-1199**	**-542**	**-964**	**-2734**	**-5016**
Direct Investment Abroad	-137	-56	-43	-27	-15	-30	-156
Direct Investment in Egypt	1104	711	1656	509	428	701	407
Portfolio Investment Abroad (net)	-56	-43	-12	-5	-3	-16	113
Portfolio Investment in Egypt (net)	-248	-174	473	261	999	-405	-226
Bonds	--	--	--	--	954	-218	-148
Other Investments Abroad	**2724**	**481**	**-3273**	**-1280-**	**-2373**	**-2983**	**-5155**
Net Borrowing	858	191	492	268	71-	144	1509
Medium and Long Term Loans	-54	-339	-532	-559	-585	-587	-642
M.T Suppliers' Credit	322	-110	-95	112-	207-	340-	68
S.T. Suppliers' credit (net)	591	639	1119	939	721	1070	2083
Other Assets	97	143	-3112	-2281	-1862	-3068	-5705
Central Bank	--	-17	-22	-17	21	-32	-21
Banks	--	2126	-198	1034	227	-493	-2593
Other	--	-1966	-2891	-3298	-2110	-2542	-3090
Other Liabilities	1769	147	-654	734	-439	-59	-959
Central Bank	--	-200	-3	*495	7	4	-17

Table A2 (cont'd)

	97/1998	98/1999	99/2000	2001/00	02-Jan	03-Feb	*2004/03
Banks	--	347	-651	238	-446	-63	-943
Errors and Omissions	**-1043**	**-1312**	**-664**	**-296**	**-107**	**1337**	**1440**
Overall Balance	**-135**	**-2217**	**-3027**	**-871**	**-456**	**546**	**-158**

Source: Ministry of Foreign Trade and Industry website at: www.mofti.gov.eg.

Table A3
Regional Distribution of Exports and Imports, 1998/99-2003/04

	Exports						Imports					
	98/99	99/00	00/01	01/02	02/03	03/04	98/99	99/00	00/01	01/02	02/03	03/04
							(million $)					
Total	**4445**	**6388**	**7078**	**7121**	**8205**	**10453**	**17007**	**17859**	**16441**	**14637**	**14820**	**17975**
EU	1370	1700	2007	2099	2797	3429	7205	7286	6145	5297	5109	5765
Other European	308	343	323	379	377	619	1743	1550	1267	1323	1365	1643
USA	1709	2894	2889	2621	3057	3701	3226	3821	4415	3684	3732	4303
Arab countries	511	444	817	943	934	1273	623	841	754	847	866	1284
Asian countries	464	918	766	836	859	1077	2996	2956	2554	2097	2190	2642
African countries	18	37	41	65	74	216	93	119	124	132	103	150
Russian Federation and CIS	35	12	16	44	37	66	285	259	251	254	288	222
Australia	3	5	3	3	3	20	254	270	247	225	155	351
Other	27	34	216	131	67	52	583	758	684	778	1012	1615
							(per cent)					
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.01**	**100.01**	**100.00**	**100.00**	**100.00**	**100.00**
EU	30.82	26.61	28.36	29.48	34.09	32.80	42.36	40.80	37.38	36.19	34.47	32.07
Other European	6.93	5.37	4.56	5.32	4.59	5.92	10.25	8.68	7.71	9.04	9.21	9.14
USA	38.45	45.30	40.82	36.81	37.26	35.41	18.97	21.40	26.85	25.17	25.18	23.94
Arab countries	11.50	6.95	11.54	13.24	11.38	12.18	3.66	4.71	4.59	5.79	5.84	7.14
Asian countries	10.44	14.37	10.82	11.74	10.47	10.30	17.62	16.55	15.53	14.33	14.78	14.70
African countries	0.40	0.58	0.58	0.91	0.90	2.07	0.55	0.67	0.75	0.90	0.70	0.83
Russian Federation and CIS	0.79	0.19	0.23	0.62	0.45	0.63	1.68	1.45	1.53	1.74	1.94	1.24
Australia	0.07	0.08	0.04	0.04	0.04	0.19	1.49	1.51	1.50	1.54	1.05	1.95
Other	0.61	0.53	3.05	1.84	0.82	0.50	3.43	4.24	4.16	5.32	6.83	8.98

Trade Balance	**98/99**	**99/00**	**00/01**	**01/02**	**02/03**	**03/04**
All Regions	**-12562**	**-11471**	**-9363**	**-7516**	**-6615**	**-7522**
EU	-5835	-5586	-4138	-3198	-2312	-2336
Other European	-1435	-1207	-944	-944	-988	-1024
USA	-1517	-927	-1526	-1063	-675	-602
Arab countries	-112	-397	63	96	68	-11
Asian countries	-2532	-2038	-1788	-1261	-1331	-1565
African countries	-75	-82	-83	-67	-29	66
Russian Federation and CIS	-250	-247	-235	-210	-251	-156
Australia	-251	-265	-244	-222	-152	-331
Other	-556	-724	-468	-647	-945	-1563

Source: Quarterly Economic Digest, October-December 2004, Ministry of Foreign Trade and Industry.