

US-Egypt Business Council



U.S. – Egypt Business Council

Annual Report for 2004

Progress and Recommendations

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ACRONYMS

ENCC	Egyptian National Competitiveness Council
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
ICT	Information and Communications Technology
IPR	Intellectual Property Rights
IT	Information Technology
MEFTA	U.S.-Middle East Free Trade Area
QIZ	Qualifying Industrial Zone
TIFA	Trade and Investment Framework Agreement
USAID	United States Agency for International Development
WTO	World Trade Organization

Executive Summary

The primary role of the U.S.-Egypt Business Council is to advise the U.S. and Egyptian governments on the development, implementation, and enforcement of policies to enhance trade, investment, and commerce between the two countries. Recent steps taken by Egypt to liberalize the exchange rate, reform the customs and tax regime, protect intellectual property rights, and ensure compliance with World Trade Organization (WTO) agreements are strong evidence that Egypt is creating the supporting policy environment to spur the growth of an open and vibrant private sector.

Since the benefits of such reform will accrue to both countries, a constructive U.S. response to this progress is vital. Addressing Egyptian business concerns regarding U.S. regulatory policies and procedures is also an important priority for the Council. Members have therefore been working to resolve issues related to U.S. visa restrictions for business travelers, enforcement of U.S. laws protecting intellectual property rights for Egyptian products, new cargo security standards, and oversight of international telecommunications traffic.

Council Support to the U.S. and Egyptian Governments

The Council has offered support and made recommendations to the U.S. and Egyptian governments on ways to:

- Enhance competitiveness and facilitate business growth in Egypt
- Boost trade in goods and services
- Increase foreign direct investment

This report, produced jointly by U.S. and Egyptian Council members, documents the progress that has been made in certain policy areas and some of the challenges that remain. It describes the role of the Council in supporting these reforms, and makes recommendations for further progress. Annex A provides a summary list of the Council's activities over the past year.

The Council believes the best way to maximize the benefits of the reforms described here is through the negotiation of a Free Trade Agreement (FTA) between the United States and Egypt. Such an agreement would benefit both countries by boosting trade and investment flows, increasing economic growth and employment, and encouraging further economic reforms in Egypt. It would also have a positive impact on political relations between the two countries. In support of such an agreement, the Council has developed a comprehensive roadmap that identifies the key policy reforms and critical milestones the United States and Egypt must address to pave the way for successful FTA negotiations. Annex B discusses the rationale for a U.S.-Egypt FTA, and Annex C presents the Council's roadmap.

SECTION I

Background

Originally established as the U.S.-Egypt Presidents' Council in April 1995, the U.S.-Egypt Business Council was restructured after meetings between President Hosni Mubarak and President George W. Bush in 2001. Today, the Council consists of 13 Egyptian business leaders and an equal number of American business leaders representing various economic sectors. Serving under the auspices of the Egyptian Ministry of Foreign Trade and the U.S. Department of Commerce, the Council advises both governments on private sector views, needs, and concerns regarding specific policy measures that will:

- Facilitate business development and investment in Egypt
- Enhance bilateral commercial ties to lay the foundation for freer trade between the two countries

Future economic growth for both countries is tied to increased business, commercial, and financial cooperation between the United States and Egypt, and a more proactive and central role for the private sector. Since the Business Council's formation, its members have worked together to introduce initiatives and make recommendations on ways to enhance bilateral trade and economic relations. From 2002 to 2004, the U.S.-Egypt Business Council has focused on issues such as:

- Foreign direct investment
- Human resources development
- Information technology (IT) sector development and technology transfer
- Negotiation of an FTA between the United States and Egypt
- Qualifying Industrial Zones (QIZs)

In 1999, Egypt and the United States signed a Trade and Investment Framework Agreement (TIFA) establishing a formal TIFA Council. Designed to facilitate government-to-government discussions of bilateral trade and investment policy, the TIFA Council has working groups that review technical issues related to agricultural trade, customs administration, and government procurement. As a resource in this process, the U.S.-Egypt Business Council offers support and advice to the TIFA Council from the perspective of the private sector.

The ability of the U.S. and Egyptian private sectors to work together with a shared perspective on the importance of mutually beneficial economic growth has enhanced their contribution to strengthening bilateral trade and investment relations.

SECTION II

Progress on Focus Areas: Success and the Road Ahead

A. Enhancing Competitiveness and Facilitating Business Growth in Egypt

The Egyptian government has continued to implement measures to improve the country's business climate, facilitate trade, and increase foreign and domestic investment. The Council welcomes these measures to enhance Egypt's competitiveness. In the past two years, Council members have advocated a number of measures to improve the business climate in Egypt, such as:

- Exchange rate liberalization
- Banking, labor, and tax reform
- Alternative dispute settlement
- Human resources development
- Establishment of a national competitiveness council

Exchange Rate Liberalization. One way a country can increase the competitiveness of its goods and services is to adopt an exchange rate policy that boosts investor confidence and promotes exports. To resolve long-standing exchange rate difficulties, Egyptian policymakers abandoned the currency's managed peg against the U.S. dollar in favor of a floating currency system in January 2003. Council members supported that decision. In practice, however, the government has implemented more of a "managed float." Council members continue to engage in a dialogue with the Egyptian government regarding the importance of pursuing and implementing realistic exchange rate policies.

Council members also welcomed the government's appointment of a new board of directors to the Central Bank and major state-owned banks. The new board, Parliament's enactment of the money laundering law, relatively tight money supply, and lower demand for letters of credit have all helped dampen speculation, and have kept the black market rate relatively close to the official rate. These factors have also collectively contributed to a significant reduction in the gap between official and black market foreign exchange rates, and a growing supply of dollars in the market.

Banking Reform. Council members were also active in policy discussions on banking sector reform, and were pleased with the adoption of the Unified Banking Law in May 2003. The new law aims to enhance the independence of the Central Bank, giving it greater freedom in formulating monetary policy, and endowing it with supervisory powers over the banking system. The law will facilitate privatization of state-owned banks, modernize banking procedures, streamline the regulatory environment, and improve access to domestic credit by increasing transparency. The law also raises confidence in the banking sector by imposing substantially higher minimum capital requirements, more stringent lending requirements, and higher management standards for all banks.

Labor Reform. The Council also backed the Unified Labor Law adopted in December 2003. This much-needed law contains new regulations for hiring and terminating employees, and new provisions allowing companies to lay off employees due to economic necessity. Furthermore, the law addresses important issues such as the right to strike, minimum wage, lock-outs, and workers' compensation. Council members support these measures aimed at liberalizing the Egyptian labor market. Such reforms will expand private sector access to a flexible workforce that responds to the demands of the market, while maintaining a fair and productive balance between employer and employee rights.

Tax Reform. With legislative reform of the tax system now underway, the Council has advocated measures that guarantee fair and equitable taxation in Egypt. For example, the Council has actively supported the Egyptian government's plan to introduce legislation reducing personal and corporate tax rates by 10 percent. Council members have also worked to address the problem of excessive and discriminatory excise taxes imposed on soft-drink sales. In the past, repeated assurances by various government officials to reform the system have not materialized, even when soft-drink companies offered revenue guarantees to the government. The government has recently indicated that the new tax law will reduce the statutory soft-drink sales tax.

Alternative Dispute Settlement. Council members have supported the new alternative dispute settlement procedures recently introduced by the Egyptian government. These procedures are designed to facilitate the resolution of disputes between investors and government agencies. Council members will continue to support the establishment of specialized commercial courts and further legal reforms designed to accelerate the dispute settlement process and the enforcement of judgments.

Human Resources Development. Training and investment in developing Egypt's human resources is crucial to increasing the country's competitiveness. To that end, the former Presidents' Council created a non-profit, non-governmental organization in 1998 called the Future Generations Foundation to address the needs of the Egyptian private sector with regard to human resources. The Foundation manages three programs that address different levels of Egypt's professional workforce. The first provides basic skills to non-financial professionals, the second provides senior executives with general management training, and the third—the Mubarak Professional Development Initiative-International Alliances—provides internship opportunities in the United States for mid-level Egyptian managers and on-the-job training in business practices for future Egyptian business leaders.

Visa Restrictions. Since September 2001, visa restrictions for Egyptians traveling to the United States have severely impacted trade and commerce between the two countries, as well as U.S.-based internship and training programs, including those described above. These restrictions have not only deterred potential purchasers of American goods and services from traveling to the United States, but have also inhibited the free exchange of information and ideas that is so crucial to developing human resources and forging bilateral commercial ties. This is a major concern for the Council, and members are exploring ways to address the issue over the coming year.

National Competitiveness Council. Council members are actively engaged in other initiatives that promise to enhance competitiveness and facilitate business growth in Egypt. In February 2004, they participated in the establishment of the Egyptian National Competitiveness Council (ENCC) at the Davos meeting of the Arab Business Council. The ENCC is a public-private sector body that seeks to define emerging issues of national importance and set priorities for change and sustainable development in Egypt. The new Competitiveness Council will identify criteria and benchmark the country's progress in achieving economic, political, social, and educational reforms. It will also propose solutions to decision makers and civil society for achieving those reforms. The U.S.-Egypt Business Council welcomes the formation of this new council as a sign of Egypt's commitment to increasing public-private dialogue and improving the business environment.

B. Boosting Trade in Goods and Services

Trade in goods and services between the United States and Egypt can be increased dramatically through the implementation of an FTA, the development of Qualifying Industrial Zones (QIZs), and modernization of Egypt's customs administration.

U.S.-Egypt Free Trade Agreement. The Council recognizes that a U.S.-Egypt FTA can generate economic growth and strengthen trade, investment, and political relations between the two countries. Given the strategic importance of such an agreement, the Council has devoted considerable attention to examining the policy issues affecting U.S.-Egyptian trade relations and sought to play a constructive role in laying the foundation for a sound U.S.-Egypt FTA. Most notably, the Council has been proactive in identifying, clarifying, and encouraging the resolution of outstanding policy issues. To facilitate this task, the Council developed an FTA roadmap (see Annex C) to help identify issues of concern to the Egyptian and U.S. private sectors, and address procedural matters underpinning the FTA negotiation process. Council members continue to meet with Egyptian and U.S. government officials and private sector leaders to discuss issues of central importance to an FTA.

Qualifying Industrial Zones. Council members have also examined and provided their views on the potential benefits that the U.S. QIZ legislation might offer Egypt. This legislation would permit duty-free entry into the U.S. market for Egyptian products manufactured in areas designated as "qualifying industrial zones." QIZs would provide Egypt with new opportunities for developing export-oriented industries such as pharmaceuticals and IT products. Egyptian textiles and garments would particularly benefit from greater access to the sizeable U.S. market. Egypt already exports about \$500 million's worth of Egyptian textiles, cotton, and apparel to the United States despite high U.S. tariffs on those goods. With relatively low-cost labor, water, gas, and electrical power, lower construction and manufacturing costs, and an extensive infrastructure, QIZ duty-free status would significantly boost the competitiveness of Egypt's textile industry and other labor-intensive sectors.

Customs Modernization and Trade Facilitation. Companies seeking to compete in a global economy must be able to export their products and import inputs with minimal delays. In some cases, border and port delays can be more costly than customs tariffs. Council members have therefore supported efforts by both countries to reduce the burdens of customs procedures.

Independent surveys of firms operating in Egypt have shown that two out of three businesses cite customs reform as the number one priority for boosting trade and investment in Egypt. The Council therefore supports the Egyptian government's initiatives to reform and modernize the national customs administration, and welcomes the assistance of donors like the United States Agency for International Development (USAID), the World Bank, the International Monetary Fund, and the European Union.

Customs administration reform is a daunting but necessary task for any developing country. As emphasized by the World Customs Organization, sustained high-level leadership and political will are critical to the success of customs reform efforts. Furthermore, customs reform is essential for Egypt to enter into and successfully conclude FTA negotiations with the United States and reap the benefits of such an agreement. The Council therefore calls upon senior officials in both countries to give this effort their utmost support and attention.

The Council also recognizes the crucial role of the private sector in supporting customs modernization, advising the government, and articulating the benefits of reform to all. With these considerations in mind, the Council has decided to form a working group that will provide sustained support for customs reforms, promote awareness of their benefits, develop innovative recommendations, and advise government officials.

Egyptian exporters to the United States also have concerns about new regulatory requirements imposed by U.S. cargo security standards. The Council will continue its efforts to ensure exporters and importers understand and are able to adapt to these new regulations with minimal disruption to trade.

The Council will address other barriers to trade, particularly in the agricultural sector. For example, the Council successfully supported the recent lifting of a discriminatory ban by the Egyptian government on imports of U.S. beef liver. Council members will also be following the progress of the U.S.-Egypt TIFA working groups addressing agricultural tariff, trade, and sanitary/phytosanitary issues. Resolution of these issues could enhance the global competitiveness of Egyptian agricultural exports and facilitate U.S. agricultural exports to Egypt.

As the largest importer of U.S. agricultural goods in both Africa and the Middle East, Egypt spends a significant amount of its foreign exchange on the import of American wheat and corn. Meanwhile, cotton is an important Egyptian agricultural export to the United States. The Council is therefore interested in facilitating trade in these commodities to the benefit of both countries. For example, the Council encourages the United States to address Egyptian concerns regarding

Egyptian Customs Initiatives

Egypt's most recent initiatives aimed at modernizing and accelerating the customs clearance process include:

- Establishment of a Customs Reform Unit
- Improvements in customs automation
- Development of the first private port at Ein Sokna
- Launching of the Model Customs and Tax Center
- Establishment of the new General Organization for Export and Import Control's Training Center
- Opening of new food inspection laboratories at the General Organization for Import and Export Control
- Presidential Decree lowering a range of tariffs
- Negotiation and planning of a five-year, \$30-million customs modernization and trade facilitation project with USAID

subsidies on U.S. cotton in the context of agricultural negotiations in the Doha Round, and in its response to the WTO panel ruling on U.S. cotton subsidies.

C. Increasing Foreign Direct Investment

The Egyptian government has been working to spur foreign direct investment in four ways: privatization of state-owned companies; provisions for investment incentives; streamlining of procedures for foreign investors; and strengthening of laws and regulations protecting intellectual property rights. The Council is a strong supporter of these initiatives and will continue to advocate their implementation. Further reforms and support are required to foster the success of two key sectors for investment in Egypt—pharmaceuticals and information and communications technology (ICT).

Privatization. Since 1995, the Egyptian government's privatization program has made significant progress in a number of sectors, including banking, oil and gas, tourism, construction, agriculture, the mass media, and to a limited extent, telecommunications. The Council supports recent government measures aimed at accelerating privatization, promoting transparency and competition in the process, and increasing direct and capital market investments. An example of this new push by the public sector is the Ministerial Privatization Committee's recent decision to approve the sale of the state's stake in several companies, including the Egyptian Company of Starch and Glucose, the Arab Contractors Company for Investment, and the Arab Porcelain Company.

Investment Incentives and Streamlined Procedures. To boost investment in key sectors and promote development of areas outside Cairo, the Egyptian government has established a successful network of industrial zones offering reduced tax rates, improved infrastructure, and other incentives to investors. Recent amendments to the Investment Guarantees and Incentives Law demonstrate the government's commitment to achieving this objective. Designed to remove obstacles and facilitate investment, the revised law transforms the General Authority for Investment and Free Zones into a one-stop shop for foreign investors. All licenses and consents required to start a new enterprise can now be obtained in a central location, with approval guaranteed within a fixed time period.

Council members know from experience that the best way to promote investment in Egypt is to establish a business-friendly environment. With support from USAID, the Egyptian government is implementing a project that will streamline procedures and revise regulations pertaining to the registration, licensing, operation, and financing of all commercial business ventures. The Council supports this and similar efforts to make Egypt a more competitive destination for foreign direct investment.

Intellectual Property Rights (IPR). Egypt has the potential to become a regional center for multinational pharmaceutical research and production, and an exporter of ICT services and software. A strong system of intellectual property protection is crucial for fostering increased investment and innovation in these and other key sectors. Egypt's IPR law protects patents, trademarks (including industrial designs), plant varieties, and copyrights (with enhanced protection for sound and motion picture recordings and computer software). The law also imposes stiff fines and prison sentences for convicted violators. A modern, computerized

Egyptian patent office is now capable of processing patent applications, and the quality and transparency of the trademark and industrial design registration system has been significantly improved.

The Council supports further efforts by the Egyptian government to strengthen its IPR regime, establish an open, transparent, and viable business environment, and thus pave the way for increased investment, trade, and job growth in the high-tech and research sectors. The Council is also working in other sectors where IPR protection is important, such as advising Egyptian film producers on efforts to prevent piracy of their films in the United States.

Egyptian IPR Initiatives

The Council welcomes the following improvements to Egypt's IPR protection regime:

- Adoption of a new intellectual property law in 2002
- Legal provisions for data exclusivity for five years after launching innovative products in Egypt
- Issuance of implementing regulations in 2003
- Plans to further strengthen the IPR protection system in Egypt, with assistance from USAID and the U.S. Patent and Trademark Office

C1. The Pharmaceutical Sector

Intellectual Property Rights and Data Exclusivity. Research-based pharmaceutical companies have welcomed the legal reforms that Egypt has undertaken to align its IPR regime with international norms. Data exclusivity provisions require the government to protect against unfair commercial use of undisclosed test or other data to develop copies of patented products. Unfortunately, implementation of the Law on Data Exclusivity has not been fully compliant with the WTO Agreement on Trade-Related Intellectual Property Rights. For example, research-based pharmaceutical companies recently became concerned when the Egyptian Ministry of Health approved approximately 30 applications for the registration and marketing of pharmaceutical products that relied on innovators' data. To make data protection and a patent system meaningful, the Council recommends the establishment of a link between the Egyptian Academy of Scientific Research and Technology (Patent Office) and the Ministry of Health to ensure that approval is not granted for the marketing of unauthorized replicas of products subject to patent protection.

Pricing Policy. The viability of the pharmaceutical sector has also been compromised by the Egyptian government's policies affecting the pricing of pharmaceutical products. The significant devaluation of the Egyptian pound against the U.S. dollar in recent years, combined with strict price controls, has placed the pharmaceutical industry in a difficult position. The Ministry of Health recently granted small price increases on a select number of products to alleviate the problem. However, this incremental approach has not helped resolve the overall pricing issue, and does not provide the transparency that companies need to plan their operations.

Companies need a pricing formula procedure that will regularly review and adjust pharmaceutical prices to appropriately reflect inflation and foreign exchange rate fluctuations. Egyptian pharmaceutical companies want to work with the government to develop a balanced approach for ensuring affordable medicine for those in need, while encouraging investment and innovation in the sector. For example, one solution proposed by the industry is to provide pharmaceutical products directly to the government at reduced prices for distribution to the poor. Without such compromises, pharmaceutical firms will not be able to maintain operations in the current business environment. These firms offer significant benefits to Egypt's economy and

pharmaceutical industry through innovative product development, capital investment, employment, medical research, and clinical trials.

C2. Information and Communication Technology Sector

The Egyptian ICT sector has witnessed significant growth in the past five years. According to the Ministry of Communications and Information Technology's "National Plan Indicator for Communications and Information" (April 2004), there are 1,034 ICT companies registered in Egypt, up from 266 companies in 1999—a strong indication of the sector's capacity to attract investment. Among its priorities, the Council is committed to boosting investment, promoting technology transfer, and enhancing U.S.-Egyptian trade relations in this sector. For example, members of the Council's ICT working group initiated a new IT cluster association, FANARA, dedicated to increasing Egypt's competitiveness in IT services, software, and product exports.

Recognizing that government regulatory agencies and their policies do not always keep pace with the rapid rate of technological change, the Council has also sought to:

- Facilitate the sector's development by ensuring that companies in both countries:
 - Understand regulatory developments in each country
 - Are aware of the best ways to participate in the regulatory process
- Speed the adoption of new technologies and the benefits they bring
- Support the enforcement of laws governing copyright use

For example, the Council has sought to help address Egyptian concerns that certain commercial practices have resulted in low-quality phone and fax communications from the United States to Egypt, and impacted the revenues of Egyptian telecommunication providers. Reliable telecommunication services are vital to companies trying to compete in a global economy.

Intellectual Property Rights for Information Technology. As intellectual property protection is vital to the development of a software industry, U.S. and Egyptian software companies have been working together to reduce piracy and educate consumers about the importance and benefits of complying with laws that protect the intellectual property rights of software producers. These efforts have included work with the Egyptian government to strengthen copyright enforcement and ensure free Internet access throughout the country. Software companies are also providing products at reduced rates to Egyptian students and academic institutions to further promote the practice of using legal software.

Egyptian ICT Initiatives

Egypt has taken significant steps to support growth of the ICT sector, including:

- Accession to the WTO Basic Telecommunications Agreement in 2002
- Signing of the WTO Information Technology Agreement in 2003
- Measures to reduce software piracy
- Passage of an e-signature law in April 2004
- Establishment of a Trade Liaison Office in Chantilly, Virginia, by Egypt's Ministry of Communications and Information Technology
- Inauguration of the Smart Village Project in September 2003
- Launching of Egypt's e-government Web portal in January 2004
- Establishment of an ICT Trust Fund in May 2004

Council members understand the investment and trade implications of the rapid development of Egypt's high-tech industry. New ventures in this sector have the potential to create thousands of

jobs and facilitate the modernization of Egypt's economy. At the same time, Council members have seen how Egypt's growing high-tech industry has generated new exports of goods and services from the United States, and contributed to the growth and earnings of U.S.-based companies. Due to the economic benefits that both countries derive from ICT development in Egypt, members seek the removal of barriers to the outsourcing of IT services by U.S. firms and government agencies to companies in Egypt. To that end, the Council is following the progress of the TIFA working group on government procurement with regard to ICT goods and services. Members support the adoption of reforms by both countries that will enhance competitiveness, protect intellectual property investments, and reduce barriers to trade in this sector.

ANNEX A

Recent Council Activities

Foreign Direct Investment (FDI)	<ul style="list-style-type: none"> Enhance FDI 	Met with President Hosni Mubarak and other Egyptian government officials to discuss FDI and the Council's mandate.
	<ul style="list-style-type: none"> Exchange Rate Banking Law Labor Law Pharmaceutical Pricing Soft Drink Sales Tax 	To improve the climate for foreign and domestic investment, raised issues with Egyptian government officials affecting the local business environment. Explained the private sector's view in an effort to bring about reforms and resolution of specific problems that will benefit all.
Free Trade Agreement	<ul style="list-style-type: none"> Council Meetings with U.S. and Egyptian Government Officials 	Meets regularly with high-level government officials in both countries seeking suggestions and making recommendations to facilitate FTA negotiations. The Members have met with President Mubarak; the Egyptian Prime Minister; the U.S. Vice President; the U.S. Trade Representative; the U.S. Secretary of Commerce; and Egyptian Ministers of Foreign Trade, Finance, Health, Electricity, Information and Communications Technology, and Foreign Affairs.
	<ul style="list-style-type: none"> FTA Roadmap 	Prepared the FTA roadmap to help both governments identify the milestones required to initiate FTA negotiations. The objective of the roadmap is to highlight issues and requirements relevant to concluding an FTA that will offer maximum benefit to both countries.
Customs Reform	<ul style="list-style-type: none"> Model Customs and Tax Center Customs Reform Legislation 	Undertook discussions with government officials regarding the importance of addressing customs issues and measures that will reduce adverse impacts on trade.
Qualifying Industrial Zones (QIZs)	<ul style="list-style-type: none"> Egyptian Government Support for QIZs 	Participated in meetings with the Egyptian government to discuss requirements and procedures. The government has expressed acceptance of an initiative and taken steps to implement it.
Intellectual Property Rights (IPR)	<ul style="list-style-type: none"> IPR Law Implementing Regulations Protection of Egyptian Films in the United States 	Supported passage of new IPR law in Egypt and issuance of regulations, continue to encourage measures to implement and strengthen enforcement, and follow up on Egyptian concerns regarding IPR protection of Egyptian films in the United States.
Technology Transfer	<ul style="list-style-type: none"> Information and Communications Technology (ICT) Services 	Promoted U.S.-Egyptian trade relations in the ICT sector.
	<ul style="list-style-type: none"> U.S. regulatory oversight of telecom quality 	Raised concerns regarding practices affecting the quality of telecom service from the United States to Egypt and U.S. regulatory policies.
	<ul style="list-style-type: none"> FANARA 	Completed first phase to establish FANARA, an independent organization dedicated to strengthening the capacity of Egyptian ICT firms to compete in global markets and to export software and services.
	<ul style="list-style-type: none"> WTO Basic Telecom Agreement WTO Information Technology Agreement E-Signature Law 	Encouraged the Egyptian government to adopt agreements and laws to facilitate trade and investment in the sector.

Why a U.S.-Egypt FTA?

For almost three decades, Egypt and the United States have enjoyed a strong political and economic relationship. Members of the U.S.-Egypt Business Council believe a bilateral free trade agreement would offer significant benefits to both countries. A recent study by Ahmed Galal and Robert Lawrence for the Egyptian Center for Economic Studies suggests the benefits would be greatest if the FTA includes comprehensive trade liberalization and meaningful economic reforms to prepare Egypt's economy for increased competition. These thoughts have guided Council members in advocating trade policy measures that strengthen the role of the private sector in boosting economic growth and cooperation between Egypt and the United States.

A Strategically Important Relationship for the United States. Egypt represents 23 percent of the Middle East's total population, and is the largest Arab nation in the world. With its growing domestic market, Egypt plays a central role in shaping the United States' long-term trade and investment goals in the region. Its skilled cadre of English-speaking workers and already sizeable U.S. business community make Egypt a strategic launching pad for U.S. businesses seeking to enter the Middle East market. It is these businesses that can play a vital role in creating new jobs, both in the United States and Egypt.

FTA Benefits to the United States

An FTA with Egypt will:

- Strengthen regional political and economic ties
- Increase reforms in Egypt to improve the business environment for U.S. firms
- Improve market access to Egypt's 66 million citizens
- Facilitate higher rates of trade and investment, thereby growing the U.S. economy

U.S. Investment in Egypt

In 2002, U.S. foreign direct investment in Egypt reached \$3 billion, a 16.6-percent increase over the previous year.

In May 2003, President George W. Bush announced plans to establish a U.S.-Middle East Free Trade Area (MEFTA) by 2013. Egypt's participation in such an agreement is crucial if MEFTA is to re-ignite economic growth and expand opportunities for trade and investment in the Middle East. A U.S.-Egypt FTA would set the stage for achieving this ambitious goal and strengthen the United States' economic and political ties with the region.

A Commercially Significant Trade Relationship for Both Countries. While the U.S. and Egyptian economies differ dramatically in size, U.S.-Egypt trade is of commercial significance for both partners. Trade between the two countries totaled \$3.8 billion in 2003, with Egyptian exports to the United States amounting to \$1.1 billion and U.S. exports to Egypt at \$2.7 billion. The 2003 U.S. balance of trade surplus with Egypt is its fifth largest at \$1.6 billion. U.S.-Egypt trade exceeds the total combined U.S. two-way trade with Morocco, Jordan, and Bahrain, the three countries in the North Africa/Middle East region with which the United States has recently negotiated FTAs.

Reinforcing a Key Trade Relationship Can Prevent Missed Opportunities. A stronger focus on U.S.-Egypt trade relations becomes increasingly important as both countries enter into new trade

relationships that have the potential of diverting trade from each other. Egypt's free trade agreement with the European Union (EU), for example, creates new challenges for U.S. exporters to Egypt as tariffs on products imported from the European Union are eliminated and EU producers take advantage of their new preferential access to the Egyptian market. At the same time, Egyptian exporters to the United States may lose some of their competitive position in the U.S. market due to the improved market access being accorded new U.S. FTA partners.

2003 Egyptian Exports to the United States*		
Product	Value (\$)	Percent
Apparel Articles, Not Knit	238,564,507	20.9
Mineral Fuel, Oil, Etc	183,797,070	16.1
Apparel Articles, Knit	143,165,030	12.5
Special Classification Provisions, NESOI	136,842,706	12.0
All Others	441,442,899	38.6
Total	1,143,812,212	100%

*Source: U.S. Department of Commerce

Egypt's textile and clothing industry faces another challenge. Under the WTO's Multi-Fiber Agreement, quotas on apparel exports from major suppliers like China are scheduled to be eliminated by the United States and other signatories in January 2005. Preferential access to the U.S. market is vital if Egypt's number one export to the United States is to compete with low-cost Asian producers.

Supporting a Steadily Improving Investment Climate in Egypt. According to a 2003 report by the Egyptian Ministry of Foreign Trade, "Egypt would greatly benefit from an FTA because, in addition to providing a template to implement broad-based trade liberalization, it would help accelerate structural reforms and support the process of institution building." This, in turn, would raise economic growth rates and "help encourage foreign and direct investment and further stimulate growth prospects." The final result: "Higher-paying jobs, improved living standards, and strengthened security in Egypt."

FTA Benefits to Egypt

An FTA with the United States will:

- Increase access to the world's largest consumer economy
- Support and catalyze the process of economic and political reforms in Egypt
- Create a more equal economic partnership with the United States
- Increase the standard of living for more Egyptians

Since the early 1990s, Egypt has pursued an extensive economic reform program. Due to privatization and regulatory reforms, the private sector now accounts for 73 percent of the economy, compared to 41 percent in 1990.

In recent years, the Egyptian government has made even greater strides, adopting laws that promote exports and ensure legal protection of intellectual property rights, and implementing new anti-money-laundering regulations, capital market reforms, and exchange rate liberalization programs.

Building on these reforms, Egypt is introducing further regulatory changes. For example, Law No. 10 was passed in February 2003 requiring Telecom Egypt to relinquish its state-run monopoly on land-based telecommunications systems by 2006. Furthermore, Egypt is in the process of reforming its customs administration and justice system, as well as developing a real estate mortgage lending structure in cooperation with USAID. The Egyptian government has also taken steps toward creating a more competitive domestic environment by drafting antitrust legislation.

Effective implementation of these legislative and regulatory reforms will facilitate successful negotiation of a U.S.-Egypt Free Trade Agreement. Furthermore, an FTA will support other economic reforms, inspire investor confidence, strengthen development of the Egyptian private sector, and provide a framework for ensuring these measures are implemented in a fair and balanced manner.

2003 U.S. Exports to Egypt*		
Product	Value (\$)	Percent
Cereals	782,147,029	29.4
Machinery and Mechanical Appliances	401,413,913	15.1
Vehicles	282,765,161	10.6
Aircraft, Spacecraft, and Parts	256,004,104	9.6
All Others	937,877,012	35.3
Total	2,660,207,219	100%

*Source: U.S. Department of Commerce

Issues on which the U.S. private sector will want to see progress in Egypt

- Increased protection of intellectual property rights
- Compliance with WTO agreements on information technology and TRIPS
- Customs reforms and trade facilitation (valuation, human resources, procedures, automation, etc.)
- Government procurement reforms
- Improved standards and inspections systems

Issues on which the Egyptian private sector will want to see progress in the U.S.

- Cooperation in regulating telecommunications standards
- Reductions in barriers to obtaining travel visas to the U.S.
- Ensuring IPR protection for Egyptian films in the U.S.
- Outsourcing of IT services from U.S. to Egypt
- Improved access of Egyptian produce to U.S. markets

ANNEX C

U.S.-Egypt FTA Roadmap

Roadmap: U.S. – Egypt Free Trade Agreement

U.S.-Egypt Business Council

- Roadmap Goal** → Negotiation, adoption and implementation of an Egypt – U.S. Free Trade Agreement (FTA)
- FTA Benefits** → Increased incomes, reduced poverty and improved standards of living as a result of stronger bilateral trade and investment ties, and enhanced political and strategic ties at a critically important time for the U.S., Egypt and the region.
- Action Steps** → Policy advocacy in the U.S. and Egypt to remove obstacles and mobilize support for an FTA

Foundations for an FTA: Recent progress by both Egypt and the U.S. to more open markets:

Egypt's 1990s stabilization program has spurred wide economic reform, steadily reducing tariff and non-tariff barriers, opening Egyptian markets, liberalizing foreign investment, improving the domestic business climate, and privatizing many public sector firms, through continuing reforms.

Egypt is opening to, and competing in, key global markets as a signatory to the:

- WTO Agreements, 1995, Telecom, & Information Technology, 2002/2003
- E.U. Association Agreement, 2001
- Common Market for East and Southern Africa (COMESA), 1998
- Pan-Arab FTA, 1998, regional bilateral FTAs

Related Egypt - US Agreements help set the stage for an FTA:

- Bilateral Investment Treaty, 1992
- Partnership for Econ. Growth & Dev., 1994
- Science & Technology Agreement, 1995
- TIFA Trade/Investment Agreement, 1999
- Investment Incentives Agreement, 1999
- Energy Technology Coop. Agreement, 1999
- Electronic Commerce Joint Statement, 1999

Laying the foundation: Issues to be addressed in preparing for FTA negotiations

The U.S. is increasingly promoting free trade to help expand global growth and democracy. The U.S. Congress has passed Trade Promotion Authority; the US is starting FTA talks with more countries and regions and proposing a long-term goal of fully open US markets, and Middle East Free Trade Area

Key pre-FTA Issues for Egypt	Key pre-FTA Issues for US
<ul style="list-style-type: none"> • US approval procedures for the import of fresh agricultural produce from Egypt 	<ul style="list-style-type: none"> • Egyptian compliance with WTO obligations and cooperation in WTO
<ul style="list-style-type: none"> • Cooperation in regulating VoIP company activities 	<ul style="list-style-type: none"> • Implementation of TRIPs-plus IPR protection
<ul style="list-style-type: none"> • Reduction of unreasonable visa restrictions for Egyptian travelers to the U.S. 	<ul style="list-style-type: none"> • Improved customs inspection, administration, implementation of Customs Valuation Agreement
<ul style="list-style-type: none"> • Cooperation in ensuring IPR protection for Egyptian films in U.S. 	<ul style="list-style-type: none"> • Action on US company complaints. More stable, consistent, transparent operating climate

Potential Benefits of an FTA:

Issues/elements to be addressed in government to government FTA Negotiations

Key Issues for Egypt	Key issues for the U.S.
<ul style="list-style-type: none"> • Elimination of U.S. tariffs and quotas 	<ul style="list-style-type: none"> • Elimination of Egyptian tariffs and NTBs
<ul style="list-style-type: none"> • Reduction in US agricultural subsidies on cotton and other agricultural products of export interest to Egypt 	<ul style="list-style-type: none"> • Sanitary & phyto-sanitary regulations based on sound science & applied fairly
<ul style="list-style-type: none"> • Facilitate promotion of US investment in Egypt 	<ul style="list-style-type: none"> • Safety/product standards applied fairly
<ul style="list-style-type: none"> • Boundaries on US safeguards for import-sensitive sectors 	<ul style="list-style-type: none"> • Join WTO Govt. Procurement Agreement
<ul style="list-style-type: none"> • Transition and phase-in periods under FTA for import sensitive products 	<ul style="list-style-type: none"> • Securing commitments that lock-in financial and other services sector liberalization measures
<ul style="list-style-type: none"> • Industry specific issues 	<ul style="list-style-type: none"> • Industry specific issues

**Current Status of
Milestones toward an FTA**
Priority Business Issues Achieved, Underway, and To Be Pursued

Milestones	Achieved ↓	Underway ↓	To Be Pursued ↓
1. Egyptian Insurance Law for majority foreign ownership	Adopted 1998		
2. Egyptian Maritime Transport Law for private ownership	Adopted 1988		
3. Egyptian Export Promotion Law, inspections in GOEIC	Adopted Oct. 2002	Executive Regulation drafted; awaiting approval	
4. Egyptian Special Economic Zones Law	Adopted 2002		
5. U.S. passage of Trade Promotion Authority a. US Congress increased focus on trade	Adopted 2002		
6. USTR Zoellick's first Egypt visit to consider FTA talks	Jun. 2002		
7. Egyptian Anti- Money Laundering Law	Adopted 2002 Implementation decree passed. New amendments added in Jun. 2003		
8. Egyptian Membership in WTO Basic Telecoms Agreement	Signed 2002 Ratified by Parliament Jan. 2003		
9. Egyptian Membership in WTO Information Technology Agreement*	Application accepted 2003 Tariff reduction commitments implemented January 2004		
10. Egyptian financial sector reform / Unified Banking Law*	Adopted Jul. 2003 Executive Regulations issued		
11. Investment law amended to institute one-stop shop	Passed April 2004		
12. Egyptian Unified Labor Law	Adopted late 2003 Executive decree issued 2003		
13. Customs Administration a. Egyptian Draft Customs Reform Law b. WTO Customs Valuation Agreement c. Egypt Establishes Model Customs and Tax Center* d. TIFA Working groups discussing issue	b. Compliance deadline extension approved July 2000 c. Opened Sept. 2003	a. Draft being circulated amongst customs, finance, & select members of private sector. d. Underway	
14. Protection of Intellectual Property Rights in Egypt (IPR) a. Law b. Regulations c. Egyptian enforcement of IPR/patent/copyright	a. Enacted 2002 b. Issued June 2003	c. Underway	

protection			
15. U.S. offer of QIZ duty – free market access	Offered 1995	Underway	
16. U.S.-Middle East Partnership Initiative	Announced 2002	To be implemented	
17. Creation of a U.S.-Middle East Free Trade Area by 2013*	Announced by U.S. 2003		
18. TIFA establish 4 Working Groups to address the following issues: a. Agricultural tariffs & trade b. Sanitary & Phytosanitary (SPS) c. Customs administration & reform d. Government procurement	Announced 2002	Ongoing	
19. Egyptian Sanitary and Phytosanitary (SPS)/safety standards meeting international norms applied uniformly a. A TIFA working group discussing issues b. Egyptian Office of Standards reviewing all standards		a. Underway b. Underway	
20. Egyptian Privatization of state-owned enterprises		Ongoing	
21. Egyptian Exchange rate flexibility	Adopted Jan. 2003	Ongoing implementation (measures being taken to shift from a managed to a free float)	
22. Egyptian Draft Competition/Antitrust Law	Draft Prepared	Planned (Draft to be presented to Parliament this session)	
23. Egyptian easing of restrictive selected price controls on Pharmaceutical Products			X
24. Egyptian government procurement transparency a. TIFA working group discussing		a. Underway	
25. US cooperation in ensuring IPR protection for Egyptian films in U.S.		X	
26. Egyptian membership in WTO Government Procurement Agreement			X
27. Investment Promotion in Egypt			X
28. US elimination of unjustified visa restrictions			X
29. Y.S. cooperation in regulating practices affecting quality of calls to Egypt			X
30. JOINT ANNOUNCEMENT OF START OF FTA NEGOTIATIONS			X