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*TRADE AGREEMENTS  
AND  
ISSUES IMPORTANT FOR  
EGYPT*

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## TRADE AGREEMENTS AND ISSUES IMPORTANT FOR EGYPT

### Introduction

Trade agreements take many forms and contexts. Global trade agreements such as the 1994 General Agreement on Tariffs and Trade (GATT) cover a wide range of products and issues and apply to all member countries. There are now about 135 member countries in the World Trade Organization (WTO) created by GATT with others waiting to join. China and Taiwan likely will be joining soon meaning that the WTO will encompass virtually all nations important in world trade.

In addition to the WTO and global agreements, there are many regional, bilateral, and special interest trade agreements. Despite all the publicity over GATT and WTO, it may well be the case that these other agreements are more important in the conduct of international trade than WTO itself. In a quantitative sense, that is the case. The European Union (E.U.) and the North American Free Trade Agreement (NAFTA) are major forces in world trade. In addition to its own trade agreement, the E.U. has a myriad of trade agreements with individual countries and groups of countries. Egypt's trade with the E.U. is largely driven by its individual E.U. agreement.

### **Background for WTO Millennium Round**

The GATT agreement was the first multilateral trade agreement to encompass agriculture. In the Tokyo and other previous rounds, agriculture had been considered too sensitive and was left off the table. However, the Uruguay round, which began in 1986 and culminated in the GATT agreement in 1994 encompassed agriculture. One reason negotiating countries were willing to include agriculture was that in the mid-1980s, both the U.S. and the E.U. were spending huge sums on both domestic support and export subsidies for agricultural products. It was perceived that these unprecedented support levels could not be sustained, and that reductions would be more feasible if both the U.S. and the E.U. agreed to reduce support levels. Hence, as is often the case in these multilateral negotiations, it was forces within the U.S. and the E.U. that led to a change of heart and inclusion of agriculture.

Despite the fact that both these parties, as well as other players, had incentives to reach an agreement on agriculture, the negotiations proved to be quite difficult. There were some important accomplishments, but even as the negotiations came to a close, the negotiators realized that they had just begun in agriculture and that much more needed to be accomplished. Because of that sentiment, the negotiators agreed that by the end of 1999, they would launch another round of negotiations that would encompass agriculture, services, and any other topics negotiators agreed to add to the agenda. That was the purpose of the recent meeting in Seattle – to reach an agreement on an agenda for what is now called the Millennium Round of trade negotiations.

### **Political Environment for WTO Millennium Round**

The political environment going into the Millennium Round is much different than it was for the GATT round. There is much less political support for new agreements in the U.S. and in the E.U. though for different reasons. Developing countries also are frustrated at what they see as failure to deliver on promises from GATT. The private sector also has a different

stance. Hence, the political backdrop is very different for this round, and the reasons for these differences merit further discussion.

### Reduced support for trade negotiations in the U.S.

In the late 1980s and early 1990s, there was widespread support for multilateral trade negotiations in the U.S. There was opposition, but a wide diversity of interests supported the objectives of the negotiations. Also, labor unions did not have the power to mount significant opposition.

Congress granted the President "Fast Track" authority for the trade negotiations. Under Fast Track, Congress cedes to the President the right to negotiate a trade agreement on behalf of the country with Congress having the right after the agreement is reached to vote the agreement up or down but not to amend the agreement in any way. Fast track authority is essential before progress can be made in trade negotiations with the U.S. Most other countries have parliamentary systems of government or at least don't have the separation of powers inherent in the U.S. constitution. That means that the government that negotiates the deal is also the one that legally approves it for the country. However, with the separation of powers in the U.S., under normal rules, the Congress would have the power to amend any agreement reached by the Executive branch. No other country would submit to that process with the potential outcome of reaching a deal with the Executive branch only to have to renegotiate the deal with the Congress. Hence, Fast Track authority is a sine qua non for trade negotiations with the U.S. And given the current economic power of the U.S. in the world economy, multilateral trade negotiations without the U.S. would not have much meaning.

Congress in 1999 denied the President Fast Track authority, and it is clear that the issue will not come up again until a new president is in office in 2001. Therefore, little or no progress can be expected in the negotiations before that time.

Denial of Fast Track authority is symptomatic of the difference in attitude in the U.S. this time around. For GATT and NAFTA there was active support from industrial and farm lobby groups. Both saw gains to be had from greater market access for U.S. goods and services. Labor groups opposed the negotiations but were powerless to stop them, and chose not to go all out in opposition. This time, the farm and industry support is luke-warm at best, and labor opposition is stronger. Industry sees more advantages from expanding regional agreements like NAFTA than from investing in global negotiations. In addition, environmental groups have mounted opposition to this round unless it is clear that it will include environmental safeguards, which is not at all sure. So without the strong advocates and with added opposition, public support in the U.S. is much weaker than in the past.

### The European predicament

Support is also much weaker in Europe at present than previously. Under the current agreement, the European Common Agricultural Policy (CAP), which uses price supports and set asides to aid agriculture, is exempt from WTO sanctions. The CAP approach is classified as "blue box" and is legal under GATT. In the last round, the Europeans negotiated means of

keeping the main ingredients of their CAP in place. Horticultural crop production from southern Europe is protected by a very complex system of entry windows, minimum entry prices (slightly modified), quotas, tariff rate quotas, and ad valorem tariffs. Expansion of the E.U. eastward to encompass agriculturally productive Poland and Hungary will be possible through the use of the set aside program used for cereals.

These protections on horticultural crops and cereals are exactly what the developing countries (horticultural crops) and U.S. (cereals) want to see reduced. Politically, it will be very difficult for the E.U. to grant concessions in these areas. Most of the concessions the E.U. would be willing to grant on horticultural crops have already been granted through bilateral agreements such as the Egypt-E.U. agreement.

In addition to these problems, the E.U. is faced with problems related to its agreement with ACP countries (the banana case) and public concerns about food safety (beef hormone and GMO issues). The U.S. and Canada very much want to see these issues resolved in their favor, and the E.U. does not even want them on the agenda. So it is a difficult time for the Europeans to be entering multilateral trade negotiations as well.

#### Increased number of developing countries and higher expectations

For this round of negotiations, there are many more developing countries than before. Despite the public perception in the U.S.A. and in Europe, the developing countries do not have a complete commonality of interests. Most of the members of the Cairnes group of nations supporting almost totally free trade are developing countries. However, there are many other developing nations that prefer a much more cautious approach and are not willing to move quickly to freer trade. Also, some developing nations feel betrayed by the GATT round in that they did not see the benefits expected from the round. A common perception is that the developed nations found ways to keep developing nations from gaining the market access they were promised. Sanitary and phytosanitary (SPS) regulations, anti-dumping duties, and other devices have been used to keep out developing country goods. For all these reasons, the developing countries are approaching this round much more cautiously than before.

#### **Progress on Regional Agreements Reducing Pressure for WTO Progress**

Parallel to and since the GATT signing in 1994, countries have proceeded to advance many regional trade blocks and agreements. The E.U. is of course the most prominent of these, and it has progressed from a free trade area all the way to trade and monetary union. NAFTA, the North American Free Trade Agreement is another example. Over a 10-15 year period, NAFTA (Canada, U.S., and Mexico) becomes essentially a free trade agreement with some additional characteristics that harmonize competition policy and investment rules. Mercosur (Argentina, Brazil, Paraguay, and Uruguay) is yet another important agreement. Recently discussions have been launched to include Chile and to link Mercosur and NAFTA. Some progress has been made on APEC (Asian Pacific Economic Cooperation forum) which links the U.S. and its NAFTA partners with a group of Asian Pacific countries, with the objective of establishing a free trade area within no more than 10 years. Of course, there is also the ACP (African, Caribbean, and Pacific countries), a group of 71 countries with

preferential trading relations with the E.U. under the Lomé Treaty. There are many others, but these are some of the most important ones.

There are several reasons regional or bilateral agreements seem to be preferred to multilateral agreements. First, they are easier to negotiate. The WTO has become a huge organization with many diverse interests, such that it is very difficult to make significant progress on trade reforms. Conversely, there is usually a greater commonality of interests in the smaller negotiations so that progress can be made faster. Second, because of commonality of interests and relative simplicity of the negotiations, there is greater private sector interest in the regional or bilateral negotiations. The private sector is interested in moving quickly with as much liberalization as possible, and the regional and bilateral negotiations offer that potential. Hence, there is greater private sector support for these negotiations, which is politically very important. Third, because of the first two reasons, more progress can be made more quickly in these agreements, and that is in the interest of both the public and private sectors.

Given the difference in potential progress, it is easy to see why both the public and private sectors have shifted focus towards bilateral and regional agreements in recent years. In fact, one could envision that the future path to multilateral agreements would be through negotiations between and among existing blocks such as NAFTA and E.U..

### **Egypt's Current Situation With Respect to the WTO**

Egypt is beginning to take a greater leadership role among developing nations in the WTO. Egypt belongs to and has been a leader in the G15, a group of 15 developing countries acting as the main political voice for the non-aligned countries. In November 1999, Egypt hosted a G15 symposium on trade issues in Cairo. In addition, Egypt is a member of G77, a group of developing nations formed in 1964, which was at that time 77 in number, but now totals more than 130 countries.

At present, because of the great diversity among developing countries, there is also a great deal of divergence of interests among them. Valdés and McCalla do a nice job of demonstrating the real differences among the developing countries. They use standard classifications of income levels, trade positions, and regional differences to demonstrate how the perspectives of the countries differ. They use the data to show that some of the developing countries share common interests, but others differ significantly. While the developing countries differ in terms of income and trade positions, they do have in common certain gains to be had from further trade liberalization.

Egypt is a food importing developing country, which immediately puts it in a different position from many others. In particular, Egypt imports wheat, and exports horticultural crops and cotton. While some developing countries are hurt by U.S. and E.U. subsidies to their wheat farmers, Egypt stands to gain in that it can import wheat at substantially lower prices so long as the subsidies continue. While Egypt may take the position that the cereal subsidies should be removed, it is likely to be much more interested in European subsidies on horticultural products and import protection via windows and quotas plus American subsidies on cotton production. The point is that Egypt's interests will coincide with those of some, but

certainly not all, of the other developing countries. It will be difficult to formulate a single developing country position for these WTO negotiations.

## **Countries Negotiate in Trade Agreements Only What is in Their National Interest**

A common view of trade negotiations is that it is a tough struggle of give and take with each country trying to extract concessions from other countries to maximize their own gain. This author believes that view is fundamentally flawed, or at least limited. What actually happens in trade agreements is that countries use them to provide cover for the things they would like to do or know they should do but find politically difficult to do. In other words, the things countries "concede" are the things that they would like to do but have political difficulty doing without the discipline of an international agreement. With the agreement in place, when the domestic losers come to complain, government officials can always hide behind the agreement saying, "I would love to help you, but my hands are tied because of the GATT agreement (or whatever)." To the extent this view is correct, it is important in trade negotiations to search for such items in each country or group of countries that the country would like to do anyway but needs the support and cover of an international agreement to accomplish.

### Egyptian Situation with Respect to WTO and other Agreements

As indicated above, Egypt is involved in numerous trade agreements and negotiations. In this section, we will review some of the important ones, and reference sources for more detailed documentation.

## **WTO**

Like other signatories to the GATT agreement, Egypt undertook a number of commitments upon signing the agreement in 1995.<sup>1</sup> Under the GATT agreement, each country submitted what was termed its GATT offer. Once the offer was accepted, the offer became a set of binding commitments for the country. All country offers were supposed to be in accordance with the four fundamental GATT principles:

- 1) Most favored nation (MFN) treatment - All countries must be treated, with respect to trade terms and conditions the same as the most favored nation in trade; that is, all countries must have the same treatment.
- 2) National treatment - Nations must treat goods imported from any other WTO member the same as identical domestically produced products.
- 3) Reduction of trade barriers - Each country in its offer was expected to agree to reduce trade barriers over a period of time.
- 4) Tariffication of non-tariff barriers - Countries were expected to eliminate non-tariff barriers such as quotas and convert them to tariffs, which would be reduced over time.

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<sup>1</sup>The Nathan Associates document, *EGYPT: Obligations and Commitments under the GATT:WTO Agreements* (August 1999) provides an excellent compilation of Egyptian commitments under WTO. Part of the material in this section is drawn from that document.

In addition to these four basic principles, there were important elements underlying the agreement:

- 1) Transparency - Countries were expected to publish their trade rules and regulations and make them easily accessible to trading partners. In addition, changes in rules were also to be handled in a transparent manner and communicated publically. One mechanism that was established to accomplish this transparency was the WTO Trade Policy Review Mechanism (TPRM) under which member nations are supposed to notify the WTO of changes in policy.
- 2) Consultation - Countries are supposed to use informal and formal consultation to avoid formal dispute settlement procedures.
- 3) Dispute resolution - A set of procedures for dispute resolution were established.
- 4) Special needs of developing countries - Developing nations (including Egypt) are entitled to special and differential treatment (SDT), which usually translates to longer adjustment periods for certain provisions and recognition of special needs in other cases.
- 5) Fair trade/competition - The agreement specifies rules for application of anti-dumping and countervailing duties.
- 6) Safeguard measures - In the event of a rapid surge in imports, countries can be permitted to impose additional temporary duties if such a provision was included in their GATT offer. Also, there are a number of other types of safeguard provisions covering a wide range of conditions.

While these principles are laudatory, the GATT Agreement on Agriculture (which is one of many components of the overall agreement) has been subjected to four important criticisms in its application:

- 1) Dirty Tariffication - Countries were supposed to establish tariff ceilings no higher than the tariff rates applied in the 1986-88 time period. Many countries fudged the calculations to show very high tariff rates during the base period, which formed the basis for their tariff bindings. Tariff reductions were then calculated from a very high base, in many cases far from actual applied tariffs. For example, the tariff binding in Morocco for wheat is 192 percent. Over a ten year period, that binding is reduced 24 percent (for developing countries) yielding a binding in 2005 of 146 percent. The reality is that Morocco has never applied tariffs this high. Thus, there was no effective tariff reduction, at least for wheat, in the Moroccan offer. Morocco was not alone. Many other developing and developed nations were guilty of this practice. The result in agriculture is that the amount of actual tariff reduction is quite limited, and hence, the extent of accordance with the third guiding principle mentioned above is limited.
- 2) Tariff-rate quotas - According to the fourth guiding principle described above, countries were to convert quotas and other quantitative restrictions to ad valorem tariffs. This proved difficult, and something called the tariff-rate quota was invented. Under the tariff-rate quota, a low tariff rate was to be applied for imports up to the quota to assure that countries met their minimum access commitments, and a higher rate could be applied for imports beyond the quota. In practice in many cases, the

beyond quota tariff rate was prohibitive, converting the tariff-rate quota to a real quota. Thus, in these cases, the objective was not achieved.

3) State trading - One of the original objectives in the GATT negotiations was to eliminate or sharply reduce the role of state trading. However, the final agreement left state trading in agriculture, both for imports and exports, essentially untouched. Countries are often able to use state trading organizations to maintain a wedge between import (or export) and domestic prices that otherwise would not be GATT compliant. That may be the case in Egypt where there is a considerable wedge between domestic and import prices for wheat and white corn.

4) Transparency - GATT was supposed to yield a more open and understandable trading system. Some argue that conforming to the new rules has made trade even less transparent.

The general consensus is that the GATT Agreement in Agriculture at least got countries to the table on agricultural issues and reached agreement on some important principles. However, the implementation has been far from that hoped for during the negotiations.

Turning to Egypt specific aspects, the Nathan Associates report identifies 853 total WTO obligations for Egypt of which 452 are substantive obligations and 401 are transparency obligations. That report further classified the transparency obligations into 179 procedural obligations, 87 consultation obligations, 125 notification obligations, and 10 enquiry/contact point obligations. Since all of these are covered in detail in that report, it is not necessary to repeat that information here. The bottom line is Egypt has agreed in GATT/WTO to a large number of obligations.

### **Egypt-E.U. Agreement**

Egypt has had a preferential trade agreement with the E.U. since 1977, and has recently negotiated (but not yet signed) a new agreement. Four important guiding principles of the new agreement are as follows: 1) it cannot be less "free trade" than the previous agreement; 2) it cannot be less open and "free trade" than the general WTO agreement; 3) the aggregate monetary value of all quotas must result in equal treatment for all the Mediterranean countries; and 4) it cannot be in conflict with the Egypt-Arab free trade agreement. The E.U. has or is in the process of negotiating similar agreements with all the Mediterranean countries.

Generally, the new agreement permits Egyptian manufactured products (except textiles) in duty free upon signing of the agreement. Egyptian duties on European manufactured goods are reduced on a time schedule that varies with the classification of the goods. In agriculture, the new agreement expands quotas and in some cases adds some new agricultural products. In general, there are not major changes in the agreement for agriculture. There is, however, a provision, to re-open discussions three years after signing the agreement. The Egyptians hope at that point to be able to gain greater market access for some important Egyptian agricultural exports.

The new agreement is awaiting signature at this writing. With the change in government, there was some sentiment to attempt to negotiate a better deal. Others prefer to sign the agreement now to achieve the gains it contains and move towards additional gains in three years.

### **Egypt-U.S. Trade Negotiations**

Under current arrangements, some Egyptian goods have preferential access to U.S. markets. The current status of Egypt-U.S. negotiations is what is called TIFA (Trade Investment Framework Agreement). This is considered a precursor to final negotiations on a free trade agreement, which requires Fast Track authority. It is expected to be more comprehensive than a standard trade agreement and encompass issues like IPR protection and competition policy, more like NAFTA. Meetings are held about every six months with the expectation that some progress will be achieved on both sides with each meeting. Both sides want increased market access. Egypt wanted and achieved an increase in its textile quota. Egypt also was offered QIZ (Qualified Investment Zone) access, which it is now considering. Under that program, exports from the zone can be admitted duty free. The U.S. wants to continue duty free e-commerce. There are also a number of IPR issues under discussion, especially in pharmaceuticals.

### **Other Trade Agreements**

Egypt has several other free trade agreements under discussion or implementation. COMESA and the Arab States Agreements were discussed above. Egypt joined COMESA in 1998. This agreement establishes free trade by 2000 and a common external tariff structure by 2004 (Refaat). However, imports from and exports to COMESA countries amount to less than 1 percent of total imports and exports, so the impact of COMESA is not expected to be large. The Arab Free Trade Agreement (AFTA) also was signed in 1998. This agreement offers potential for increasing Egyptian exports to other Arab nations over a ten year phase-in period. However, many commodities are excluded from the agreement. In addition to the Arab multilateral agreement, Egypt also has bilateral agreements with Jordan, Tunisia, and Morocco, and is negotiating several others.

### **Egyptian Export Trends**

Egyptian export performance and trade balance have not been improving since signing the GATT accord in 1995. Table 1 provides some summary statistics for trade figures for the 1995-98 time period. What the statistics show is that the trade balance has worsened considerably over this period as imports have risen and exports have declined. However, almost all of the decline in value of exports was due to the declining value of crude oil exports. Non-oil exports were essentially constant over the period as were most of the sub-categories of non-oil exports.

Some have viewed the export performance and trade balance statistics in Table 1 as indicative of failure of the GATT agreement and other trade agreements. However, one must remember that the Asian crisis of 1997-98 had a major impact on exports from almost every region. Repercussions from the Asian crisis led to slower growth in Europe and in many

other important market areas for Egypt. Also, lower oil prices in the 1995-98 period led to lower import demand on the part of Middle-eastern trading partners. Hence, much of the stagnation of exports can be explained by factors external to any of the trade agreements.

TABLE I  
SUMMARY TRADE STATISTICS FOR EGYPT, 1995-98  
(Million US\$)

Item	1995	1996	1997	1998
Trade balance	-8,236	-9,414	-9,302	-13,250
Total exports	3,524	3,618	3,931	3,253
Fuel exports	1,217	1,627	1,598	927
Crude oil	703	817	670	162
Other products	514	810	929	765
Non-oil exports	2,307	1,991	2,333	2,272
Raw cotton	152	92	111	158
Raw materials	247	219	191	237
Semi-manufactured goods	609	858	606	524
Finished goods	1,172	1,034	1,228	1,264
Free zones	74	80	74	89
Total imports	11,760	13,032	13,233	16,502

Source: Ministry of Economy and Foreign Trade, Arab Republic of Egypt, *Monthly Economic Digest*, November 1999.

#### Major Issues in the WTO Millennium Round

As indicated above, Egypt will be playing two roles in the WTO negotiations. It will be negotiating changes perceived to be in its own interest, but Egypt also is likely to play a role as leader among the developing countries. Because of the great diversity of interests among developing countries, that role will need to evolve over time. In the discussion that follows, we will try to cover both perspectives but with more of a focus on issues important to Egypt. At this point, the issues are not necessarily presented in order of priority.

#### **Increased Market Access**

Perhaps the greatest source of disappointment among developing nations is the perceived lack of increased market access in agricultural products resulting from the GATT

round of negotiations. We will discuss the market access issues by product type, as there are significant differences among product types.

Before getting into the sub-sector specific issues, a general discussion of approaches that could be used for gaining greater market access may be useful.<sup>2</sup> Josling and Rae suggest several possible approaches to achieving greater market access in the Millennium round negotiations:

1)Continuation of the GATT round schedule for cuts - Under this approach, countries would simply continue to reduce tariff ceilings at the same rate as in their current schedule. That is, developed countries will have reduced their ceilings 36 percent under the current agreement, so they would continue the reduction to reach a 72 percent total reduction. One advantage of this approach is the continuity with the previous round. There are, of course, problems with this approach. One is that it does nothing about the divergence between WTO ceilings and actual applied tariffs. Another is that it does not deal with the dispersion in tariff rates among products, which has become a problem.

2)Request and offer negotiations - Countries make requests to others for reduction in protection of products they export while offering to reduce tariffs on goods exported by the other country. Once agreement is reached between these countries, an attempt is made to multilateralize the arrangement. This procedure has been used in previous negotiations. However, with the increased number of WTO members, its likelihood of success is diminished.

3)Across the board tariff cuts - Under this procedure, countries would agree to cut all tariffs by some percentage from an agreed base, probably actual tariffs or existing ceilings. In the past when this approach has been used, numerous exceptions were granted, so the final result was far from across the board cuts.

4)Zero-for-zero - In this approach, countries agree to complete elimination of tariffs on certain goods. One advantage is that negotiations in sensitive areas like sugar and dairy do not hold up progress in other areas where gains can be achieved. Another current advantage is that zero-for-zero deals in certain areas can proceed in the U.S. without fast track authority, which is why the approach is being used in the APEC negotiations.

5)Reduce bound rates to applied rates - This approach essentially would establish a new ceiling which is the current or recent past applied tariff rates. Reductions would then be negotiated from this base. One criticism of this approach is that countries that have already lowered their protection are "penalized."

6)Reduce tariff peaks - Agricultural tariffs around the world generally are high on average and also have high variance. This approach would attempt to reduce the variance in protection rates by reducing the highest tariff rates aiming at a more uniform protection level

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<sup>2</sup>This section draws upon Josling and Rae, "Multilateral Approaches to Market Access Negotiations in Agriculture."

in agriculture. This approach could produce significant gains since the greatest misallocation of resources is in the highly protected areas.

7) Formulae cuts - Under this approach a general formulae is applied across the board to all existing tariff rates or ceilings. The Swiss formulae that was used in the Tokyo round is as follows:

$$t_n = (a * t_1)/(a + t_1)$$

where,

$t_n$  = new tariff rate (in %)

$a$  = a reduction factor, which was set to 16 in the Tokyo round

$t_1$  = current tariff (in %)

Using an  $a$  value of 25, a current tariff of 100% becomes 20%, whereas a current tariff of 25% becomes 12.5%. Other formulae have been suggested as well.

8) Tariff ceilings - Some have proposed capping all tariffs at some level in an attempt to reduce the variance in agricultural protection. The problem with this proposal is that it attacks the most difficult areas and does nothing for reduction in other areas.

9) Expand TRQs - To increase market access, one could simply enlarge the quota below which a low tariff is applied. The quota expansion could be done on a formulae or percentage increase per year basis.

10) The "cocktail" approach - The final approach is a combination of any of the above approaches. One would expect that this approach is the route that would be followed in practice.

Of course many of the market access issues concern non-tariff barriers as well as levels of protection. These issues are discussed below in separate sections.

### Agricultural Commodities Including Horticultural Products

Agricultural markets the world over remain very protected after the GATT round. The European Union converted its variable levy to a specific tariff, which changes at least every two weeks. In other words, it is still in economic terms a variable levy. The E.U. changed its minimum entry prices to reference entry prices. The operation remains similar to but not exactly the same as the old minimum entry price system. The E.U. retains import windows for important agricultural commodities. In many cases quotas were converted to tariff-rate quotas, but in practice they function much as before. It is fair to say that access to European markets for agricultural commodities did not improve significantly as a result of the GATT agreement.

Clearly, increasing market access has to be an important priority for Egypt and other developing countries in the WTO negotiations. Many countries, including Egypt, have done better in bilateral or trade block negotiations than in WTO, but market access improvement still needs to be a priority in the WTO round.

In the U.S., the tariff-rate quota system for sugar effectively operates as the old quota system. Dairy imports also are still restricted. For horticultural products, entry is not so much a problem but Mexico has preferred access through NAFTA, and it is a difficult competitor. Other Latin American countries also have had success in the American market.

To gain market access in Europe and other areas, it may help for exporting countries to try to gain sympathy from European consumers. American and European consumers have similar incomes, but Americans eat for 11.6 percent of their disposable income compared to 19 percent in Europe. In other words, the protection of agricultural raw and processed goods costs the European consumers a sizable fraction of their disposable income. Perhaps Egypt could lead the developing countries in a publicity campaign to convince European consumers that lower import barriers would both benefit European consumers and poorer farmers in developing countries. If Europe still wants to protect its farmers, it could be done through direct income transfers.

### Processed Food Products

Processed food products are protected in two ways. Some processed products, like frozen fruit, are treated essentially as fresh products and get the same treatment. Products with sugar added like preserves and jams face a sugar content tax in addition to the regular duties. The combination of duties makes it very difficult for Egyptian exporters to compete in the European market. Processed food products also face duties in the U.S. and other markets. The level of protection appears to be the major impediment here, so future negotiations should focus on reducing tariff protection.

### Textiles

Under the GATT agreement, the Multi-fiber Agreement (MFA) gets folded into regular WTO trade rules in 2005. That means the MFA quotas disappear at that point, and regular ad valorem tariff protection gets applied. However, there would be nothing to prohibit importing countries from using tariff-rate quotas, which could be designed essentially to replace the MFA quotas. Therefore, the future of textiles is very unclear.

Interestingly, Egypt has not been filling all its existing textile quotas, especially after the increase in U.S. quotas. What would happen if the quotas did go away in 2005 and were replaced with regular ad valorem tariffs? Would Egypt be able to compete with India and China and similar countries? Is it in Egypt's best interest to see the quotas vanish and move to market allocation based on competitive forces? Or would Egypt be better off keeping quotas through bilateral agreements with the U.S. and E.U.?

### Manufactured Goods

Trade in manufactured goods generally involves lower protection than agricultural goods. Table 2 provides weighted average tariffs on merchandise trade by commodity, source, and destination for 1995. These data show that high income countries protect agricultural imports at about 10 times the rate of manufactured imports. Agricultural protection is higher in developing countries as well, but the ratio is closer to 2/1. Another interesting observation from this data is that developing country manufacturing exports to high income countries face protection about 4 times higher than high income nation trade in manufactured goods (3.4 vs. 0.8). This is due to the composition of manufactured good imports and differential rates applied to classes of goods. Thus, developing nations can gain from increased tariff reduction in manufactured goods as well as in agriculture.

TABLE 2  
TARIFFS ON MERCHANDISE TRADE BY COMMODITY,  
SOURCE AND DESTINATION (1995)

Exporting region	Importing Region		
	High Income	Developing	World
Agriculture			
High Income	15.9	21.5	17.5
Developing	15.1	18.3	16.4
World	15.6	20.1	17.1
Manufactures			
High Income	0.8	10.9	3.8
Developing	3.4	12.8	7.1
World	1.5	11.5	4.7

Source: GTAP4 database as reported in Hertel, et al., "Agricultural and Non-Agricultural Liberalization in the Millennium Round."

The importance of manufactured goods in the developing country trade picture can be further illustrated by examining the evolution of the share of developing country exports in manufactured goods and agriculture (Figure 1). In the early 1980s, manufactured goods accounted for a bit over 30 percent of developing country exports while agricultural exports amounted to about 15 percent of the total, with the rest being minerals. In the late 1990s manufactured goods represent over 70 percent of the total developing country exports while agricultural exports have fallen to 11 percent. Manufactured exports have grown mainly at the expense of raw mineral exports. Another interesting change is in the fraction of total developing country exports destined for other developing countries (Figure 2). In the early 1980s, it was about 30 percent, and today it is about 40 percent. Thus, reducing the tariff protection in developing countries will be of benefit in furthering the growth of developing country trade.

Interestingly, the largest gains in this area will come from developing country tariff reduction for imported manufactured goods. High protection of certain sectors in developing countries leads to increased investment in the protected sectors thereby diverting investment away from other more economically viable (competitive) sectors. For example, if automobile manufacturing is highly protected, domestic investment moves to that sector instead of export sectors in which the country has a comparative and competitive advantage. In this case, the protection of automobiles constitutes an implicit tax on exports discouraging investment in export sectors. Hence the greatest gain in manufactured goods for developing countries can be had even without multilateral agreements. It is in the interest of the country to unilaterally

reduce protection on manufactured goods to provide incentives to allocate investment to the sectors in which the country is most competitive, like agricultural exports.

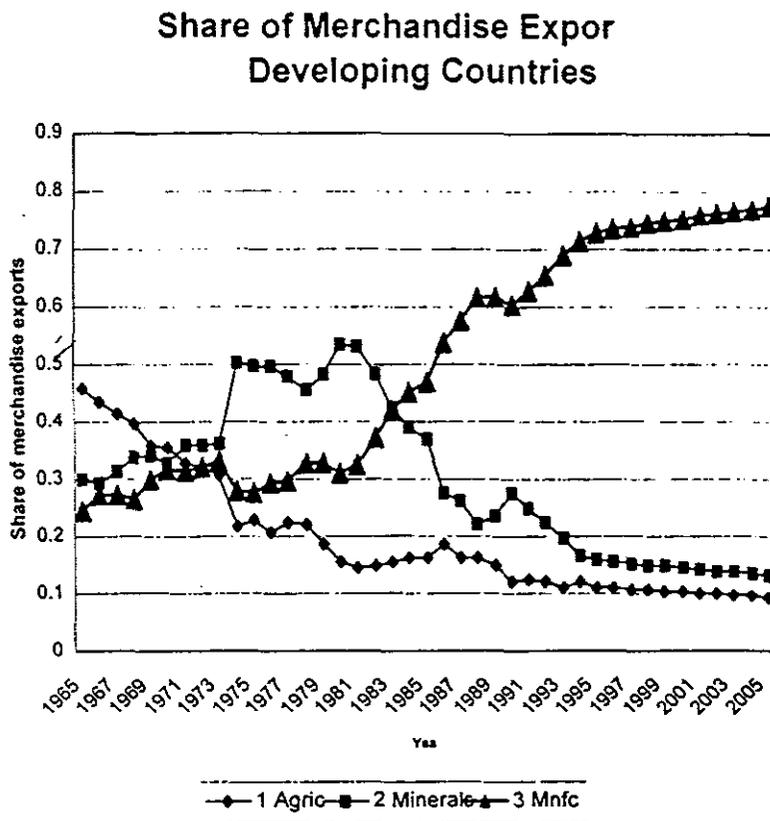


Figure 1 Source: Hertel, et al. GTAP database.

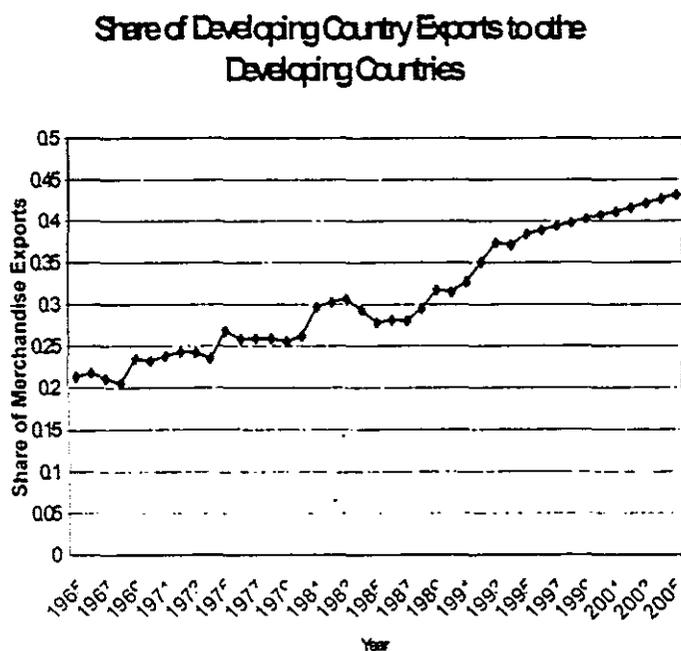


Figure 2 Source: Hertel, et al. GTAP database.

## Anti-dumping Levies

Anti-dumping levies have been an important impediment to trade for developing and developed nations alike. The basic principle in the GATT agreement is that a member may not impose an anti-dumping duty unless it determines that there are dumped imports, material injury to a domestic industry, and a causal link between the dumped imports and the injury. Dumping is calculated based on a comparison between the price of the good in the country of origin or export and the export price (the price of the good in the importing country). If the export price is lower than the domestic price in the exporting country, after adjustments for transport, etc., then dumping can be deemed to have occurred. However, in principle, the other two conditions listed above also must hold for anti-dumping duties to be applied.

While the principles are clear, the calculation procedures leave lots of room for manipulation of the data. The U.S. has been particularly aggressive in application of anti-dumping duties. What is needed in this round of negotiations is a significant tightening of the rules for calculation of dumping and injury.

Egypt in conjunction with a group of developing countries led by India has submitted to WTO some important points on anti-dumping implementation issues (WT/GC/W/354, 11 October 1999). The proposal calls for a one year moratorium on new investigations following a dumping case that was ruled invalid. The proposal also calls for some changes in the way prices and duties are calculated. These proposals all seem quite reasonable.

It is the view of this author that developing nations should be able gain agreement from the U.S. and the E.U. on a tightening on the rules. The main reason why this should be possible is that anti-dumping duties are often politically embarrassing to the country that imposes them, but the government may feel it has no choice but to impose the duty if a trade group has presented calculations in accordance with the rules. Often it is the case that an anti-dumping claim begins with a case presented to a government by a domestic trade association. Thus a tightening of the rules would make it more difficult for trade associations to present claims to their governments and make it easier for governments to reject false claims. It may be reasonable also to negotiate some sort of penalty on those who bring claims that are later rejected. In the time it takes to contest an anti-dumping duty, companies can lose significant amounts of money and market access. We need some means of penalizing false claims.

## SPS Regulations as Trade Barriers

Use of SPS regulations as trade barriers has been a problem for Egypt. The most often cited case is the potato brown rot. In 1995 there was a surge of Egyptian exports of potatoes to Europe, primarily because of a shortfall in European production. Following that period, the European production was adequate so the Europeans needed a way to keep out Egyptian potatoes. Adapting an SPS regulation on brown rot was the chosen method. Egypt was singled out because of its large potato export potential. Other countries exporting potatoes to Europe were not affected even though their potatoes also had brown rot. Also, potato brown rot exists in many areas in Europe, so it was not a question of preventing entry of a disease that did not exist in Europe. There are no restrictions within Europe on movement of potatoes from infected to non-infected zones, at least none that are enforced.

Egypt is not the only developing country affected by SPS regulations. Henson, et al. conducted a survey of 92 developing countries (with 65 responses for a 72 percent response rate) on various issues related to SPS regulation implementation. The questionnaire used a Likert scale with 1 being "very significant" and 5 being "very insignificant." Table 3 reports their results on the relative importance of various trade restrictions on developing country exports to the E.U. SPS requirements were deemed more important than transport costs, tariffs, or quantitative restrictions. Clearly, SPS rules and their application are considered to be critical issues. Table 4 provides the relative importance of SPS requirements across the major developed country markets. SPS requirements were most important in the E.U. and least important in Canada and Japan among the countries included. So SPS requirements are considered to be the most important trade issue, and they are more important in the E.U. than for other destinations. Since the E.U. is such an important market for Egyptian agricultural exports, SPS issues must be near the top of the list for Egyptian agricultural exports. Finally on this survey, Table 5 contains a ranking of the importance of various factors influencing developing country ability to participate in the SPS agreement. The most important factor was considered to be "insufficient ability to assess implications of developed country SPS requirements following notification." In another question not reported here, there was also a strong sense that developed countries did not consider adequately the needs of developing nations in setting SPS requirements.

TABLE 3  
FACTORS INFLUENCING ABILITY TO EXPORT AGRICULTURAL  
AND FOOD PRODUCTS TO THE E.U.

Factor	Average Score
SPS requirements	2.1
Other technical requirements	2.8
Transport and other direct costs	2.8
Tariffs	3.3
Quantitative restrictions	3.8

Source: Henson, et al., p. 15.

Clearly, there is overwhelming evidence that tightening the SPS regulations and implementation procedures is a very strong need. That conclusion came from interviews with exporters in Egypt and from the Henson et al. survey. It should be a high priority for Egyptian negotiators to seek both tightening of the regulations and increased transparent implementation of the regulations. Obtaining technical assistance for developing countries dealing with SPS cases also would be worthwhile.

TABLE 4  
 SCORES FOR PROBLEMS DUE TO SPS REQUIREMENTS WHEN EXPORTING  
 AGRICULTURAL AND FOOD PRODUCTS TO DEVELOPED COUNTRIES

Country	Average Score
European Union	2.1
Australia	2.7 <sup>a</sup>
USA	2.8 <sup>a</sup>
Japan	3.3 <sup>b</sup>
Canada	3.4 <sup>b</sup>

NOTE: Scores denoted by the same letter are not significantly different at the 5% level.  
 SOURCE: Henson, et al., p. 15.

TABLE 5  
 FACTORS INFLUENCING DEVELOPING COUNTRY ABILITY TO PARTICIPATE  
 EFFECTIVELY IN SPS AGREEMENTS

Factor	Average Score
Insufficient ability to assess implications of developed country SPS requirements following notification	1.5
Insufficient ability to participate effectively in dispute settlement procedures	2.0
Insufficient ability to demonstrate that domestic SPS measures are equivalent to developed country requirements	2.6
Insufficient ability to undertake risk assessment of SPS requirements	3.0
Insufficient ability to attend SPS Committee and international standards organizational meetings	3.1
Insufficient ability to assess the scientific justification of developed country SPS requirements	3.7

SOURCE: Henson, et al., p. 18.

But it is not enough to negotiate changes in European or American application of SPS regulations. Egyptian exporters also must improve their quality control. Consumers in these markets demand extremely and consistently high quality. Egyptian exporters must focus much more attention to quality control. For example, there is a private sector proposal to hire a specialized firm to assure quality control for potato exports, with the checks running from the seed, farm field, packing, and export container. This firm reportedly has been doing this for 10 years never having had a shipment rejected. This level of quality control will be essential in the future if Egypt is to be able to compete effectively in E.U. markets.

## Export Subsidies on Agricultural Products

The GATT agreement required the 25 nations that employed export subsidies to reduce both the volume and value of subsidized exports over the implementation period, which is 6 years for developed countries and 10 years for developing countries.<sup>3</sup> Developed countries are required to reduce the volume 21 percent and the value 36 percent. Developing countries are required to reduce the volume 14 percent and value 24 percent. Most countries have met their commitments easily because the reductions were from a very high base. In 1995-96 the global shares of export subsidies were as follows: E. U. - 84%, South Africa - 8%, Switzerland - 5%, U.S. - 1%, and Rest of World - 2%. South Africa terminated its export subsidy program in 1997, so most of the remaining export subsidies are European.

The first implementation year was 1995. Since world commodity prices generally were quite high that year, both volume and value subsidy levels generally were quite low. In 1996, both the E.U. and Poland exceeded their volume commitments. Both argued, however, that they could carry forward unused commitments from 1995. That contention has been disputed by other nations. With the E.U. expansion to include Poland and Hungary, it will be necessary for the E.U. to reduce internal support prices considerably in order to meet future subsidy commitments. The E.U. Agenda 2000 moves in that direction, but it is not clear that it goes far enough to meet E.U. export subsidy reduction obligations in 2001.

For the WTO Millennium round, the U.S. and the Cairns Group have called for the total elimination of export subsidies. Another issue will be the treatment of export credit subsidies and guarantees. Under the WTO agreement, they are generally exempt. The Cairns group has advocated handling agricultural export credits in the same manner as they are handled for manufactured goods (much tighter than the agricultural rules). Another issue likely to be discussed is the accounting of marketing assistance to export companies.

## Domestic Agricultural Subsidies

In the GATT round, it was considered a major accomplishment to get domestic agricultural subsidies included on the trade policy agenda. In fact, it was the high cost of domestic agricultural subsidies in the mid 1980s in the U.S. and E.U. that led to the inclusion of agriculture in the GATT round. Domestic subsidies in the agreement were classified as follows:

Amber box - Includes most "coupled incentives" with a direct link to current production. Examples include administered price supports, direct per unit payments, and input subsidies.

Blue box - Includes payments under production-limiting programs so long as they are based upon fixed area and yields and no more than 85% of the base level of production. Examples include the E.U. compensatory programs and the former U.S. target price/deficiency payment system.

Green box - Includes direct payments decoupled from all production decisions. One example is the current U.S. transition payments to farmers. Many other examples of green box payments would be domestic food aid, infrastructure, research, extension, and training, environmental programs, etc.

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<sup>3</sup>This section and the next draws upon USDA/ERS, *Agriculture in the WTO*, pp. 14-26.

The agreement requires amber box subsidies to be reduced 20 percent over 6 years for developed countries and 13 percent over 10 years for developing countries as measured by the aggregate measure of support (AMS). All countries have met their reduction commitments. No reductions are required for blue or green box domestic subsidies.

The biggest problem in the domestic subsidy area is that blue and green box subsidies have risen substantially in both the U.S. and E.U., because of the low level of world commodity prices. Even though the subsidies are classified as either blue or green box, it is clear that the high level of the payments is having a significant effect on levels of production and thus commodity prices. Blue box subsidies are only loosely decoupled in the E.U., and green box income supports in the U.S. will constitute a substantial fraction of net farm income in 1999.

Future negotiations likely will focus on elimination of amber box subsidies, significant reduction of blue box subsidies and tightening of what qualifies for green box treatment. These negotiations will be particularly difficult for the E.U. given the expansion of its agricultural production base. The E.U. has introduced the notion of "multi-functionality" arguing that the agricultural sector produces several "goods" including rural amenities, tourism attraction, environmental quality, etc., and that part of the payments to farmers can be considered in compensation for these other functions or benefits farmers produce.

### **Labor and Environmental Issues**

There is considerable pressure in the U.S. and some other developed countries to include labor and environmental standards in the WTO agenda. Developing countries (including Egypt) generally argue that these issues should not be included in the discussions. One of the underlying principles in the GATT round was that if products are identical, they must receive the same treatment, regardless of how they were produced. For example, if there are no detectable residues, the fact that a certain pesticide was used in the production of, say, tomatoes, means that the imported tomatoes must be accepted as identical to domestic tomatoes produced without the pesticide.

Some have argued that the next round must go beyond what we could call "product" from the GATT round to what might be called "process." Under process rules, countries could be banned from using certain environmentally damaging production practices or from using child labor or from paying sub-standard wages. Developing countries argue that any attempt to move from product to process is an attempt to reduce their competitive advantage.

Interestingly, the private sector has moved ahead of governments on this issue. Some private supermarkets and other food outlets are requiring "traceability" of the products they sell. They are also requiring that certain production practices be employed ("process"). Supply chain management has become one of the hot topics in the food business. Regardless of what governments do in the WTO negotiations, some degree of process control will be instituted by the private sector.

It is doubtful that developing countries will concede to any significant process controls in the next round. U.S. fast track legislation that will come up in 2001 likely will have some environmental and labor stipulations. However, the best bet is that any such conditions in an agreement will be weak and unenforceable. This is one area where developing countries are likely to carry the day.

## State Trading

State trading plays a prominent role in both agricultural imports and exports.<sup>4</sup> State trading enterprises (STEs) handle at least a third of the wheat exports in the world, and STEs manage one-third to one-half of the wheat imports. The GATT agreement places certain restrictions on STEs:

- 1) They must act consistent with the general non-discriminatory GATT principles.
- 2) Sales and purchases must be made solely on the basis of commercial considerations.
- 3) Foreign enterprises must have the right to compete for such purchases and sales.
- 4) Members are required to reduce obstacles to trade created by STEs, and are required to notify WTO of the products imported by them.
- 5) Importing state traders should not grant protection greater than the bound tariff rate.

While STEs were not constrained other than by these guidelines in GATT, there continue to be concerns about the role of STEs as barriers to trade.

Egypt is a case in point. While Egypt has not notified WTO of any STEs, it is clear that STEs play a major role in wheat imports and cotton exports in Egypt. Egypt is one of the largest importers of wheat in the world (China and Egypt are numbers 1 and 2), and GASC, the STE, brings in about three-fourths of the Egyptian imports.<sup>5</sup> As of the fall of 1998, it was clear that the domestic and international procurement actions of GASC amounted to an implicit 23 percent nominal level of protection.<sup>6</sup> Egypt's WTO binding on wheat protection is 5 percent, so Egypt would appear to be in violation of the fifth point mentioned above. However, no country has contested Egypt's current practices.

This author believes that it would be in Egypt's longer run interests to use border protection instead of STE and other market interventions to maintain an adequate domestic wheat price. However, resolution of this issue is complicated by wheat subsidies and questions of how to keep consumer prices low while streamlining the rest of the system. Also, changing to border protection would require renegotiating Egypt's WTO offer.

## Intellectual Property Rights

Intellectual property rights (IPRs) protection became a part of the GATT agreement. All developing countries except the least developed must implement the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement by January 1, 2000. Least developed countries have until January 1, 2006, to implement TRIPS. Many developing countries (including Egypt) argue that 5 years has not been long enough to implement all the required changes.

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<sup>4</sup>This section draws upon Ackerman and Dixit, *An Introduction to State Trading in Agriculture*, and Miner, "State Trading and Agricultural Trade: New Rules and Policy Options."

<sup>5</sup>Tyner, et al. *Wheat Subsector Baseline Study*, p. 24.

<sup>6</sup>Domestic wheat delivered to the mill costs LE 563, and imported LE 537. The ratio of these numbers implies a 23 percent implicit nominal protection.

Prior research has demonstrated that IPR protection is very important to increasing the rate of economic growth.<sup>7</sup> Novak says, "Nations that have protected patents and copyrights, experience shows, have seen an explosion of invention and discovery far beyond anything achieved under non patent regimes."<sup>8</sup> Novak continues to argue that it is the poor who are most adversely affected by lack of IPR. One reason is that without a means of being rewarded in their countries, creative people migrate out, and the developing country brain drain is worsened. Another is that FDI or other venture capital will not be attracted if IPR are not protected. Achieving protection of IPR, in the view of this author, is absolutely critical to accelerating the rate of investment and growth in the Egyptian economy.

### **Biotechnology Issues**

Biotechnology is an issue closely related to IPR. Contentious issues have arisen between the U.S. and the E.U. on biotechnology issues. The beef hormone case is one example. Use of genetically modified organisms (GMOs) in food products is another very contentious issue. In both these cases, "science" says the products are safe for human consumption. On the beef hormone issue, the WTO has repeatedly ruled against the E.U. ban on beef treated with growth hormone.

The U.S. Food and Drug Administration has declared GMO products to be identical to non-GMO products, and, hence, no labeling is needed or allowed. The Europeans and Japanese are pushing for product labeling. Some British supermarket chains are promoting product lines as GMO free.

In this area as in many others, it appears that the private sector is ahead of the governments. While the U.S. government is fighting labeling and separation of GMO products at every turn, most of the private ag and food business contacts we have at Purdue say labeling and separate supply chains are inevitable. Let's get on with it. While these executives agree with the science, they argue it does not matter what the science says if enough consumers believe there is a difference and are willing to pay for the difference, then we must produce products that can be segregated for that market.

An interesting example is Novartis, an international conglomerate headquartered in Switzerland. Novartis/seeds markets GMO products to farmers. Gerber baby food is a subsidiary of Novartis. Gerber has announced that it will not accept GMO products for use in its baby foods. Soon after that announcement, Heinz, the other major supplier of baby foods followed suit. The bottom line is that the consumer is sovereign, and firms will produce whatever is demanded by the consumer.

### **Transparency and Consultation**

Another important set of issues both for multilateral and bilateral negotiations are transparency and consultation. Both of these are spread throughout the WTO rules and processes and most bilateral agreements. However, many of the complaints we heard from private exporters concerned the lack of transparency of E.U. import rules and regulations. There were also complaints of unilateral action without adequate consultation. The new E.U.

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<sup>7</sup>This section draws upon A. Stoeckel, "Intellectual Property Rights in Agricultural Trade."

<sup>8</sup>M. Novak, *The Fire of Invention, the Fuel of Interest: On Intellectual Property*, p.26.

agreement includes mechanisms for closer consultation. Transparency might be improved if all nations were required to post their rules and procedures on WWW sites easily accessible to any exporter or importer.

### Summary of Important Priorities for Egypt

The above text has covered a wide range of trade policy and negotiation issues. In fact, all of these issues are important and will need to be dealt with in future multilateral and bilateral trade negotiations. What we will try to do in this section is to prioritize issues that seem to need greater attention in the short-term:

- Tightening SPS regulations - Egypt has had significant difficulty with European SPS regulations and needs to work towards closer consultation, stricter scientifically based SPS definitions and implementation, and more transparency in E.U. rules
  - In addition to negotiating tighter rules with the E.U., Egypt needs to implement much more stringent quality control of its exports. The private sector potato proposal discussed above is one example of something that should be implemented as quickly as possible.
  - While negotiating tighter SPS rules with the E.U., Egypt will need to clean up its own act on SPS applications as trade barriers. Egypt cannot expect significant changes in the E.U. or other trading partners without changing its procedures as well.
- Negotiating tighter anti-dumping procedures - It should be possible to negotiate tighter anti-dumping rules, penalties for those who lose anti-dumping cases, and other changes such as those Egypt has already advanced (discussed above). Progress should be possible in this area because it is in the interest of the developed countries themselves to see changes in this area.
- Bilateral and regional negotiations and agreements are of greater short-term importance than WTO:
  - Egypt should sign the E.U. agreement as soon as possible and then begin the process of preparing for the next round of discussions with the E.U. A complete analysis of areas important to Egypt in terms of the agreement needs to be completed within two years.
  - Egypt should proceed as quickly as possible on a multifaceted agreement with the U.S. One advantage of the U.S. discussions is that they are broader encompassing competition policy, IPR, and other areas where Egypt could reap significant gains.
  - COMESA and AFTA offer potential for expanding trade in the region. Developing country trade is growing quite rapidly, and these agreements offer potential for Egypt to expand exports. However, the commodity coverage needs to be expanded and exceptions limited in future talks.

- Conforming to the TRIPS agreement as quickly as possible will be very important for Egypt. IPR protection is essential for stimulating the kind of environment that will support innovation and more rapid economic growth.
- Reducing protection of imports, whether done unilaterally or through an agreement, is very important to help remove the distortions in the economy. These import protections constitute an implicit tax on exports, and removal of that tax is important to stimulate export growth.
- There are many domestic reforms that are needed to stimulate exports such as transport and cold-storage facilities. These have been documented elsewhere, and are not covered in this report.

Trade negotiation is a never ending process. The better prepared are the negotiators with quantitative estimates of impacts of possible changes, the more likely they are to be successful both in communicating the importance of the reforms at home and in carrying the day at the negotiating table. Therefore, it is very important to be prepared with analyses of all the issues deemed to be important for Egypt well ahead of the actual negotiations.

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