Background Section

(This background section is intended to provide Council members with a status report on key matters cited in the Roadmap document and is updated periodically. The information in the present document reflects developments as of June 30, 2004.)

U. S. Middle East Free Trade Area

On May 9, 2003, U.S. President George W. Bush announced a proposal to establish a U.S.-Middle East Free Trade Area by 2013. The proposal's elements would: (a) help reforming non-WTO members join the WTO, (b) lead to U.S. bilateral investment and trade and investments agreements with countries that don't have them and are improving their trade and investment regimes, (c) complete FTA negotiations with Morocco and launch negotiations with countries committed to high standards and comprehensive trade liberalization, and (d) provide trade capacity building assistance. On March 2, 2004 the U.S. concluded FTA negotiations with Morocco and formally signed the agreement on June 15, 2004. On May 27, 2004 the U.S. concluded FTA negotiations with Bahrain. As of June, 2004 the U.S. has concluded Trade and Investment Free Agreement, which are often precursors to FTAs, with nine Middle East countries: Algeria, Bahrain, Egypt, Kuwait, Qatar, Saudi Arabia, Tunisia, the United Arab Emirates (UAE) and Yemen.

Egypt Joins WTO Information Technology Agreement

On April 24, 2003, Egypt became the 59th WTO member to join the WTO Information Technology Agreement (ITA) when the WTO Committee on Information Technology approved Egypt's membership request. The agreement requires countries to eliminate tariffs and all other duties or charges on information technology products covered by the agreement, including computers, computer equipment and some telecommunications equipment. Countries have the flexibility to phase out tariffs over a period of time. Egypt began phasing out some tariffs in January 2004 and will have to eliminate duties on all ICT products by 2005. A press report noted that USAID released $50 million in recognition of Egypt's accession to the ITA under a program that provides budget support to Egypt.

Unified Banking Law – Far Reaching Implications

The impact of the Unified Banking Law passed in May 2003 extends far beyond the question of the Central Bank of Egypt's (CBE) authority over monetary policy. The new law is intended to give the CBE more authority in regulating the banking sector. In the area of monetary policy, the legislation seeks to harmonize monetary and fiscal policy rather than provide for a central bank whose functions are separate from fiscal policy. The law provides that monetary policy is to be formulated by the CBE in agreement with the government through the Coordination Council, by means of a Monetary Policy Committee (MPC), which will include some members of the board of directors of the CBE as well as ministers and independent experts appointed directly by the president. Thus, the CBE will be under the direct control of the president, as he will appoint both the governor of the CBE and the council. The newly constituted board of directors of the Central Bank has adopted policies intended to accelerate privatization of state owned-banks, stabilize the exchange rate, and increase banking and financial sector reform.

The new law is envisaged as one of the major government initiatives aimed at modernizing the banking sector in Egypt. The government took a number of steps in 2002-2003 to strengthen the banking sector and more are planned. The heads of six state-owned banks were removed and replaced with managers from the private sector and second-level managers and credit officers received new training. The new law allows banks to more easily seize collateral from defaulters and facilitates the process of loan settling for defaulters so that companies can restructure and continue operating. The CBE also has expanded supervisory authority over banks and will closely monitor their lending activities. Egypt is also developing a credit rating system to further facilitate sound bank lending practices. The strategy is to bring about a more advanced banking system similar to that in economically developed countries. However, some constituents, including the World Bank, have criticized Egypt's sluggish process of privatizing the state-owned banks, which they consider a key step in modernizing the banking sector.

U.S. Cooperation in Ensuring IPR Protection for Egyptian Films in U.S.

Egyptian film producers have expressed concern about the U.S. registration requirements for motion pictures and whether they are consistent with obligations under the WTO TRIPs Agreement. Further discussion is needed to clarify the significance of the registration requirement and the level of protection provided to foreign films. Circular 45 entitled *Copyright Registration for Motion Picture Including Video Recordings* published by the U.S. Copyright Office provides some background information on relevant U.S. laws and procedures. Cinematographic films do not have to be registered to receive copyright protection, but timely registration may also provide a broader range of remedies in an infringement suit. In order for movies to be registered, the U.S. requires the deposit of all cinematographic films at the Library of Congress.

Egyptian film producers feel that the U.S. authorities are not playing a sufficiently active role in helping them address infringement problems even though they contend that under the TRIPS Agreement the U.S. should.. Several websites that distribute pirated Egyptian films are located in the U.S. and are subject to U.S. law. Egyptian producers want priority attention given to these issues in order to protect the interests of Egyptian creators in the field of entertainment products in the U.S. market. Clarification is needed to determine the role governmental agencies play in the protections of intellectual property rights in the U.S. and the most effective way to protect the rights of Egyptian producers. The Council has arranged for Egyptian producers to consult with counterparts in the U.S. regarding this issue.

U.S. Regulation of VoIP

Egyptians have expressed concern that the US should exercise more oversight over certain commercial practices that may result in poor quality phone and fax communications from the U.S. to Egypt and affect the revenues of Egyptian telecommunication providers. Internet Protocol (IP) telephony or Voice over Internet Protocol (VoIP) is a service that uses internet infrastructure to offer low-cost voice communications. The expansion in data communication and internet bandwidth has helped fuel the explosive growth of VoIP services in the past few years. Despite the legalization of VoIP services in some countries, they are still considered illegal in other nations. Particularly, countries where government-owned telecommunications companies rely heavily on international call revenues.

Egyptian officials note that U.S. companies have partnered with so called "private Egyptian telecom companies," which are small operations that lease data lines, connect them to the local telephony network and use this setup to offer voice services at extremely low rates. This practice violates Egyptian law, is strictly prohibited by the Egyptian government and has adversely affected Telecom Egypt's foreign currency revenues in the past two years. Based on analysis of international traffic trends, Telecom Egypt estimates that foregone revenues from illegal VoIP international calls are in the order of $100 million per year and are growing annually by about 40 percent. Egyptian telecom officials have also expressed concern that certain telephone providers in the U.S. have routed calls to Egypt through VoIP networks without telling their customers. Such practices have resulted in the U.S. customers receiving extremely poor service while paying normal rates. The Egyptian officials have contended that this is a matter of protection of consumer interests.

The Secretariat has sought information on this issue and assisted the Council in determining how to address Egyptian concerns. Reliable telecommunication services are vital to companies trying to compete in a global economy. Recently, the Egyptian Telecommunication Regulatory Authority has been in direct communications with U.S. authorities on this matter.

Ban on U.S. Meat Exporter Lifted

On October 14, 2003, the Egyptian Ministry of Foreign Trade lifted a four-year ban on beef liver imports from the IBP Corporation. The ban had been imposed on a predecessor company because of certain of its practices, and IBP had sought its removal.

Egyptian Tariffs on Apparel Reduced

Presidential Decree 35 of January 22, 2004, which reduced Egyptian tariffs on clothing and textiles, raw materials and other components used in clothing production, is of enormous significance to the textile industry. The decree eliminated or greatly lowered tariffs on raw materials and inputs, such as yarns, fabrics, machinery, spare parts, chemicals and dyes. For example, duties on machinery and spare parts went from 25% to 0%, and duties on dyes fell from 30% to 0%. Further, importers of these products noted that reductions were actually applied in practice when they cleared products through customs.

The January 22 decree also reduced duties to less than 41% on imported textiles and to 46% for clothing, the maximum levels permitted by Egypt's WTO commitments. The reductions will further boost an industry that has already experienced a 22% increase in exports in 2003, as a result of the devaluation of the pound and a tax rebate incentive program. The reductions also resolved a WTO complaint filed by the United States in December of 2003. The complaint alleged that, although Egypt committed to replace its ban on imported clothing with tariffs not exceeding 41 percent by 2002, tariffs on imported clothing exceeded that limit at the end of 2003.

Exchange Rate Liberalization

In January 2003, policymakers abandoned the currency's managed peg system against the U.S. dollar in favor of a floating currency system. The move elicited broad approval from the International Monetary Fund (IMF) and the World Bank, as well as ratings agencies Standard & Poor's and Fitch. The resulting devaluation of the Egyptian Pound created gains for companies that export, collect earnings in dollars, or sell local goods that compete with imports. However, other sectors that rely on the import of raw materials or have their debts denominated in dollars, have suffered. Egyptian consumers, in particular, have been hard hit by the resulting inflation. While the Egyptian economy adjusts to these growing pains, the government has responded to pressures to intervene by fixing prices on consumer goods, raising government salaries, keeping interest rates low, and borrowing money abroad. This, in turn, has contributed to the expansion of Egypt's budget deficit. Council members believe it is important to continue to engage in dialogue with the Egyptian government regarding the importance of pursuing and implementing sound exchange rate policies.

The government's appointment of a new board of directors to the Central Bank and major state-owned banks, coupled with 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 the recent significant reduction in the gap between official and black market foreign exchange rates, and an increasing supply of dollars in the market.

Customs Modernization in Egypt

Companies involved in the importing of goods into Egypt consistently cite onerous and complex customs procedures as a major impediment to expanded trade and investment flows. Customs reform is vital to firms that export to the Egyptian markets as well as to firms manufacturing in Egypt. Foreign and domestic manufacturers must import components from abroad in order to produce goods that can compete successfully with foreign produced goods.

In late 2002, the Government of Egypt established the Customs Reform Unit (CRU). Staffed by customs administration employees, the CRU is organized into seven committees with the authority to collect and analyze data, and a mandate to develop and implement a comprehensive strategy for reforming customs in Egypt. The CRU committees are formulating new policy in the following areas: Procedures, Automation/ICT, Human Resources/Organization, Tariff, Valuation, Law, and Infrastructure. The Egyptian Cabinet is currently considering a new Customs law drafted by the CRU.

Procedures: Currently, the CRU's Procedures Committee is studying ways to simplify current clearance procedures down to just 5 steps and 5 signatures. Such reforms would significantly reduce the time it takes to clear goods through Egypt customs. The committee is also working to rationalize the system of customs duty exemptions and special regimes (such as free zones, temporary release and drawback systems), that represent deviations from standard customs procedures. Finally, the committee is developing manuals and training programs to prepare customs officers for these changes.

*Valuation***:** Importers also complain about inconsistent procedures, negotiations, costs and delays associated with the valuation of goods. Full compliance in both law and practice with the requirements of the WTO Customs Valuation Agreement should help.

Classification/Tariff Structure: Egypt plans to rationalize and simplify the current tariff structure to increase transparency in the classification of imported goods.

Risk Management: Risk management techniques can be implemented to streamline customs clearance procedures, while protecting government revenues and ensuring the safe and legal transshipment of goods.

Legal Reform: The Egyptian Cabinet is currently considering a new Customs law drafted by the

CRU, based on a thorough review of Jordanian, Lebanese, and Indonesian customs law.

Automation: Both U.S. and Egyptian companies acknowledge that investment in automation has brought some improvements in customs services. Further study and investment by both countries in IT and automation is crucial to bringing traders "on line, not in line." Processes such as electronic pre-clearance need to be considered. Toward this end, the CRU is evaluating customs automation needs and analyzing the systems available (Tabarak, ASYCUDA, and others), to determine how best to proceed.

Human Resources: The CRU is also exploring ways to develop the customs administration's human resources through the training, re-orientation, and empowerment of customs officers to increase their capacity to implement customs reforms.

Egypt Introduces Model Customs & Tax Center: Egypt's Prime Minister Atef Ebeid and Minister of Finance Mohamed Medhat Hassanein inaugurated on September 14, 2003, the Model Customs and Tax Center (MCTC), a GOE initiative that represents a major step toward modernizing tax administration in Egypt. USAID provided computers, office equipment, and technical advice to the MCTC. The MCTC is a "one-stop shop" where taxpayers can settle income taxes, sales taxes and customs obligations in a single location with a strong emphasis on customer service. In addition to other improvements, the center has radically streamlined the clearance of goods through customs by providing "pre-arrival" customs clearance on site as well as expedited refunds of taxes and duties to eligible parties. The state-of-the-art facility also provides many services via the internet. The efficiency and convenience of the MCTC is expected to reduce the costs of doing business.

Other organizational changes: By housing its administration centrally and employing enhanced automation tools, Egypt's first private port, Ein Sokna, proved that the importing process can be streamlined and clearance times reduced by half.

The General Organization for Export and Import Control's (GOIEC) is the central authority for testing and sampling traded goods to ensure they meet Egypt's quality and safety standards. The new training center in Dekheila, Alexandria is building GOEIC staff capabilities in the areas of technical know-how, ICT and English-language training. Also at Dekheila are new food inspection labs, which will permit the local, and therefore expedited, inspection of imported meat and poultry products to ensure they meet international health and safety standards. Both U.S. and Egyptian companies acknowledge that recent investments in automation has brought about some improvements in customs services.

USAID, in particular, has been a key partner in many of the initiatives described above. USAID is now planning a five-year, $30 million project to assist the Egyptian government in addressing the larger goals of customs modernization and trade facilitation.

New Foreign Investment Law

On March 29, 2004, the People's Assembly amended the Investment Guarantees and Incentives Law to remove obstacles and facilitate investment by making the General Authority for Investment and Free Zones (GAFI) a one-stop shop for foreign investors. As opposed to the previous legislation which focused on customs and tax incentives solely, this amended law addresses certain procedural factors that inhibit investment. For example, a potential investor in Egypt might have to obtain approval from as many as 36 different government authorities before being allowed to establish a new enterprise. Now, in addition to housing all the necessary documents and approvals necessary for setting up a business in one central location, GAFI will act as a central authority for issuing licenses on certain tax and custom exemptions. The law also authorizes the Cabinet to grant "companies of great international fame" certain privileges and incentives.

Anti-Monopoly Legislation

The government of Egypt has drafted a comprehensive competition and antitrust law that would prohibit monopolistic behavior that negatively impacts prices and quantities in local markets, and would call for monitoring companies that exceed a specific benchmark market share. The government circulated the draft law in the business community for discussions in the past year and made several amendments to accommodate international standards and the structure of the Egyptian economy. The law is to be considered by Parliament this year.

ICT Sector Developments

Egypt's ICT sector continues to develop rapidly as new initiatives have been launched in the last year, including the following:

- In June 2003, the Ministry of Communications and Information Technology (MCIT) and General Dynamics inaugurated *Egypt's first U.S.-based Trade Liaison Office located in Chantilly, Virginia*. The TLO was established with the aim of facilitating networking, increasing cooperation and fostering partnerships between U.S. and Egyptian IT companies and professionals. A second such office is to open in California in the near future.
- The first stage of the *Smart Villages Project, Egypt's new IT park*, was inaugurated in September 2003. This first Smart Village is part of an ambitious national plan to spur growth and development in the IT sector. Worthy of mention is the fact that private investors hold 80% ownership of the shares in the Smart Villages Company, established in 2001 with a total capital investment of 100 million pounds.
- January 2004 witnessed the launch of *Egypt's e-government web portal*. The new portal serves as a user-friendly, citizen-oriented gateway to a number of government services. Currently, services available online include requesting a birth certificate, renewing drivers licenses, checking vehicle traffic fines, paying phone bills, in addition to select tax and customs-related services.
- In an effort to spread awareness and the usage of information technology throughout society, MCIT and the Ministry of Foreign Affairs, in collaboration with the United Nations Development Program (UNDP) launched the *Egypt ICT Trust Fund initiative*. The fund will promote more equitable socio-economic development and foster greater community empowerment by increasing awareness of the benefits and employment opportunities generated by IT, in addition to increasing IT accessibility to all citizens. The fund currently supports five projects: the Mobile Internet Unit, the Smart Schools Initiative, the Community Development Portal, a CD-ROM tutorial for basic literacy, and the Community Knowledge Generation E-library Initiative.
- The Arab Manufacturing Company has announced plans to assemble computers in Egypt. The company says they will be the first Arab made and financed PCs, with 40 percent of the computers' components produced in Arab countries. Manufacturing is slated to begin in October. The Arab Manufacturing Company is a joint Egyptian-Kuwaiti venture with capital of £E 140 million. The Kuwaiti M.A. Kharafi Group holds a 71-percent stake in the company, with various state organizations – the Ministry of Communications & Information Technology, the Ministry of Education, Banha Company for Electronic Industries, the Arab Manufacturing Authority and the Akhbar Al Youm organization – comprising the Egyptian side. During the first year, project leaders hope to produce 300,000 computers, a figure that

will be increased to 500,000 in the second year.