

## **Egyptian Tariff and Non-Tariff Barrier Issues**

Over the past five years, the Government of Egypt has eliminated or reduced a large number of trade barriers. For instance, the ban on garment imports has been repealed, tariffs have been reduced, special minimum shelf life standards for imported goods have been repealed, new IPR border enforcement regulations have been put in place, and expanded exceptions have been created, though not fully implemented, for the inspection and testing regime.

While some of these changes predated the current cabinet, the pace of the reform has accelerated since the appointment of the first Nazif cabinet in 2004 and there is reason to believe that reforms will continue. The purpose of this memorandum is to identify remaining areas of concern among the domestic private sector and foreign governments and institutions over trade policy issues. Not all of these items are of equal priority. In fact, it is our view that the broader trade facilitation and investment promotion agenda is likely more important than many of the remaining trade policy issues.

However that does not mean that there are no trade policy issues remaining. If the Government of Egypt is serious about integrating its economy into the global market place and taking advantage of the opportunities that that market offers, consideration should be given to addressing a number of these issues. Of particular importance are:

1. Reducing tariff escalation
2. Eliminating overlapping jurisdiction in inspection/testing of food items
3. Border enforcement of IPR
4. Textile and garment marking requirements (to lower costs to consumers)
5. Implementation of the new provisions for recognition of international safety marks and accredited test results
6. Labeling reform
7. Creating the necessary regulations to support risk management in inspection and testing.

In addition, there is a broad trade facilitation agenda that relates to resolving bottlenecks in the system. Many of the issues relate to coordination and cooperation among agencies. But others are not as much policy as implementation, such as ensuring that uniform Customs procedures are applied throughout the country. Finally, while changes in the Import/Export Regulations have increased transparency in parts of the system, greater transparency in all trade rules and regulations would improve the trade climate.

The remainder of this memorandum briefly describes these and other tariff and non-tariff barriers to trade along with some other trade policy issues now facing Egypt.

## **Tariff Issues:**

Tariff reforms in 2004 reduced the average applied tariff rate to 9.4%.<sup>1</sup> At the same time, tariff surcharges were eliminated and the structure of rates rationalized. Despite these changes, further tariff reforms are needed.

Broadly speaking, the 2004 tariff reforms increased the level of **tariff escalation** by level of processing in the economy. Raw materials and relatively unprocessed goods were put in low tariff categories while manufactured goods were placed in higher categories. Further revising the tariff schedule to reduce effective rates of protection in manufacturing would offer benefits to the economy. The Government is currently reviewing its options on tariff reforms.

Some WTO members and the WTO Secretariat point out that a small number of applied rates are above Egypt's **bound rates** from the Uruguay Round. This issue should be addressed. As many of the differences are relatively small, correcting this problem would have a relatively minor impact on the economy but would eliminate a sore spot in relations with trading partners. However, it would present some problems for the Government in light of the adoption of a limited set of tariff rate categories.

**Specific duties** remain on tobacco products. These should be turned into ad valorem rates, but given the very limited application of specific tariffs relative to most countries (including the U.S. and EU), this is not a major issue.

The **very high rates** on alcoholic beverages and on cars represent trade barriers in these areas but are not likely to be addressed any time soon as they are in place for policy reasons, though certain tariffs on cars were substantially reduced in the last round of tariff reforms.

## **Non-Tariff Barriers:**

**Article 6 of the tariff code – Local content requirement:** The 2004 tariff changes eliminated the tariff lines that explicitly implemented the local content requirement for tariff reductions on parts used to build goods like cars in Egypt. However, the tariff reforms of that year did not eliminate the article that creates the preference. This is a cleanup measure that the government could pursue. We have received mixed information on whether the provision continues to have any impact on importers.

**Import licenses:** The Ministry of Agriculture and Ministry of Health maintain some import license requirements for certain products. The Import Licensing Agreement requires that

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<sup>1</sup> This average, which is used by the government, does not include the specific tariffs collected on tobacco products. If those tariffs are included, the average overall tariff rate increases to over 11%.

Egypt notify these provisions and make sufficient information available to foreigners to allow them to apply for any necessary licenses. The CD/WTO is currently compiling a list of all such licenses with the intention of remedying any problems that exist in this area.

**Labeling:** This is an area of major concern of the private sector, especially importers, given its prevalence among the cases that are taken to the intra-agency trade complaints committee. Egypt reasonably requires that labels written in Arabic be placed on many consumer-oriented products. However, there continue to be problems in ensuring that proper labels are applied. This is an area where more work needs to be done to fully understand the nature of the problem and its potential solution.

**Standards:** Under Annex 8 of the Import/Export Regulations, certain goods are subject to mandatory quality control. The standard used is often the Egyptian standard but, for many products, a developed country standard can be substituted. This creates uncertainty and imposes additional costs on imports. Separation of inspection bodies, with GOEIC working at the border and other agencies working internally, creates the impression that national treatment may not be being applied.

One particular concern in this area is the testing of food products for radiation. This is felt to be unnecessary, though the authorities are reducing the number of countries whose products are subject to radiation testing and are following international conventions in these regards

**Ban on imports of used cars:** The Import/Export Regulations ban the importation of cars that are more than one year old. Trucks over seven years old are banned as well.

**Ban on imports of used medical equipment:** There is a broad ban on importing used medical equipment. This includes some types of equipment that might be of significant value to Egyptian medical professionals.

**Bans of imports of certain food items:** The Ministry of Health regulations result in a ban of the importation of finished food supplements, vitamins, and natural products.

**Blocking the import of US poultry parts:** Due to concerns over the ability of American firms to ensure that poultry parts are Halal, no US poultry parts are imported into Egypt.

**Limitation on source for shipped clothing, textiles, etc.:** The Import/Export regulations require that certain goods, including many garments, textiles, shoes, car parts, and household appliances, be shipped from the country of origin, headquarters country of the producing company, or distribution centers. This is designed to make it harder to import counterfeit and grey market goods into Egypt but it creates a burden for much legitimate

business. Efforts have been made by the government to make this requirement less onerous for legitimate importers.

**Textile marking requirement:** The Import/Export Regulations maintain the requirement that the importers name, along with information about the manufacturer, be printed along the edge of fabric imported into Egypt. The requirement that the importer's name be printed poses a significant barrier for the importation of fabrics.

**Garment marking requirement:** Garments must have the name of the importer listed on the sewn-in tag. This creates a significant impediment to garment trade. Requiring the manufacturer's name be printed on the garment is easy, the importer's is hard.

**Service sector barriers:** There are a number of restrictions on foreign service suppliers attempting to operate in Egypt. ATR and the TEP project have been conducting a series of assessments of the impact of service liberalization on the Egyptian economy. Studies to date cover computer services, financial services, legal services, health services (in progress), distribution services, educational services, transportation services (in progress), and tourism services (in progress).

**Mandatory shelf life requirements:** Egypt has eliminated the special minimum shelf life requirements for imported goods and reduced the number of commodities for which mandatory shelf lives are set by standard. However, some exporters from the US still complain about the existence of any mandatory shelf life standard. As these shelf lives are applied equally to both foreign manufactured and Egyptian goods and they are applied to Egyptian goods for legitimate issues of health and safety, it is hard to label these as unreasonable restraints on commerce. However, the relationship between the mandatory shelf life standards and labeling requirements does present an issue. If a foreign manufacturer prints a longer shelf life on the label than permitted under the Egyptian standard, the label will be in violation of Egyptian rules and will have to be modified. This does pose a burden on trade.

**Uncertainty and inconsistency in treatment:** There continue to be complaints about inconsistencies and uncertainty in the application of rules and procedures at the border. This creates costs for importers and acts as a barrier to trade. The work of TAPR II with Customs and GOEIC in standardizing procedures and automating them should minimize this problem.

#### **Trade Policy Issues:**

**IPR:** The private sector and USTR have numerous complaints regarding Egypt's enforcement of IP rights. The two most significant relate to border enforcement, which ATR,

IPRA and now TAPR are working on, and pharmaceutical patents and data exclusivity, which IPRA is addressing.

**Valuation issues in Customs administration:** There is significant concern by the private sector over the application of inappropriate valuation methodologies by Customs. The TAPR II project is addressing this issue with Customs.

**Time needed for clearance is excessive and imposes a cost on trade:** This is a significant issue but one that is not amenable to simple solutions. TAPR II is working with the border agencies to coordinate and streamline their efforts in order to support more rapid clearance of goods. We will also be working on **risk management** issues with all agencies. While not a trade policy issue, the electronic filing of manifests is particularly important for speeding the clearance process, as is giving importers better options for the payment of fees.

**Duplication of Inspection:** Decree 106 and Law 155 that gave GOEIC authority over all inspection activity have not worked. There is a need to resolve this particularly as it relates to the importation of food and agricultural products. Supporting the establishment of a National Food Safety Organization would be an important step in this direction.

**Trade data problems:** There continues to be little faith in Egypt's trade data. Moreover, poor data quality means that it is difficult for both the Government and private sector to plan. This issue was raised by the private sector at our meeting in Alex.

**Operational issues:** There are significant complaints from the private sector over operational issues relating to GOEIC and Customs. Importers and brokers complain of short work hours and no weekend work to speed clearance. Moreover there are other complaints about variation in performance in different ports. Clearly a significant effort needs to be made to make the system more user friendly.

**Substitutes for testing:** The new Import/Export Regulations created three ways to avoid testing but only one has been implemented effectively. GOEIC should put into place procedures to implement the recognition of accredited lab tests and international safety marks. (GOEIC already registers certain "good" importers.) ATR has been working with Sayed Aboul Komsan on this issue and TAPR II will continue this work.

**Trade agreements:** There is a significant amount of work required to ensure that the government can analyze and negotiate trade agreements that are favorable for Egypt and that the private sector can take greater advantage of the existing agreements.

**Export barriers:** While ATR and other projects have focused on the problems facing importers, the problems facing exporters have been less well studied. However, there are

clear barriers to exporting. The structure of protection reduces incentives for companies to export. Weak or inadequate infrastructure problems for shippers of perishable goods. Lack of adequate cold storage of cooling machines also creates problems. Inadequate information about international markets limits the ability of the producers in Egypt to take advantage of opportunities abroad. These issues deserve greater attention and should form the focus of much of the work of the Trade Analysis Unit.

**Transportation networks:** Weak transportation networks limit the ability of goods to move in and out of the country, unnecessarily raising costs and limiting the competitiveness of Egyptian manufacturers.

**Port facilities:** While significant improvements have been made over the past years in Ayn Sokhna, Damietta, and more recently Alexandria, Egypt's ports are still in need of significant improvement. And even in Alexandria, the Port Authority recognizes that it will take a number of years to finish all of its modernization efforts. This is an area where international experience could shed light on the best ways to improve the system.