

Trade and Investment Dashboard – US-Egypt Business Council Quarterly Update – June 2003

FOREX Float: Learning to Live with It Takes Time

On January 28, 2003, when the government announced that the Egyptian pound would be allowed to float freely, the pound began to depreciate steadily against the dollar and Euro. On March 28 the government announced new regulations that forced companies with foreign exchange denominated revenues to sell 75 percent of their hard currency earnings to the banks within one week. The measure was apparently taken because the gap between the official dollar/pound rate and the black market rate remained higher than desired. The new measure, coupled with the appreciation of the Euro, put new pressure on Egyptian exporters who had to import components in order to make their products. IMF Managing Director Horst Kohler commented on June 6 that more flexibility in the exchange rate regime would be good for Egypt in the medium and long-term, but Egypt was taking longer than the IMF would like to make the flexible regime really work smoothly. He also noted that Egyptian authorities should think further on how they can adjust more rapidly to the needs of the global economy. Further, he said they should move towards more transparency in the foreign exchange regime and towards giving investors more assurance that there is less bureaucracy in its administration.

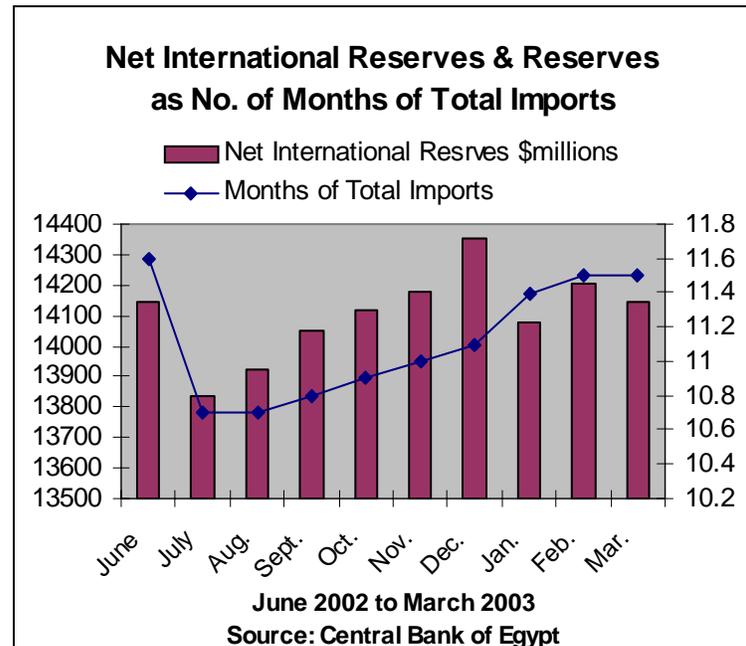
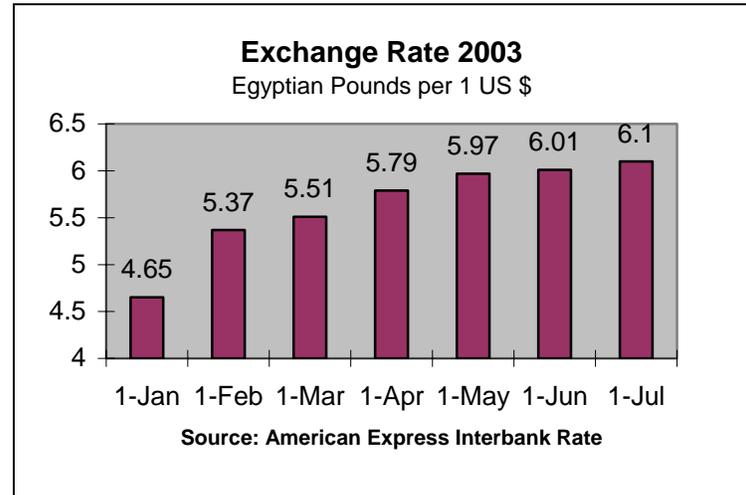
Unified Banking Law

On May 28 the People's Assembly approved a Unified Banking Law which provides the Central Bank of Egypt (CBE) with greater freedom in drawing up monetary policy and supervisory powers over the banking system, but the CBE is still under the authority of the President. A seven-member coordination committee will formulate monetary policy.

US-Egypt Trade Relations – More Ups and Downs than a Rollercoaster

Since April 2003 US-Egypt trade relations have evolved rapidly, but not smoothly. By the end of the quarter the US clearly indicated that it was not prepared to include Egypt in the list of Middle East countries it considered ready for early bilateral FTA negotiations at this time. Key developments are listed in chronological order below:

April 24 -- Egypt joins the **WTO Information Technology Agreement (ITA)**. The Agreement requires countries to eliminate tariffs and all other duties or charges on IT products covered by the agreement, including computers, computer equipment and some telecoms equipment. Egypt will begin phasing out some tariffs by the end of 2003 and will have to eliminate duties on all IT products by 2005.



May 9 -- US President George W. Bush announces a proposal to establish a **US-Middle East Free Trade Agreement** within a decade. The proposal seeks to: (a) help reforming non-WTO members join; (b) lead to US bilateral investment and trade and investment agreements with countries that are improving their trade and investment regimes; (c) complete FTA negotiations with Morocco this year and launch negotiations with countries committed to high standards and comprehensive trade liberalization; and (d) provide trade capacity building assistance.

May 13 -- USTR Zoellick and Agriculture Secretary Veneman announce that Egypt, Canada and

Argentina will join the US in filing a **WTO case against the EU over its five-year moratorium on approving agricultural biotech products (GMOs)**. The US, Canada and Argentina immediately initiated WTO dispute settlement proceedings by requesting consultations with the EU on the grounds the EU moratorium violated WTO rules. Egypt did not request consultations and on May 29 announced through its Ambassador in Brussels that it had decided not to become a party to the dispute.

May 21—USTR Zoellick announces that the **US and Bahrain hope to start FTA negotiations** by the beginning of next year.

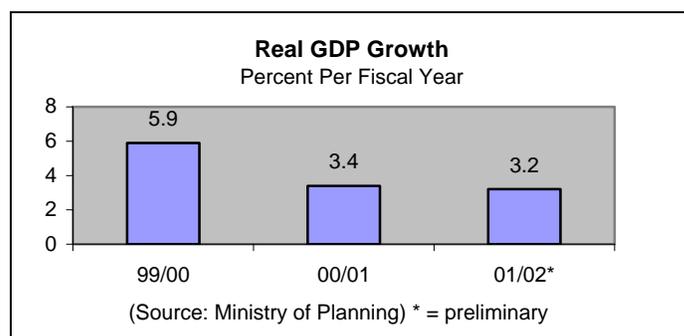
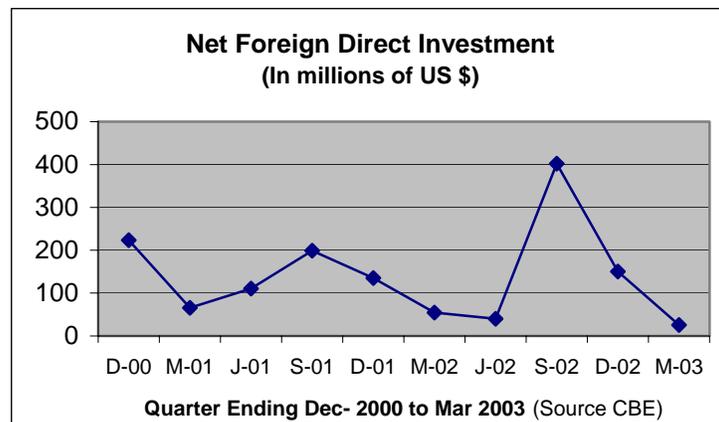
May 22 -- US Senators Baucus and McCain introduce the **Middle East Trade and Engagement Act of 2003** to provide preferential duty-free access to the US market to Middle Eastern countries that meet certain conditions regarding a market-based economy and support for the war on terrorism. While the bill's prospects are uncertain and a bilateral FTA would offer a Middle East country and foreign investors better market access and more security, the bill signals issues of importance to US senators.

June 12 -- 27 US senators send a letter to President Bush supporting negotiations with Egypt on an FTA.

June 22 -- Following meetings in Bahrain on an FTA and participation in a WTO trade ministers meeting, USTR **Zoellick** said in response to a reporter's question regarding a **US-Egypt FTA**: "...frankly we've been trying to work with Egypt through ... the Trade and Investment Framework Agreement to try to deal with some preliminary issues. There's been some improvement in intellectual property law changes. But my own assessment is Egypt has some work to do. We need to make sure that Egypt can follow through on its obligations. Subsequent press reports indicated Egypt's decision not to join the WTO GMO case contributed to the US position.

Other Trade Developments

IPR Protection --USTR's May 1 annual review of the adequacy and effectiveness of IPR protection (the Special 301 report) puts Egypt again as a "watch list country". The report says Egypt made significant progress in strengthening its IPR protections through improvements in its domestic legal and enforcement regimes in 2002, including passage of a new IPR law. But Egypt remains on the "watch List" due to concerns regarding TRIPS-inconsistencies in the law and the need to strengthen protections of confidential data. In a related development the Business Software Alliance noted that the rate of software piracy in Egypt dropped 32 points, from 84% in 1994



Balance of Payments – Current Account (in millions of US\$)	2000-2001	2001-2002*
Trade Balance	-9,363	-8,001
Exports Proceeds**	7,078	6,643
Petroleum	2,632	1,904
Non Oil Exports	4,446	4,740
Imports Payments**	-16,441	-14,644
Services (net)	5,588	3,919
Receipts	11,696	9,618
Of Which		
Transportation	2,704	2,715
Travel	4,317	3,423
Investment Income	1,850	938
Government Services	190	188
Other Receipts	2,636	2,354
Payments	6,109	5,698
Balance of Goods & Services	-3,776	-4,092
Transfers	3,742	4,073
Official (net)	769	1,144
Private (net)	2,973	2,930
Balance of Current Account	-33	-9

to 52% in 2002, making it the most improved country in Africa.