EGYPT

TRADE SUMMARY

The U.S. goods trade surplus with Egypt was $1.7 billion in 2006, an increase of $642 million from $1.1 billion in 2005. U.S. goods exports in 2006 were $4.1 billion, up 29.9 percent from the previous year. Corresponding U.S. imports from Egypt were $2.4 billion, up 14.5 percent. Egypt is currently the 37th largest export market for U.S. goods.

The stock of U.S. foreign direct investment (FDI) in Egypt in 2005 was $4.8 billion (latest data available), up from $4.1 billion in 2004. U.S. FDI in Egypt is concentrated largely in the mining sector.

IMPORT POLICIES

Over the past decade, the Government of Egypt (GOE) has gradually liberalized its trade regime and economic policies in general. The reform process had been somewhat halting until the appointment of Prime Minister Ahmed Nazif and a new ministerial economic team in 2004. Under the leadership of Prime Minister Nazif, the GOE has adopted a wide range of significant reform measures, although much remains to be done. To maintain its reform momentum, the GOE should continue its efforts to reduce red tape, reduce corruption, reform the cumbersome bureaucracy, and eliminate unreasonable and non-science based health and safety standards.

Tariffs and sales taxes

On September 8, 2004, the GOE announced a new tariff structure. The government removed services fees and import surcharges, reduced the number of *ad valorem* tariff bands from 27 to 6, dismantled tariff inconsistencies, and rationalized national sub-headings above the six-digit level of the Harmonized System (HS). The changes in tariffs reduced the officially announced weighted average tariff rate from 14.6 percent to 9.1 percent. The government also eliminated services fees and import surcharges ranging from 1 percent to 4 percent. The GOE replaced its 13,000-line ten-digit tariff structure with a six-digit structure with less than 6,000 tariff lines. This change should reduce disputes over product classification for customs purposes. Additionally, the GOE eliminated export duties on 25 products in short supply on the domestic market. Although the Finance Minister announced plans to reduce tariffs further by mid-2005, to date, no further reductions have been made.

While Egypt has undertaken significant tariff reforms, it continues to apply high tariff rates to a range of products. Tariffs on passenger cars with engines under 1,600cc were reduced in 2004 to a maximum of 40 percent, while cars with engines over 1,600cc now have a tariff rate of 135 percent. The tariff schedule for foreign movies is complex, but in general, foreign movies are subject to duties and import taxes of about 46 percent of the value of a film (32 percent for a copy of the movie, 12 percent on posters and 2 percent on the movie reel), as well as a 10 percent sales tax and a 20 percent box office tax (compared to a 5 percent box office tax for local films). The tariff rate on apparel is 40 percent and a 2004 ministerial decree requires companies wishing to export to Egypt to register with the Egyptian General Organization for Import and Export Controls (GOIEC).

High tariffs restrict the competitiveness of U.S. food products and alcoholic beverages. U.S. apples and pears face a 40 percent *ad valorem* duty. In 2004 the tariff rate on poultry was reduced to 32 percent and in July 2006 Egypt removed the tariff on whole chicken imports until December 31, 2006. However, arduous and unreasonable requirements continue to block U.S. whole chicken exports and Egyptian halal requirements prevent the import of U.S. poultry parts. There is a 300 percent duty on wine for use in hotels, plus a 40 percent sales tax. The tariff for alcoholic beverages ranges from 1200 percent to 3000 percent. The impact of high tariffs is compounded by what U.S. exporters describe as Egypt's non-transparent and burdensome application of sanitary and phytosanitary measures.

All goods are subject to a sales tax ranging from 5 percent to 25 percent. Egypt applies a sales tax of 10 percent on high-quality imported flour that does not apply to locally-produced flour. In 2004, the Ministry of Finance amended the sales tax law with the goal of reducing prices and attracting investment. In early 2005, Law No. 9 was issued, which exempted capital goods from the sales tax. In 2005, the Parliament passed legislation reducing taxes on soft drinks from a high of 60 percent to an effective sales tax rate (after government-approved deductions) of about 18 percent. The Finance Minister plans some additional amendments to the sales tax introduced in 2006 to unify sales tax categories, establish new tax rebates, and raise the minimum requirement for sales tax registration to exempt small producers and traders. The current minimums for sales tax registration are annual sales of LE150,000($26,100) for traders and LE54,000($9,400) for producers and service-providers. In June 2006, the Egyptian parliament approved amendments to some articles of the Stamp Duty Law (Law No. 111 for 1980). The reform simplified procedures and halved the stamp duty tax rate for certain products and services. The executive regulations pertaining to the amendments were issued in mid-September 2006.

Customs Procedures

Egypt adopted the WTO customs valuation system in 2001. The system has not been fully implemented, and thus importers sometimes face a confusing mix of the new (invoice-based) and old (reference price) valuation systems depending on the type of imports. The Ministry of Finance is trying to assist customs officials by translating and simplifying the WTO valuation system, which uses seven valuation methods. The Ministry of Finance has committed to a comprehensive program to reform Egypt's customs administration, and a priority is to complete implementation of the WTO Customs Valuation Agreement. USAID is funding a six-year, $30 million customs reform project to support the Ministry of Finance's efforts. The Ministry of Finance is also working with other donors, including the European Union, on customs reform issues. A new Customs Law addressing valuation and other problems was expected to be discussed in parliament in late 2006, but has not yet been submitted and remains under preparation by the Ministry of Finance.

The Egyptian Government has established an Account Management System to streamline and facilitate the customs treatment of large importers. In addition, in 2005, the Egyptian government established in the ports of Alexandria, Suez and Damietta Model Customs and Tax Centers which offer simplified customs and tax procedures for importers. An additional center was inaugurated in Dekheila in August 2006 and another in Port Said in mid-November 2006. Plans are ongoing to open two additional model centers in El-Adabeya Port (Suez) and Cairo Airport's Cargo Village in 2007. The GOE has also established a Large Taxpayer Center to provide similar services for large sales and income tax payers.

Import Bans and Barriers

Passenger vehicles may only be imported within one year after the year of production. Egyptian regulations allow investors to import a vehicle for private use without restriction in the year of manufacture, provided that approval is obtained from the Chairman of the General Authority for Investments and Free Zones (GOIEC).

The Egyptian Ministry of Health prohibits the import of natural products, vitamins, and food supplements in their finished form. These items may be marketed in Egypt only through local manufacture under license, or by sending ingredients and premixes to a local pharmaceutical firm to be prepared and packed in accordance with Ministry of Health specifications. Only local factories are allowed to produce food supplements, and to import raw materials used in the manufacturing process.

The Nutrition Institute and the Drug Planning and Policy Center of the Ministry of Health register and approve all nutritional supplements and dietary foods. It takes from four months to one year for approval. Importers must apply for a license for dietary products. The validity period of the license varies from 1 year to 5 years depending on the product. After the expiration date of the license, the importer must submit a new request for license renewal. License renewal costs about $500. However, if a similar local dietary product is available in the market, registration for an imported product will not be approved.

The Ministry of Health must approve the importation of new, used and refurbished medical equipment and supplies to Egypt in advance; without the approval such imports are banned. This requirement does not differentiate between the most complex computer-based imaging equipment and the most basic of supplies. The MOH approval process entails a number of demanding steps. The importer must submit a form requesting the Ministry of Health's approval to import medical equipment. The importer is also required to provide a safety certificate issued by official health authorities in the country of origin, as well as a certificate of approval from the Food and Drug Administration or the European Bureau of Standards. The importer must also present an original certificate from the manufacturer indicating the production year of the equipment and certify that the equipment is new. All medical equipment must be tested in the country of origin and proven safe before it will be approved for importation into Egypt. The importer must prove it has a service center to provide after-sales support for the imported medical equipment, including spare parts and technical maintenance.

Egypt continues to block imports of U.S. poultry and poultry products based on concerns that U.S. industry does not meet Egyptian halal requirements, despite U.S. efforts to address these concerns and U.S. industry's success in exporting to other Islamic markets. A decree in July 2006 lifted the overall ban on poultry imports for six months, and that decree was extended to allow imports through the end of March 2007. The government also lowered the duty on whole birds from 32 percent to 20 percent in February 2007. However, the government still bans the import of poultry parts, such as leg quarters, and requires that Ministry of Agriculture officials be present to observe proper halal slaughter, even though the poultry industry in the United States contracts with the Islamic Council of the United States to perform that service.

STANDARDS, TESTING, LABELING AND CERTIFICATION

Standards are established by the Egyptian Organization for Standardization and Quality Control (EOS) in the Ministry of Trade and Industry. Verification of compliance is the responsibility of agencies affiliated with various ministries, including the Ministry of Health, the Ministry of Agriculture and, for imported goods, GOIEC in the Ministry of Foreign Trade and Industry.

Egypt has increased efforts to bring mandatory regulations into conformity with international standards. Of Egypt's 3,387 standards, 387 are Egyptian technical regulations or mandatory standards. In the absence of a mandatory Egyptian standard, Ministerial Decree Number 180/1996 allows importers to choose a relevant standard among seven international systems including ISO, European, American, Japanese, British, German and, for food, Codex standards. Importers, however, report that despite having met international standards and/or displaying international marks, products often are subjected to standards testing upon arrival at the port. Product testing procedures are not uniform or transparent and inadequately-staffed and poorly-equipped laboratories often yield faulty test results and cause lengthy delays. Procedures are particularly cumbersome for products under the purview of the Ministry of Health.

The EOS also issues quality and conformity marks. The conformity marks are mandatory for certain goods that can affect health and safety. The quality mark is issued by the EOS upon request by a producer and is valid for two years. Goods carrying the mark are subject to random testing.

In 2005, Egypt's testing requirements improved with the issuance of new import/export regulations, which completely replaced the former regulations with more transparent and liberalized rules designed to facilitate trade. The new regulations reduced the number of imported goods subject to inspection by GOEIC and allowed importers to use certifications of conformity from any internationally accredited laboratory inside or outside of Egypt for those goods still subject to inspection by GOEIC. The new import/export regulations also transferred responsibility for issuing and reviewing certificates of origin from GOEIC to the Egyptian Customs Administration, introduced a mechanism for enforcing intellectual property rights at the border and extended the preferential inspection treatment given to inputs for manufacturing to include inputs for the service industry. While these measures have helped improve Egypt’s inspection regime, the new regulations are not applied consistently or uniformly.

With respect to agricultural products, Egyptian tariff and non-tariff barriers adversely impact bilateral trade. While Egypt is a key U.S. agricultural export market and a major purchaser of U.S. wheat and corn, certain imports such as poultry parts are banned. Others, including beef, apples and pears are subject to sanitary and phytosanitary measures that are non-transparent and burdensome. Food imports are sometimes subject to quality standards that appear to lack technical and scientific justification and exports may have to comply with burdensome labeling and packaging requirements. For example, meat products can only be imported directly from the country of origin and must include details in Arabic sealed inside and listed on the outside of the package. This labeling requirement raises processing costs and discourages some exporters from competing in the Egyptian market.

The Ministry of Trade and Industry is working with the Ministries of Health and Agriculture, among others, to review sanitary and phytosanitary standards, and food product inspection procedures to ensure WTO compliance and prevent duplicative inspection. The new export/import regulations eliminated the requirement that perishable products have at least one-half of their shelf life remaining at the time of importation, but further amendment of the Egyptian standard may be required before this can be fully implemented.

GOVERNMENT PROCUREMENT

Egypt is not a signatory to the WTO Agreement on Government Procurement. The 1998 law governing government procurement mandates that technical factors, not just price, be considered in awarding contracts. A preference is granted to parastatal companies when their bids are within 15 percent of other bids. In the 2004 Small and Medium-Sized Enterprises (SMEs) Development Law, SMEs were given the right to supply 10 percent of the value of all government procurement denoted in any tender. The law grants suppliers certain rights, such as speedy return of their bid bonds and an explanation of why a competing supplier was awarded the bid. Many concerns about transparency remain, however. For example, the Prime Minister has the authority to determine the terms, conditions, and rules for procurement by specific entities. In July 2006, the Tenders and Bids Law was amended to allow state property to be sold by direct agreement in cases where a public auction would be impractical. In September 2006, the executive regulations of the Tenders and Bids Law were also amended to streamline procurement procedures. The changes shorten the period required for announcing tenders and evaluating bids, reduce the cost for tender documents, require procuring entities to hold pre-bid meetings to clarify items in tenders and include model contract terms clearly setting out rights and obligations of contractors. The amendments allow small- and medium-sized enterprises to obtain tender documents at cost, in order to help such firms participate in competitions.

In 2004, the Prime Minister issued a decree stipulating strict adherence by all government ministries to the provisions of the Tenders and Auctions Law limiting direct purchasing to cases of national security or emergency. The Tenders and Auctions Law was amended in May 2006 to require the procuring governmental entity to change the contract value with the supplier, pursuant to the increase or decrease in cost which took place after the date determined for opening the technical envelopes or after the date of awarding the contract. The amendments also require the procuring entity to disburse to the contractor advance payments for work in-progress. The amendment also stipulates compensating contractors for price fluctuations that might occur during the first year of the contract.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Though Egypt is a signatory to many of the international intellectual property conventions, intellectual property rights (IPR) protection was well below international standards until 2002. In 2002, Egypt strengthened its IPR regime through improvements in its domestic legal framework and enforcement capabilities. Egypt also passed a comprehensive IPR law to protect intellectual property and to attempt to bring the country into line with its obligations under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Responding to Egypt’s improved IPR protection, in 2003, USTR improved Egypt's status from the Special 301 “Priority Watch List” (a designation that Egypt had retained since 1997) to the “Watch List.” However, the U.S. Government was deeply concerned in late 2003 by the Egyptian government’s issuance of marketing approval for local manufacturers to produce patent-infringing copies of several U.S. pharmaceutical products. As a result of these marketing approvals, in 2004, USTR again elevated Egypt to the “Priority Watch List,” where it remains.

Egypt's inadequate protection of the intellectual property of U.S. and other foreign pharmaceutical firms has continued to raise serious concerns. As recently as 2005, Egypt approved the production and marketing of Egyptian generic versions of U.S. pharmaceuticals based on unauthorized reliance upon confidential pharmaceutical test data submitted for marketing approval. Protection for pharmaceutical confidential test data submitted for marketing approval remains an on-going U.S. concern and the U.S. Government closely monitors this issue. The United States has pushed for and was encouraged that the GOE in 2006 instituted steps to increase the transparency of the application procedures for generic approvals, a measure which should enhance the ability to identify efforts to produce unauthorized copies of U.S. pharmaceutical products. This issue will remain a point of continuing engagement by the U.S. Government with Egypt.

Progress has been made in establishing and strengthening some of the government institutions necessary for an effective intellectual property protection regime. Provisions of the new IPR Law allowing for the patenting of pharmaceutical products took effect on January 1, 2005. A modern, computerized Egyptian Patent Office under the authority of the Ministry of Higher Education and State for Scientific Research has been working to improve its ability to receive and examine paper or electronically filed patent applications.

Egypt has taken advantage of various technical assistance opportunities provided by both the USAID and the U.S. Patent and Trademark Office (USPTO) on topics such as patent and trademark examination, specialized pharmaceutical patent examination, Patent Cooperation Treaty application processing, industrial design examination, trademark examination and IPR enforcement. The Patent Cooperation Treaty (PCT) entered into force in Egypt in 2003. In 2005, Egypt began reviewing PCT patent applications filed for approval in Egypt. Currently, Egypt is the eighth-largest filer of PCT patent applications among developing country PCT members. In accordance with its TRIPS obligations, the Egyptian Patent Office opened the "mailbox" for pharmaceutical patent applications on January 1, 2005, and began examining the approximately 1,500 pharmaceutical patent applications submitted for approval through this process. In October 2006, the Egyptian Patent Office accepted the granting of the first two pharmaceutical product applications submitted to the mailbox, unless an opposition is filed within 60 days of its mid-January 2007 publication in the official gazette. In addition, the World Intellectual Property Organization (WIPO) has designated Egypt as a regional patent training center. The Egyptian Patent Office also is in the process of adopting a manual of patent examination procedures to promote quality, consistency, and transparency in the examination process.

The new IP law offers trademark protection for 10 years. Concerns remain, however, regarding the implementation of key TRIPS obligations, including the lack of a specific grant of trademark rights in light of Article 16.1 of TRIPS.

In addition, the new IP law appears to lack a specific provision implementing TRIPS Article 23, which requires members to provide the legal means to prevent the use of geographical indications for wines and spirits where the goods do not come from the place named, even if consumers are not misled.

The Egyptian Trademark and Industrial Designs Office, as well as market inspectors responsible for non-copyright related IPR enforcement, are located in the Ministry of Trade and Industry. In 2005, the Trademark Office eliminated a five-year backlog of pending trademark applications and in 2006, the Trademark Office began work on other processing issues. It currently takes one year to register a mark in Egypt. The Ministry relocated the Trademark and Industrial Designs Office to a modern facility in 2005. The process of registration is now fully automated and the new offices have access to the Internet for international searches for the first time, as well as other communications improvements. In 2006, Egypt acceded to the Nice Agreement. Industrial design applications are also examined against an automated a database and the offices are developing transparent procedures for filing and examination.

Infringement of trademarks, textile designs, and industrial designs remains a problem, but the GOE has taken steps to improve enforcement in this area by training civil inspectors in IPR enforcement, issuing improved inspection procedures and taking steps to implement measures at its borders to prevent the importation of counterfeit and pirated goods. New regulations and procedures to implement TRIPS obligations relating to border measures are also being developed.

In 2004, the Ministry of Agriculture established a new Plant Variety Registration Office. However, certain provisions of the Egyptian 2002 IPR law made it difficult for applicants to meet the requirements to register for protection of their new, distinct, uniform, and stable plant varieties. In July 2006, the Prime Minister issued Decree No. 1241 which amended Article 158 and deleted Article 159 of the executive regulations to the IPR Law. This eliminated the need to apply to deposit samples in the National Gene Bank. The decree also eliminated the final obstacle to obtaining plant variety protection in Egypt. Egypt is still reforming the administration of its IPR laws, including protection of plant varieties, as part of its efforts to join the International Union for the Protection of New Varieties of Plants.

High levels of piracy adversely impact most copyright industries in Egypt, including motion pictures, sound recordings, books and other printed matter, and computer software. Improvements have occurred with regard to computer software protection, and the GOE took steps to ensure the authorized use of legitimate business software in civilian government departments and schools. However, in its 2007 Special 301 submission, the International Intellectual Property Alliance estimated piracy rates in the Egyptian market for business software at 47 percent and music at 70 percent in 2006. There continues to be a problem with false licensing, where a local distributor presents documents that purport to authorize the distribution of a work, but that have been supplied by a party lacking authorization authority. Even when the Ministry of Culture is convinced that the documents are fraudulent, the distributor is permitted to rely upon Ministry of Culture approval and to distribute pirated software, music, and films. This practice undermines copyright protection in Egypt. The Egyptian government has taken steps to revoke such approvals for well-known pirates. The GOE attributes its lack of further action against false licensing to its inadequate human and physical resources in this area.

A USAID technical assistance program is working with several ministries to strengthen IPR enforcement and increase public awareness. The USAID program is also working with the Ministry of Justice on IPR enforcement issues, including efforts to increase the legal awareness of judges on IPR issues and to build institutional capacity to handle infringement cases. In 2005 and 2006, approximately 1375 judges (or approximately 30 percent of sitting judges) had received local training in intellectual property rights enforcement, and a number of Egyptian judges participated in USPTO IPR enforcement training programs in the United States and Middle East region. In 2006, approximately 400 judges from the Courts of First Instance received training in cooperation with the Egyptian National Center for Judicial Studies on IPR and the use of injunctions. Prior to receiving this training, very few injunctions were issued in Egypt and even fewer trademark injunctions (one every few years). As of this writing, 10 trademark-related injunctions have been issued in the few months since the training occurred. In addition, 150 civil inspectors have been trained in IPR enforcement procedures.

SERVICES BARRIERS

GATS Commitments

Egypt participated actively in the Uruguay Round negotiations on services, but made commitments in only four sectors: construction, tourism, financial services, and international maritime transport. Egypt subsequently made commitments in the 1997 WTO Agreement on Financial Services. In 2005, Egypt revised its services offer to include computer services, courier services, air transport services, some construction sub-sectors (building and finishing works), and some insurance sub-sectors.

Egypt has restrictions for most services sectors in which it has made GATS commitments. These restrictions place a 49 percent limit on foreign equity in construction and transport services. In the computer services sector, larger contributions of foreign equity may be permitted, such as when the Ministry of Communication and Information Technology determines that such services are an integral part of a larger business model and will add value to the country. With courier services, some cases require special authorization from the Egyptian National Postal Organization (ENPO). Egypt restricts the employment of non-nationals to 10 percent of the personnel employed by a company. Limitations on foreign management also apply to computer-related services (60 percent of top-level management should be Egyptian after three years of the start up date of the venture). Restrictions on the acquisition of land by foreigners for commercial purposes were amended in 2002 to allow the acquisition of land by non-Egyptians under certain criteria and procedures.

Insurance

State-owned insurance firms dominate the Egyptian market. Foreign firms may own up to 100 percent of Egyptian private insurance firms, although the market remains closed to foreign intermediaries. There are currently at least six foreign insurance companies operating in the market. There are eleven private sector insurance companies, three of which are joint ventures with U.S. firms. The state-owned Egyptian Reinsurance Company (Egypt Re) is the only registered company in the reinsurance market. Direct insurers were required by law to make compulsory cessions to Egypt Re, although this requirement has been progressively reduced since 1999 and replaced by voluntary cessions. Since Egypt is a member of the African Union, direct insurers are also required to cede 5 percent of their reinsurance business to Africa Re**.**

The Egyptian market remains small and underdeveloped due to many factors including excessive premium taxes. The market remains dominated by the four state-owned insurance companies that controlled over 75 percent of the non-life insurance market and 56.2 percent of the life insurance market in 2004. In 2005, the Ministry of Investment commissioned an international consortium to restructure its four state-owned insurance companies, opening the way for their privatization. The ministry has selected a consortium of the Paris-based BNP-Paribas, Egypt's Commercial International Bank (CIB) and the New York-based insurance consulting firm Milliman and Ernst & Young to oversee the process. The "privatization team" continues to work on a privatization plan for one or more of the state-owned insurance companies. The consortium submitted a final Diagnostic and Valuation report for the four companies in December 2006. The report of Restructuring and Possible Execution of Privatization Scenarios is expected to be finalized by March 2007**.** Senior insurance officials are predicting the first privatization to take place by mid-2007 and the growing inclination among the policy makers is to restructure and privatize all four.

Banking

There are currently 39 banks in Egypt. Egypt does not limit foreign equity participation in local banks. Several foreign banks have majority shares in Egyptian banks, while other foreign banks are registered as branches of the parent bank (rather than subsidiaries). Foreign banks can conduct all banking activities in Egypt. New foreign banking entrants face barriers, however. Because the government believes there are too many banks in Egypt, it has not issued a new banking license in at least ten years and it plans in the next five years to reduce the number of banks in Egypt to 21. As a result, the only way a foreign bank can enter the market in Egypt is to purchase an existing bank.

In 2002, the Central Bank of Egypt (CBE) required that banks raise their capital adequacy ratios to meet Basel II standards. Six banks failed to achieve the new threshold’s June 2005 deadline to meet the capital increase or complete subsequent procedures such as merging with larger institutions. Although the government had advocated the merger of some smaller banks since early 2001, progress has been slow. As of the end of 2005, 11 small banks had been merged into larger banks and the Central Bank had begun legal procedures to liquidate branches of three foreign banks that had not met the capital requirement. The GOE has also been proceeding with plans to divest its shares in joint venture banks. To date, the public sector has divested its shares in eight joint venture banks.

Egypt limits the issuance of licenses for financial institutions to moderate competitive shocks in this sector. The United States views licensing restrictions on U.S. financial institutions as a serious concern.

Progress has been slow in the government's plans to restructure the four state-owned banks that control over 50 percent of the banking sector's total assets. In 2004, the government appointed new, western-trained senior management teams for the four banks. In October 2006, after a lengthy process, the first public bank – Bank of Alexandria – was privatized through a multiple round auction that concluded with the sale of 80 percent of the Bank’s shares to the Italian bank, Sanpaolo IMI. Downsizing and privatization should strengthen Egypt's banking sector and improve implementation of market-based financial operations.

Securities

Egypt's WTO financial services commitment in the securities sector provides for unrestricted market access and national treatment for foreign companies. International investors operate in the Egyptian stock market largely without restriction. Several foreign brokers, including U.S. and European firms, have established or purchased stakes in brokerage companies. In 2002, the Minister of Finance established the Primary Dealers System, which began operations in 2004. The system allows financial institutions registered with the Ministry of Finance, currently including 13 banks, to underwrite primary issues of government securities and to activate trading in the secondary market through the sale, purchase, and repurchase of government securities. The government is using the primary dealers system to manage its public debt, secure non-CBE financing, and create a market-based yield curve for public debt.

Telecommunications

Telecommunications services have expanded rapidly in the past four years as the sector has been liberalized and opened to international competition. The impetus for the liberalization came from Egypt's 2002 accession to the WTO Basic Telecommunications Agreement and, in 2003, to the WTO Information Technology Agreement. These agreements required the liberalization of telecommunication services, full autonomy of the National Telecommunications Regulatory Authority by 2006, and the phasing out of tariffs on all information technology imports from WTO Members.

In 2003, Egypt's parliament approved a new telecommunications law that established the framework for the government to meet these commitments. More progress, however, is needed in establishing full autonomy for the National Telecommunication Regulatory Authority. The 2003 law provided for the termination of Telecom Egypt's monopoly of domestic and international telephone service by January 2006. Domestic service is now open to competition. Steps are underway to implement the 2003 law for international service, but the government has not yet issued licenses for new operators. The United States is concerned by reports that only one additional license will be issued for an international gateway service. Limiting international gateway services to a single provider would limit competition and undermine Egypt’s commitment to fully liberalize this sector.

The GOE began divesting state ownership of Telecom Egypt in 2005 by privatizing 20 percent of its assets. Yet the continued presence of Ministry of Communication and Information Technology officials on Telecom Egypt’s Board of Directors raises concerns regarding Egypt’s commitment to liberalize this sector. International firms actively participate in Internet and cellular services and are eligible to bid on licenses for new telecommunications services and for contracts offered by Telecom Egypt to modernize its networks and switching equipment. Telecom Egypt has sought foreign participation in the management and operation of the national telecommunications grid, although no agreements have yet been signed.

In the cellular service market, which currently consists of two private GSM operators, the government awarded a third license through a public tender in July 2006. The license stipulates that the winner employ neutral second- or third-generation technology (either GSM or CDMA). The GOE has set the second quarter of 2007 as the target date for the third mobile company to be fully operational.

More progress, however, is needed in establishing full autonomy for the National Telecommunication Regulatory Authority. There continue to be complaints that Egypt is stifling competition in favor of

Telecom Egypt by not licensing companies seeking to provide Voice over Internet Protocol (VOIP) in Egypt. In addition, Telecom Egypt has been slow in negotiating interconnection arrangements and international gateway accessibility with carriers. Though a previous complaint on this VOIP issue has been resolved, the lack of a Reference Interconnection Offer by Telecom Egypt continues to introduce delays for carriers seeking interconnection.

Transportation

Maritime and air transportation services are being liberalized. The GOE's monopoly on maritime transport ended in 1998, and the private sector now conducts most maritime activities, including loading, supplying, ship repair, and, increasingly, container handling. There are two privately-owned and operated Egyptian ports, Ain Sukhna and East Port Said. Egypt Air's monopoly on carrying passengers has been curtailed, and several privately-owned airlines operate regularly scheduled domestic flights and international charter services, although the national carrier remains the dominant player. The U.S. Air Transport Agreement with Egypt was concluded in 1964 and has been changed only twice in the past 37 years. In 1991, a security article was added. In 1997, the two countries agreed to amend the agreement with the addition of limited cooperative marketing arrangements – some of which increased routing and operational flexibility – and a safety article. The agreement remains very restrictive with no provisions on charter services. Private and foreign air carriers may not operate charter flights to and from Cairo without the approval of the national carrier, Egypt Air. U.S. and Egyptian officials held a digital video conference on December 12, 2006 to discuss the possibility of concluding an Open-Skies air services agreement to replace the 1964 agreement. Both sides agreed to maintain contact and exchange views to move the process forward.

Other Services

Egypt maintains several other barriers to the provision of certain services by U.S. and other foreign firms. Foreign motion pictures are subject to a screen quota and distributors may import only five prints of any foreign film. The GOE applies to private express mail operators a postal agency fee of 10 percent of annual revenue from shipments under 20 kilos, a fee that negatively affects their competitiveness.

Shipments over 20 kilos are treated as freight and are not subject to the 10 percent fee. According to the Egyptian labor law, foreigners cannot be employed as export and import customs clearance officers or tourist guides.

INVESTMENT BARRIERS

Under the 1992 United States-Egypt Bilateral Investment Treaty (BIT), Egypt committed to maintaining the critical elements of an open investment regime, including national and most-favored nation (MFN) treatment (with exceptions specified in the treaty), the right to make financial transfers freely and promptly, and international law standards for expropriation and compensation. The BIT also provides for binding international arbitration of certain disputes between a treaty party and an investor of the other party.

An income tax law passed by the Egyptian Parliament in 2005 reduced and simplified tax rates on corporate profits and personal income. The corporate tax rate was reduced from 42 percent to 20 percent (but maintained at 40.55 percent for oil companies). The new legislation also eliminated all previous exemptions and tax holidays. The law included provisions to expand the tax base, including incentives aimed at encouraging individuals and companies in the informal sector to legalize their status. The Investment Incentives Law No.8 of 1997 was extensively amended in 2005, in conformance with the new income tax law. The preferences and incentives that had been offered to new investors in priority sectors, such as agriculture, housing, transportation, petroleum, and computer software, were eliminated. The amendments, however, allow for limited exceptions to be made for multinational firms or other large investors, subject to approval by the Prime Minister. Investment incentives granted to investors before the law was amended continue under a "grandfather" clause.

ANTICOMPETITIVE PRACTICES

Egyptian antitrust law focuses on preventing intentionally unfair or abusive practices such as lowering prices to the detriment of smaller competitors or limiting supply to the market to the detriment of consumers. According to the law, a company holding 25 percent or more market share of a given sector may be subject to investigation if suspected of illegal or unfair market practices. Penalties for companies found to have engaged in monopolistic practices range from LE13,000($2,260) to LE10 million($1.7 million). The law is implemented by an independent governmental body, the Egyptian Competition Authority, which reports to the Prime Minister and is funded by direct government appropriations and/or donations from professional or academic bodies. However, the law will not apply to utilities and infrastructure projects, such as water supply, sewage, electricity, telecommunications, transportation and natural gas. The executive regulations of the law were issued in 2005 by Prime Ministerial decree.

ELECTRONIC COMMERCE

Egypt's Electronic Signature Law 15 of 2004 established the Information Technology Industry Development Authority (ITIDA) to act as the E-signature regulatory authority. The executive regulations of this law were issued in 2005.

ITIDA's first mandate is to build and operate the Root Certificate Authority (Root CA). This Root CA will be the trust anchor for all relying parties within that domain. Furthermore, the Root CA will issue digital certificates to subordinate Certificate Service Providers (CSP) to provide the proper infrastructure for the use of E-Signature in Egypt. ITIDA's second mandate is to license a limited number of CSPs to issue digital certificates and corresponding electronic signatures for citizens and private sector companies' clients.

In July 2006, four certificate authorities were granted their licenses to verify e-signatures. In addition, the RFP for the establishment of "Root Certificate Authority" and "Government Certificate Authority" were issued in 2006 and currently ITIDA is in the process of evaluating the submitted proposals. (Website: www.itida.gov.eg)

Egypt is currently preparing a draft act for information security and cyber crime.

The Ministry of Administrative Development is taking a leading role in implementing an E-government program, which will have social and economic impacts. It will help in rendering effortless services to citizens, cut down on government expenditures on procurement, increase its purchase of information technology hardware and software, and promote Electronic commerce.
(Website: http://www.ad.gov.eg/english/default.aspx)

OTHER BARRIERS

Pharmaceutical Price Controls

The Egyptian government controls prices in the pharmaceutical sector and does not have a transparent mechanism for pharmaceutical pricing. The Ministry of Health (MOH) reviews prices of various pharmaceutical products and negotiates with companies to adjust prices of pharmaceuticals based on nontransparent criteria. The Ministry of Health has not allowed pharmaceutical prices to adjust completely to compensate for inflation and depreciation of the Egyptian pound since 2000. For example, although the Egyptian pound has fallen 40 percent in value against the U.S. dollar since 2000, the government has granted price increases for only some pharmaceutical products. Because both domestic and foreign pharmaceutical companies rely heavily on imported inputs, profitability has dropped sharply and some companies claim to be operating at a loss. In 2004, the government cut customs duties on most imports of pharmaceutical inputs and products from 10 percent to 2 percent. The government claims this step allowed local pharmaceutical companies to compensate for some of their losses from the depreciation of the pound in recent years. Also in 2004, the Ministry of Health lifted restrictions on exporting pharmaceuticals to encourage pharmaceutical investment and exports and announced its intention to create a fund to stabilize prices of local pharmaceutical products. Further details about the fund's operations are not available. During 2005, the government approved price increases on select foreign and domestic pharmaceutical products.

Export Restrictions

In 2004, the Ministry of Agriculture removed restrictions on long and medium-long staple cotton which had been imposed to make varieties more available for local mills. The Minister of Foreign Trade and Industry then announced that all types of cotton would be available for exporting in the 2004/2005 season and that the government would not interfere in cotton pricing. However, the U.S. Government continues to have concerns about Egypt's Alexandria Cotton Exporters' Association (ALCOTEXA), which controls all cotton export pricing and policies.