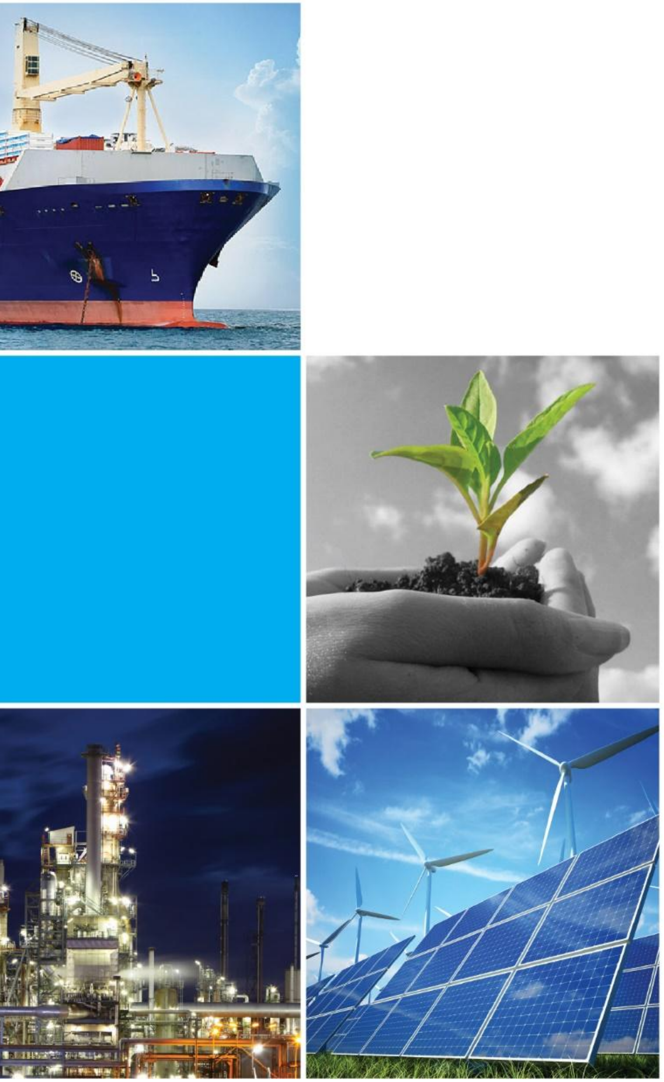
GROWING BUSINESS
THROUGH REGULATION

N Gage Trade Report

Quarter 2-2016



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Abstract

The Foreign Trade Quarterly report acts as a monitor of foreign trade being a fundamentally important aspect that directly impacts Egypt's economic map , by providing an insightful update on emerging issues concerning trade such as changes in foreign trade regulations that may impact the different business sectors. This issue features several sections including latest foreign trade regulations and free trade agreements news.

The Foreign Trade Quarterly Report introduces new trade terms as part of its 'Trade Dictionary', as well as reviews a different trade agreement each quarter, with this issue focusing on the Egypt-Turkey Agreement. This edition of the trade report also includes an assessment of the potential impact of the BREXIT on Egypt.

The report also identifies and analyzes the latest foreign trade statistics, with a special focus on the Egyptian agricultural exports to the world, Turkey, the COMESA, PAFTA, EU, EFTA, and Aghadir member states.

TEST NEWS

Foreign Trade Regulations

- Decree 43/2016 on the registration of exporting factories to Egypt remains in force despite international pressure on the Egyptian government to withdraw it. In the latest technical Barriers to Trade (TBT) Committee meeting under the WTO, 11 countries have officially voiced their concerns to Egypt's representative, indicating that the latest ministerial decree explicitly stands against Egypt's commitments under the TBT Agreement.

Foreign Trade News

- CAPMAS indicated that Egyptian trade deficit fell by 44% from $35.7 billion in March 2015 to $19.9 in March 2016.

- Latest news on 'Brexit' has caused widespread uncertainty in global markets. **A special report on the impact of this move is attached to the Q2 Trade Report.**

- With talks on the new government budget ending, the new export support program has been finalized by the Ministry of Trade and Industry. The size of the new export support fund stands at EGP 2.5 billion, with additional reserves reaching up to EGP 3.5 billion.

- The General Authority for Investment and Free Zones established the Damietta Furniture City Company with a capital of EGP 5 billion and an issued capital of EGP 521 million. The governorate will own 40% of the company's shares (the land value), the Arab Investment Bank 40%, Ayadi Company for Development and Investment 15%, and the Trade and Industry Ministry's General Authority for the Execution of Manufacturing and Mining projects 5%.

- Sudan revokes customs tariff exemptions provided by COMESA to Egyptian exporters with no clear explanation to that move.

- An Egyptian-Ugandan Trade Commission is intended to be formed by the end of the year as a bilateral initiative to boost the relations and the economic cooperation between both countries. This takes place after Uganda expressed their interest in establishing an Egyptian Industrial Zone in Uganda.

- Tarek Kabil, Minister of Trade and Industry, is planning to travel to Russia during July to resume the free trade talks with Russia to forge a cooperation between the Egyptian and the Eurasian Economic Union, which includes Russia, Belarus, Kazakhstan and Armen. Kabil is expected to meet different key companies in Russia to promote trade with and investment in Egypt.

FREE TRADE AGEEMENTS

What you need to know about the Turkey Free Trade Agreement

- The Free Trade Agreement (FTA) between Egypt and Turkey was signed on 27 December 2005 in Cairo and entered into force on the 1st of March 2007. The two parties will establish a free trade area between them over a transitional period of no more than twelve years of FTA's date of entry into force, according to the provisions of the FTA and in line with Article 24 of the GATT 1994 and other multilateral agreements for trade in goods annexed to the convention establishing the World Trade Organization.

- Customs duties applied by Turkey on industrial goods from Egypt have been abolished by the entry force date of the agreement. However customs duties applied by Egypt on Turkish industrial goods shall be gradually abolished until 1st of January 2020. Turkish goods liberated from Egyptian customs are listed in accordance with the four lists that are identical to the import lists in the Egyptian-European partnership agreement and the same commodities included in the lists of the European Union, presented as follows:

    1) **Raw Materials:** Reduction of tariff started since the first year of force entry and full exemption by the third year (currently at 0% tariff rate)
    2) **Intermediate goods:** Reduction of customs since the first year of force entry and full exemption by the ninth year (currently at 0% tariff rate)
    3) **Finished Good:** Reduction of customs started since fifth year of force entry and full exemption by the twelfth year (tariffs are currently reduced by 85%)
    4) **Cars:** Reduction of customs since the sixth year after force entry and full exemption by the fifteenth year (tariffs are currently reduced by 60%)

TRADE DICTIONARY

Rules of Origin

- This is a tool used to determine the origin country of products for international trade purposes. These rules are set to govern the amount of local inputs embedded in the production process and therefore to decide if it is eligible to receive a Certificate of Origin from a country, which in turn allows an exporter to make use of a given FTA. Note that the rules of origin differ for every FTA and may also differ from one set of products to another.

- The Certificate of Origin is a document which declares that a certain exporter attests the country of origin for their product. In Egypt, GOEIC is the entity responsible for issuing the preferential certificate of origin.

- There are two common types of preferential rules of origin depending upon application:

    - **Wholly obtained**: this indicates that a product is fully produced domestically and it is mainly applied for: mineral products extracted from the territory of the member state or from the bottom of the seas, agricultural products that have been or pounds harvested within the state and live animals born and raised within the state.

- **Substantial transformation:** under this type, there are three methods of calculation/assessment and they are:
  - *Change in the Tariff head (HS Code):* If there was enough substantial change that required change in the HS code of the product.
  - *Value Added (Ad Valorem):* It differs from one FTA to another, but it states the amount of local inputs used in manufacturing this product, including local electricity, raw materials, labor.
  - *Specific processing:* This method indicates that in order for a product to be eligible to a certificate of origin, the production process must start from a well defined task.

FOREIGN TRADE STATISTICS (MILLION USD)

	2010	2011	2012	2013	2014	2015
			Arab States			
Trade balance	2617	984	-405	538	-502	-1288
Exports	8836	9000	8885	9313	9392	7998
Imports	6217	8016	9290	8775	9894	9286
			COMESA			
Trade balance	1530	766	1570	1658	1292	1075
Exports	2492	1672	2481	2385	1985	1669
Imports	962	906	910	727	693	594
			Aghadir			
Trade balance	53	56	181	162	212	543
Exports	88	96	256	218	303	1047
Imports	34	40	74	56	92	504
			EU			
Trade balance	-8736	-846	-1223	-1316	-1430	-18091

Exports	8358	9678	7832	8072	7886	5890
Imports	17094	18141	20059	21231	22188	23981
			EFTA			
Trade balance	-224	-620	-511	-1285	-1037	-727
Exports	425	284	354	119	47	235
Imports	648	904	865	1404	1084	962
			Turkey			
Trade balance	-851	-1107	1823	-885	-1383	-2074
Exports	1033	1528	1558	1741	1449	1233
Imports	1884	2635	3381	2626	2832	3307
			World			
Trade balance	-24844	-60652	-39355	-28549	-44173	-53024
Exports	28111	31567	29275	28717	26799	21345
Imports	52955	62219	68630	57266	70972	74369

A FOCUS ON THE AGRICULTURAL SECTOR (MILLION USD)

	2010	2011	2012	2013	2014	2015
			Arab States			
Exports	1247.57	971.46	998.89	1282.48	1307.46	1323.54
Imports	301.61	163.59	193.18	264.36	147.80	167.82
			COMESA			
Exports	243.24	76.86	162.38	208.67	170.35	106.76
Imports	42.53	29.52	23.31	61.38	42.24	13.77
			Aghadir			
Exports	90.97	95.50	96.17	128.38	155.21	129.33
Imports	14.09	6.65	3.51	2.94	4.22	7.89
			EU			
Exports	959.82	993.58	908.76	1027.77	1011.73	922.84
Imports	1052.35	1095.27	974.72	1493.71	1801.57	1781.61
			EFTA			
Exports	15.65	23.67	18.25	22.99	22.69	19.51

Imports	155.49	204.25	194.71	176.70	155.05	190.83

THE POTENTIAL IMPACT OF BREXIT ON EGYPT

- On June 23rd 2016, a referendum was held in Britain on whether the country should continue being an EU member. The referendum turnout was 71.8%, with more than 30 million people voting and this was the highest turnout in a UK-wide vote since the 1992 general elections. Votes to leave out-ruled the opposition by 52% to 48%.

- Brexit has not been the only, but rather latest development in the conflicted relationship between the UK and the EU that has played out over the past 50 years. While the UK joined the European Community in 1973, a referendum was held in 1975 asking the following: “Do you think the UK should stay in the European Community (Common Market)?” The 67% “Yes” vote included most of the UK’s 68 administrative counties, regions and Northern Ireland, while only Shetland and Western Isles voted “No.”

- Later when the EU was officially established in 1993 in accordance with the Maastricht Treaty, Labour Prime Minister Tony Blair, who won a landslide victory in 1997, was strongly pro-European Union, and worked to rebuild ties with the rest of Europe while in office. In 2002, the Euro was introduced; yet, Britain refused to adopt it as its new currency.

- In the interests of protecting Britain’s financial sector, David Cameron became the first UK prime minister to veto a EU treaty in 2011. In 2013, Cameron promised to negotiate membership in the EU if his Conservative Party won a majority in the next general election. At the same time, support was growing among British voters for the UK Independence Party (UKIP) and its hard line stance against the EU.

- On February 20th 2016 David Cameron, Britain's prime minister, set June 23rd of 2016 as the date for a referendum on the country's membership of the European Union. His announcement followed a protracted renegotiation of the current conditions of Britain's membership at a summit in Brussels.

- The position of different stakeholder can be described as follows:

Vote Stay campaign led by the Prime Minister with the support of Jeremy Corbyn, the Labor Party Leader.	Vote Leave lead by Nigel Farage the Leader of the UK Independence Party, Michael Gove, Secretary of Justice, Boris Johnson, London Mayor
• Britain will avoid large exports tariffs, provided that 45% of these exports go to the EU. • Britain pays the EU 340 GBP per household annually compared to around 3000 GBP yearly benefit as a result of EU membership. • Leaving the EU does not directly result in reduced immigration.	• The UK can negotiate a new agreement with the EU without being bound to EU laws. • Britain can stop sending 350 million GBP to Brussels on a weekly basis and this money can be spent on schools, hospitals and supporting domestic industries. • Leaving the EU will allow the country to regain control over areas like employment law as well as health and safety measures

- **The immediate results of the UK exiting the EU are:**
  - The resignation of Prime Minister David Cameron.
  - The pound fell to its lowest since 1985
  - The depletion of the country's stock market.
  - Calls of independence from the UK emerged in Scotland especially that the Scottish voted to stay in the European Union

- **The BREXIT Process:**
  - The UK's withdrawal from the EU would mean unraveling all the rights and obligations – from access to the Single Market, to structural funds for poorer regions, to joint action on sanctions – that the UK has acquired both during their accession to the EU and over their 40 year membership. As well as negotiating its withdrawal, the UK would also want to negotiate its post-exit arrangements with the EU.

  - A country that requests to exit from the EU must invoke article 50 in the Lisbon treaty. The article sets a two-year deadline for this process, which can be extended only by unanimous agreement of all 27 countries. Under Article 50 it is for the other 27 countries to decide, by majority vote and without British participation, the terms of Britain's exit. The agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. If no deal is agreed upon during that time, Britain would cease to be an EU member and revert to trading with the EU on normal World Trade Organization rules.

- Egypt-UK trade relations are mainly managed through the Egypt-EU FTA. In accordance with this FTA, rules of origin are dictated through EURO-1 (which applies when trade occurs between Egypt and another EU country) and the EURO-MED Partnership (which allows for diagonal accumulation of origin between Egypt, Turkey, Aghadir member states, EU member states and also EFTA member states).

- In light of article 50 of the Lisbon Treaty, the process of the UK exiting the EU should manifest within two years once the UK notifies the EU Council of its request. During this period, negotiations are expected to take place in order to outline the future of UK-EU relations. It is likely that the UK will lead on aggressive negotiations to have a duty-free market access deal to the European market; nevertheless, the attitude of other member states towards the new arrangements is not yet clear.

- The Egypt-EU FTA is constituted between three different entities, namely, Egypt, the EU as a whole and each member state separately. This means that even if a member state decides to leave the EU, then it still remains bound to the provisions of the FTA vis-à-vis Egypt, unless it requests to withdraw from the FTA. Note, however, that this FTA focuses on three sets of products which are: industrial goods, agricultural goods and processed agricultural goods. The schedule of tariff cuts on industrial goods is likely to remain unchanged and will end by 2019.

- Nevertheless, provided that agricultural and processed agricultural goods are subject to quantitative quotas, further negotiations between Egypt and the UK can possibly occur on how and if these quotas will be redistributed between the EU and the UK separately.

THANK YOU

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