

# GROWING BUSINESS THROUGH REGULATION

## TRADE REPORT



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## Abstract

The Foreign Trade Quarterly report acts as a surveillance of foreign trade being a fundamentally important aspect of focus, 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, a brief analysis of the World Trade Organization's (WTO) 9th Ministerial Meeting results which took place in Bali in 2013, as well as the rising tensions that are on the verge of intensifying between the developed and the less developed nations, concerning the commitment to the Doha Development Debates (DDA).

The Foreign Trade Quarterly Report introduces new trade terms as part of its 'Trade Dictionary', and reviews a different trade agreement each quarter, with this issue focusing on the Egypt-EU Agreement in light of the latest tranche coming into force earlier this year.

The report also identifies and analyzes the latest foreign trade statistics, with a special focus on the Egyptian Food and Industry sector's exports to the world, Turkey, COMESA, PAFTA, EU, EFTA, and Agadir states.

## Latest News

### FOREIGN TRADE REGULATIONS

The Ministerial decree No. 43/2016 amendment of 992/2015 was issued to create a record of the General Organization of Export and Import Control (GOEIC) to register foreign factories that export to Egypt. The decree allows company owners of trademarks to register their firm along with foreign factories as well. After the implementation of this decree, only products that come from companies registered at the GOEIC will be allowed to enter the domestic market.

The process of registration is explained as follows: legal representative or trademark owners are to submit a registration application plus a copy of the factory's license. A certificate of the company's legal status and products as well as their trademarks must also be provided. The decree has also stated that the registering companies are obliged to provide certificates proving their implementation of quality control of emissions, commitments to following the International Labor Organization's standards of labor rights, and an approval of inspection by the governmental technical team to ensure safety standards are being followed. All mentioned documents and certifications must be issued by agencies recognized by the International Laboratory Accreditation Cooperation (ILAC), or a government entity, or foreign entity approved by

the ministry.

The decree is expected to lower the Egyptian import bill by 25% in 2016 with a total of \$20 billion down from \$80 billion. Importers have defied this decree by stating that it violates WTO rules, nevertheless, the government argues that this will only affect luxury goods and will be in favor of essential ones.

### FOREIGN TRADE NEWS

- Minister of Supply Khaled Hanafy has proposed the creation of a strategic alliance with Cyprus in order to increase bilateral trade between the two countries. The focus on products to export was mainly food related including frozen vegetables and processed foods.
- Data from CAPMAS has shown that Egyptian trade deficit has fallen by 22% in September 2015. Though this is not a direct effect on increasing imports, which have in fact increased by 25%, total exports during the same period also experienced a significant drop of 23%.
- The end of sanctions on Iran has resulted in a further drop in oil prices. Iran is expected to provide an additional 500,000 barrels of oil to the already over supplied oil export market. Oil prices have already hit their lowest levels in 12

years reaching a price of \$ 27 per barrel. On a side note, although the Egyptian government is still subsidizing oil, expectations show that the state is likely to save around EGP 21 billion on fuel subsidy expenditures as a result of the collapse in oil prices.

### FREE TRADE AGREEMENTS

- Under table four of the EU-Egypt trade agreement which came into force in 2010, European cars will face customs of 60% and further cuts will bring cars of European origin to become duty free by 2019. All products that fall under the 3rd tranche of the agreement have also now been declared duty free.

## Multilateral Issues

### Multilateral Issues

The 10th World Trade Organization (WTO) Ministerial Meeting took place in Nairobi, Kenya from the 15th to the 18th of December 2015. This meeting was considered to be to be held in Africa since the signature of the Marrakech Agreement in 1995. The meeting came with high expectations and tough challenges.

The results of the meeting included securing a decree of flexibility for Net Food Importing Developing Countries

including Egypt within the context of the upcoming negotiations in agriculture at the WTO and also within the context of the ministerial decision related to the competitiveness of exports, which has been issued during the mentioned meeting.

**The ministerial decision included the following points:**

- Developed countries are to cancel all support immediately with some exceptions allowing the removal of subsidies on some products by 30/9/2017 and another set of products (manufactured, dairy, pork and beef) by the end of 2020.
- Developing economies are to remove all subsidies by the end of 2018 with some exceptions that allow the removal of support on a range of products by the end of 2022.
- Provide developing countries the flexibility that allows them to retain the support of Article 9.4 (export promotion and support of internal and external transportation of exports) until the end of 2023. Given that this period maybe extended until 2030 for Net food importing developing countries and least developed economies.

## Notifications by Egypt to WTO Secretariat on Trade Policies Issues

On December 14th 2015, Egypt notified the WTO's Committee on Safeguards that it initiated on December 8th 2015 a safeguard investigation on Polyethylene Terephthalate. The Official Gazette published the notice of initiation by the investigating authority on December 10th of the same year. A safeguard investigation seeks to determine whether increased imports of a product are causing a threat or serious injury to a domestic industry.

## What you need to know about the EU-Egypt Partnership Agreement

- Egypt and the 15 European Union Member States (currently 28) signed a partnership agreement on June 25, 2001, in Brussels to gradually establish a free trade area over a transitional period not to exceed 12 years from the entry into force of the Agreement. New members joining the EU automatically become parties to the agreement.
- The agreement entered into force directly after being signed and it substituted the previous agreement between Egypt and Europe that was signed in 1977. Both parties agreed that the partnership shall remain in effect for an unlimited period of time unless one of the parties decides to terminate it by notifying the other party six months in advance.
- The People's Assembly of Egypt ratified the agreement in 2003 and it was already ratified by the EU parliament prior to that, bringing the partnership into force on January 1st 2004.
- The agreement included industrial, agricultural and processed agricultural products presented as follows:

### A) Industrial Products

In accordance with the Agreement, both parties shall benefit from trade free of all quantitative restrictions and customs duties in line with timeframes and goods set out in the Annexes of the Agreement.<sup>4</sup>

#### o Egyptian Exports

Industrial imports into EU member countries of products originating in Egypt shall be allowed free of customs duties or any other charges having an equivalent effect immediately upon the entry into force of this Agreement.

#### o Egyptian Imports

Industrial imports into Egypt of products originating in the EU member states shall be allowed free of customs duties or any other charges having equivalent effect, and free of quantitative restrictions or any other restriction having an equivalent effect in accordance with the following timeline:

#### Goods in Annex 2:

Customs duties shall be gradually abolished over a period of three years, with an immediate 25% reduction on the date of entry into force of the Agreement, and 25% reductions occurring on an annual basis for three years until duties are completely eliminated.

Annex 2 includes capital goods, machines, some production components, raw materials and inputs with customs duties currently ranging between 1% - 5%.

#### **Goods in Annex 3:**

Customs duties shall be reduced by 10% three years after the date of entry into force of the Agreement, or January 2007, followed by a 15% annual reduction for the next six years. All duties on products listed in Annex 3 shall be eliminated within ten years.

Annex 3 includes intermediate commodities, production inputs, and some investment goods not included in Annex 2, with customs duties ranging between 3% - 5%.

#### **Goods in Annex 4:**

Customs duties shall be reduced by 5% five years after of the entry into force of the Agreement, or January 2009, followed by a reduction of 5% the following year, and then 15% annually for the next six years. All duties will be eliminated within 13 years after the date of entry into force.

Annex 4 includes industrial consumer goods not specified in Annexes 2 and 3.

#### **Goods in Annex 5:**

Customs duties shall be reduced by 10% annually starting six years after the entry into force of the Agreement, or January 2010, with duties completely eliminated within 16 years after entry into force of this Agreement.

Annex 5 primarily includes vehicles.

### **B) Agricultural Products**

#### **a. Egyptian Exports**

The Egypt - EU Agreement increased the number of agricultural imports into the EU market to more than 100 products, from the 25 originally listed in accordance with the 1977 Agreement. Egyptian exports of agricultural products listed in Annex I are subject to immediate implementation as detailed in Protocol 1 of the Agreement.

Egyptian agricultural exports to the EU may be grouped into the following four categories: four categories:

Products subject to quantitative quotas and having specific export seasons (quotas shall be exempted from customs duties). These include cut flowers, potatoes, onions, garlic, cabbage, cauliflower, lettuce, carrots, cucumbers, green beans, cantaloupes, peaches, plums, and strawberries.

- Products subject to quantitative quotas but having no export seasons (tariff exemption within quotas). These include bulbs, tubers, sweet potatoes, pears, fruits, rice, sesame oil, cane honey, peanuts and frozen, canned and dried vegetables.

- Products not subject to quantitative quotas but having export seasons (duty-free within export seasons). These include artichokes, mushrooms, asparagus, sweet peppers, ripe grapes and watermelon.

- Products not subject to quantitative quotas and having no export seasons. These include dates, guava, mango, mandarin oranges, grapefruits, peppers, fennel, aromatic plants, medicines, limes and sweet lemons.

### **b. Egyptian Imports**

Egypt shall reduce or eliminate customs duties imposed on agricultural imports of certain products originating in the EU Member States, including meat, dairy products, vegetables and fruits. However, for some specific products such as soybean oil and apples, customs duties shall be abolished or reduced within agreed quotas. Egyptian imports of EU agricultural products as listed in Annex I, are subject to

immediate implementation as detailed in Protocol 2 of the Agreement.

## **C) Processed Agricultural Products**

### **a. Egyptian Exports**

EU imports of processed agricultural products originating in Egypt shall be subject to partial liberalization in accordance with the following three categories:

- Products not manufactured in Egypt, but mutually exempted by both Parties.
- Products that include both industrial and agricultural components, of which the industrial component enters the EU duty-free but the agricultural component is still subject to applicable tariff duties and/or fees.
- Products that include both industrial and agricultural components, of which the industrial component enters the EU duty-free and the agricultural component is subject to a 30% reduction in charges.

### **b. Egyptian Imports**

Egyptian imports of processed agricultural products listed in Annex I and originating in the EU Member States are subject

to gradual reductions in basic duties in accordance with the following three-table schedule:

Table 1:

Duties will be eliminated two years after the entry into force of the Agreement, or January 2006.

Table 2:

Basic duties shall be subject to the following reductions after the entry into force of the Agreement:

- 5% after second year, or January 2006;
- 10% after the third year, or January 2007; and
- 15% after the fourth year, or January 2008.

Table 3:

Basic duties shall be subject to the following reductions after entry into force of the Agreement:

- 5% after second year, or January 2006;
- 15% after the third year, or January 2007; and
- 25% after the fourth year, or January 2008.

• In addition to the trade provisions, the agreement aimed at benefiting the Egyptian economy at other aspects including:

- Capacity building programs: provides financial and technical aid to boost the Egyptian economy with a sum of 670 million Euros to be divided among the following areas: industrial sector modernization (250 million); health sector reform (110 million); education sector reform (100 million); the Social Fund for Development (155 million); and private sector modernization (55 million).

- Business and Investment: The Agreement will attract EU direct investment in Egypt, that is, the Parties shall ensure the facilitation of capital movement between the EU and Egypt in terms of boosting direct investment.

• **Current EU member states are:** Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

## Trade Dictionary

### ADMINISTRATIVE BARRIERS TO TRADE

Administrative trade barriers fall under the category of Non-Tariff Barriers (NTBs), as red-tape barriers. They are usually a set of administrative or bureaucratic delays that a trading firm goes through at the entrance of products. Administrative trade barriers represent time costs due to uncertainty rather than just the financial ones associated with the costs for maintaining inventory. This is worse for traders as time cost is more valuable than that of the depreciation of goods as shipments are usually synchronized in a timely manner, and thus traders cannot usually afford the time costs imposed by such barriers.

Some examples of the administrative barriers to trade could be:

- Antidumping duties
- Import licensing
- Issues relating to the Rules of Origin
- Lengthy and costly customs clearance procedures
- Additional taxes or other charges
- Issues relating to customs classification

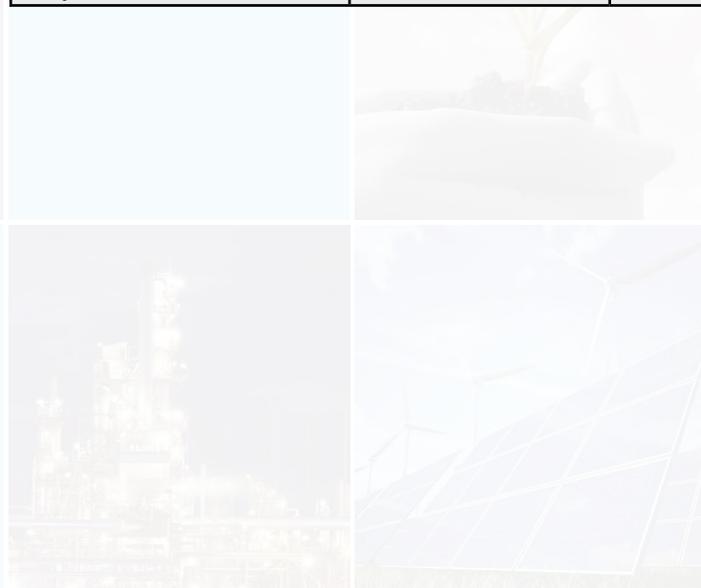
*Source: Hornok, Cecila and Koren Miklos "Welfare effects of administrative barriers to trade"*



## Foreign Trade Statistics (Million USD)

	2010	2011	2012	2013	2014	Jan. -Sep. 2015
<b>Pan Arab Free Trade Agreement</b>						
Trade Balance	2617	984	-405	538	-502	-1068
Exports	8.836	9.000	8.885	9313	9392	5893
Imports	6217	8016	9290	8775	9894	6961
<b>COMESA</b>						
Trade Balance	1530	766	1570	1658	1292	851.8
Exports	2492	1672	2481	2385	1985	1208.8
Imports	962	906	910	727	693	357
<b>Agadir</b>						
Trade Balance	54	56	181	162	212	465
Exports	88	96	256	218	303	778
Imports	34	40	74	56	92	313
<b>Egypt-EU Association Agreement</b>						
Trade Balance	-8736	-8460	-1223	-136	-1430	-11793
Exports	8358	9678	7832	8072	7886	4396
Imports	11070	22188	21231	20059	18141	16189
<b>EFTA</b>						
Trade Balance	-224	-620	-511	-1285	-1037	-513
Exports	425	284	354	119	47	183

Imports	648	904	865	1404	1084	696
<b>Egypt-Turkey FTA Agreement</b>						
Trade Balance	-851	-1107	1823	-885	-1383	-1449
Exports	1033	1528	1558	1741	1449	902
Imports	1884	2635	3381	2626	2832	2351
<b>United States</b>						
Trade Balance	-3205	-4652	-3174	-4024	-4029	-2379
Exports	1745	1819	2003	1179	1128	808
Imports	4950	6471	5177	5203	5157	3187
<b>Egypt and the World</b>						
Trade Balance	-24844	-60652	-39355	-28549	-44173	-35341
Exports	28111	31567	29275	28717	26799	16044
Imports	52955	62219	68630	57266	70972	51385



## FOCUS ON THE FOOD SECTOR

### Egyptian Food Exports to the World (Million USD)

June-September 2015	2014	2013	2012	2011	2010	Value of Egyptian Exports of the Food Industry
<b>Pan Arab Free Trade Agreement</b>						
1.023	1524	1625	1463	1721	1712	
<b>COMESA</b>						
279	409.39	485.57	488.8	989.94	708.69	
<b>Agadir</b>						
117	161	160	206	169	90	
<b>Agadir</b>						
117	161	160	206	169	90	
<b>Egypt-EU Association Agreement</b>						
138	284	239	231	259	207	
<b>EFTA</b>						
1,5	1,5	1,5	2	2	2	
<b>Egypt-Turkey FTA Agreement</b>						
23	19	30	14	19	15	



# THANK YOU

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