TRADE POLICY REVIEW MECHANISM

THE ARAB REPUBLIC OF EGYPT

In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L6490), the initial full report by Egypt is herewith submitted.

NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.
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EXECUTIVE SUMMARY

The major economic policy objectives of Egypt are:

(a) Restoring macroeconomic balances and reducing inflation;

(b) Implementing structural adjustment to stimulate sustainable growth;

(c) Minimizing the effect of economic reform on the vulnerable groups.

To meet such objectives Egypt undertook various measures inter alia:

(i) The development of a market determined economy based on market forces;

(ii) Removal of all undue barriers to economic activities including the elimination of quantitative restrictions related to foreign trade;

(iii) Granting of equal treatment for both public and private sectors including foreign trade activities.

On the macroeconomic front, reforms aim at curtailing inflation, reducing the current-account and budget deficits, improving the efficiency of productive and financial sectors, restoring creditworthiness and bringing about high and sustainable long-term economic growth. The reform of public enterprises aims at increasing economic efficiency through competition, and privatizing and restructuring public enterprises.

Since 1961 Egypt has pursued inward-looking trade policies modelled on import-substitution industrial strategies. A prominent feature of these policies has been the reliance on high protection of domestic economic activity by way of discretionary non-tariff measures and high tariffs. Since 1987, however, significant changes have been introduced under the Economic Reform and structural adjustment programme initiated with the cooperation of the IMF and the World Bank.

A large part of items featuring under "Conditional Prohibitions and Governmental Approvals" has been removed and the rest are expected to be eliminated in the near future. Import and export procedures have been simplified. Furthermore, tariff policies have undergone discernible reforms. The margin between minimum (0.7 per cent) and maximum (160 per cent) rates has been narrowed to between 5 per cent and 100 per cent respectively. Exceptions to this measure are some basic food products and luxury goods. Advance import deposits were eliminated in August 1992.
Industrial and agricultural production protected by import bans, has been reduced, as a proportion of total production, effective last June, from 22.7 per cent to 10.3 per cent.

New incentives for investment have been implemented including simplifying registration forms and granting automatic approvals for all projects except for those contained in a limited negative list which is reviewed annually with the aim of reducing its coverage.

Dismantling of non-tariff measures was associated with selective increase and decrease in import tariffs depending on the degree of manufacturing, i.e. imposing low tariffs on the raw materials and intermediate goods and higher tariffs on the final products. As a result of the agreement concluded with the IMF and the World Bank, the customs duties have been raised across-the-board, rolled back to 1986 tariff rates and the minimum rate has been increased with some exceptions. A waiver has been granted to enable the government to negotiate the bound rates that may be affected by such changes. The government also intends to introduce a system of anti-dumping, countervailing, and safeguard measures which will be in conformity with Egypt's rights and obligations under the GATT.

Reforms, particularly in the area of exchange rates, aim at boosting exports. In this regard, the government seeks to stimulate savings and investment with the view of stepping up production and productivity which, in turn, will increase and restore the competitiveness of Egyptian products and exports.

Substantial earnings of foreign exchange from workers' remittances, Suez Canal dues and tourism have been boosted by liberalizing foreign exchange and interest rates and expanding the transit capacity of the Suez Canal and the tourist industry.
PART ONE: TRADE POLICIES AND PRACTICES

I. TRADE POLICY OBJECTIVES

1. The trade policy of Egypt seeks the achievement of a market-based export oriented growth by adopting a phased programme for the elimination of non-tariff barriers and the phasing out of restrictions in the export sector. In the short term, the policy focuses on phasing out non-tariff barriers and narrowing the range between the lowest and highest import rates. In the medium-term the emphasis would be on eliminating any other remaining non-tariff barriers (except those on grounds of health, national security, public morality and environment), reducing tariff dispersion, phasing out tariff preferences and exonerations, and eliminating any other remaining restrictions on exports.

2. Foreign exchange budgets of public enterprises have been abolished, thus allowing public enterprise managers, for the first time, to import freely in line with profit considerations and on same footing as managers of private companies. The requirement of opening a letter of credit for imports has been eliminated, enabling the importer to select the appropriate means of import finance. This measure removes an important non-tariff barrier that had hitherto discriminated against private sector entrepreneurs.

3. The policy also provides safeguard mechanisms for enterprises experiencing serious difficulties in adapting to freer trade. This mechanism will take the form of raising import tariffs selectively, or adopting import quotas on a temporary basis.

4. In April 1992, the government removed the requirement for investors to submit feasibility studies in industrial sectors. In addition, the investment licensing system has been streamlined to provide for faster approval of investment projects.

5. Achievement of substantial economic growth and improvement in living standards have been the ultimate goal of the government’s economic reform and structural adjustment programme which began in 1986. The main objectives of this programme are: (a) stabilization to restore macroeconomic balance and reduce inflation; (b) structural adjustment to stimulate medium- and long-term growth; and (c) modifications in social policies to minimize the effect of economic reforms on the poor.

6. In the case of domestic price liberalization, the purpose is to increase efficiency by promoting competition and removing distortions in the pricing system. The weighted average of petroleum product prices was increased to about 80 per cent of the internationally traded equivalents effective 28 June 1992. The weighted average of electricity prices was
increased to 69 per cent of LRMC effective 1 July, 1992. In foreign trade liberalization the ultimate aim has been to increase economic efficiency through the promotion of import competition, export rivalry, and the removal of distortions in the incentives system. In the private sector, reform is focused similarly on increasing economic efficiency through the promotion of competition. Specifically, the private sector reform will encourage and facilitate private enterprise development and abolish investment and production controls, dismantle government monopolies, and phase out the discrimination against private sector in the purchase of inputs from public sector companies. In order to minimize the effect of economic reform on the poor, a social fund for development has been established to facilitate the smooth completion of institutional arrangements and also help the reintegration of Egyptian workers returning during the Gulf War and to facilitate labour mobility.

7. The Government of Egypt has additionally taken into consideration a number of elements in the design of the country's economic reform programme. Firstly, there was the danger of inflationary shock, which has been corrected by adopting restrictive fiscal and monetary policies. Secondly, there was the likelihood of a decline in GDP, employment and consumption per capita in the short-term. Thirdly, encouraging the private sector to play a vital rôle in the economy, set up an export-led growth strategy to restore creditworthiness, encourage investment, ensure sustainable growth and to achieve a satisfactory medium-term improvement in welfare.

II. DESCRIPTION OF THE IMPORT AND EXPORT SYSTEM

8. For over thirty years, the Egyptian economy operated behind high tariff and non-tariff protection and the country pursued a complex structure of inward-looking trade policies. By March 1990 when Egypt embarked on the liberalization of foreign trade, 53 per cent of total agricultural and manufacturing output was protected by non-tariff measures. These measures included: (i) import bans; (ii) suspension of letters of credit for imports of certain products, particularly during periods of extreme foreign exchange shortages; and (iii) prior import approval from specific government agencies and ministries. In addition, priority was accorded to public sector enterprises with respect to specific annual foreign exchange quotas over private-sector firms.

9. In May 1991, the requirement of prior government approval for imports was reduced from fifty-five to sixteen products. In August 1992, this was further reduced to nine items only. Over the past two years the production protected by import prohibition has been reduced by 70.7 per cent. In May 1991, only 105 items were still under such prohibition. In August 1992
a further twenty-seven items were liberalized and the remaining seventy-eight items will be removed gradually.

10. In the export sector, trade policy concentrates on the phasing out completely of quantitative export restrictions. In May 1991, the government reduced the number of products covered by: (i) export bans, from twenty to six, and in August 1992 an additional four items were removed; (ii) export quotas, from 17 to 4 and in August 1992 three items were lifted, together with the increase of export quotas by 25 per cent in excess of the agreed upon 15 per cent increase; and (iii) prior government approvals for exports, from thirty-seven items to only one item. In order to further reduce the discrimination against export production, the government has improved the drawback and temporary admission mechanisms for export producers.

III TRADE POLICY FRAMEWORK

A. DOMESTIC LAWS AND REGULATIONS GOVERNING THE APPLICATION OF TRADE POLICIES

11. The Customs Law No. 66/1963 contains general provisions relating to customs duties and rules of origin, customs valuation, administration and procedures including temporary admission, duty drawback and exemptions. The customs tariff - promulgated by Presidential Decree No. 351/1986 - includes both import tariffs and export duties. The most recent changes in tariff rates were implemented through Presidential Decree No. 304/1992.

12. In 1986 a new tariff structure was set up replacing the 1980 tariff structure. In 1989 the exchange rate for custom valuation was reduced to correspond with the then prevailing exchange rate. Accordingly, the customs tariffs were reduced across the board by 30 per cent. According to Egypt's agreement with the IMF and the World Bank and for increasing the revenues to alleviate the budget deficit, there was a return to 1986 tariff rates, besides narrowing down the tariff margin by increasing the minimum rates to 5 per cent and decreasing the maximum rate to 100 per cent with some exceptions from both margins.

13. Law No. 118/1975 in respect of import and export was implemented in accordance with regulations contained in the repealed Ministerial Decision No. 1036/1978, which relate to, inter alia, the privileges enjoyed by some public sector trading entities. Currently this Law is implemented by the import-export executive regulations issued by the Ministerial Decree No. 275 for 1991. These regulations include the main non-tariff measures applying to imports and exports. Annex 1 of the regulations contains a list of conditional import prohibitions. Goods which may be imported under "certain conditions" are specified in Annex 4 of the Import and Export
Regulations. Certain imports, mainly foodstuffs, are subject to quality inspection (Annex 8). Radiation inspection is also required for some agricultural products (Annex 3). Products subject to export prohibitions or export quotas are listed in Annex 6. Non-trade exportation of certain goods is covered in Annex 7. Egypt imposes quality controls on certain exports (Annex 9). The remaining annexes are concerned with importation of goods in second-hand condition (Annex 2), detailed conditions for importation of motor vehicles for private use (Annex 5), import documentation (Annex 10), and an application form for foreign currency (Annex 11). Recently in August 1992, these regulations were amended with the objective of liberalizing imports and exports.

14. Monetary and banking measures for the conduct of barter transactions are specified in Decision No. 276/1991 of the Ministry of Economy and Foreign Trade. Public and private sectors are treated equally in this regard.

15. Law No. 230/1989 - the investment law - includes provisions for investment projects and the entry into and exit of goods from Egypt's free zones. Government procurement is governed by the provisions of Tenders Law No. 9/83 and subsequent amendments. Furthermore, the General Sales Tax Law (Law No. 11/1991) governing tax rates has been amended by Presidential Decree No. 180/1991.

16. Egypt is a signatory to the Tokyo Round Agreements on anti-dumping measures, technical barriers to trade, subsidies and countervailing measures, bovine meat, dairy, import licensing and civil aircraft. These agreements have been incorporated into Egyptian legislation. Although dumping and countervailing provisions have never been used, the authorities are studying ways of establishing procedures concerning imposition of such duties.

B. SUMMARY DESCRIPTION OF THE PROCESS OF TRADE POLICY FORMULATION AND REVIEW, AS WELL AS RESPONSIBILITIES AND INSTITUTIONAL FUNCTIONING OF BODIES PRIMARILY INVOLVED IN THIS PROCESS AND WITH THE ADMINISTRATION OF TRADE POLICIES.

17. Egypt's foreign trade policy encompasses:

(i) Import, export and foreign exchange policies which are formulated by the Ministry of Economy and approved by the Cabinet economic group headed by H.E. the Prime Minister;

(ii) The customs tariff policy which is laid down by the Ministry of Finance in collaboration with the Ministry of Economy and with the consultation of the productive sector.
The implementation of these policies is monitored by the Ministry of Economy.

18. Policy issues are subject to consultations between government and organized interest groups. Trade matters are discussed with the General Federation of Chambers of Commerce, the Federation of Egyptian Industries, the Egyptian Businessmen's Association and the Association of Exporters, Importers and Investors, and others. Consultations regarding the formulation of economic policies are held with other major interest groups including the Egyptian Trade Union Federation, and the Banks Association of Egypt.

19. Trade statistics are issued periodically by the Central Bank of Egypt, the Central Agency for General Mobilization and Statistics, and the Cotton Consolidation Fund and the General Federation of Chambers of Commerce. Other trade information is issued by other agencies such as the Commercial Representation and Export Promotion Centre.

C. MULTILATERAL, REGIONAL, BILATERAL OR PREFERENTIAL TRADING AGREEMENTS, THEIR SCOPE, DURATION, AND GOALS

20. Egypt acceded to the GATT in 1970. Its protocol of accession was approved by Presidential Decree No. 2029 on 5 December 1970. Egypt is a signatory to all the Tokyo Round agreements except the codes on Government Procurement and Customs Valuation, where it maintains an observer status. Egypt accords the most-favoured nation tariff treatment to all GATT members. According to Article VII of the Customs Law, additional taxes may be imposed by Presidential Decree on imports originating in countries that are not members of the GATT. Egypt is a member of a number of commodity agreements negotiated within UNCTAD and participates in the Global System of Trade Preferences among developing countries. Egypt is a member of the 1971 Protocol relating to trade negotiations among developing countries within GATT. Tripartite agreements among Egypt, India and the former Yugoslavia had involved exchange of tariff preferences on 129 items.

21. Egypt has also entered into a number of regional arrangements involving tariff concessions. Egypt, Iraq, Jordan and North Yemen founded the Arab Cooperation Council in early 1989 with the objective of creating a common market and encouraging investment in joint projects. Egypt is a member country of the Arab Common Market established in 1964 by the Arab Economic Unity Council. Tariffs on manufactured goods have, with a few exceptions, been removed.

22. Egypt is involved in over thirty bilateral trade agreements involving tariff concessions. Egypt has a framework agreement with the European Community (EC) by virtue of which the EC accords tariff preferences for
industrial Egyptian products on a non-reciprocal basis. Egyptian exports of industrial products and raw materials generally enjoy free access to the EC except for cotton yarn and certain cotton fabrics which are subject to quotas. Exports of agricultural products not covered by the Common Agricultural Policy (that is, about 70 per cent of Egypt's agricultural exports) also enjoy substantial gradual tariff reductions destined to be exempted by the year 1995/96. Some highly sensitive products are, however, subject to safeguards in the form of reference prices and quotas (e.g. for rice).

IV THE IMPLEMENTATION OF TRADE POLICIES

A. TRENDS AND PROSPECTS OF TRADE POLICY MEASURES

(1) Tariffs

23. The customs tariff currently applied in Egypt was promulgated by Presidential Decree No. 351/1986 dated 21 August 1986. At that time tariffs had been reduced by 50 per cent across the board, and exchange rates devalued by 48 per cent against the US dollar. The number of tariff categories were reduced from forty-three to twelve. Duty rates ranged from 1 per cent (on food imports) to 160 per cent (on cars). Exceptions to the maximum rates were alcoholic beverages which were taxed at rates ranging from 300 to 3,000 per cent.

24. The 1986 Presidential Decree also abolished additional taxes on imports. These covered the statistical tax, economic development duty (at one time 10 per cent ad valorem of import value), Maritime Consolidation duty, and supplementary duty on import and export instituted by the Local Governorate Law No. 43/1979. These taxes had represented about 15-20 per cent surcharge on imports. The tariff reform of 1986 also included tariff rebates to encourage domestic assembly industries.

25. In July 1989, tariffs were further reduced by virtue of Presidential Decree No. 305/1989 to guarantee that the tariff burden did not increase as the exchange rate used for customs valuation purposes changed to the free market rate. This reduction amounted to an average of 30 per cent, with a slightly smaller reduction in the higher tariff categories. Again, by virtue of Presidential Decree No. 178/1991, tariff reductions were rolled back in May 1991. These tariff increases coincided with the lifting of non-tariff restrictions on imports, and the amended rates largely corresponded to the duties established in 1986. With the exception of alcoholic beverages where high tariffs will continue to apply, the range was reduced from 0.7-120 per cent to 5-100 per cent with some exceptions from the minimum and maximum rates.
26. Consistent with its structural adjustment programme, the Egyptian government proposes to narrow further the tariff range. Lower rates will continue to apply to imports of basic foodstuffs while some imported luxury goods will be subject to higher tariffs than the general maximum rates.

(a) Form of Tariff

27. Egypt has a single column tariff based on the Customs Cooperation Council Nomenclature. The four-digit classification is sub-divided into a total of 1,790 separate tariff lines. Moreover, there are plans to adopt the Harmonized Commodity Description and Coding System (HS) in January 1993.

28. All tariffs are ad valorem. Tariff rates imposed on cigarettes and cigars were modified by the Presidential Decree No. 304 of year 1992 to become 85 per cent with a minimum rate of 150 LE, for each net kilo of cigars and 85 per cent with a minimum rate of 100 LE for each net kilo of cigarettes.

(b) Tariff Range

29. Presidential Decree No. 178/1991 establishes ten tariff categories ranging from 5 per cent to 100 per cent. Most tariff lines fall within two distinct bands. The lower band (5 to 30 per cent) covers 71 per cent of the tariff lines, while the higher band (50 to 100 per cent) comprises nearly 26 per cent of the tariff line items.

30. Imports of basic foodstuffs - beans, lentils, wheat, maize, oilseeds, vegetable oils, sugar, baby milk and insulin, antisera, blood derivatives and medicaments attract exceptionally low rates of tariffs. As regards imports of passenger cars and camping vans, tariff rates range from 60 per cent to 160 per cent.

31. For health and religious reasons, high rates of duties are levied on imports of tobacco, tobacco products, and alcoholic beverages.

(c) Tariff Bindings

32. Binding of tariffs is an integral part of Egypt's trade policy. As part of its efforts to liberalize trade and meet the objectives of the Uruguay Round, the government intends to increase the level of bindings.

(d) Tariff Exemptions and Preferences

33. Since 1987, tariff exemptions have been reviewed, streamlined and restructured. The list of tariff preferences specified in the Egyptian customs tariffs had amounted to ninety-six items by March 1990. However,
with the implementation of structural adjustment programme, twenty-seven items have been eliminated from the exemption list. In August 1992 a further thirty-two items were eliminated. Goods destined for defence, national security and armaments are not subject to customs duties. Enterprises involved in tourism and land reclamation pay a 5 per cent tariff on their imports of capital goods. Indeed, Presidential Decree No. 304/1989 stipulates that hotels and tourist establishments may import appliances, machinery and equipment (except passenger cars) subject to duties of 50 per cent of the rates specified in the Customs Tariff provided that the collected duty is not less than 20 per cent of the value of the goods. On equipment, machinery, materials, technical appliances, spare parts and transportation equipment (except passenger cars) imported by the Arab Petroleum Pipe Line Company for the execution and operation of its projects, tariff rates of 1 per cent are imposed.

(i) **Customs Valuation**

34. Egypt is a signatory to the Convention on Brussels Definition of Value.

(ii) **Tariff Quotas**

35. Tariff quotas, in general, are not used in Egypt.

(iii) **Other Levies and Charges**

(a) **Sales Tax**

36. In accordance with Law No. 11/1991 amended by Presidential Decree No. 180/1991, a sales tax was introduced in May 1991 to replace the "consumption tax" that had been in place since 1981. This new tax should narrow the dispersion of tax rates and reduce the incidence of specific rates. Sales tax is applied equally to both local and imported items.

37. All products sold in Egypt are in principle subject to a sales tax of 10 per cent. This tax is not levied on goods and services exported. Similarly certain goods consumed locally - mainly basic foodstuffs, paper products and drugs - are not subject to the sales tax. In the same way, small local producers with an annual turnover of less than LE 54,000 are exempt from registration requirements and payment of the tax.

38. Eleven items are subject to a sales tax of 5 per cent. Deviations from a general rate of 10 per cent apply to some consumer "luxuries" which are taxed at between 20-30 per cent. The rate of sales tax is equally applicable to Egyptian and foreign goods (except for very limited items).
(b) Advance Import Deposits

39. When submitting application forms for financing imports in convertible currencies, the importer was expected to deposit 20 per cent of the value of the imported goods in cash (10 per cent in the case of goods for "productive projects"). Payment was then held by the importer's bank until shipping documents became available. Egypt takes pleasure to inform that, in August 1992, advance import deposits were abolished.

(v) Import Prohibitions and Licensing

40. Egypt's trade policy in the past had been largely geared towards adapting import requirements to the scarce foreign exchange available. A number of tools such as discretionary import licensing and foreign exchange allocations were used for this purpose. In 1986 the discretionary licensing was abolished. Imports were then controlled through two traditional methods: high tariffs and conditional prohibitions. These traditional methods simultaneously served to alleviate the pressure on foreign currency and protect local production. The negative effects of these policies were exposed during the 1986-89 period, and from early 1990 Egypt embarked upon its new ambitious reform and structural adjustment programme whereby 70.7 per cent of items under prohibition were removed by mid-1992 and the remaining 29.3 per cent will be removed in the near future (with some exceptions).

41. The 1986 conditional list of prohibited imports included approximately 548 products (some 210 tariff lines), of which half were non-durable consumer goods. More items were added to the list in 1987 and 1989. These conditional bans affected about 570 products (225 tariff lines) in early 1990. Removal of items from the import prohibition list began in May 1990 following a Ministerial Decree issued on 9 May that year which removed twenty-one items from the negative list. Some 105 commodity groups were affected in May 1991 by the changes in the import system. In August 1992, the government reduced further the import prohibition by twenty-seven items out of 105 items.

42. The "prohibited list" is kept under continuous review with a view to gradually exposing the industries benefiting from protection to import competition. Furthermore, certain banned items may be imported by licensed local manufacturers and assembly lines under the drawback system for processing and re-export, turn-key projects, or by the tourism sector. Returning emigrants may import certain prohibited items e.g. motor vehicles for private use. Import of banned items under such special conditions are allowed on the basis of import licences.

43. Import of certain products including foodstuffs requires prior approval from the regulatory authorities that they conform to the Egyptian
sanitary and phytosanitary standards. The list of products subject to prior import approval was considerably reduced from about eighty tariff lines to forty-seven tariff lines in 1987, but increased to fifty-six items at the end of 1989. Prior approvals were removed for forty-one tariff line items in May 1991, and in August 1992 only nine items remained on this list.

44. Hotels and other projects established under the Tourism Law are expected to obtain approval from the Ministry of Tourism to import needed inputs. Such goods are to be used solely by these establishments and are not to be traded. The arrangement allows tourism establishments to import alcoholic beverages at a unified tariff rate of 300 per cent.

(vi) Standards and Other Technical Requirements

45. The Egyptian Standardization Agency formulates the local standards and the General Authority for Exports and Imports Control enforces both local or international standards in the country. The same standards are applied equally to both local and imported goods. In the case of imports of pharmaceuticals, the responsible Ministry is that of Health.

46. Imports subject to quality control are listed in the import and export regulations. One hundred and fifty one items, mainly foodstuffs, are subject to mandatory quality inspection. Other non-food items subject to inspection include automotive spare parts and durable consumer goods (added to the list in 1989), ceramic tiles, sanitary ware, stainless steel kitchen basins, and certain accessories.

47. Sanitary and phytosanitary regulations apply to imports of various products. Sanitary certificates are required for certain food imports like fresh & canned meat, and plant & plant products. Imported foodstuffs, oils and fats, live animals, seeds, animal feeds, milk substitutes and tobacco are subject to radiation inspection.

(vii) Government Procurement

48. Tenders Law No. 9/1983 regulates procurement by the central government, local government units, public and general organizations. Contracts are concluded under four different procedures - restricted tendering, local tendering, private bargaining, and direct agreement.

(viii) Anti-dumping, Countervailing Measures and Safeguard Actions

49. Egypt does not apply anti-dumping or countervailing duties on imports although provisions exist under Article 8 of the Customs Law and Articles 94 and 95 of the new Import/Export regulations issued in May 1991 that allow such actions. These regulations allow action to be taken when
"certain countries" reduce prices of goods and offer direct or indirect subsidies or apply other means which directly or indirectly depress production. Such cases are initiated by the "foreign trade sector" in coordination with the customs administration and submitted to the Ministry of Economy & Foreign Trade for an appropriate action. Egypt is now, however, considering the establishment of a GATT-consistent system of anti-dumping, countervailing measures, and safeguard actions.

(ix) Free-trade and Export-processing Zones

50. Investment in free zones is regulated by Law No. 230/1989. Six free trade zones, which are currently operational, are located in Nasr City (near Cairo), Alexandria, Port Said, Suez, Ismailia and Damietta. Industries in the free trade zone which are expected to export the bulk of their production are allowed to import their requirements of raw materials, components and parts without the payment of customs duties. They are also exempt from payment of local taxes. If, however, the products are sold in the Egyptian market, they become subject to normal customs duties. Furthermore, in order to meet the expenditure for the maintenance of free trade zones, an annual duty of 1 per cent is charged on the value of goods entering or leaving the free zone.

B EXPORT RESTRICTIONS

(i) Export Taxes, Charges and Levies

51. Export taxes affect nine tariff line items. Charges are also levied on export goods subject to quality inspection e.g. citrus fruits, juices, vegetables (canned, fresh or frozen), syrups, flax fibres and tow, eggs, biscuits, roasted groundnuts and honey.

(ii) Export Prohibitions

52. By May 1991 the number of items subject to export bans had fallen from twenty to six. The share of domestic production covered by export prohibitions accordingly fell from 7 per cent to almost zero. Among the most important changes, Egypt lifted export prohibitions on foodstuffs and fodder. In August 1992 four out of six items were removed from the banned list. The Government intends to remove all remaining export bans before 1993.

(iii) Export Licensing

53. Until May 1991, prior government approval of exports was required for thirty-seven items. Such approvals were granted by various agencies,
including the Ministries of Economy, Supply, Industry, Health, Agriculture and Defence. The authorities have removed the requirement for prior approval for most items, leaving only cotton yarns and fabrics subject to this requirement. Licensing of these items is meant to allocate quotas (agreed to in bilateral agreements in pursuance of the MFA) to different exporters.

(iv) **Export Quotas**

54. Export quotas were lifted for thirteen out of seventeen items in May 1991. The government has removed three out of the remaining four items and increased the annual export quota by 25 per cent for the remaining item. Export approvals are valid for six months from the date of issuance. The validity may be extended by the Head of Customs Administration or his Deputy for shipping purposes up to forty-five days.

(v) **Voluntary Restraint Arrangements**

55. Voluntary restraint arrangements affect exports to the European Community (EC). These have taken the form of observance of EC reference prices, EC import quotas (rice), EC import calendars, and EC safeguard clauses suspending imports of products considered sensitive. Egypt's exports of industrial products and raw materials to the EC are duty free. However, quotas have been established on certain cotton fabrics and cotton yarn.

(vi) **Export Financing**

56. All commercial banks as well as business and investment banks are involved in financing exports. The Export Development Bank of Egypt was established to finance and promote Egyptian exports. The Bank's major shareholder (40 per cent) is the National Investment Bank. Most of the remaining paid-up capital is provided by four public sector Banks, namely, the National Bank of Egypt, Bank Misr, Banque du Caire, and Bank of Alexandria which support exports of traditional goods (cotton, rice and petroleum). The rest of the capital is owned by the private sector. The aim of the Export Development Bank of Egypt is to promote and develop Egyptian exports. Its basic functions are to finance trade, finance and promote export-oriented projects, provide export guarantees and insurance, and service clients' needs for export information.

(vii) **Export Insurance and Guarantees**

57. A new Law No. 21 for 1992 was issued establishing the Export Credit and Guarantee Company. The Export Development Bank of Egypt is the major shareholder while insurance companies and the national investment banks supply the remaining capital. The establishment of such a company received
increased attention following major losses incurred by Egyptian exporters in their trade with Iraq. The bank law stipulates that it has to offer part of its capital to public subscription.

(viii) Export Promotion

A. Export Promotion Centre

58. The Export Promotion Centre was established in 1979 within the framework of the joint programme set up with ITC for the promotion of Egyptian exports. Since then, the Centre has focused its activities on the promotion of non-traditional exports such as ready-made garments and leather products etc. The Centre provides *inter alia*, integrated export services and information concerning export opportunities, specifications, packaging, prices and the sanitary conditions required by the foreign markets. The Centre has a data base on the most important export products and their producers. Law No. 20/1992 was issued granting the Centre more autonomy and permitted the representation of the private business sector in the Centre's board of directors, thus creating the essential flexibility in the management of its various activities.

B. Exhibitions

59. The general authority for international exhibitions and fairs (GAIEF) is the governmental agency responsible for holding fairs and exhibitions. In addition, many private sector companies organize trade fairs and exhibitions, in which a number of Egyptian exporting firms participate. During 1989-90, for example, exhibitions of Egyptian products were organized in several countries of the world. In 1990-91 GAIEF organized 12 public fairs and 9 specialized ones and in 1991-92 it organized 12 public fairs and 16 specialized ones. In 1990-91 GAIEF authorized the private sector to organize 7 public fairs and 10 specialized ones and it authorized it to organize 7 public fairs and 10 specialized ones in 1991-92. It should be noted that the private sector participates in all the fairs organized by GAIEF and the authority encourages the participation of the private sector in the international fairs of Egypt abroad.

C. Trade Representation Department

60. Part of the machinery of the Ministry of Economy and Foreign Trade is our Trade Representation Department. It has around 50 offices abroad which also helps in the promotion of Egyptian exports and as a liaison between Egyptian businessmen and foreign countries.
PART TWO: BACKGROUND OF TRADE POLICIES: WIDER ECONOMIC, AND DEVELOPMENTAL NEEDS AND EXTERNAL ENVIRONMENT

I. WIDER ECONOMIC AND DEVELOPMENTAL NEEDS, POLICIES AND OBJECTIVES

61. Reforms are seen as crucial in achieving sustainable growth in the Egyptian economy and in maintaining a macroeconomic balance. To this end, emphasis in economic policy has been focused on fiscal, exchange rate and foreign trade questions and on increasing the efficiency of productive and financial system. Financial discipline and a market-determined exchange rate are expected to play critical roles in the development of a private-sector-led expansion of domestic savings and non-petroleum exports.

62. In the area of fiscal policy, the ultimate goal has been to:

(i) achieve sustainability in the government's finances; and
(ii) increase further the role of the private sector in the economy.

These two objectives are expected to be achieved in the shortest possible time. A rapid reduction in the budget deficit as a proportion of gross domestic product (GDP) is accordingly envisaged. Under the fiscal programme, budget deficit as a proportion of GDP is to be reduced from 20 per cent in 1988/89 to 7.1 per cent in 1991/92. Such reduction is essentially to be achieved through a combination of cuts in public expenditure, especially subsidies, and revenue-generating measures. Subsidies in free sugar and non-rationed edible oil have been eliminated. A continuous decline in public investment outlays, in favour of private investment, is envisaged, with increasing dependence of public investment on financial markets to meet requirements. This policy is intended not only to allow a substantial reduction in overall fiscal deficit, but also to bring about a gradual increase of private investment in the economy. This has been actually achieved as share of private sector investment in national investment increased from 9 per cent in 1974 to 39 per cent in the five-year plan 1982/83 - 1986/87 and to 45 per cent in the five-year plan 1991/92 - 1996/97.

63. Reductions in the budget deficit are to be achieved through an integrated series of revenue and expenditure measures. Firstly, measures were taken to improve the tax collection system to reduce tax evasion. Furthermore, measures to increase tax revenue entailed, inter alia, the implementation of a comprehensive sales tax, increase in cigarette excise taxes and various increases in local government fees and services taxes. Those measures, and others, participated in boosting total tax revenues.

64. Secondly, on non-tax revenues, a number of diverse measures are considered, e.g. increases in the prices of domestic energy (petroleum,
natural gas, and electricity). Energy prices were increased several times until reaching 80 per cent of the full international price equivalent and are expected to reach full international prices. Similarly prices of electricity were raised several times to reach 69 per cent of its estimated long-run marginal cost, and expected to reach 100 per cent by the end of June 1995.

65. To improve the functioning of the financing sector, a treasury bills market was created. It has resulted in the emergence of a market-based interest rate structure which enabled the government to minimize reliance on Central Bank financing of the budget. This approach to the government's deficit financing, together with other monetary components of the stabilization plan, resulted in a decline in the annual inflation rate from 20 per cent in 1991 to 10 per cent, on an annual basis in 1992. Further decline is expected. It should be noted that a peak of about 30 per cent in the inflation rate was expected during the early stages of the economic reform program.

66. The adjustment process was made possible by the debt relief which included reduction of interest payments. The savings to be realized from additional debt relief are expected to stimulate larger private and public investment and accelerate the adjustment programme.

67. On the interest rate and monetary policies front, the government has: (i) removed all interest rate ceilings affecting deposits and credits; (ii) implemented specific domestic credit expansion ceilings; (iii) eliminated any direct credit-line between the Central Bank of Egypt and the Central government; and (iv) developed a market for treasury bills through auctions administered by the Central Bank. Until the end of 1990, there were nominal ceilings on all interest rates (below inflation rate), and credit rationing intended to curb the ensuing excess demand for credit in the money market. The measures stipulated in the new Banking System Law aim at producing a healthier banking system to boost private savings and provide for more efficient financial intermediations.

68. The issuance of the treasury bills reduced the reliance on Central Bank financing and it would help to activate the capital market. After liberalization, the three-months treasury bills interest rate increased from 14.2 per cent at the beginning of January 1991 to 19.5 per cent at the end of July 1991, then it relatively stabilized and started to decline slightly and gradually from the end of November 1991, reaching 17.6 per cent at the end of August 1992. The Ministry of Finance issued six-months and one-year treasury bills in September 1991 and March 1992 respectively. The one-year and less than two years deposit interest rate was in the range of 12 per cent before the deregulation of interest rates (since 1989). As regards the lending rate for agricultural and industrial sectors, the one-year rate ranged between 13 per cent and 15 per cent. On
the other hand household services sectors rates ranged between 15 per cent to 17 per cent for the same period. With regard to the trade sector the minimum rate was 18 per cent, with no ceiling. After liberalization, and in early 1991 the one-year interest rate increased steadily from 12 per cent until it reached 16 per cent in March 1992. The average lending and discount rate reached 21.3 per cent in August 1991, and then declined to 19.4 per cent in August 1992.

69. In contrast to the previously existing multiple exchange rate system dominated by administrative decisions, Egypt's economic reform program culminated, towards October 1991, in the establishment of a unified market-determined exchange rate. Under the new system, each bank declares its buying and selling rates. Moreover, in order to enhance competitiveness in the foreign exchange market, non-bank dealers have been licensed to operate in that market. To date about 170 licences have been issued and 60 dealers are operating, many with several branches spread over the whole country. Average opening, mid-day and closing rates are regularly published, based on actual market transactions.

70. The reform of the foreign exchange system goes back to mid-1987. A new "Commercial Banks' Free Market" was established to replace the "commercial bank pool" which existed previously. Under the Banks' free market, a special committee (composed of representatives of eight commercial banks) declared the rate against the U.S. dollar every day. All transactions within the Banks' free market had to be implemented at this declared rate. The resources of that market included all visible and invisible foreign exchange receipts with the exception of proceeds of cotton, rice and petroleum export proceeds, Suez Canal dues and official loans and grants. The latter proceeds had to be surrendered to the Central Bank of Egypt at a rate fixed by the Central Bank. At the beginning the Central Bank rate remained unchanged at 70 piastres per U.S. dollar, while the rate in the Banks' free market was allowed to depreciate gradually. Both the private and the public sectors had access to the resources of the Banks' free market. Later, the exchange rate in the Central Bank pool was changed several times at irregular intervals. (On 15 August 1989, the Central bank pool rate changed from L.E. 0.7 = US$1 to L.E. 1.1 = US$1 and was adjusted once more on 1 July 1990 to reach L.E. 2, till the introduction of the new exchange system.) In addition to the Banks' free market and the Central Bank pool, foreign exchange transactions took place outside the banking system at rates determined by supply and demand. In February 1991, in a further step towards reforming the exchange system, a two-tier market was established:-

(a) A "primary market", whose resources consisted of all export proceeds as well as Suez Canal dues and official loans and grants.
(b) A "free market" whose resources consisted of all other foreign exchange (including tourism).

The rate in the free market was determined freely by market forces, whereas the rate in the primary market was not allowed to deviate from the free market rate by more than 5 per cent. This system came to an end in October 1991 with the unification of the exchange rate and the establishment of the Free Foreign Exchange Market as described in the preceding paragraph.

71. Since February 1991, foreign exchange regulations have been considerably liberalized. Both private and public entities have unlimited and unrestricted access to the resources of the free market. Funds acquired through the free market can be transferred abroad through the banking system without restrictions. Moreover, recently, travellers abroad have been allowed to carry unlimited amounts of foreign exchange. Since April 1991 the exchange rate has fluctuated narrowly in the range L.E. 3.29 - 3.32 per US dollar. Exchange rates against other currencies are determined by the cross rates in the international markets, and have shown less stability on account of the changes in the value of the U.S. dollar against other major currencies in recent months.

72. In the financial sector, supervision in the banking system is being strengthened and the prudential regulatory environment for the banks is being reformed. Measures for the latter include: improvements in the measurement and enforcement of capital adequacy; changes in the regulations concerning liquid asset ratios; improvements in the system of loan classification and provisioning; improved handling of interest for doubtful loans and tighter limits on foreign currency exposure.

II THE TRADE POLICY ENVIRONMENT

A. MAJOR TRENDS IN EXPORTS AND IMPORTS

(i) Overview

73. Egypt's exports of merchandise had grown robustly over the 1970-80 period. During the period 1981/82 - 1985/86 exports remained stagnant, then declined sharply to US$2.3 billion in 1986/87, down from US$3.8 billion due to the fall in the value of traditional exports which declined in absolute terms and as a share of the total merchandise exports during 1980/81 - 1990/91. The decline is attributed to the fall in petroleum prices, e.g. in 1981/82 this share was 79 per cent and declined to 55 per cent in 1986/87; it then experienced a further decline to 53 per cent in 1990/91. Petroleum and its products represent the major export item in the Egyptian exports of merchandise. During the period of
the early 1980s it represented about two-thirds of total merchandise exports. The sharp fall in oil prices resulted in a decline of its share in total export revenues and a sharp drop in export value in the late 1980s and early 1990s, varying from 45 to 50 per cent. As import growth was more robust than export growth Egypt's trade balance experienced a deficit throughout the 1980s and early 1990s. This deficit expanded rapidly to reach US$5.8 billion in 1981/82 and US$7.5 billion in 1990/91.

(ii) Exports

74. In the 1960s over 60 per cent of export earnings originated from cotton and other agricultural products. Egypt was the world's largest supplier of premium long and extra long staple cotton. The quality of Egyptian cotton gives Egypt the advantage of being a price maker rather than a price taker for extra long staple cotton. Even though its exports' share of the world cotton market is less than 2 per cent, their share of the world extra long staple cotton market is 26 per cent.

75. Egypt's merchandise exports consist of yarn & textile fabrics, chemicals, metals & metal products, mining & refractories and engineering and electric commodities. The main exported foodcrops are potatoes, citrus, rice, onions, vegetables (frozen or fresh) fruits and medical herbs. Onions and potatoes exported during the winter benefit from the off-season shortages of supply in the world market. Egypt also exports seasonal fruits and vegetables. The share of cotton in total merchandise exports declined from a peak of 11 per cent in 1983/84 to 7 per cent in 1989/90 and to 2 per cent in 1990/91. While traditional merchandise exports showed a downward trend during the said periods, non-traditional exports grew steadily in an upward trend from US$802 million in 1981/82 to 1.8 billion in 1990/91. Non-traditional exports were stagnant in the range of US$850 million in 1981/82 - 1985/86. Then they began to increase from 1986/87 until reaching US$1.8 billion in 1990/91. The share of non-traditional exports in total merchandise exports increased substantially from 20 per cent in 1981/82, to 44 per cent in 1990/91. During the 1980s the share of industrial exports grew significantly from 12 per cent in 1981/82 to 30 per cent in 1990/91 (excluding petroleum). Egypt's exports of merchandise exhibited a strong growth over the period of 1981/82 - 1990/91.

76. On the export side, major trading partners have been the European Community, Afro-Asian countries, the Eastern Europe countries, United States of America, and countries of the Arab League. The share of exports to the European Community (EC - 12) in Egypt's total merchandise exports reached 31.7 per cent in 1990/91. By contrast, the share of exports to Eastern Europe reached 17 per cent in 1990/91. With regard to the Afro-Asian countries excluding Arab countries, the share in 1990/91 was
21.5 per cent. Similarly, this share was 13.6 per cent for the USA and 7.7 per cent for the Arab League countries.

(iii) Imports

77. Egypt's imports have expanded by 16 per cent, i.e. at an average annual rate of 5.4 per cent. During the period 1974 - 1980 there was a sharp and rapid increase of 2.7 fold (from 2.3 billion to 8.6 billion). During the last decade that increase was in the range of 53 per cent. This trend is attributable to several significant factors: increased demand for imports due to a rise in domestic consumption, and the overvaluation of the Egyptian pound. These factors, together with the further opening of the domestic market recently, have made imports grow more steadily.

78. As regards the consumption of imports, the share of food imports was 19 per cent in 1981/82, 23.2 per cent in 1988/89, 20.4 per cent in 1989/90 and 14.2 per cent in 1990/91. The share of intermediate goods reached 22 per cent in 1981/82, 16.3 per cent in 1988/89, 16.9 per cent in 1989/90 and 19.5 per cent in 1990/91. For capital goods, the share was 30 per cent in 1981/82, 31.7 per cent in 1988/89, 33 per cent in 1989/90 and 31 per cent in 1990/91.

79. On the import side, major trading partners are the European Community, United States, other European countries, Afro-Asian countries, Eastern European countries and Arab League member countries. The share of imports from the European Community in Egypt's total merchandise imports has reached 31.8 per cent. The United States, as a single market whose share amounted to 17 per cent, is considered to be one of the most important source of imports due to the impact of the substantial purchases of food. Japan is Egypt's major trading partner in Asia. Trade with Latin American and sub-Saharan Africa is negligible.

B. TRENDS IN EXPORT AND IMPORT UNIT VALUES

80. Import unit values rose at a lower rate than for exports, 13.4 per cent compared with nearly 20 per cent for exports during the 1970-80 period. Over the period 1980-85, import unit values actually declined at an annual average rate of minus 2.1 per cent compared to an average rate of minus 5 per cent for export unit values. The administrative exchange rate for the Egyptian pound against the other foreign currencies until May 1987 resulted in the over-valuation of the Egyptian pound which implied subsidization of imports and bias against exports. Due to the foreign exchange reform initiated in May 1987 and implemented in October 1991 exchange rate is determined according to market forces.
C. IMPORTANT TRENDS IN THE BALANCE OF PAYMENTS, RESERVES, DEBT, EXCHANGE RATES, INTEREST RATES AND OTHER SUCH ISSUES

81. Egypt signed the second standby agreement with the IMF in May 1990 and shortly afterwards with the World Bank for a structural adjustment loan. In early 1991 Egypt began a systematic implementation of the reform programme which entails, inter alia, additional reductions in the budget deficit and unification of the exchange rate and improving the efficiency of the productive and financial sectors. Until 1989/90, the current account experienced a deficit. In 1990/91 a surplus of US$1.4 billion was recorded. In 1991/92 a surplus of US$4.9 billion was estimated. This was made possibly by the favourable trends induced by the economic reform and structural adjustment programme including debt relief. It should be noted that it is too early to judge the sustainability of this surplus since it was brought about by the exceptional increase in exogenous resources. This deficit was the main feature that characterized the current account during the period 1981/82 - 1989/90, although declining since 1986/87. The current account deficit amounted to US$2.3 billion in 1981/82, US$1.5 billion in 1984/85, US$924 million in 1986/87 and finally US$634 million in 1989/90.

82. Egypt has a substantial and chronic deficit in its merchandise trade, the deficit emerged in the 1970s as windfall revenue from petroleum, workers' remittances, tourism and Suez Canal tolls boosted imports. Since 1981/82, however, the trade balance has worsened steadily, expanding from a deficit of US$4.7 billion in 1989/90 to a deficit of US$7.5 billion in 1990/91, reflecting the sluggish growth of exports and the growth of imports at a faster rate than those of exports. The overall balance of payments improved from a deficit of US$931 million in 1983/84 to a surplus of US$2.2 billion during the fiscal year of 1990/91.

83. Total international reserves have increased substantially in the last two years. External debt increased steadily in 1990. Due to debt relief, external debt declined in the end of 1991.

84. Improvements in Egypt's balance of payments position allowed it to move ahead with the unification of the exchange rate for the Egyptian pound in October 1991. The floating of the pound was initially expected to lead to a major depreciation of the currency. Since unification, however, the pound/U.S. dollar exchange rate has stabilized around Egyptian pound 3.3 per dollar. Positive interest rates in Egyptian pound due to the liberalization of interest rate and the control of inflation resulted in an increase of the dedollarization trend in the economy.
D. INTERNATIONAL MACROECONOMIC SITUATION AND MARKET ACCESS

85. World output and trade decelerated in 1991 for the third consecutive year. The recession in North America and slow-down of the economic expansion in Western Europe, as well as the sharp contraction of output in Central and Eastern Europe and the former USSR were the main factors for slower growth in world trade. The consequent slackening of demand in most of the markets for the country's products has adverse effects on exports, which, as already stated, have recorded negative rates of growth in recent years.

86. Widespread international trends towards regional economic blocs and the concomitant surge of trade protectionism impact adversely on Egypt's access to foreign markets.

87. Non-tariff measures of certain countries make it difficult to gain access to their markets, and ipso facto impact directly on exports, reduce revenue from that source and place obstacles in the way of export development and diversification. Non-tariff measures introduced by many industrial countries have so distorted trade that, in addition to impeding access to markets, they have led to a fall in international prices.

88. Egypt plays an active rôle in the GATT, and hopes that a successful conclusion of the Uruguay Round negotiations will strengthen the multilateral trading system, expand world trade, and bring sustained economic growth to the world. As a major net food importer, Egypt has called for new ways to consider the negative effects of the reform programme in agriculture. Egypt also expects improvement in market access for its exports in return for the tremendous steps taken to liberalize its trade régime. Egypt further expects to receive credit for binding its tariffs. Egypt is finally committed to a prompt and a successful conclusion of the Uruguay Round of multilateral trade negotiations.

III. PROBLEMS IN INTERNATIONAL MARKETS

89. Expansion of unilateralism and the tendency toward regionalism have tended to dominate the world trading environment in recent years. These trends cause great concerns and difficulties, particularly to developing countries like Egypt whose economic growth largely depends on a favourable international trading environment. Lacking viable alternatives, developing countries have difficulties coping with unilateralism and regionalism. While unilateralism has the potential of distorting a developing country's own liberalization and restructuring efforts and undermining the multilateral trading system of the GATT, regionalism could spawn serious problems when the arrangements discriminate against non-member countries in the areas of rules of origin, quantitative restrictions, government
procurement standards, safeguard measures and dispute settlement procedures. Egypt believes that regionalism should be reviewed periodically in GATT with the view of guaranteeing that developing countries' trade is not adversely affected.

90. As several Rounds of GATT multilateral trade talks have brought down tariff rates in a systematic manner, non-tariff measures have posed serious threats to the efforts of developing countries to achieve economic growth through expansion of trade. Egypt, for example, faces not only direct quantitative restrictions such as seasonal quotas, export restraints in textiles under the MFA bilateral agreement, and sanitary & phytosanitary restrictions on its export products, but also numerous indirect restrictive measures such as strict import inspection, and complex certification procedures.