Egypt

Investment Climate

Openness to Foreign Investment Return to top

Egypt has experienced profound political changes over the past year. On February 11, 2011, President Hosni Mubarak's 30-year rule came to an end under intense popular pressure as hundreds of thousands of Egyptians converged on Tahrir Square. Transition to democratic rule has been marked by advances and challenges. Egypt has seen several prime ministers and multiple cabinet changes since the revolution, and many investors have reported that the constant shuffle and interim tenure of government officials have contributed to a difficult business environment. Nonetheless, in January 2012 Egypt seated its first parliament elected in free and fair elections, and many of the members have identified increasing foreign investment as a top priority for the government.

Egypt continues to honor its pre-revolution laws, international treaties, and trade agreements. It is party to 111 bilateral investment treaties and is a member of the World Trade Organization (WTO), the Common Market for Eastern and Southern Africa (COMESA), and the Greater Arab Free Trade Area (GAFTA). In most sectors, there is no legal difference between foreign and domestic investors. There are, however, special requirements for foreign investment in particular sectors, such as upstream oil and gas development, where joint ventures are required. There have also been recent legal challenges to privatizations of formerly state-owned enterprises, including sales of state assets from as far back as 1996.

Egypt has devised several schemes intended to attract foreign direct investment into special economic and trade zones. The General Authority for Investment (GAFI) implements Egypt’s policies and procedures to facilitate doing business, including maintaining Egypt’s one-stop shop for investors. GAFI's one-stop shop, which aspires to process approvals for new investments within 72 hours, brings together several of the major government ministries needed to establish a new investment. The Egyptian tax code taxes personal income and corporate profits for both foreigners and nationals at 20% for income below LE 1 million and 25% for income above LE 1 million. According to the World Bank’s Doing Business Index for 2012, Egypt (ranked 110 out of 183 countries) made significant progress prior to the revolution in easing the procedures for opening a business.

Foreign direct investment accounted for less than 25% of all investment in Egypt prior to the revolution and has fallen tremendously since. Significant impediments to investment exist. Following the revolution, Egypt put into place capital transfer restrictions that prevent foreign companies from sending more than $100,000 out of Egypt without a valid commercial purpose, original documentation, and approval by the Central Bank of Egypt. Investors report that it can take several weeks for legitimate transfers to be executed. Labor rules prevent companies from hiring more than 10% non-Egyptians (25% in Free Zones), and foreigners are not allowed to operate sole proprietorships or simple partnerships. The lack of protection of intellectual property rights (IPR) is a major hurdle to direct investment in Egypt, which remains on the U.S. Trade Representative’s Special 301 Watch List for IPR violations. Egypt’s trade regulations prohibit foreigners from acting as importers for trading purposes and allow them to act solely as commercial agents. A foreign company wishing to import for trading purpose must do so through an Egyptian importer.

Although Egypt is a signatory to international arbitration agreements, Egyptian courts do not always recognize foreign judgments. Resolution of any dispute is very slow, with the time to adjudicate a case to completion averaging three to five years. The judicial system is also subject, in some cases, to political influence.

Other obstacles to investment include excessive bureaucracy, a shortage of skilled labor, and limited access to credit, slow and cumbersome customs procedures, and non-tariff trade barriers.

Business Sectors:

Banking

The Central Bank of Egypt has not issued a new commercial banking license since 1979. The only way for a new commercial bank, whether foreign or domestic, to enter the market (except as a representative office) is to purchase an existing bank. As part of its 2004 plan to restructure the banking sector, the government has sold shares in several joint venture banks to foreign banking entities. The first public bank to be partially privatized was the Bank of Alexandria (now AlexBank), which was sold to Sanpaolo Intesa of Italy in 2006. However, the privatization sale is now being challenged in Egyptian court and could be unwound entirely. In 2008, the Central Bank invited bids for a 67% stake in Banque du Caire, but it cancelled the auction when the highest bid came in US$250 million below its target price of US$1.6 billion. In 2009, the Central

Bank announced that it had no plans to privatize the three remaining state-owned banks (Banque Misr, Banque du Caire, National Bank of Egypt), citing poor market conditions. These three banks control at least 40 percent of the banking sector's assets.

Insurance

The government does not issue licenses for new insurance companies. As in the banking sector, foreign firms can only enter the Egyptian insurance market through purchase of a stake in an existing insurance company. In 2006, the now-defunct Ministry of Investment (MOI) began restructuring public insurance companies in preparation for privatization. In September 2007, the companies were merged and placed under an insurance holding company, and real estate assets were stripped out of the companies and transferred to a newly established affiliate, Misr for Real Estate. However, there have been no significant events in this regard since 2007.

Oil and Gas

The petroleum industry is one of the most dynamic industries in Egypt and petroleum production is by far the largest single industrial activity, representing approximately 16 percent of Egypt's GDP. The Egyptian government encourages international oil companies (IOC) to participate in the oil and gas sector, and currently more than fifty IOC are operating in Egypt. The petroleum industry in Egypt is managed by the Ministry of Petroleum, under which four companies function as government agencies. One of these is the Egyptian General Petroleum Corporation (EGPC), which concludes concession agreements in cooperation with IOC in the form of production sharing agreement (PSA). Egypt grants concessions in a specific area through the promulgation of a "special law" by the Egyptian Parliament, which allows the Minister of Petroleum to conclude an agreement between the Egyptian Government on one side and the Egyptian General Petroleum Corporation (EGPC) acting as the concession holder and the foreign oil investor (IOC) acting as a Contractor on the other side. This legislative act gives new agreements supremacy in application over any contrary legislation or regulation. After concluding the agreement, any contractual changes are remedied through amicable adaptation of its provisions or arbitration.

These safeguards were specifically devised to forge trust with foreign investors and improve investment in the petroleum sector. In July 2010, GOE concluded a novel agreement with BP for exploration in the North Alexandria and West Mediterranean deepwater concessions. BP's agreement is unique in that it resembles a service contract, rather than the traditional production-sharing agreement; nevertheless, it is unlikely this new breed of agreement will become the norm. Electricity shortages during August and September 2010 revealed that Egypt's energy sector is not immune to political risk, as domestic pressure mounted to reduce natural gas supplied under export agreements, specifically sales to Israel. 2011 saw a series of attacks against the natural gas pipeline network carrying gas to both Israel and Jordan. These attacks, combined with domestic demand, caused a reduction in those exports for 2011 to 30% of contractual quantities. Public protests have also stalled a major BP deep water natural gas project that was expected to produce 35% of Egypt's domestic needs in the coming five years.

Telecommunications

Telecommunications Law 10 of 2003 stipulated that Telecom Egypt (TE) would relinquish its monopoly status as Egypt's sole domestic fixed-line operator and sole international operator by January 2006 and provided for greater flexibility in selling shares of TE through public offerings. As of January 2012, however, Egypt's Ministry of Communications and Information Technology (MCIT) had still not issued a license for a second fixed-line operator and had no near-term plans to do so. Egypt has issued three mobile phone operator licenses, with the most recent acquired by Etisalat in July 2006 at a cost of US$2.9 billion. Etisalat Egypt, MobiNil, and Vodafone Egypt compete heavily in the mobile telecommunications market, where there are more than 65 million mobile lines. A major focus of these companies will continue to be expansion of data services which is viewed as an area with potentially high profit margins. In January 2012, the National Telecommunication Regulatory Authority announced that it might soon issue a fourth license in the form of a Mobile Virtual Network Operator (MVNO) license to Telecom Egypt under which it could lease and resell capacity from another operator.

Tourism

The tourism sector contributes significantly to Egypt’s GDP and employs one in eight Egyptian workers. The Egyptian revolution decimated the industry, resulting in a sharp drop in tourists (9.5 million in 2011 vs. 14 million in 2010) and revenue ($8.8bn in 2011 vs. $12.5bn in 2010), according to official figures. In 2005, Egypt removed restrictions on foreign property ownership in a number of tourist areas, including resorts on the Red Sea beach and along the Mediterranean cost west of Alexandria, and prior to the revolution, Egypt expected significant new investment in hotels and tourism infrastructure. The Government of Egypt expects the sector to begin recovering in 2012.

Research and Development

Large-scale R&D activities in Egypt are relatively modest. The majority of government-funded R&D programs are in agriculture, health, and, to a lesser extent in the manufacturing sector. There are no reports of discrimination against U.S. or other foreign firms wishing to participate in R&D programs in Egypt. Most Egyptian R&D programs are established by government initiative to target specific problems and/or opportunities.

Key Laws Governing Foreign Investment:

Investment Incentives Law 8 of 1997 was designed to encourage domestic and foreign investment in targeted economic sectors and to promote decentralization of industry from the crowded Nile Valley area. The law allows 100 percent foreign ownership of investment projects and guarantees the right to remit income earned in Egypt and to repatriate capital. Other key provisions include: guarantees against confiscation, sequestration, and nationalization; the right to own land; the right to maintain foreign-currency bank accounts; freedom from administrative attachment; the right to repatriate capital and profits; and equal treatment regardless of nationality.

Law 94 of 2005 amended the Investment Incentives Law and made companies incorporated under the Investment Incentives Law subject to relatively simpler incorporation. It also granted companies established under the Companies Law or the Commercial Law certain incentives under the Investment Incentives Law, including protection from nationalization, imposition of obligatory pricing and cancellation or suspension of licenses to use immovable property. It also granted companies the right to own real estate required for their activities and the right to import raw materials, machinery, spare parts and transportation methods without being required to register at the Importers' Register.

Companies Law 159 of 1981 applies to domestic and foreign investment in sectors not covered by the Investment Incentives Law, whether shareholder, joint stock, or limited liability companies, representative offices, or branch offices. The law permits automatic company registration upon presentation of an application to GAFI, with some exceptions. It also removes a previous legal requirement that at least 49 percent of shareholders be Egyptian; allows 100 percent foreign representation on the board of directors; and strengthens accounting standards. Founders of joint stock and limited liability companies must submit a bank certificate to GAFI showing that 10 percent of the company's issued capital has been paid in.

Public Enterprise Law 203 of 1991 permits sales of state enterprises to foreign entities. Egypt began a privatization program under the Public Enterprise Law for the sale of several hundred wholly or partially state-owned enterprises and all public shares of at least 660 joint venture companies (joint venture defined as mixed state and private ownership, whether foreign or domestic). Since 2008, however, the GOE has not undertaken any new privatizations, and senior officials have said that the government will retain majority stakes in the 150 public companies that remain under the MOI's authority. Instead, the GOE is reportedly considering selling minority stakes in some of the companies and restructuring others. Bidding criteria for privatizations are generally clear and transparent.

Tenders Law 89 of 1998 requires the government to consider both price and best value in awarding contracts and to issue an explanation for refusal of a bid. However, the law contains preferences for Egyptian domestic contractors, who are accorded priority if their bids do not exceed the lowest foreign bid by more than 15 percent.

Capital Markets Law 95 of 1992 and its amendments and regulations govern Egypt's capital markets. Foreign investors can buy shares on the Egyptian Stock Exchange on the same basis as local investors. Brokerage firms have capital requirements of LE 5 million (US$862,000), and same-day trading on the Egyptian stock market is allowed. As of January 2011, 47 brokerage firms have licenses for same-day or intra-day trading.

Law 123 of 2008 amended the Capital Markets Law to allow local and foreign institutions to issue bonds at a par value of LE 0.10 (US$0.02).

Decree No. 719 for 2007 by the Ministry of Industry and Foreign Trade and Ministry of Finance provides incentives for industrial projects in the governorates of Upper Egypt (Upper Egypt refers to governorates in southern Egypt). The decree provides an incentive of 15,000 Egyptian Pounds (US$2,586) for each job opportunity created by the project, on the condition that the investment costs of the project exceed LE 15 million (US$2.6 million). The decree can be implemented on both new and on-going projects.

Land/Real Estate Law 15 of 1963 explicitly prohibits foreign individual or corporate ownership of agricultural land (defined as traditional agricultural land in the Nile Valley, Delta and Oases).

Prime Ministerial Decree No. 548 for 2005 removed restrictions on foreign property ownership in a number of tourist and new urban areas, namely the Red Sea coast, including of Hurghada, the Mediterranean beach resorts of Sidi Abdel-Rahman and Ras Al-Hekma, also in the Matrouh Governorate. Foreign owners are still limited to a maximum of two residences in Egypt. Companies/citizens of other Arab countries have customarily received national treatment in this area.

Insurance Law 156 of 1998 removes a 49 percent ceiling on foreign ownership of insurance companies, allows privatization of state-owned insurance companies, and abolishes a ban on foreign nationals serving as corporate officers.

Electricity Law 18 of 1998 allows the government to sell minority shares of electricity distribution companies to private shareholders, both domestic and foreign. A draft electricity law expected to be enacted in 2011 will further open electricity generation and distribution to the private sector.

Maritime Law 1 of 1998 permits private companies, including foreign investors, to conduct most maritime transport activities, including loading, supplying, and ship repair.

Commercial Law 17 of 1999 has more than 700 articles covering general commerce, commercial contracts, banking transactions, commercial paper, and bankruptcy.

Central Depository Law 93 of 2000 reduces risks associated with trading securities, enhances market liquidity, and tries to streamline the securities exchange process by standardizing registration, clearance and settlement procedures.

Measure	**Year**	**Index/Ranking**
TI Corruption Index	2011	2.9 (112/182)
Heritage Economic Freedom	2011	57.9 (100/179)
World Bank Doing Business	2011/2012	110/183
MCC Gov't Effectiveness	2012	0.04 (55%)
MCC Rule of Law	2012	0.36 (69%)
MCC Control of Corruption	2012	-0.07 (45%)
MCC Fiscal Policy	2012	-7.7 (12%)
MCC Trade Policy	2012	74.0 (48%)
MCC Regulatory Quality	2012	0.36 (70%)
MCC Business Start Up	2012	0.991 (93%)
MCC Land Rights Access	2012	0.927 (91%)
MCC Natural Resource Mgmt	2012	87.21 (76%)

Conversion and Transfer Policies

Return to top

Following the revolution, the Central Bank of Egypt issued restrictions on transfers of cash out of Egypt. Foreign companies are reportedly allowed to transfer up to $100,000 out of Egypt without additional documentation. Transfers above $100,000 are allowed only for legitimate business purposes and require extensive original documentation and approval from the Central Bank of Egypt. Egyptian and foreign individuals must provide documentation for all foreign transfers. Foreign investors say that the restrictions on capital transfer have resulted in delays of several weeks to several months and have significantly impacted business operations. Egyptian law allows individuals and businesses to conduct all normal foreign exchange transactions, including accepting deposits, and opening letters of credit. Foreign currency is available at banks and foreign exchange bureaus.

The 1992 U.S.-Egypt Bilateral Investment Treaty provides for free transfer of dividends, royalties, compensation for expropriation, payments arising out of an investment dispute, contract payments, and proceeds from sales. Transfers are to be made in a "freely convertible currency at the prevailing market rate of exchange on the date of transfer with respect to spot transactions in the currency to be transferred."

The Investment Incentives Law stipulates that non-Egyptian employees hired by projects established under the law are entitled to transfer their earnings abroad. Conversion and transfer of royalty payments are permitted when a patent, trademark, or other licensing agreement has been approved under the Investment Incentives Law.

Banking Law 88 of 2003 regulates the repatriation of profits and capital. The government has repeatedly emphasized its commitment to maintaining the profit repatriation system to encourage foreign investment in Egypt. The current system for profit repatriation by foreign firms requires sub-custodian banks to open foreign and local currency accounts for foreign investors (global custodians), which are exclusively maintained for stock exchange transactions. The two accounts serve as a channel through which foreign investors process their sales, purchases, dividend collections, and profit repatriation transactions using the bank’s posted daily exchange rates. The system is designed to allow for settlement of transactions in less than two days.

Expropriation and Compensation

Return to top

The Investment Incentives Law provides guarantees against nationalization or confiscation of investment projects under the law's domain. The law also provides guarantees against seizure requisition, blocking, and placing of assets under custody or sequestration. It also offers guarantees against full or partial expropriation of real estate and investment project property. The U.S.-Egypt Bilateral Investment Treaty also provides protection against expropriation. Private firms are able to take cases of expropriation to court, but the judicial system is very slow and can take several years to resolve a case.

On September 21, 2011, the Commercial Division of the Egyptian Administrative Court ruled that the privatization of three formerly public companies – Shebin El-Kom Textile Company, Tanta Linen Company, and El Nasr Steam Boilers Company – was illegal. The ruling requires the purchasers to return ownership of the companies and their assets to the Government of Egypt in exchange for the original purchase price as well as the rehiring of all employees terminated since the sale. The ruling comes in the wake of a similar ruling in June 2011 invalidating the 2006 privatization of state-owned department store Omar Effendi.

A legal challenge is currently pending against the 2006 privatization of the Bank of Alexandria (now AlexBank). The complaint was brought by a citizens' group that alleges the auction process for the formerly state-owned bank was non-transparent and that Egypt did not receive fair compensation for the sale. Thirteen financial institutions competed for the tender in 2006, with Intesa San Paolo Bank of Italy eventually winning an 80% stake in the bank at a cost of $1.6 billion. The complaint seeks to unwind the sale and return AlexBank to state control.

Dispute Settlement

Return to top

The U.S. Embassy recommends that U.S. companies put clauses specifying binding international arbitration of disputes in their commercial agreements. Egypt acceded to the International Convention for the Settlement of Investment Disputes in 1971 and is a member of the International Center for the Settlement of Investment Disputes (ICSID), which provides a framework for arbitration of investment disputes between the government and foreign investors from another member state, provided that the parties agree to such arbitration. Without prejudice to Egyptian courts, the Investment Incentives Law recognizes the right of investors to settle disputes within the framework of bilateral agreements, the ICSID or through arbitration before the Regional Center for International Commercial Arbitration in Cairo, which applies the rules of the United Nations Commissions on International Trade Law.

The U.S.-Egypt Bilateral Investment Treaty allows an investor to take a dispute directly to binding third-party arbitration. The Egyptian courts generally endorse international arbitration clauses in commercial contracts. For example, the Court of Cassation has, on a number of occasions, confirmed the validity of arbitration clauses included in contracts between Egyptian and foreign parties.

Egypt adheres to the 1958 New York Convention on the Enforcement of Arbitral Awards; the 1965 Washington Convention on the Settlement of Investment Disputes between States and the Nationals of Other States; and the 1974 Convention on the Settlement of Investment Disputes between the Arab States and Nationals of Other States. An award issued pursuant to arbitration that took place outside Egypt may be enforced in Egypt if it is either covered by one of the international conventions to which Egypt is party or it satisfies the conditions set out in Egypt's Dispute Settlement Law 27 of 1994, which provides for the arbitration of domestic and international commercial disputes and limited challenges of arbitration awards in the Egyptian judicial system. The Dispute Settlement Law was amended in 1997 to include disputes between public enterprises and the private sector.

The Egyptian judicial system functions extremely slowly, and cases can remain in the system for several years. Arbitral awards are made in the original currency of the transaction, via the competent court in Egypt, usually the Cairo Court of Appeals. A special order is required to challenge an arbitration award in an Egyptian court. To enforce judgments of foreign courts in Egypt, the party seeking to enforce the judgment must obtain an exequatur. To apply for an exequatur, the normal procedures for initiating a lawsuit in Egypt must be satisfied. Moreover, several other conditions must be satisfied, including ensuring reciprocity between the Egyptian and foreign country's courts and verifying the competence of the court rendering the judgment.

Egypt does not have a bankruptcy law per se, but Commercial Law 17 of 1999 includes a chapter on bankruptcy. The terms of the bankruptcy chapter are silent or ambiguous on several key issues that are crucial to the reduction of settlement risks. The Ministry of Industry and Foreign Trade has identified the lack of a functioning bankruptcy code as a significant weakness for investment in Egypt and has indicated in public statements that efforts are underway to initiate new bankruptcy legislation.

Performance Requirements and Incentives

Return to top

No performance requirements are specified in the Investment Incentives Law. The ability to fulfill local content requirements is no longer a prerequisite for approval to set up assembly projects, but in most cases assembly industries still must meet a minimum local content requirement in order to benefit from customs tariff reductions on imported industrial inputs.

Article 6 of Decree 420/2000 allows for the reduction of customs tariffs on intermediate goods if the final product has a certain percentage of input from local manufacturers, beginning at 30% local content. As the percentage of local content rises, so does the tariff reduction. In certain cases, a Minister can grant tariff reductions of up to 40% in advance to certain companies without waiting to reach a corresponding percentage of local content. In 2010, Egypt revised its export rebate system to provide exporters with additional subsidies if they used a greater portion of local raw materials. See the section "Import and Export Policies" for more details on the export rebate system.

Manufacturers wishing to export under trade agreements between Egypt and other countries must fulfill certificate of origin and local content requirements contained therein. Oil and gas exploration concessions, which do not fall under the Investment Incentives Law, do have performance standards, which are specified in each individual agreement and which generally include the drilling of a specific number of wells in each phase of the exploration period stipulated in the agreement.

There are no formal geographical restrictions on investments. However, due to congestion in Cairo, the government generally denies approval for investments in manufacturing facilities in Cairo, unless a compelling economic rationale exists. The government offers incentives to move existing manufacturing facilities out of Cairo. Upon request, government officials assist investors in locating a site for a project, often in one of the new industrial sites located outside Cairo and sometimes provide necessary infrastructure.

In addition to the new industrial sites outside Cairo, the government has targeted Upper Egypt for development by private investors. Land in industrial zones in Upper Egypt is offered free of charge. The government also provides hookups to infrastructure (water, sewer, electricity, and gas) and transfers land title to the developer three years after project startup. As noted above, approval by the security services is generally required for investments in the Sinai Peninsula.

In July 2007, MOI finalized procedures for granting usufruct rights (use by an investor of a plot of land for a certain period of time to establish a project and profit from it, after which both project and land are given to public ownership) in the Sinai, with the aim of boosting investment levels in the region. The procedures include facilitation of real estate registration; enabling use of usufruct rights as a guarantee for loans; and enabling banks to register pledges on real estate and foreclose in cases of non-payment.
Import and Export Policies: In 2004, government cut tariffs sharply and simplified the customs regime to stimulate trade and economic development. The government removed GATT-inconsistent services fees and import surcharges, dismantled tariff inconsistencies, including sharp escalation and reverse progression on tariff rates, and rationalized national sub-headings above the six-digit level of the Harmonized System (HS). As a result of the reforms since 2004, Egypt's number of ad valorem tariff rates was reduced from 27 to 5 and the average weighted tariff rate has fallen from 14.6 percent to 5.5 percent.

In 2005, new import and export regulations were issued, which reduced the number of imported goods subject to inspection by the General Organization for Export and Import Control (GOEIC) and permitted importers to provide their own certificates of health and safety conformity from any internationally accredited laboratory inside or outside of Egypt. The new regulations also transferred responsibility for issuing and reviewing certificates of origin from GOEIC to the Egyptian Customs Authority.
In February 2009, a presidential decree amended the customs tariff schedule for 250 items, lowering import duties on many items and removing entirely duties on some raw materials and capital and intermediate goods such as inputs for spinning and weaving products.

Despite the government's sweeping customs and tariff reform and easing of import restrictions, significant problems remain. Egypt adopted the WTO customs valuation system in 2001. Though government officials report that Egypt has almost fully implemented the system, importers face a confusing mix of new invoice-based and old reference price-based valuations depending on the type of imports. Acknowledging these problems, the Ministry of Finance (MOF) has committed to a comprehensive reform of Egypt's customs administration and is working in concert with USAID, which funded a comprehensive six-year program to support reform efforts. A new customs law was drafted and sent to the Minister of Finance and was scheduled to be sent to the People’s Assembly in early 2010. However, the law has not yet been submitted to the Egyptian Parliament.

A number of non-tariff barriers or bans continue in force to protect local producers. Mandatory quality-control standards make importing certain products into the Egyptian market difficult. Over 130 categories of imports are still subject to mandatory quality-control inspections, including foodstuffs, appliances, electrical products, and auto parts. Although the government says that the quality control standards are applied equally to imports and domestically produced goods, in practice, imports are scrutinized more rigorously by multiple government agencies. Enforcement remains inconsistent.

Many U.S. agricultural products also face burdensome import licensing and inspection requirements. Although a ban on whole poultry was lifted in 1997, imported poultry parts are still prohibited, ostensibly over concerns that they may not meet halal (religious) standards, despite certification by U.S. Islamic Centers. Health food products such as low-calorie foods, diet pills, and vitamins also face informal barriers to trade. These products must obtain a special registration from the National Nutrition Institute of the Ministry of Health, which can take months to process. Products with domestic substitutes have experienced substantial delays, some as many as six months to one year. On a positive note for investors in the textile industry, Egypt recently approved the importation of U.S. upland cotton, which is highly valued by spinners and weavers around the world. Phytosanitary standards applied to wheat shipments are sometimes not science-based. Egypt requires that wheat shipments be “free” of Ambrosia (ragweed) seeds, a standard that is not technically feasible to meet, as most major wheat exporters, including the United States, has one or more varieties of Ambrosia. No other country importing U.S. wheat imposes a requirement of Ambrosia free or zero tolerance. Currently, the GOE is permitting wheat cargos to be discharged and cleaned if Ambrosia is detected. However, exporters and importers face a high degree of risk that a cargo could be rejected because of this restriction.

The GOE also performs quality-based inspections of imported grain and oilseeds and will reject shipments if they do not meet these standards. In the international grain trade, quality is graded at origin and, generally, quality at destination is not a matter for government intervention, but rather a matter for negotiation between buyer and seller or referral to the insurance carrier. The potential for rejection of a cargo adds risk and cost to the transaction.

Other food imports are sometimes subject to standards that appear to lack technical and scientific justification. For example, the Ministry of Health has an overly broad definition of foods for special dietary use, defined narrowly in the U.S. (under 21 CFR 105.3) for meeting the needs of a select group of people who have a specified disease or condition (infant formula or labeled medical foods), but which in Egypt includes products labeled "enriched" or "high in" vitamins or minerals. As a result, a large variety of generally marketable food products, increasingly popular in the United States and other countries, must be registered and tested in Egypt before they can be imported. In the United States, most of these products are simply regulated as foods, subject to the regular safety standards; the FDA requires only that such a label claim be truthful and sets certain guidelines for what is considered “high in” and that any additives used to “enrich” vitamin or mineral content are approved. Many of the additives tested by Egypt are considered in the United States as GRAS (Generally Recognized as Safe; listed in 21 CFR 182 and 184).

Shelf-life standards also act as an indirect trade barrier. Egypt sets the shelf life of many imported products using non-science-based standards that do not recognize quality, safety, and technological differences between producers. By government decree, imports (mainly food products) must have 50 percent or more of their shelf life remaining. The government is reviewing Egypt's shelf life standards to make them more science-based and WTO-consistent.

The import inspection process remains confusing, despite the designation of the GOEIC as the coordinator for all import inspections. The Ministries of Health and Agriculture maintain their own inspection units and procedures. Imported refrigerated containers of foodstuffs typically take 25 days to clear customs. While two-month delays were common in the past, overall customs clearance times are improving, and import inspections now typically take three to four weeks.

Ministerial Decree 619 of 1998 required a certification of origin for imports and stipulated that consumer goods (durable and non-durable) be shipped directly from the country of origin. The decree was amended in late 1999 to ease requirements for the certificate of origin and allow shipment of imported consumer goods from the main branches of the producing company and its distribution centers. Company invoices noting the country of origin and bearing the endorsement of an Egyptian overseas commercial office can now be used as certificates of origin. Ministerial Decrees 577 and 580 of 1999 require cars to be imported in the year of production. In 2000, the decrees were amended adding one year after the year of production to the period during which passenger vehicles can be imported.

The duty drawback system requires full custom duties to be paid on semi-finished imports. There is a one-year time limit for re-exporting these imports as part of a final product in order to claim a full rebate of the duties and taxes paid. Export Promotion Law 155 of 2002 sought to improve the duty drawback and temporary admission systems for exporters by establishing a central unit under the joint supervision of the Ministries of Finance and Industry and Foreign Trade. The ministries jointly inaugurated the first upgraded temporary-admissions unit at the Port of Alexandria in 2002. With assistance from USAID, the ministries opened three more units in Suez, Port Said, and Damietta. Export Promotion Law 155 also established an "Export Development Fund," to promote Egyptian exports and increase their presence in foreign markets. The Fund supports a number of sectors, mainly textiles, ready-made garments, and food industries, with an export rebate of up to 10% of the total added value of the exported goods. The Fund also subsidizes some shipping costs and start-up costs of export-oriented businesses. In 2010, the GOE revised its export subsidy scheme to pay higher rebates to exporters who use larger percentages of local raw materials in their goods, and also temporarily increased by 50% the export subsidies paid to the ready-made garment and textile sectors. Aside from the subsidies provided by the Export Development Fund, the government of Egypt rarely provides additional agricultural export subsidies and does not impose export performance requirements.

The Ministry of Industry and Foreign Trade imposed tight limits on rice exports in March 2008, citing the need to ensure domestic supply. These limits on rice exports remain in effect.

In 2010, the Central Bank relaxed a requirement of 100 percent foreign exchange cover for Letters of Credit issued for the purchase of goods imported for resale, reducing the requirement to 50 percent. Also in 2010, the Central Bank suspended the foreign exchange cover requirement on meat, poultry, and sugar imports in response to high levels of food price inflation.

Right to Private Ownership and Establishment

Return to top

By law, foreign and domestic private firms have the right to establish and own business enterprises and engage in all forms of remunerative activity, except for the restrictions on foreign business noted previously. Private enterprises may freely establish, acquire and dispose of interests in business enterprises. In practice, private firms sometimes find themselves at a disadvantage when competing for resources with state-owned firms. For example, state-owned firms often have easier access to bank credit from the state-dominated banking system than do private firms, whether domestic or foreign. Lack of access to credit is one of the major complaints of the business community in Egypt as interest rates are high, and banks have restrictive policies on lending. Lack of risk assessment capacity in the banking sector is also a factor in overly-cautious lending policies. Also, some companies have experienced difficulties in dissolving companies.

Protection of Property Rights

Return to top

The Egyptian legal system provides protection for real and personal property, but laws on real estate ownership are complex and titles to real property may be difficult to establish and trace. Reforms in 2007 simplified the registration process for residential construction in new urban areas built on the outskirts of Cairo and Alexandria.

A National Title Registration Program was introduced by the Ministry of State for Administrative Development and implemented in nine areas within Cairo. This program was intended to simplify property registration and facilitate easier mortgage financing. Real estate registration fees, long considered a major impediment to development of the real estate sector, were capped in May 2006 at no more than LE 2000 (US$345), irrespective of the property value. The government also enacted an overhauled real estate tax system, which has been put on hold indefinitely following the revolution.

There is an extensive rent control system for older residential and commercial real estate property resulting in some apartment rents as low as US$10 per month. However, these rent controls do not apply to real estate put into service in recent years. Foreigners are limited to ownership of two residences in Egypt and specific procedures are required for purchasing real estate in certain geographical areas.

The mortgage market is still undeveloped in Egypt. Real Estate Finance Law 148 of 2001 authorized both banks and non-bank mortgage companies to issue mortgages. The law provides procedures for foreclosure on property of defaulting debtors, and amendments passed in 2004 allow for the issuance of mortgage-backed securities. According to the regulations, banks can offer financing in foreign currency of up to 65% of the value of a property.

For information on protecting your Intellectual Property Rights, see Chapter 3 Protecting Your Intellectual Property.

Transparency of Regulatory System

Return to top

The Egyptian government has made efforts to improve the transparency of government policy. The process has proven difficult and has faced strong resistance from entrenched bureaucratic interests. Significant obstacles continue to hinder private sector investment, including the often-arbitrary imposition of bureaucratic impediments and the length of time needed to resolve them. It remains to be seen how the new parliament and president will address transparency issues.

Law 89 of 1998 amended the Tenders and Bidding Law 9 of 1983 to improve equality and transparency in government procurement. Key provisions of the law include: a prohibition on reopening negotiations after final bids have been received; more transparency in the criteria for bid acceptance and rejection; equality among bidders, contractors, and government agencies; more weight given to the technical aspects of a tender or bid; protection of contractor rights; reduction of insurance fees; and immediate return of deposits once the government announces bid or tender results.

In 2005, parliament passed the Law on Protection of Competition and Prohibition of Monopolistic Practices. A new agency, the Egyptian Competition Authority, began operating in 2006 to implement the law. The MOI also issued corporate governance guidelines as Ministerial Decree No. 332 in 2005. The non-binding guidelines – formulated along the lines of OECD principles – apply to corporations and limited liability companies as well as brokerages. In 2006, MOI issued corporate governance guidelines for public sector companies.

Accounting standards in government entities are still not fully consistent with international norms, although efforts were underway to bring standards into conformity with International Financial Reporting Standards (IFRS). The MOI issued a directive in 2006 with new accounting standards for all companies listed on the Egyptian stock exchange, including public entities. The new standards, which came into effect in 2007, are close, but not identical to IFRS. Egyptian law does not require that proposed legislation be published prior to consideration by the parliament. In practice, however, proposed legislation is occasionally circulated among concerned parties such as business associations and labor unions. Responsiveness on the part of legislators to feedback received from concerned parties is limited. After approval by parliament, new laws are published in the Official Gazette.

Efficient Capital Markets and Portfolio Investment

Return to top

The government has taken steps to streamline capital markets and overcome years of stagnation in the banking system. The Egyptian Exchange (EGX) is Egypt's registered securities exchange. Two hundred fourteen companies are listed on the EGX, with a market capitalization of LE 345 billion. Stock ownership is open to foreign and domestic individuals and entities. The government of Egypt issues dollar-denominated and

Egyptian pound-denominated debt instruments. Ownership is open to foreign and domestic individuals and entities.

The Capital Market Law 95 of 1992, along with the Banking Law of 2003, constitutes the primary regulatory framework for the financial sector. The law grants foreigners full access to capital markets, and authorizes establishment of Egyptian and foreign companies to provide underwriting of subscriptions, brokerage services, securities and mutual funds management, clearance and settlement of security transactions, and venture capital activities. The law also authorizes the issuance of corporate bonds and bearer shares, and makes income from most stocks and bonds non-taxable (compared to 20% tax rate on interest from Egyptian treasury bills). The law specifies mechanisms for arbitration and legal dispute resolution and prohibits unfair market practices. Law No 10/2009 created the Egyptian Financial Supervisory Authority (EFSA) and brought the regulation of all non-banking financial services under its authority).

The Central Securities Depository and Registration Law and its executive regulations, issued in 2000, eased registration and deposit of securities. Settlement of transactions now takes one day for treasury bonds, two days for dematerialized issues, four days for materialized issues and same day for 62 active stocks that are not bound by the 5 percent daily price movement ceiling. Although Egyptian law and regulations allow companies to adopt bylaws limiting or prohibiting foreign ownership of shares, only four companies listed on the stock exchange have such restrictions. A significant number of the companies listed on the exchange are family-owned or dominated conglomerates, and free trading of shares in many of these ventures, while increasing, remains limited. However, stocks are de-listed from the exchange if not traded for six months.

In 2002, the then Minister of Foreign Trade added an additional chapter to the executive regulations of the Capital Market Law to allow margin trading to increase liquidity and trading in the market through brokerage firms and financially solvent licensed companies. In April 2003, the U.S. Securities and Exchange Commission included the Egyptian Exchange in its list of accredited stock exchanges, allowing U.S. financial institutions to invest in the Egyptian stock market without undertaking the cumbersome procedures previously required. In May 2006, the CMA issued Decree No. 50 for 2006, organizing online trading on the CASE. The decree allows brokerage companies to receive requests for buying/selling of shares by clients via the Internet. The decree also mandates infrastructure requirements, mainly web security provisions, which brokerage firms must meet in order to provide online services. To date, 103 companies have obtained online trading licenses.

Leasing Law 95 of 1995 allows for the leasing of capital assets and real estate and was designed to reduce the high start-up costs faced by new investors. Notably, the law specifically allowed for the purchase of real estate assets through leasing mechanisms. The Leasing Law was amended in 2001 to make leasing more attractive for investors by exempting financial leasing activities from sales taxes and fees; specifying financial standards that leasing companies must adhere to; increasing the control, organization and efficiency of the leasing activities; and incorporating clear guarantees for the parties involved.

Competition from State Owned Enterprises

Return to top

State Owned Enterprises compete directly with private companies in several sectors of the Egyptian economy. They are structured as individual companies controlled by boards of directors and grouped under government holding companies that are arranged by industry – Spinning & Weaving; Metallurgical Industries; Chemical Industries; Pharmaceuticals; Food Industries; Building & Construction; Tourism, Hotels & Cinema; Maritime & Inland Transport; and Insurance. The holding companies are headed by boards of directors appointed by the Prime Minister with input from the relevant Minister. According to Public Sector Law 203 of 1991, SOEs should not receive preferential treatment from the government, nor should they be accorded any exemption from legal requirements applicable to private companies. In addition to SOEs, 40% of the banking sector's assets are controlled by three state-owned banks (Banque Misr, Banque du Caire, National Bank of Egypt). Privatization of SOEs and state-owned banks accelerated under an economic reform program that started in 2004, but the privatization program stalled in 2008.

Corporate Social Responsibility

Return to top

Corporate social responsibility (CSR) programs have grown in popularity in Egypt over the last ten years. However, participation in CSR within Egypt remains limited to multinational and larger domestic companies. Education is the most popular sector for CSR investment, although, environmental programs are garnering greater participation.

Political Violence

Return to top

In January and February 2011, Egypt witnessed nationwide demonstrations and clashes between protestors and police, which eventually brought an end to the Mubarak-led government. Since then, there have been sporadic marches and demonstrations that occasionally degenerate into violence, in some instances resulting in deaths, injuries, and extensive property damage. Although police have gradually returned to the streets, they do not appear to have a level of operational effectiveness necessary to control crowds or deter criminal activity.

Corruption

Return to top

Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities overseas for U.S. companies and the broader business climate. It also deters international investment, stifles economic growth and development, distorts prices, and undermines the rule of law.

It is important for U.S. companies, irrespective of their size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance program or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in foreign markets should take the time to become familiar with the relevant anticorruption laws of both the foreign country and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by requiring them to uphold their obligations under relevant international conventions. A U. S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

U.S. Foreign Corrupt Practices Act: In 1977, the United States enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: http://www.justice.gov/criminal/fraud/

Other Instruments: It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental to the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Antibribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements. This country is party to the UN Convention, but generally all countries prohibit the bribery and solicitation of their public officials.

OECD Antibribery Convention: The OECD Antibribery Convention entered into force in February 1999. As of March 2009, there are 38 parties to the Convention including the United States (see http://www.oecd.org/dataoecd/59/13/40272933.pdf). Major exporters China, India, and Russia are not parties, although the U.S. Government strongly endorses their eventual accession to the Convention. The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. The United States meets its international obligations under the OECD Antibribery Convention through the U.S. FCPA. Egypt has not signed the OECD Convention on Combating Bribery or any other regional anti-corruption convention.

UN Convention: The UN Anticorruption Convention entered into force on December 14, 2005, and there are 158 parties to it as of November 2011 (see http://www.unodc.org/unodc/en/treaties/CAC/signatories.html). The UN Convention is the first global comprehensive international anticorruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The UN Convention goes beyond previous anticorruption instruments, covering a broad range of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, trading in influence to the concealment and laundering of the proceeds of corruption. The Convention contains transnational business bribery provisions that are functionally similar to those in the OECD Antibribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery. Egypt is a signatory to the UN Convention Against Corruption.

OAS Convention: In 1996, the Member States of the Organization of American States (OAS) adopted the first international anticorruption legal instrument, the Inter-American Convention against Corruption (OAS Convention), which entered into force in March 1997. The OAS Convention, among other things, establishes a set of preventive measures against corruption, provides for the criminalization of certain acts of corruption, including transnational bribery and illicit enrichment, and contains a series of provisions to strengthen the cooperation between its States Parties in areas such as mutual legal assistance and technical cooperation. As of December 2009, the OAS Convention has 34 parties (see http://www.oas.org/juridico/english/Sigs/b-58.html). Egypt is a party to the OAS Convention.

Council of Europe Criminal Law and Civil Law Conventions: Many European countries are parties to either the Council of Europe (CoE) Criminal Law Convention on Corruption, the Civil Law Convention, or both. The Criminal Law Convention requires criminalization of a wide range of national and transnational conduct, including bribery, money-laundering, and account offenses. It also incorporates provisions on liability of legal persons and witness protection. The Civil Law Convention includes provisions on compensation for damage relating to corrupt acts, whistleblower protection, and validity of contracts, inter alia. The Group of States against Corruption (GRECO) was established in 1999 by the CoE to monitor compliance with these and related anti-corruption standards. Currently, GRECO comprises 49 member States (48 European countries and the United States). As of December 2011, the Criminal Law Convention has 43 parties and the Civil Law Convention has 34 (see www.coe.int/greco.)

Free Trade Agreements: While it is U.S. Government policy to include anticorruption provisions in free trade agreements (FTAs) that it negotiates with its trading partners, the anticorruption provisions have evolved over time. The most recent FTAs negotiated now require trading partners to criminalize “active bribery” of public officials (offering bribes to any public official must be made a criminal offense, both domestically and trans-nationally) as well as domestic “passive bribery” (solicitation of a bribe by a domestic official). All U.S. FTAs may be found at the U.S. Trade Representative Website:

http://www.ustr.gov/trade-agreements/free-trade-agreements. Egypt does not have an FTA with the United States.

Local Laws: U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department's U.S. and Foreign Commercial Service can provide assistance with navigating the host country's legal system and obtaining a list of local legal counsel.

Assistance for U.S. Businesses: The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of the company's overarching compliance program when choosing business partners or agents overseas. The U.S. Foreign and Commercial Service can be reached directly through its offices in every major U.S. and foreign city, or through its Website at www.trade.gov/cs.

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department's Advocacy Center and State's Office of Commercial and Business Affairs. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. government officials, including local embassy personnel and through the Department of Commerce Trade Compliance Center "Report A Trade Barrier" Website at tcc.export.gov/Report_a_Barrier/index.asp.

Guidance on the U.S. FCPA: The Department of Justice's (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department's present enforcement intentions under the anti-bribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ's Fraud Section Website at www.justice.gov/criminal/fraud/fcpa. Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel, U.S. Department of Commerce, Website, at http://www.ogc.doc.gov/trans_anti_bribery.html. More general information on the FCPA is available at the Websites listed below.

Exporters and investors should be aware that generally all countries prohibit the bribery of their public officials, and prohibit their officials from soliciting bribes under domestic laws. Most countries are required to criminalize such bribery and other acts of corruption by virtue of being parties to various international conventions discussed above.

Corruption is pervasive at all levels of Egyptian society, and U.S. investors have reported requests for bribes from Egyptian government officials. Giving and accepting bribes are criminal acts in Egypt, but the government has not consistently enforced corruption laws, and impunity has become a substantial problem.
Two agencies enforce corruption laws against government employees – the Administrative Control Authority (ACA) under the authority of the Cabinet of Ministers and the Illicit Gain Office under the authority of the Public Funds Prosecution of the

Ministry of Interior. Private individuals and companies can be prosecuted under commercial and/or civil laws. Commercial cases are subject to the Commercial Law and the Dispute Settlement Law. The district attorney's office and the civil courts adjudicate civil cases. The ACA may intervene when corruption occurs in the private sector if public money and/or public interests are involved. Penalties for a corruption conviction include pecuniary fines and/or imprisonment. Enforcement of corruption laws does not appear to be disproportionally directed against foreigners, but prosecutions do appear to be politically motivated.

Egypt is a signatory to the UN Convention Against Corruption, but has not signed the OECD Convention on Combating Bribery or any other regional anti-corruption convention. Transparency International's Corruption Perceptions Index ranked Egypt 98 out of 178 countries surveyed in its 2010 survey.

Anti-Corruption Resources

Some useful resources for individuals and companies regarding combating corruption in global markets include the following:

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a "Lay-Person's Guide to the FCPA" is available at the U.S. Department of Justice's Website at: http://www.justice.gov/criminal/fraud/fcpa.

- Information about the OECD Antibribery Convention including links to national implementing legislation and country monitoring reports is available at: http://www.oecd.org/department/0,3355,en_2649_34859_1_1_1_1_1,00.html. See also new Antibribery Recommendation and Good Practice Guidance Annex for companies: http://www.oecd.org/dataoecd/11/40/44176910.pdf.

- General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: http://www.ogc.doc.gov/trans_anti_bribery.html.

- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at: http://www.transparency.org/policy_research/surveys_indices/cpi/2009. TI also publishes an annual *Global Corruption Report* which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. See http://www.transparency.org/publications/gcr.

- The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 213 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See http://info.worldbank.org/governance/wgi/index.asp. The World Bank Business

Environment and Enterprise Performance Surveys may also be of interest and are available at: http://data.worldbank.org/data-catalog/BEEPS.

- The World Economic Forum publishes the *Global Enabling Trade Report*, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See http://www.weforum.org/s?s=global+enabling+trade+report.

- Additional country information related to corruption can be found in the U.S. State Department's annual Human Rights Report available at http://www.state.gov/g/drl/rls/hrrpt/.

- Global Integrity, a nonprofit organization, publishes its annual Global Integrity Report, which provides indicators for 106 countries with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: http://report.globalintegrity.org/.

Bilateral Investment Agreements Return to top

Egypt has signed investment agreements with over 40 other countries, including Armenia, Belgium, China, Finland, France, Germany, Greece, Italy, Japan, Libya, Luxembourg, Morocco, the Netherlands, Romania, Singapore, Sudan, Sweden, Switzerland, Thailand, Tunisia, the United Kingdom and the U.S. The U.S-Egypt Bilateral Investment Treaty provides for fair, equitable, and nondiscriminatory treatment for investors of both nations. The treaty includes provisions for international legal standards on expropriation and compensation; free financial transfers; and procedures for the settlement of investment disputes, including international arbitration.

In addition to specific investment agreements, Egypt is also a signatory to a wide variety of agreements covering trade issues. Egypt joined the Common Market for Eastern and Southern Africa (COMESA) in June 1998. In July 1999, Egypt and the United States signed a Trade and Investment Framework Agreement (TIFA), a step toward creating freer trade and increasing investment flows between the U.S. and Egypt. In June 2001, Egypt signed an Association Agreement with the European Union (EU). Egypt's parliament ratified the agreement in March 2003, and it entered into force on June 1, 2004. The agreement provides for immediate duty free access of Egyptian products into EU markets, while duty free access for EU products will be phased in over a twelve-year period. In 2010, Egypt and the EU completed an agricultural annex to their FTA, liberalizing trade in over 90% of agricultural goods.

Egypt is also a member of the General Arab Free Trade Agreement (GAFTA), and a member of the Agadir Agreement with Jordan, Morocco, and Tunisia, which relaxes rules of origin requirements on products jointly manufactured by the countries for export to Europe. Egypt also has an FTA with Turkey, and in 2010 signed an FTA with the Mercosur bloc of Latin American nations.

In 2004, Egypt and Israel signed an agreement to take advantage of the U.S. government Qualifying Industrial Zone (QIZ) program. The purpose of the QIZ program is to promote stronger ties between the region's peace partners by granting duty-free access to goods produced in QIZs in Egypt and Jordan using a specified percentage of Israeli input. Under the QIZ agreement, the US waives duties on imports from Egypt if the value includes 10.5% Israeli content.

The industrial areas currently included in the QIZ program are Alexandria, areas in Greater Cairo such as Sixth of October, Tenth of Ramadan, Fifteenth of May, South of Giza, Shobra El-Khema, Nasr City and Obour, areas in the Delta governorates such as Dakahleya, Damietta, Monofeya and Gharbeya, and areas in the Suez Canal such as Suez, Ismailia, and Port Said. The Upper Egyptian governorates of Minya and Beni Suef were designated as QIZs in January 2009, though the program has not yet been implemented in the two governorates. Egyptian exports to the U.S., ready-made garments in particular, have risen rapidly since the QIZ program was introduced in December 2004. The value of the Egyptian QIZ exports to the U.S. amounted to $858 million in 2010, approximately 38% of Egypt's total exports to the U.S.

OPIC and Other Investment Insurance Programs

Return to top

In July 1999, Egypt and the U.S. signed an updated investment agreement to facilitate the U.S. Overseas Private Investment Corporation (OPIC)'s provision of political risk insurance for U.S. private investment as well as for bid, performance, and advance payments, and customs bonds and guarantees issued on behalf of U.S. suppliers and contractors in Egypt. OPIC has two active political risk insurance projects in Egypt related to oil and gas exploration by the Apache Corporation. In addition, OPIC is providing up to $125 million in financing to private equity fund Citadel Capital to assist with Egyptian investments in logistics and agriculture. OPIC has also received board approval for a $250 million loan guaranty facility for small and medium enterprises in Egypt.

Egypt is also a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA).

Labor

Return to top

Egypt's labor force has grown steadily in recent years, with upwards of 700,000 new entrants into the labor market each year. Official statistics put the labor force at 26.7 million. Unemployment officially stood at 11.9 percent at the end of 2011, though experts estimate the real level of unemployment, particularly among youth, to be much higher.

There is universal agreement that the government bureaucracy and public sector enterprise are substantially over-staffed compared to private sector business. Skilled labor in most professions is in short supply, despite high numbers of university graduates in those fields. Foreign companies frequently pay internationally competitive salaries to attract workers with valuable skills. Millions of Egyptians continue to seek employment abroad on both a temporary and permanent basis.

The Unified Labor Law (Law 12 of 2003) provides comprehensive guidelines on labor relations, including hiring, working hours, termination of employees, training, health, and safety. The law grants a qualified right for employees to strike, as well as rules and guidelines governing mediation, arbitration, and collective bargaining between employees and employers. Non-discrimination clauses are also included, and the law complies with labor-related International Labor Organization (ILO) conventions regulating the employment and training of women and eligible children (Egypt ratified ILO Convention 182 on Combating the Worst Forms of Child Labor in April 2002). The law also created a national committee to formulate general labor policies and the National Wage Council, which discusses wage-related issues and national minimum-wage policy.

Under the Unified Labor law, workers may join trade unions but are not required to do so. A trade union or workers' committee may be formed if 50 employees in an entity express a desire to organize. All trade unions are required by law to belong to the Egyptian Trade Union Federation. Though the law remains in place, in practice employees may form independent worker organizations at the factory, governorate, and national level. In March 2011, the Minister of Manpower and Migration issued a decree recognizing complete freedom of association. The Minister decided that aspects of the Unified Labor Law violated, and were trumped by, Egypt's ILO and UNHRC commitments. Since March 2011 the Ministry has registered scores of independent trade unions without interference, while hundreds more have formed but not yet registered. The government has drafted a Freedom of Association Law, but not yet passed the legislation. Employers complain that the incongruence between the Unified Labor Law on the one hand, and the ministerial decree and practice on the other, causes uncertainty when dealing with workers' representatives. The ILO's Committee of Experts recognized Egypt's declaration on freedom of association as a positive step and emphasized that a law codifying these changes should be enacted as soon as possible.

Formally, workers in Egypt have the right to strike peacefully, provided a general trade union organizes the strike in defense of vocational, economic, and social interests and announces it at least ten days in advance. Strikers by law must also notify the employer and concerned administrative officials of the reasons and time frame of the strike. The law prohibits strikes in strategic or vital establishments in which the interruption of work could result in disturbing national security or basic services provided to citizens. In practice, however, workers strike regularly in all sectors without following these procedures. The number of strikes increased significantly in 2011. The ILO's Committee of Experts has criticized a law mandating that only government-affiliated General Trade Unions may organize strikes and that workers must notify employers in advance of strike actions.

Collective negotiation is allowed between trade union organizations and private sector employers or their organizations when attempting to improve labor terms, conditions, and employment provisions; cooperating between labor parties to achieve social development for workers of an establishment; and settling disputes between workers and employers. Agreements reached through negotiations are recorded in collective agreements regulated by the Unified Labor law. Collective bargaining is technically not permitted in the government and public sectors, though it exists in practice. The government often intervenes to limit or manage collective bargaining negotiations in all sectors.

The Ministry of Manpower and Migration sets worker health and safety standards, which also apply in public and private free zones and the Special Economic Zones (see below). Enforcement and inspection, however, are uneven. The Unified Labor Law prohibits employers from maintaining hazardous working conditions, and workers have the right to remove themselves from hazardous conditions without risking loss of employment.

Egyptian labor laws allow employers to close or downsize for economic reasons. The government, however, has taken steps to halt downsizing in specific cases. The unemployment insurance law, also known as the Emergency Subsidy Fund Law No. 156 of 2002, sets a fund to compensate employees whose wages are suspended due to partial or complete closure of their firm or due to its downsizing. The Fund allocates financial resources that will come from a 1 percent deduction from the base salaries of public and private sector employees.

According to foreign investors, certain aspects of Egypt's labor policies are significant business impediments, particularly the difficulty of dismissing employees. The Unified Labor Law is somewhat more flexible in this area than the previous one, allowing employers and employees to terminate employment contracts under specific circumstances, but the process is still not easy. The privatization program in some cases also required a company's new owner to retain all workers. The government has, however, used privatization proceeds to offer early retirement and/or other separation incentive packages to workers in some privatized companies.

The Labor Law 12 of 2003 requires that foreign workers account for no more than 10 percent of the total workforce of a firm, though this requirement can be waived by the Ministry of Manpower and Migration. This law's requirements do not apply to the oil and gas industry, but most or all individual concession agreements have some sort of requirement on percentage of local employees.

In 2011 the Ministry of Manpower and Migration enacted regulations designed to restrict access for foreigners to Egyptian worker visas. Visas for unskilled workers will be phased out. For most other jobs employers may hire foreign workers on a temporary six-month basis, but must also hire two Egyptians to be trained to do the job during that period. Only jobs where it is not possible for Egyptians to acquire the requisite skills will remain open to foreign workers. In practice, it is not clear how diligently the government is enforcing these provisions.

Foreign-Trade Zones/Free Ports

Return to top

Public and private free zones are authorized under the Investment Incentive Law and are established by a decree from GAFI. Free zones are located within the national territory but are considered to be outside Egypt’s customs boundaries, granting firms doing business within them more freedom on transactions and exchanges. Companies producing largely for export (normally 80 percent or more of total production) may be established in free zones and operate in foreign currency. Free zones are open to investment in any sector, by foreign or domestic investors. Companies operating in free zones are exempted from customs duties, sales taxes or taxes and fees on capital assets and intermediate goods.

There are currently 10 public free zones in operation in the following locations: Alexandria, Damietta, East Port Said Port Zone, Ismalia, Koft, Media Production City, Nasr City, Port Said, Shebin el Kom, and Suez. The Port Said free zone was initially scheduled to be phased out by 2007, but the government has extended the timeline multiple times, and Port Said continues to operate as a free zone. Private free zones may also be established with a decree from GAFI but are usually limited to a single project. Priority is given to export-oriented industrial projects. There is no restriction on foreign ownership of capital in private free zones.

The Special Economic Zones (SEZ) Law 83 of 2002, allows establishment of special zones for industrial, agricultural, or service activities designed specifically with the export market in mind. The law allows firms operating in these zones to import capital equipment, raw materials, and intermediate goods duty free. Companies established in the SEZs are also exempt from sales and indirect taxes and can operate under more flexible labor regulations. The first SEZ was established in the northwest Gulf of Suez. The Gulf of Suez SEZ is concentrated in a 20 square kilometer region around the port of Ain Sokhna, and has attracted foreign investments from China.

Law No. 19 of 2007 authorized creation of investment zones, which require Prime Ministerial approval for establishment. The government regulates these zones through a board of directors, but the zones are established, built and operated by the private sector. The government does not provide any infrastructure or utilities in these zones. Investment zones enjoy the same benefits as free zones in terms of facilitation of license-issuance, ease of dealing with other agencies, etc., but are not granted the incentives and tax/custom exemptions enjoyed in free zones. Projects in investment zones pay the same tax/customs duties applied throughout Egypt. The aim of the law is to assist the private sector in diversifying its economic activities.

Foreign Direct Investment Statistics

Return to top

Foreign direct investment came to a virtual standstill following the revolution. Egypt's foreign direct investments were negative during the first quarter of calendar 2011, going up to $99 million in the second quarter and $440 million in the third quarter. Until security and stability return to the country and greater clarity is achieved in the political transition, Egypt is unlikely to see substantial investment inflows.

Measurements of foreign direct investment (FDI) in Egypt vary according to the source and the definitions employed to calculate the figure. The Ministry of Petroleum keeps statistics on investment in the oil and gas sector (which accounts for the bulk of FDI in Egypt), while GAFI keeps statistics on all other investments. The Central Bank records figures on quarterly and annual investment flows based on financial records, for Egypt's balance of payments statistics. There are wide disparities between the three sources, and none can be considered definitive in assessing levels of foreign investment. GAFI's figures are calculated in Egyptian Pounds at the historical value and rate of exchange, with no allowance for depreciation and are cumulative starting from 1971. GAFI statistics indicated that U.S. investors had FDI in Egypt at a total of $5.8 billion for the period of 1971 - 2008 outside the oil/gas sector. The U.S. is ranked first in terms of FDI in Egypt.

Prior to the revolution, U.S. firms were active in a wide range of manufacturing industries, producing goods for the domestic and export markets. Examples of U.S. investors include American Express, AIG, American Standard, Bechtel, Bristol-Myers Squibb, Cargill, Citibank, Coca-Cola, Commercial International Bank, Energizer, ExxonMobil, Eveready, General Motors, GlaxoSmithKline, Guardian Industries, H.J. Heinz, Johnson and Johnson, Devon Energy, Microsoft, Procter and Gamble, Pfizer, PepsiCo, Pioneer, and Xerox. Leading investors from other countries include such companies as BG, ENI-AGIP, Shell, and Union Fenosa (in the oil/gas sector), Unilever, the M.A. Kharafi Group (Kuwait), and the Kingdom Development Company (Saudi Arabia).

Inflows into Egypt, $US Billions								
	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Foreign Direct Investment	0.4	3.9	6.1	11.0	13.2	8.1	6.8	2.2
Portfolio Investment	-.2	.8	2.8	-.9	-1.4	-9.2	7.9	-2.6
US FDI	0.2	2.0	4.6	4.7	6.4	3.5	1.4	1.8

Source: Central Bank of Egypt

Web Resources Return to top

Central Bank of Egypt: http://cbe.org.eg/
Ministry of Finance: http://www.mof.gov.eg/english/Pages/Home.aspx
Ministry of Industry and ForeignTrade: http://www.mfti.gov.eg/english/index.htm
General Authority for Investment: http://www.gafinet.org/English/Pages/default.aspx
Egyptian Government Portal: http://www.egypt.gov.eg/english/

Return to table of contents