

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

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## 1970 CONSULTATION WITH UNITED ARAB REPUBLIC

### Basic Document for the Consultation<sup>1</sup>

#### I. Legal and administrative basis of restrictions

Import and exchange restrictions in the United Arab Republic date back to the Second World War, and more specifically to 1947, after Egypt's departure from the sterling area. In that year, Foreign Exchange Law No. 80 and its Ministerial Order No. 51, together with Ministerial Order No. 46 subjecting all imports to a licensing system, were issued. The various exchange and import regulations were amended by subsequent legislation promulgated since the advent of the revolution in July 1952, with a view to managing the country's foreign exchange resources in the most appropriate manner and to meet the needs of the development plan first introduced in July 1960.

Exchange control in the United Arab Republic is performed by the Exchange Control Department under the supervision of a director of exchange operations, appointed by the Minister of Economy and Foreign Trade, who implements the various laws, arrêtés and regulations issued in connexion therewith.

Following the nationalization measures taken in 1961, the import trade was entrusted to the public sector companies and organizations. Since July 1967, however, all imports have been carried out, under the supervision of Commodity Boards, by publicly-owned commercial companies (which have all the rights and obligations of free enterprise firms) affiliated to the Egyptian General Trade Organization. As an exception to this general rule, direct imports may also be effected by certain industrial and other public sector establishments, as may be decided upon by the Minister of Economy and Foreign Trade.

It may be recalled that the import licensing system has been entirely dispensed with since October 1964, and replaced by direct exchange approvals within the foreign exchange budget allocations, in the manner described hereunder. However, import licences issued by the Import Control Department are still required for the clearance through the customs of new personal effects exceeding LE 100 in value, as well as of articles not requiring the transfer of foreign exchange.

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<sup>1</sup>Material supplied by the Government of the United Arab Republic.

With a view to organizing the foreign trade of the country and to co-ordinating the activities of the various organs related to that field, Commodity Boards representing the producing, the consuming, and the trading sectors of the country were created in 1966 in virtue of Ministerial Order Nos. 504 and 505 issued in that year. Such Boards - amounting in number to nine - have been enumerated in document L/3069 of 18 October 1968, submitted in connexion with the application for final accession to GATT. Each Board, including the agricultural export boards, is responsible for the determination of general policy concerning the exportation or importation of the items for which it has been established. This includes the drawing up of the necessary implementation programmes for the achievement of import targets in accordance with established priorities, and the examination of import offers received by companies for the required imports, taking into account such considerations as specifications, prices, delivery dates and means of payment. In order to secure the most favourable terms from all markets without discrimination, and to stimulate competition among the various importing and exporting agencies, it has been decided to allocate to each Board an appropriate number of commercial companies.

The economy is divided into several sectors (agricultural, industrial, transportation, etc.) and, in conformity with the Ministerial Arrêté No. 286 of 1967, all import requirements of the different sectors are submitted to the competent Commodity Boards. The procedure may be summarized as follows:

1. Within the general quota allocated the authorities responsible for each sector determine their import priorities of different commodities, with detailed information as to the specifications required for each commodity and the proper time schedule for effecting importation.
2. The import lists of the sectors are then submitted to the Commodity Boards in accordance with their commodity specialization for execution in conformity with the specific import plan decided for each commodity or group of commodities.
3. Generally, the commercial companies, each within its commodity specialization, are requested to submit offers for specific commodities. The different offers are examined by the Board concerned on the basis of commercial considerations as to prices, qualities, payment facilities, delivery dates, etc. The best offer is generally chosen, and the company submitting that offer is then authorized to confirm and to open the letter of credit necessary for carrying out the transaction.
4. The decision of the Board is the basic prerequisite to the formalities necessary for the opening of the letter of credit and for effecting the transfer required for approved imports.
5. However, in view of the need to regulate the sources and uses of the foreign exchange budget, a Financing Committee has been established at the Central Bank of Egypt in accordance with Arrêté No. 286. It includes representatives of the Central Bank, the Exchange Control Department, the Egyptian General Trade Organization and the Ministry of the Economy and Foreign Trade.

6. Import transactions in convertible currencies - decided upon by either the Commodity Boards or by the sectors having the right of direct importation - are submitted to the Financing Committee. After co-ordination between import requirements and available resources, authorization is then given for the implementation of transactions through the Bank designated for the sector concerned.

7. Direct imports by factories in the private sectors of raw materials, spare parts and production prerequisites are permitted provided that no transfer of foreign exchange is required.

## II. Methods used in restricting imports

The fundamental basis of the import policy of the United Arab Republic is the allocation of the largest possible part of the country's foreign exchange earnings - after making due allowance for other payment obligations - for the importation of foodstuffs and other supplies as well as raw materials and spare parts. Capital goods and machinery required for the development plan are financed, however, by long-term credit facilities. In view of these considerations, it is natural to restrict imports of non-essential and luxury goods, whilst the need to protect the infant industries implies some restriction of imports of certain products which are produced locally. In any case, the so-called restrictive list has lost its significance since the public sector has been entrusted almost exclusively with importation. The abrogation of this list has been decided and the necessary legislative measures are being taken to that effect.

For the past few years a foreign exchange budget based on the country's estimated earnings and expenditures in foreign exchange has been applied. With the introduction of the First Five-Year Plan in July 1960 the foreign exchange budget has acquired added importance, and has been instrumental in regulating the foreign trade of the country in conformity with the requirements of the development plan.

In drawing up the foreign exchange budget, first an estimate is made of the country's export proceeds as well as its earnings from invisible transactions, and of the expected availabilities of foreign loans and other credit facilities. Allowance is then made for the commitments falling due during the fiscal year in respect of foreign debt servicing and other obligations, as well as essential invisible payments. The remaining resources in convertible and bilateral currencies are then allocated among the various sectors of the economy in accordance with their necessary import requirements. Each sector is free to fulfil its requirements within the quota allocated to it in accordance with its priorities.

## III. Treatment of imports from different sources

The import policy of the United Arab Republic is pursued on a commodity rather than on a country basis, and imports are made on a non-discriminatory basis according to the sole criterion of competitive world prices and qualities.

As regards bilateral trade relations it is to be pointed out that there are no commitments to purchase any goods under any bilateral agreement, and the lists attached to these agreements are merely indicative of the trading targets to be aimed at by the parties concerned.

Moreover, bilateral trade agreements concluded by United Arab Republic always insist on international prices as a basis for all trade transactions, a matter to be decided upon individually for each commercial transaction by the Commodity Boards as already explained.

For this reason, the existence of a favourable balance on a bilateral agreement does not necessarily lead to trade diversion if prices prevailing in partner countries are not more advantageous than those prevailing in other markets. However available credit facilities may be taken into consideration should the terms prove to be similar.

The United Arab Republic at present maintains bilateral trade and payments agreements with nineteen countries, and trade agreements with ten countries providing for reciprocal credit facilities in a convertible currency. The former are maintained with the following countries: Albania, Algeria, Bulgaria, China, Czechoslovakia, Eastern Germany, Greece, Hungary, Iraq, North Korea, Mongolia, Poland, Rumania, Spain, Syria, Tunisia, USSR, North Viet-Nam, Yemen.

The trade agreements with reciprocal credit facilities are maintained with: Ceylon, Cuba, Ghana, Guinea, India, Mali, Morocco, Somalia, Sudan, Turkey.

The agreements providing credit facilities are of valuable importance in prevailing circumstances. It is the intention of the United Arab Republic Government, however, to comply with International Monetary Fund recommendation - as explained in document L/3069 of 13 October 1963 - concerning the termination of existing agreements with Fund members as and when more appropriate circumstances permit such action to be taken.

The bilateral agreements still in force are maintained for reasons concerning our relations with specific groups of countries. The United Arab Republic Government does not consider the bilateral agreements with the ten countries previously mentioned as bilateral payments agreements; their aim is to promote the expansion of trade between the United Arab Republic and these countries. The remaining agreements may conveniently be classified in the following manner:

1. Twelve agreements with countries with centrally planned economies: they provide for a proper channel of payment with those countries which do not conduct their trade in convertible currencies. Moreover they provide for additional credit facilities which are needed in prevailing circumstances.

2. Five agreements with Arab countries: they are considered essential to provide for a means of payment that would encourage the flow of trade until a multilateral channel of payments between them could be established within the framework of the Arab economic unity agreement.
3. Two agreements with Greece and Spain: these shall remain in force until previous arrears and balances resulting from certain transactions have been settled.

#### IV. Commodities or groups of commodities affected by various forms of restrictions

The restricted imports may be classified under four broad groups of commodities in accordance with the underlying motives, viz: the preservation of agricultural and animal kingdom wealth; the protection of infant industries; the adequacy of local production; and the restriction of non-essential imports.

As mentioned under II above, legislative measures are being taken for the abrogation of the restrictive list. It is to be recalled that this list was not rigid, and restricted products were in many cases actually imported with the permission of the authorities concerned with certain sectors.

#### V. Use of State trading or governmental monopoly as a measure to restrict imports for balance-of-payments reasons

The main objective of state trading in the United Arab Republic is to regulate the foreign trade of the country in a manner commensurate with the requirements of the overall development plan as well as with the foreign exchange budget. In the field of imports this system is not resorted to as a device for restricting imports but rather as a means for conducting foreign trade in the most efficient manner, based on competitive world prices and qualities. As explained in document L/3913 of 5 February 1970 state control of imports ensures that the principles of non-discrimination and competitive prices are observed by all the organizations and companies concerned. The non-discriminatory nature of United Arab Republic import policy is secured by the fact that all companies authorized to import are free to do so from whatever country provided that prices quoted for the various items of goods are those prevailing in the open market and comply with world competitive prices, and provided that the importation is effected in time in accordance with the foreign exchange budget.

It may be noted also that these companies compete with one another in importing different major items and no monopoly concessions are given as regards any particular commodity.

The United Arab Republic Government - through the established procedure of representing all Ministries and companies concerned on the Commodity Boards - makes sure that the terms include basically, prices, quality, delivery dates, payment conditions etc.

The Boards call for international bids, and the commercial companies acting as agencies for foreign suppliers place offers to these bids. Boards study such offers according to their specifications, prices, and other terms, and choose the best offers.

This procedure is applied to supplies from convertible currency countries as well as from bilateral agreement countries.

In all groups of commodities, care is taken to guarantee the continuity of competition among the different commercial companies of the General Trade Organization. In their examination of the different offers submitted, the Commodity Boards are free from any interference and base their decisions purely on commercial considerations.

#### VI. Measures taken for relaxing or modifying restrictions

Two important developments have taken place in this respect since the previous consultation in 1968 (BOP/80 dated 16 April 1968). In the first place there has been the liberalization effected within the framework of the Arab Common Market Agreement as explained in the Progress Report submitted to GATT secretariat early this year (document L/3340 dated 11 February 1970). The other measure concerns the trade arrangements between India, United Arab Republic, and Yugoslavia and the new Protocol extending the commodity coverage of the Trade Expansion and Economic Cooperation Agreement between the three countries as stated in the Report submitted to GATT (L/3285 of 9 December 1969) as well as in the Report of the Working Party (L/3341 of 11 February 1970). The CONTRACTING PARTIES took note of these reports during the twenty-sixth session.

#### VII. Effects of import restrictions on trade

Since the provisional accession to GATT, the foreign trade of the United Arab Republic recorded a substantial increase. On the import side this reflected large scale imports of capital goods, intermediate goods and raw materials needed for the implementation of the development plan, as well as imports of foodstuffs and other essential consumer goods to cope with the requirements of a rapidly increasing population. The substantial increase on the export side was partly due to the rise in the value of cotton exports and partly to the increase in other exports reflecting the increase as well as the diversification of production. Developments since 1962 are shown in the following summary; it may be stated that the relative decline in imports in the past three years - according to Customs Statistics - is partly due to the method of temporary admission to expedite the clearance of imports from the customs with the result that imports may not be fully covered by the relevant statistics. Actual payments for imports, however, were much higher according to balance-of-payments statistics.

FOREIGN TRADE SUMMARY 1962-69<sup>1/</sup>

(LE million)

	Imports (c.i.f.)	Exports <sup>2/</sup> (f.o.b.)			Trade balance
		Cotton	Others	Total	
1962	300.9	83.9	74.4	158.3	- 142.6
1963	398.4	121.0	105.8	226.8	- 171.6
1964	414.4	116.6	117.8	234.4	- 180.0
1965	405.9	146.2	116.9	263.1	- 142.8
1966	465.4	143.4	119.7	263.1	- 202.3
1967	344.4	121.5	124.7	246.2	- 98.2
1968 <sup>3/</sup>	289.6	120.0	150.3	270.3	- 19.3
1969 <sup>3/</sup>	277.3	130.7	193.4	324.1	+ 46.8

<sup>1/</sup> Customs Statistics (Central Agency for Public Mobilization and Statistics)

<sup>2/</sup> Including re-exports

<sup>3/</sup> Provisional

As far as the balance of payments is concerned, the strain of large-scale imports for developmental purposes as well as to meet the basic requirements of a rapidly increasing population was naturally reflected in a widening import surplus which was partly offset by the growing surplus from invisible transactions brought about by the increase in earnings from Suez Canal dues and in tourism income before the outbreak of hostilities in June, 1967. The deficit on current account was financed by a net capital inflow from abroad representing long- and medium-term loans obtained to finance mainly development projects, with the result that the overall deficit of the balance of payments was confined within narrow limits.

The current account deteriorated again in 1967 owing to the sharp fall in invisible receipts following the closing of Suez Canal and the stagnation in tourist traffic, but with the inflow of transfers representing Arab assistance funds and the maintenance of a net capital inflow the overall deficit did not exceed LE 16.8 million. In 1968 there was a complete reversal with an overall surplus reaching LE 5.3 million followed by an overall deficit of some LE 13 million in 1969. The attached summary shows the balance-of-payments developments during the period 1965/69.

VIII. General policy in the use of restrictions for balance-of-payments reasons

The general policy was previously explained at length in earlier sections of this document as well as in document L/3069 dated 16 October 1968 and L/3338 dated 6 February 1970 both of which were introduced in connexion with United Arab Republic final accession to the General Agreement.

To sum up the United Arab Republic general policy, it could be said that its main objective is to regulate foreign trade in a manner consistent with the development requirements as well as to ensure the most efficient utilization of foreign exchange resources.

The main feature of this policy is that imports from the different sources of supply are treated on a non-discriminatory basis and in accordance with purely commercial considerations particularly with regard to prices and quality.

As for bilateral arrangements, it is to be noted that such arrangements are not resorted to as a restrictive import practice, and they are maintained for reasons concerning our relations with specific groups of countries.

BALANCE OF PAYMENTS  
1965-1969

(in LE million)

	1965	1966	1967	1968	1969
1. <u>Commercial transactions</u> <sup>1</sup>					
Exports proceeds	246.8	259.5	258.7	288.7	319.7
Payments for imports	413.3	410.9	413.5	369.2	418.4
Balance	-166.5	-151.4	-154.5	- 80.6	- 98.7
2. <u>Other current transactions</u>					
Receipts	155.8	170.5	115.9	63.4	67.2
Payments	99.3	94.7	86.9	39.3	100.8
Balance	+ 56.5	+ 75.8	+ 59.0	- 25.9	- 33.6
3. <u>Current transactions balance</u>	-110.0	- 75.6	-125.5	-106.5	-132.3
4. <u>Transfer payments</u>	-	+ 5.0	+ 58.2	+110.5	+128.8
5. <u>Balance of current transactions and transfers</u>	-110.0	- 70.6	- 67.3	+ 4.0	- 3.5
6. Net capital inflow	+ 80.9	+ 64.2	+ 50.5	+ 1.3	- 9.8
7. Overall deficit or surplus	- 29.1	- 6.4	- 16.8	+ 5.3	- 13.3

<sup>1</sup>Including transit trade

Source: Central Bank of Egypt.