

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Restrictions

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## 1965 CONSULTATION WITH THE UNITED ARAB REPUBLIC

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

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

Import and exchange restrictions in the United Arab Republic date back to the second world war, and more recently to 1947 after Egypt's departure from the sterling area, when the Foreign Exchange Law No. 80 together with Ministerial Order No. 51 laying down its executive regulations, and Ministerial Order No. 46 were issued in the same year subjecting all imports to a licensing system. The various exchange and import regulations were amended by subsequent legislation since the advent of the revolution in July 1952, with a view to the proper managing of the country's foreign exchange resources according to the needs of the development plan first introduced in July 1960.

Exchange control in the United Arab Republic is performed by the Central Exchange Control attached to the Central Bank of Egypt under the supervision of a Supreme Committee for Foreign Exchange. The Committee is composed of representatives of the competent authorities including the Ministry of Economy and Foreign Trade, Exchange Control, Import, Export, and Cotton Departments, as well as the Central Bank of Egypt.

Following the nationalization of the import trade in 1961, importation has been carried out by fifteen Government-controlled import establishments, the capital of which is publicly owned. These establishments are affiliated to specific organizations and their activities are conducted on a competitive commercial basis. In accordance with import regulations laid down as from the fiscal year 1961/1962 the various categories of commodities are allocated among these establishments according to the nature of their activities.

It is to be pointed out, however, that Government requirements of equipment may be directly imported subject to international tenders, in accordance with the foreign exchange budget allocations and after final approval of the Plan Committee as explained below. Moreover direct imports by industrial and other establishments of the public sector are also authorized subject to the same conditions.

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

The import system is now being fully re-examined to adapt it to changing conditions, especially as all imports are effected by the public sector in conformity to Law No. 95 issued on 4 September 1963. Since October 1964 the import licensing system for imports payable in foreign currencies has been dispensed with, and applications for import permits - after their approval in the manner described hereunder - have since become subject to the final decisions of the Plan Committee of the Cabinet under the Chairmanship of the Prime Minister. However import licences issued by the Import Department are still required for the clearance from the customs of personal belongings exceeding £100 in value as well as of articles not requiring the transfer of foreign exchange.

According to the arrangements in force at present, applications for imports payable in convertible currencies are first submitted by the companies and establishments of each sector to the scrutiny of the authorities (usually the Ministries) in charge of that sector. It will be recalled that the national economy has been divided into sectors embracing industry, agriculture, supplies, medicines and pharmaceuticals, public services, transport and communications, and trade. Applications for imports are examined in the light of the foreign exchange budget allocations for each sector, taking into consideration the established practices regarding priorities, prices and other relevant factors. Applications are then referred by the respective Ministries (and the General Trading Organization in the case of the trade sector) to the exchange control authorities (Ministry of the Economy Central Exchange Control) for their consideration in the light of ruling exchange control regulations as well as the foreign exchange position, and their subsequent submission to the Plan Committee. Approvals by the Committee which constitutes the Control are communicated to the Central Bank of Egypt and to the commercial banks entrusted with the banking operations of the respective sectors - as mentioned below - for the implementation of these authorizations, whilst the controlling authorities of the sectors concerned are also informed of these approvals.

A similar procedure is applied as regards applications for imports payable through bilateral channels. After their perusal and approval by the authorities in charge of each sector of the economy the applications are then presented to the commercial bank designated for the sector concerned for submission to the exchange control authorities who have been authorized by the Plan Committee to deal directly with such applications.

It is to be pointed out in this connexion that as a result of the re-organization of banking business early in 1964, the various companies and establishments attached to public organizations have been allocated among the commercial banks in order to secure certain sectoral specialization between them. In this way it became possible to realize a form of financial control over the public sector and it became possible to assess the implementation of the plan in the financial field. Some exceptions to this sectoral specialization were, however, made as regards the financing of the main agricultural crops such as cotton and rice, and as regards the banking operations of industrial companies and establishments, where all banks may offer their services.

## 2. 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 for the implementation of the overall economic development plan. For this reason top priority is given to the importation of capital goods, machinery and spare parts, and raw materials required for the industrialization of the country, the greater part of which is imported from the GATT countries. In the meantime due consideration is given to the country's needs of essential foodstuffs and other supplies. In view of these considerations it is natural to restrict imports of non-essential and luxury goods, whilst the need to protect the local infant industries implies the restriction of imports of products which are produced locally. Products the importation of which is at present restricted are designated in a special list, published by the Ministry of the Economy and Foreign Trade, which is revised from time to time; other imports are authorized within the framework of the foreign exchange budget.

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 comprehensive planning 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 assessing the foreign exchange resources and utilizations of the annual foreign exchange budget which covers a fiscal year an estimate is made first 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 due during the year in respect of foreign debt servicing and other obligations, as well as invisible payments. The remaining resources in convertible and bilateral currencies are then allocated among the various items of imports, for which allocations are established on the basis of the customs tariff schedules and distributed among the public and private sectors in accordance with the targets of the plan.

Steps are being taken as from fiscal year 1965/1966 to incorporate within the State budget estimates the various foreign exchange allocations under the respective budgetary items, where foreign exchange expenditures are involved.

## 3. Treatment of imports from different sources

As pointed out in our accession document L/1816, dated 31 July 1962, 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. However, the United Arab Republic may sometimes favour imports from bilateral countries should it enjoy a credit balance with such countries if prices from the various alternative sources are not more advantageous.

As regards bilateral agreements - which have been redesignated in free currencies in conformity with the recommendations of the International Monetary Fund staff mission - their use is being re-examined. In fact steps are being taken to bring to an end all payments agreements concluded with International Monetary Fund members before mid-1966 in accordance with the terms of the 'stabilization programme agreed upon with the International Monetary Fund in May 1964. The following Aide-memoire requesting the revision of payments agreements with Fund members within two years was presented to such countries:

"The United Arab Republic is, at present, in the process of reviewing the broad policy lines relating to its foreign trade. This was prompted by the fact that, as a result of social and economic development in recent years, the structure of the economy of the United Arab Republic has undergone significant changes. Accordingly, the foreign trade pattern, and the relative importance of various items of trade, both for exports and imports, have also changed.

"The main purpose which the United Arab Republic aims at is to increase the volume of its trade to the utmost on a mutually beneficial basis with the other trading parties.

"Trade relations with your country are of great interest to the United Arab Republic and the United Arab Republic Government finds that, with the aim of increasing the volume of goods exchanged, trade and payment agreements between our two countries should be re-examined as soon as possible in the light of principles of mutual benefit in trade and the basic principles of International Monetary Fund as far as payments are concerned. We would hope that the present arrangements be replaced by others conforming to those principles within two years."

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

As mentioned under (2) above, restricted imports are designated in a special list, issued by the Ministry of the Economy and Foreign Trade. This list is not rigid but subject to occasional revision whenever the need arises. A revised list - in which the items are classified according to the new Customs Tariff Schedules - was issued in conformity to Arrêté No. 737 of 1964, and published on 14 October 1964

The restricted imports may be classified under four broad groups of commodities in accordance with the underlying motives as mentioned hereunder. It should be pointed out that in many cases restricted products may be imported with the authorization of the Ministries of Agriculture, Supplies, and Industry, as well as other controlling bodies as far as their respective sectors are concerned.

(a) Preservation of agricultural and animal kingdom wealth

In order to prevent propagation of plant and animal diseases with a view to preserving agricultural and animal kingdom wealth, certain imports are prohibited of which mention may be made of various cultivation seeds, and animal breeds, except crossbreeds for improving animal production.

(b) Adequacy of local production

Local production of certain foodstuffs such as vegetables, dairy products, fresh fruit and fruit preparations is quite adequate to meet local consumption needs, and eventually affords exportable surplus.

(c) Protection of infant industries

Imports of a certain number of products are restricted in order to protect infant industries, but restriction for such purposes is not, as mentioned above, absolutely rigid.

(d) Luxuries and non-essentials

Imports of a few articles considered as luxuries or non-essentials - being produced locally - such as perfumes, cosmetics, and playing cards - are not authorized.

5. Use of State-trading or Government monopoly for restricting imports

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. The State-trading apparatus thus endeavours to provide the country with the required goods at the most advantageous terms and at the appropriate time taking into consideration seasonal variations in local production. State-trading enterprises conduct their activities solely in accordance with customary commercial business practice.

6. Measures taken for relaxing or modifying restrictions

The most important recent changes in exchange restrictions introduced since the previous consultations may be outlined as follows:

- (1) In order to establish a realistic exchange rate in all foreign transactions and to reduce reliance on restrictions imposed on current transactions, an additional uniform statistical tax of 5 per cent was imposed on all imports (by agreement with the International Monetary Fund), with the exception of certain supply products, bringing the total tax up to 10 per cent.

(2) A tax of 5 per cent was levied on all remittances abroad as well as on amounts carried by travellers leaving the country. However, remittances for official travel, for United Arab Republic educational missions abroad and for pilgrimage are exempted from this tax.

(3) Proceeds of exports of dehydrated onions were exempted as from 21 December 1964 from the export tax imposed by Arrêté No. 62 of 1962.

(4) Proceeds of exports of fresh onions of the 1965/1966 crop are to be similarly exempted from the export tax.

7. Effects of restrictions on trade and general policy in the use of restrictions for balance-of-payments reasons

The level of United Arab Republic imports continued to rise in recent years despite resort to import restrictions. This reflected large-scale imports of capital goods, intermediate goods and raw materials needed for the industrialization of the country within the overall development plan, as well as of essential consumer goods to cope with the requirements of a rapidly growing population. Thus from £222 million in 1959 the level of imports rose to over £300 million in 1962 and further to some £400 million in 1963, of which the greater part was derived from GATT sources. During the first half of 1964 imports at an annual rate were running on the same level of the preceding year. After the setback of 1961 and 1962 as a result of crop failures, exports staged a recovery in 1963 to reach nearly £227 million, an increase of some £69 million over the preceding year. Nevertheless the adverse trade balance advanced from about £143 million in 1962 to some £172 million in 1963. During the first half of 1964 it was running at a higher annual rate compared with the corresponding period of 1963, as will be seen from the following summary:

Summary of Foreign Trade

(£ million)

Year	Imports		Exports (f.o.b.)		Trade Balance
	(c.i.f.)	Cotton	Others	Total	
1959	222.2	110.2	50.3	160.5	- 61.7
1960	232.5	134.7	63.1	197.8	- 34.7
1961	243.8	104.6	64.3	168.9	- 74.9
1962	300.9	85.9	74.4	158.3	- 142.6
1963	398.4	121.0	105.8	226.8	- 171.6
January/June					
1963	180.9	74.7	52.6	127.3	- 53.6
1964	201.3	71.0	67.8	138.8	- 62.5

Source: Statistical and Census Department.

The strain of large-scale imports on the balance of payments - though partly mitigated by a growing surplus from invisible transactions and the recovery of exports - was clearly reflected in the persistence of a large deficit on current account, which reached £117.6 million in 1962 and nearly £123 million in 1963. For the first half of 1964 the current account deficit widened further compared with the corresponding period of the preceding year.

As will be seen from the following summary the overall deficit has been reduced to manageable proportions as a result of a net capital inflow reflecting the use of long-term development loans as well as United States counterpart funds within the framework of Public Law 480.

Balance-of-Payments Summary

(£ million)

Year	Import surplus	Other current transactions, net	Current account balance	Net capital inflow	Overall deficit or surplus
1961	- 76.5	+ 23.2	- 53.3	+ 33.9	- 19.4
1962	- 149.0	+ 31.4	- 117.6	+ 80.7	- 39.6
1963	- 173.8	+ 50.9	- 122.9	+ 93.7	- 29.2
January/June					
1964	- 62.6	+ 22.5	- 40.1	+ 43.7	+ 3.6
1963	- 50.2	+ 28.2	- 22.0	+ 32.3	+ 10.3

The overall surplus for the first half of 1964 (as well as in 1963) is mainly attributed to the seasonality in cotton exports. Taking into consideration the trend of payments during the second half of the year, the overall deficit may still be large for the whole of 1964, though efforts are being made to reduce it by various means including the restriction of travel and the curtailment of Government expenditures abroad.