

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Balance-of-Payments Restrictions

1981 CONSULTATION WITH THE ARAB REPUBLIC OF EGYPT (SIMPLIFIED PROCEDURES)

Background Paper by the secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of Payments Purposes (L/4904) to assist the Committee on Balance-of-Payments Restrictions in taking the decision referred to in paragraph 8 of this Declaration.

I. Egypt's previous consultations

2. The last full consultation with the Arab Republic of Egypt took place on 19 October 1970. At this consultation the Committee was encouraged by the evidence of export diversification and hoped that this process would continue. While noting the additional facilities designed to encourage trade with convertible currency countries, members of the Committee expressed the hope that the proposed fundamental reform of the exchange system would be effected so that reliance on import controls and bilateral agreements could be substantially reduced. (BOP/R/49, paragraph 32)

3. Since the last full consultation four consultations have been held with the Arab Republic of Egypt under the simplified procedures: June 1973, November 1975, May 1977 and November 1979.

II. The main changes in Egypt's trade policy since the last consultation

4. The improved performance of the Egyptian economy and the strengthening of the external accounts over the past few years have permitted a liberalization of controls over imports.

5. Most of the trade control has taken place by means of policies implemented through the exchange and payments system. The complex and trade-distorting practice of multiple currency rates was substantially reformed and simplified when the former official and parallel exchange rates were unified on 1 January 1979. The remaining groups of exchange transactions were transferred from the former official rate

to the present "unified" or "established" rate (previously known as the parallel rate). The "established" rate now applies to all import and export transactions with the exception of those conducted at the "free" rate.

6. The Open General Licence (OGL) system, designed to liberalize importers' access to foreign exchange through the "established" rate, was expanded in 1979. Under Ministerial Decree No.1775 new items were added, bringing imports covered by the scheme to approximately 15 per cent of total imports. The provisions of the decree were given retroactive effect to 31 December 1978.

7. During 1979 and 1980 certain measures were enacted which served to restrict the import of goods under the "free" rate or "own exchange" system. As of 1 September 1979, payment of customs duties on certain consumer goods imported under the "own exchange" system was required to be effected in foreign currency.

8. Ministerial Decree No.15 of 4 June 1980 required that advance payment in foreign convertible currency for imports financed under the "own exchange" system be made to local banks up to specified percentages: these were fixed at 25 per cent for certain food items, 40 per cent for production inputs other than transportation equipment and 100 per cent for other items. Simultaneously, "own exchange" imports were exempted from the Open General Licence system.

9. Certain tariff reductions took place in 1980. In May customs duties on sugar, animal feed, certain other construction materials and agricultural machinery were abolished, while those on butter, flour, maize, beans and certain construction materials were reduced substantially. In November customs duties on specified types of wool, aluminium and food products were reduced, while certain leather goods were exempted from such duties.

III. Major trends in Egypt's foreign trade since the last consultation

10. Differences in trade statistics among the various sources are so large in the case of Egypt that any analysis of recent trends in exports and, in particular, imports becomes a highly difficult task. Reasons for these differences have been thoroughly discussed and their consequences assessed in the IMF Document presented to the Committee¹.

¹IMF, Recent Economic Developments for the Arab Republic of Egypt, January 16 1981, pages 46-47.

11. Data discrepancies are less marked for exports, though still present. According to customs data, the value of exports from Egypt increased by 6 per cent in 1979 and by 74 per cent in the first half of 1980 (compared with the same period one year earlier), when they were valued at \$1.26 billion. Rising prices and somewhat increased output caused a leap in earnings from petroleum exports. Though understated in customs statistics, the share of petroleum in total exports rose from 28 per cent in 1978 to over 40 per cent in both 1979 and the first half of 1980. Largely due to increased availability, exports of raw cotton also registered a substantial rise in the early months of 1980, while rice exports were again reduced.

12. Differences between various sources of data on imports are extremely wide. According to customs, imports (c.i.f.) declined from \$6.7 billion in 1978 to \$3.8 billion in 1979, while registering a small rise (2 per cent) when measured in national currency. According to exchange control statistics, there was, on the contrary, an increase in imports in f.o.b. terms, from \$4.8 billion in 1978 to \$6.1 billion in 1979. The latter estimated increase appears to be close to the estimates based on partners' trade statistics: exports from industrial countries (North America, Japan and Western Europe) were valued at \$4.4 billion (f.o.b.) in 1978 and \$5.6 billion in 1979¹. Apart from the coverage and valuation problems to which the IMF paper makes reference, such variations in import reporting between customs and exchange control sources might also be related to accounting difficulties due to the 44 per cent devaluation of the Egyptian pound against the U.S. dollar in early 1979.

13. Customs data for the first half of 1980 show a 31 per cent increase in imports (in U.S. dollars) over the first half of 1979, which roughly corresponds to the rise in industrial countries' exports to Egypt in calendar 1980. Based on industrial countries' recorded exports, this increase could be estimated at about one-third in dollar terms. Among import items, food products and chemicals appear to have been the most rapidly increasing in 1980.

¹Industrial countries accounted for three-quarters of total Egyptian imports (customs data) in 1979.