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1973 CONSULTATION UNDER ARTICLE XVIII:12(b)
WITH THE ARAB REPUBLIC OF EGYPT

Statement Submitted by the Arab Republic of Egypt
under the new Procedures for Consultations¹

I. Balance-of-payments position and prospects

In the basic document for the 1970 Consultation (BOP/110) a brief description was given of the balance-of-payments developments during the period 1965/69. Reference was then made to the strain caused by large-scale imports for development purposes as well as for meeting the basic requirements of a rapidly increasing population. The resulting import gap was financed by the growing surplus from invisibles until the outbreak of hostilities in June 1967 (and the closing of the Suez Canal) and by the receipt thereafter of Arab assistance funds under the Khartoum Agreement, coupled with the inflow of long and medium-term loans to finance development projects.

Developments during the period 1969/71 indicate a further deterioration on current account with the current deficit widening from \$132.3 million in 1969 to \$211.1 million in 1971.

The following points are to be stressed:

1. The proceeds from exports have actually recorded a welcome expansion since 1967, to show an increase reaching 43 per cent during the period 1968/71. The substantial improvement in export performance was brought about by the rise in raw cotton exports as well as in rice exports which has become an important cash crop, coupled with an increase in exports of non-traditional products.
2. The improvement, however, was partly offset by the continued increase in payments for imports which went up by 30 per cent during the same period, reflecting an acceleration of economic activity after the preceding stagnation as well as the need to replenish stocks. As a result, the adverse trade balance widened from \$154.5 million in 1967 to \$171.1 million in 1971 (after the temporary improvement in 1968 and 1969).

3. As far as invisible transactions are concerned, the growing surplus therefrom came to an end after June 1967, and was replaced by a deficit reaching £40 million in 1971. Although receipts went up from £63.4 million in 1968 to £79.2 million in 1971 as a result of increased earnings from tourism and other revenues, payments recorded a larger increase. In fact they advanced from £89.3 million to £119.2 million in the same period as a result mainly of the growing burden of servicing the external debt.

4. Taking into consideration the transfers in respect of Arab aid, the deficit on current account plus transfers was confined to £39.8 million in 1971 compared with £3.5 million in 1969. With a net capital inflow and allocation of SDRs the overall deficit was further reduced to £61.3 million as against £13.3 million in 1969.

5. As regards the period January/June 1972 - the latest for which information is available - the balance-of-payments estimates show an overall surplus of £23.5 million as against a deficit of £5 million in the corresponding period of 1971. Despite the widening of the current account deficit stemming from a larger adverse trade balance, and the deterioration of the balance of current transactions and transfers, the overall surplus was brought about by the large net capital inflow during the period under review. The point is to be made, however, that the balance of payments is usually in equilibrium or shows a surplus in the first half of the year owing to the seasonality in raw cotton exports.

6. As a result of the balance-of-payments developments the international reserves of the Central Bank amounted to £177 million in June 1972 compared with £145 million at the end of 1969. In the meantime the net assets of the banking system - taking short-term liabilities into consideration - deteriorated from minus £140 million at the end of 1969 to minus £209 million in June 1972.

BALANCE-OF-PAYMENTS

1969-1972

(£ million)

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>Jan./June</u>	
				<u>1971</u>	<u>1972</u>
<u>I. Merchandise transactions</u>					
Exports proceeds	319.7	355.4	369.7	215.2	210.2
Payments for imports	418.4	517.8	540.8	272.0	287.1
Balance	<u>- 98.7</u>	<u>-162.4</u>	<u>-171.1</u>	<u>- 56.8</u>	<u>- 76.9</u>
<u>II. Other current transactions</u>					
Receipts	67.2	76.4	79.2	37.6	43.2
Payments	100.8	114.7	119.2	60.2	63.1
Balance	<u>- 33.6</u>	<u>- 38.3</u>	<u>- 40.0</u>	<u>- 22.6</u>	<u>- 19.9</u>
<u>III. Current transactions balance</u>	<u>-132.3</u>	<u>-200.7</u>	<u>-211.1</u>	<u>- 79.4</u>	<u>- 96.8</u>
<u>IV. Transfer payments</u>	<u>+128.8</u>	<u>+134.0</u>	<u>+121.3</u>	<u>+ 64.7</u>	<u>+ 65.7</u>
<u>V. Balance of current transactions and transfers</u>	<u>- 3.5</u>	<u>- 66.7</u>	<u>- 89.8</u>	<u>- 14.7</u>	<u>- 31.1</u>
<u>VI. Net capital inflow</u>	<u>- 9.8</u>	<u>+ 36.3</u>	<u>+ 19.8</u>	<u>+ 0.9</u>	<u>+ 45.2</u>
<u>VII. Allocations of SDRs</u>	<u>-</u>	<u>+ 11.0</u>	<u>+ 8.7</u>	<u>+ 8.8</u>	<u>+ 9.4</u>
<u>VIII. Overall deficit or surplus</u>	<u>- 13.3</u>	<u>- 19.4</u>	<u>- 61.3</u>	<u>- 5.0</u>	<u>+ 23.5</u>
<u>IX. Accounted for as follows:</u>					
Changes in foreign assets (dec., +)	+ 19.2	+ 20.1	+ 43.5	+ 5.3	- 14.6
Changes in liabilities (inc., -)	+ 3.9	+ 4.9	+ 8.8	+ 6.6	+ 1.9
IMF position (dec., +)	- 9.2	- 0.1	+ 8.9	- 1.1	- 8.6
Holdings of SDRs (inc., -)	-	-	- 3.2	- 3.9	- 6.9
Errors and omissions	- 0.6	- 5.5	+ 3.3	+ 1.9	- 4.7
	<u>+ 13.3</u>	<u>+ 19.4</u>	<u>+ 61.3</u>	<u>+ 5.0</u>	<u>- 23.5</u>

II. Foreign trade system and methods of restriction

1. The foreign trade system of the Arab Republic of Egypt and the methods of restriction used were elaborated in detail in the series of documents submitted to GATT on the occasion of various balance-of-payments consultations with the CONTRACTING PARTIES in the past and, more particularly, the basic document for the 1970 Consultation (document BOP/110 dated 9 September 1970), and the Memorandum submitted for the final Accession (document L/3069 dated 16 October 1968).

2. Since the last consultation took place structural changes have been introduced aiming at the improvement of the system and enhancing its efficiency in the service of the national economy, although the basic philosophy of running the system remained. Before reviewing the changes it may be appropriate to recall that the basic principles governing the conduct of our foreign trade remain virtually unchanged as far as our trading partners are concerned. Thus trade is conducted on a commodity rather than on a country basis in a non-discriminatory manner and in accordance with the sole criteria of commercial considerations. Moreover, the import policy is not essentially a restrictive policy since it is primarily designed to regulate imports in such a way as to satisfy the country's needs for essential foodstuffs and other supplies on the one hand, and for raw materials, intermediate and capital goods required for development purposes on the other, within the framework of the foreign exchange budget allocations and priorities.

3. As for the foreign trade system mention was made in the Accession and Consultation documents - referred to above - to commodity boards which were initiated by the Ministerial Order issued in 1966 in order to organize the foreign trade of the country and to co-ordinate the activities of the various organs engaged in that field. In the light of the results revealed by the experience of these boards in the past few years, and with a view to adapting the foreign trade system to changing conditions, it was thought fit to overhaul this system to introduce the changes necessary to improve the efficiency of the system and to overcome the difficulties encountered in the functioning of these boards.

4. As a result of the reorganization of the foreign trade system recently decided, the Commodity Boards were replaced by another structure in which special Commodity Committees known as "Determination" or "Selection" Committees play a central rôle.

The reorganization of the foreign trade system is of a purely institutional character designed to regulate foreign trade in the most efficient manner. In fact such reorganization does not in any way entail an increase in existing restrictions, nor does it envisage obstructing the course of normal trading relationships. The main features are described hereunder:

A. The Higher Council for Foreign Trade

The Higher Council for Foreign Trade is formed under the chairmanship of the Deputy Premier and Minister of Economy and Foreign Trade. The Council is entrusted with the task of laying down a long-term foreign trade policy, as well as drawing up the annual export and import plan and following up of the implementation of the foreign exchange budget. Responsibility for determination of import priorities and time schedules of importation lies with the Ministries in charge of the sectors concerned, while the necessary import arrangements in execution of these plans are made by the special commodity committees. It will be recalled that the economy is divided into several sectors such as the industrial, agricultural and the supply sectors and that the authorities in charge of each sector are responsible for meeting the import requirements of the sector in accordance with the quota allocated to it in the foreign exchange budget.

B. The foreign exchange budget

The foreign exchange budget, while retaining its importance as the focal point in the country's foreign trade system, is to be drawn up on a realistic basis. This budget is to be approved by the Council of Ministers and its amendment can only be effected in a similar manner. It is supported by a quarterly financing programme regulating the distribution of potential foreign exchange earnings among the various sectors of the economy. An External Financing Committee has been established in 1971 for the purpose of drawing up such programmes to co-ordinate foreign exchange requirements and availabilities in implementation of the foreign exchange budget.

C. Commodity Committees

The "selection" committees which are established for the various sectors, under the supervision of the Minister concerned, consist of a number of committees of which mention may be made of the five committees for the sector of supplies and the seven committees for the industrial sector. In addition to the Ministries and the public sector organizations or public authorities concerned, each committee has representatives from the Ministry of Economy and Foreign Trade,

the General Trade Organization, the Export and Import Authority and the banking system. These committees are entrusted with the task of scrutinizing the offers submitted in respect of the commodities of their competence in the light of the specifications, prices, delivery dates and means of payment. The committees call for international bids and the State-trading companies of the General Trade Organization, acting as agents for foreign suppliers, place offers to such bids. Decisions by the committees in respect of such offers - based purely on commercial considerations - are usually final and serve as authorization for the implementation of the import transactions through the trading companies serving the sector concerned.

D. Public organizations

It is to be pointed out that the public organizations, which are represented on the "selection" committees, actually act as their technical secretariat. By checking import specifications collected from the affiliated companies they actually ensure that such specifications are prepared in a technical way to serve as basis for adjudications and offers announced by the selection committees, to the advantage of the foreign supplier. In the meantime public organizations examine specifications provided for in the offers submitted which are referred to them by the commodity committees in order to determine if they conform to requirements prior to decision taking.

E. External trading companies

For the purposes of reorganization of foreign trade the principal commodities have been classified into five broad categories viz.: foodstuffs, chemicals, metals, engineering and mining, and others including timber, spinning, weaving and miscellaneous products. In order to ensure fair competition between the State-trading companies without conferring monopoly concessions upon them, whilst in the meantime deriving the benefits of specialization and trading know-how, it has been thought fit to allocate each of the above-mentioned broad groups of commodities to two or three of the State-trading companies.

To conclude this section mention may be made of the fact that the special commodity committees are concerned with meeting the requirements of their respective sectors for the major and standardized consumer, intermediate and capital commodities. On the other hand imports of other and non-standardized commodities are left to the sector concerned in collaboration with the competent

external trading companies. As regards complete investment and expansion projects the necessary imports thereof are also left to the sector concerned through the special committee established for the purpose at the general industrialization authority.

Another point to be stressed in this connexion is that the special commodity committees are to observe the export and import regulations laid down by the Minister of Economy and Foreign Trade. In particular, import and export transactions are entirely segregated and barter or compensation deals are not authorized.

III. Effects of restrictions

We should note that restrictions as such are not exercised in Egypt. However, it can be seen from the short analysis of recent balance-of-payments developments that payments for imports actually continued to increase for the reasons already stated. This was made possible by the growth in exports proceeds and the transfers of Arab assistance, coupled with a net capital inflow representing the net use of external loans to finance development projects. Another point worth stressing is that the volume of imports from our GATT partners continued to grow.

As regards the prospects of relaxing our foreign trade system, it appears from the above review that such objective is difficult to attain in the short run. It is the intention of the authorities, however, to follow a more liberal policy when it is possible.

IV. Other relevant points

1. Exchange control system

According to Ministerial Decree issued on 29 June 1972 the administrative form of central exchange control and its responsibilities were modified. The general administration of exchange control, attached to the office of the Under Secretary of Economy and Foreign Trade in charge of exchange operations and the foreign exchange budget, was entrusted with exchange control affairs from the points of view of research and planning. On the other hand, the banking system was entrusted with the task of performing all the executive foreign exchange operations. Within the framework of the authority conferred on them, banks perform payments abroad without need to obtain specific exchange control approvals. Similarly, exchange control approval for licensed exports ceased to be required, and the collection and surrender of export proceeds was henceforth to be supervised by the banks.

The National Bank of Egypt took over all banking operations related to foreign trade transactions of the public sector.

2. Private imports

The facility allowing private sector enterprises to import certain products "without the use of foreign exchange" was abolished. Imports of raw materials, semi-manufactures, and spare parts for the private sector, as well as agricultural machinery and transportation equipment, are henceforth to be financed by special foreign exchange allocations derived from the funds accumulated through the application of the incentive rates system.

3. Investment of foreign capital, free zones

A development of important relevance to the balance-of-payments prospects was the promulgation of a law in 1971 in respect of the investment of Arab capital and free zones. The law specifies the types of funds transferred for the purpose of investment in accordance with its provisions. It also enumerates the privileges enjoyed by such capital, and the technical arrangements covering its investment and the remittance of profits realized by the projects concerned. Foreign capital invested in conformity with this law may be repatriated after a period of five years in five annual instalments. The law also provides for the establishment of a public authority entitled "The Public Authority for the Investment of Arab Capital and Free Zones" affiliated to the Ministry of Economy and Foreign Trade. It shall be entrusted with the implementation of its provisions.