

INFORMATION

COOPERATION-DEVELOPMENT

E E C - EGYPT

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The Cooperation Agreement signed in Brussels on 18.1.77 marks the start of a privileged relationship between Egypt and the European Community. It forms part of the Community's global Mediterranean policy launched at the Paris Summit meeting of EEC Heads of State in October 1972.

Along with similar simultaneous agreements with other Mashreq countries and the Maghreb (Algeria, Morocco, Tunisia - April 1976), the Egyptian agreement contributes to the implementation of this global approach in the Southern Mediterranean. Negotiations with Lebanon, the other Mashreq country, will start as soon as the Lebanese government is ready to do so.

The agreement with Egypt is also an important contribution to the dialogue between the European Community and the Arab countries. The Community now has agreements with 9 out of the Arab League's 21 members. Moreover these links are with the poorer Arab countries which in 1975 recorded a trade deficit with the EEC of nearly \$3 billions.

The 1972 Agreement: A preferential trade link with the Community

Egypt's desire for a trade link with the Community dates back to 1969 when the first exploratory talks took place. Negotiations for a preferential trade agreement began in September 1970 and were concluded in October 1972. The Agreement was signed on 1 November 1973 for a period of 5 years.

The object of the agreement was to set up a free trade area. The Community reduced its tariffs by 55% on about 45% of Egyptian Industrial exports subject to duty (cotton yarn being the major exception).

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Together with products already exempt from duty this meant that 90% of Egyptian industrial exports had preferential access to the Community market. Smaller tariff concessions were granted on sensitive products such as aluminium and cars while annual import quotas were imposed on others such as cotton fabrics and refined petroleum.

In the agricultural sector the Community reduced its tariffs by 25-40% on over half Egypt's exports. The Community reduced duties on imports of Egyptian rice (one of its main crops) by 25% up to an annual ceiling of 31,000 metric tons (mt). In return Egypt imposed an equivalent tax on its rice exports. Egyptian citrus fruit exports benefitted from a 40% reduction in the Community's Common Customs Tariff (CCT) provided that prices did not drop below Community Reference levels.

For its part Egypt reduced tariffs by 30 - 50% on about 30% of its imports from the Community. The concessions benefitted goods not produced in Egypt such as machines, electrical equipment and chemical products.

In order to encourage Egypt's economic development there was a safeguard clause protecting Egypt's infant industries. In addition Egypt was not obliged to lift its quantitative restrictions on Community exports.

However at the same time as the 1972 preferential agreement was being concluded the Community's Heads of State decided at the Paris Summit to adopt a new global approach in their relations with Mediterranean countries. This involved closer and wider ties going far beyond simple trade agreements.

The 1972 Agreement proved unsatisfactory for a number of reasons:

- Despite tariff concessions the volume of Egyptian exports to the EEC declined and its trade deficit rose.
- At the same time its traditional exports - cotton and petroleum - which were excluded from the agreement also declined in volume.
- The doubling of Egypt's population from 19 million in 1947 to 38 million in 1976 has meant that local consumption has increased more than production. Not only has the exportable surplus been reduced but some new products now have to be imported.
- Recession in the textile market and increased competition from synthetics has led to a decrease in raw cotton exports, Egypt's main export earner, to the EEC.
- Inability of Egyptian industrial exports to compete on the European market.

For all these reasons tariff reductions alone were not enough to stimulate Egyptian exports to the Community. Other forms of aid - economic, technical and financial - were needed and these were included in the Community's new global approach.

The 1976 Agreement: The start of meaningful cooperation

Negotiations began in January 1976 for a more extensive Cooperation Agreement within this new global framework. However the Community's initial offer did not include technical and financial aid which Egypt wanted in the agreement. The negotiations were adjourned so that the Community could reconsider its position.

On 30 June 1976 the Nine's Foreign Affairs Ministers agreed to add this to their offer. Negotiations were resumed in Brussels on October 14 and an agreement concluded the following day.

There was however one final point to be settled. The Egyptian delegation led by the Foreign Trade Minister Mr. Tawfik - Abdelfattah, raised a reserve on the duration of the financial protocol. A compromise was eventually reached whereby the aid, worth 170 million European units of account (1 E u.a. = \$1.32 approx) would take effect from (signature of the agreement and last until 31 October 1981.)

The Community had originally proposed that the aid be spread over 5 years starting from the date of ratification of the agreement. As ratification by the parliaments of the EEC member states could take at least a year. Egypt will thus start receiving aid much earlier than originally planned.

While awaiting ratification by the Nine an interim arrangement will enable the trade provisions of the agreement to come into force early in 1977.

A dynamic agreement for an unlimited period

The new agreement is thus much broader scope covering all areas of cooperation except labour. Although the amount of aid is relatively modest compared with Egypt's development needs it provides a valuable framework for increasing cooperation. Unlike its predecessor the new agreement is for an unlimited period.

At the initialling ceremony in Brussels on October 15 Mr. Tawfik - Abdelfattah said that he was pleased with the privileged relationship which had been created between Egypt and the EEC. He added, "It is a start but we expect far more aid in the future."

Mr. Claude Cheysson, European Commissioner responsible for Development Aid said, "Egypt has been given access to the World's largest market as well as aid to develop according to its own economic priorities." In addition Mr. Cheysson emphasised the institutional arrangements in the agreement which will help maintain close contacts.

Under the agreement most Egyptian industrial exports will enjoy duty free access from 1 July 1977. In the agricultural sector Egyptian exports benefit from 40 - 80% tariff reductions when the agreement comes into force.

The section on economic, technical and financial aid is perhaps the most significant and dynamic element in the agreement. There is scope to substantially increase the present aid package of 170 million u.a. when it runs out on 31 October 1981.)

As regards institutional arrangements, a Cooperation Council has been set up. It will meet at least once a year to supervise the management of the agreement. It will also encourage contacts between European and Egyptian members of Parliament.

Contribution to Egyptian economic and social development

The purpose of Community economic, technical and financial aid is to reinforce Egypt's own economic and social development efforts. Egypt attaches great importance to this type of aid especially since its introduction of an open-door trade policy in 1974.

Special emphasis is put on regional cooperation e.g. roads or dams serving several Mashreq countries, as well as integrated projects involving different forms of cooperation e.g. trade promotion, training, market research.

Cooperation can take the following forms:

- development of Egypt's economic infrastructure - especially transport, construction and energy - diversification of industry and modernisation of the agricultural sector.
- trade and sales promotion of Egyptian exports e.g. trade fairs and exhibitions
- industrial cooperation: by encouraging contacts between businessmen, facilitating the purchase of patents on favourable terms and helping to remove non-tariff trade barriers.
- encouragement of private investment.
- participation of Community enterprises in the exploration, extraction and local processing of Egypt's natural resources as well as the proper execution of contracts in these fields.
- development of the fishing industry
- reciprocal exchange of economic and financial information.

Financial Cooperation: Catalyst for much greater aid

The EEC will provide aid worth 170 million u.a. (\$124 million approx) but unlike the rest of the agreement it is applicable for a limited period of (4 years 10 months with effect from the date of signature) This means that a new financial protocol must be negotiated before 31 October.

Community aid consists of two main parts:

1. 93 million Eua. of loans from the European Investment Bank (EIB) with interest rebates of up to 2%.

11. 77 million Eua in budgetary contributions broken down into :

63 million Eua. of grants which will partly be used to finance the interest rebates on the EIB loans.

14 million Eua of special loans at 1% interest over 40 years with a 10 year grace period.

The aid can be given not only to the government but also to public and private organisations. It will be used to finance both the preparation and execution of production, infrastructure and training projects.

Although relatively modest in volume, Community aid will nonetheless be important in encouraging:

- Multiplier Effect: investment in agriculture and industrial infrastructure will bring disproportionate increases in production.
- Catalyst Effect: the Community's financial participation in development projects will stimulate the influx of aid from other sources by helping to guarantee both their feasibility and profitability. It will also help provide a climate of confidence for private European Investment.
- Triangular Cooperation: between oil exporting countries, the Community and Egypt.

Increase Egyptian exports to the EEC

One of the main aims of the agreement is to establish a better trade balance between Egypt and the EEC by speeding up the Egyptian economic growth rate and improving the access of its exports to the Community market.

Although the volume of its trade with the Community is very small Egypt still recorded a trade deficit of 970 million Eua in 1975, - nearly 6 times the 1972 figure. This is mainly because imports have grown at twice the rate of exports to the Community during this period.

In 1975 Egyptian exports to the Community were worth only 300 million units of acc. of this amount 51% came from crude oil (compared with 20% in 1974) and a further 18% from refined petroleum products.

Cotton is Egypt's third most valuable export to the Community (14% of total exports) even though the 1975 figure of 41 million e.u.a. was less than half the record 1974 level.

Between 1973 - 75 Egypt's agricultural exports more than halved to 21.6 million u.a. which represents only 7% of its total exports to the Community. The tariff concessions granted in the agreement cover about 70% of Egypt's agricultural exports to the Community including the main products.

| <u>Products</u> | <u>Tariff Heading</u> | <u>Ceiling (metric tons)</u> |
|---|-----------------------|------------------------------|
| Refined Petroleum | 27.10 | 45,000 |
| Phosphate fertilisers | 31.03 | 35,000 |
| Cotton yarn not destined for retail sale | 55.05 | 7,000 |
| Other cotton fabrics | 55.09 | 3,250 |

In addition the Community reserves the right to impose ceilings on imports of other phosphate and aluminium products.

The import regime for petroleum products may be changed by the Community once it has agreed on the definition of the origin of petroleum products, changes in the Common Commercial policy and adoption of a Common Energy policy.

Both Jordan and the EEC will respect a non-discrimination clause. For Jordan this means it will not discriminate against EEC Member States, their citizens or companies.

Raw materials formed 65% of Egypt's total exports in 1975 of which the most important were refined petroleum products (18%) and textiles (4%).

With the introduction of the open door economic policy in 1974 Egypt has been trying to attract European investment to help in the reconstruction of its war devastated economy. The re-opening of the Suez canal in June 1975 symbolised the return to normality and earned \$500 million in the first year.

The return of the Sinai oilfields greatly increased Egypt's production which in 1975 totalled 16 million metric tons. Egypt became not only self-sufficient in oil but also a sizeable exporter. It earned 153 million Eua from crude oil exports and 55 million Eua from refined petroleum exports in 1975.

Agricultural Products: Tariff reductions from 40 - 80% will help increase exports

The EEC is Egypt's 2nd largest market for agricultural produce. However Egyptian farm exports fluctuate widely from year to year having varied from 10 to 27% of the total value of its Community exports between 1972 - 75. In 1975 Egypt imported ten times as much food from the Community (mainly cereals) than she exported to it.

In the main Egyptian exports complement Community production either by providing different produce e.g. dates, mangoes or the same produce out of season e.g. onions, sweet peppers. Only in a few cases is there direct competition such as citrus fruits.

Under the agreement Egyptian exports ranging from new potatoes to grapefruit benefit from a substantially improved regime. About 70% of its farm exports are covered, compared with around 40% in the 1972 agreement while tariff concessions range from 40 - 80% compared with 25 - 40%.

Although Community exports to Egypt in 1975 represented only 1.1% of its total exports they were still worth 1.3 milliard ua. The main exports were machines and electrical equipment (35% of total) manufactures (20%) and food (18%).

Community exports to Egypt benefit from most favoured nation treatment except for certain developing countries notably in the Mashreq. This means that in some cases Egypt can grant other developing countries trade concessions without extending them to the EEC.

Egypt is also under no immediate obligation to make reciprocal trade concessions to the Community. It has time to consolidate the present regime and can even increase tariff protection to encourage its own industrialisation programme.

Although the long term objective of the agreement remains free trade this will only be possible when the economic gap between the two has been reduced.

| Egypt's External Trade with the EEC (000 Eu) | | | | |
|--|--------|--------|--------|---------|
| | 1972 | = 1973 | 1974 | 1975 |
| Trade Balance | -146,9 | -207,0 | -524,3 | -969,3 |
| Imports | 287.8 | 390.5 | 775.7 | 1,268.6 |
| Exports: | 140.9 | 183.5 | 251.4 | 299.3 |
| Of which | | | | |
| Agricultural Products | 32.6 | 46.2 | 35,7 | 21.6 |
| Raw Materials | 85.7 | 110.3 | 183.8 | 257.6 |
| Industrial Products | 22,6 | 27,0 | 30.9 | 20.1 |
| Index 1970 = 100 | | | | |
| Imports | 87 | 118 | 234 | 383 |
| Exports | 70 | 91 | 125 | 148 |

Source: Statistical Office of the European Communities

Industrial Products: Free access for Egyptian exports except a few sensitive products

An interim arrangement will allow an 80% tariff reduction as well as the removal of quantitative restrictions on Egyptian exports to be applied from early 1977. The tariff reduction will be increased to 100% on 1 July 1977.

Import ceilings have been provisionally applied on certain sensitive products until the end of 1979. The ceilings are based on current export levels and will be increased by 5% annually. Once the ceilings are exceeded normal duties will be applied. The products involved are : -

Various conditions are attached to the tariff concessions such as import calendars, quotas and safeguard clauses. In addition there is a 15% customs duty on Egyptian dried onion imports. Egyptian rice is given special treatment. The Community will reduce duties by 25% up to a ceiling of 32,000 metric tons. In return Egypt will impose an equivalent tax on its rice exports.

The three new Community members - Denmark, Ireland and the United Kingdom - can apply special duties (not less than those applied in the Common Customs tariff CCT) on imports of fresh oranges (CCT No. 08.02 Ex A) fresh mandarines, clementines and wilkings (CCT No. 08.02 Ex B) until 1 January 1978.

Below are the concessions granted Egypt's main agricultural exports to the EEC as well as the value of these exports in 1975.

Egypt

| Products | Rate of Reduction | Calendar | CCT Duty % | Duty Left % | Value (000 EUA) | World Farm Ex- port Position |
|---------------|-------------------|------------------|------------|-------------|-----------------|---------------------------------|
| Onions | 60 | 1 Feb - 30 April | 12 | 4.8 | 5,627 | 4 |
| New Potatoes | 40 | 1 Jan - 31 March | 15 | 9 | 2,528 | 5 |
| Citrus fruits | 60 | - | 15 | 6 | 1,665 | 2 |
| Beans | 60 | 1 Nov- 30 April | 13 | 5.2 | 1,137 | 6 |
| Tomatoes | 60 | 1 Dec - 31 March | 11 | 4.4 | 46 | 7 |
| Grapes | 60 | 1 Dec - 30 April | 18 | 7.2 | 37 | 8 |
| Rice | 25% of levy | - | - | - | - | 1 |

Source : World Bank

Egyptian agriculture occupies about 46% of the Labour force and contributes 31% of the gross national product. Since 1965 production has tended to stagnate, due to the lack of investment in farm machinery, fertilisers etc. At the same time a rapidly expanding population (about 2.5% per year) has led to increased domestic consumption and a smaller export surplus. The Community's tariff concessions should help stimulate Egyptian exports while its offer of technical and financial aid could be used by the Egyptian government to reactivate the agricultural sector.

Joint management of the Agreement

A cooperation Council composed of representatives from both sides will meet at least once a year to supervise and make recommendations concerning the implementations of the agreement. Decisions will be made by common assent.

The Presidency of the Council will be held alternately by the Community and Egypt. The President can set up specialist committees to assist the Council in carrying out its duties.

Contacts will also be organised at a more popular and democratic level between European and Egyptian deputies.

The above arrangements will enable a permanent dialogue to take place between the two sides and help contribute to a mutual understanding of each others problems.

Finally all the various methods of cooperation described above - economic technical, financial, commercial, institutional-contribute to the objective set out in the preamble to the agreement. This is "to establish a new model for relations between developed and developing States, compatible with the aspirations of the International Community towards a more just and more balanced economic order."

Food Aid: 51 million ua of Community aid for Egypt between 1970 - 76

Apart from the preferential and cooperation agreements Egypt receives substantial food aid from the Community. Between 1970 - 76 this aid was worth 51.3 million ua. This represents 46% of the 123 million £ua total Community food aid to the four Mashreq countries. The aid consisted of:

| <u>Food Aid 1970 - 76</u> | <u>Metric tons</u> | <u>million ua</u> |
|---------------------------|--------------------|-------------------|
| Cereals | 111,400 | 12.5 |
| Powdered milk | 36,500 | 18.4 |
| Butteroil | 15,600 | 20.4 |

In 1976 the volume of food aid received by Egypt constituted just under 2% of total Community Food Aid during the Year. Egypt attaches great importance to this aid which is allocated according to various criteria such as the size of food deficit, gross national product per capita, balance of payments deficit.

1976 EEC/Egypt textile Agreement: Community lifts quantitative restrictions

A bilateral textile agreement between Egypt and the EEC was initialled on 13 May 1976. It was the 11th of the 13 agreements the Community has negotiated under article 4 of the GATT Multifibre Arrangement (MFA).

Under the agreement all quantitative restrictions imposed by the Community on imports of Egyptian textiles were immediately lifted.

However there is an important safeguard in the "binding consultation" clause which enables the Community to ask for talks if there is a real danger of disruption on its internal market. While awaiting the outcome of these talks Egypt would limit its textile exports to a level indicated by the Community. This level would take account not only of traditional trade flows but also Egypt's position as a newcomer on the Community market. In any case Egypt would not receive worse treatment than other Community suppliers.