EGYPT - Investment Climate

Openness to Foreign Investment Return to top

The Egyptian government has made increasing foreign investment a major goal of its economic reform program and strategy for fostering private sector-driven growth. Egypt faces a significant challenge in improving living standards and increasing employment opportunities for its growing population. The Ministry of Investment (MOI) was established in 2004 and handles privatization of state-owned enterprises (except for banks, which are handled by the Central Bank) and oversees various regulatory agencies with investment-related areas of responsibility including the General Authority for Free Zones and Investment (GAFI) and the new Financial Supervisory Authority (EFSA) which regulates all non-banking financial activities and institutions.

Key Laws Governing Foreign Investment:

Investment Incentives Law 8 of 1997: This law was designed to encourage domestic and foreign investment in targeted economic sectors and to promote decentralization of industry from the crowded Nile Valley area. The law and its executive regulations and amendments provide over 20 investment incentives. The law allows 100 percent foreign ownership of investment projects and guarantees the right to remit income earned in Egypt and to repatriate capital. Other key provisions include: guarantees against confiscation, sequestration, and nationalization; the right to own land; the right to maintain foreign-currency bank accounts; freedom from administrative attachment; the right to repatriate capital and profits; and equal treatment regardless of nationality.

The Income Tax Law enacted in June 2005 (Law 91/2005) eliminated some of the incentives in the Investment Incentive Law, namely all corporate tax exemptions and tax holidays that the latter law had authorized for newly established companies. The 2005 tax law also repealed tax deductions extended to companies listed on the stock exchange. The tax incentives were not eliminated retroactively, however, so all existing companies will continue to receive their tax incentives until the end of the period stipulated when the company was established. Law 8 incentives for agricultural activities including reclamation, cultivation, irrigation, animal breeding, bee-hiving and fish farming were not removed by the Income Tax Law.

Under the Investment Incentives Law, qualifying investments in various fields are assured approval, effectively creating a "positive list." These fields include land reclamation; fish, poultry, and animal production; industry and mining; tourism (covering hotels, motels, tourist villages, and transportation); maritime transportation; refrigerated transportation for agricultural products and processed food; air transportation and related services; housing; real estate development; oil-related related services; hospitals and medical centers that offer 10 percent of their services free of charge; water pumping stations; venture capital; computer software production; projects financed by the Social Fund for Development; and leasing. Projects in certain fields, however, still require special approval (generally security clearance) from relevant ministries. Such projects include: any investments in the Sinai and any investments related to military production and related industries.

Procedures for obtaining approval to establish new companies are becoming simpler and waiting times shorter than in the past. GAFI's "One-stop-shop" brings together all the government ministries needed for establishment of a new investment and provides after-care services for existing companies. The One-stop-shop reportedly processes approvals for new investments on average within 72 hours. The approval system is computerized and in some instances regulations enable a company to begin operating pending security clearance. While not a legal requirement, in practice all proposed foreign investments are scrutinized by the security services, which has in the past caused significant delays in the approval process.

Law 94 of 2005 amended the Investment Incentives Law and made companies incorporated under the Investment Incentives Law subject to the relatively simpler incorporation provisions of the Companies Law 3 of 1998 (see below). Further, Law 94 limited the authority of the board of directors of each Public Free Zone (see below) to issuance of preliminary approvals for projects to be established in the free zone, with the final approval issued by GAFI.

Decree No. 719 for 2007 by the Ministers of Trade and Industry and Finance provides further incentives for industrial projects in the governorates of Upper Egypt (Upper Egypt refers to governorates in southern Egypt). The decree provides an incentive of 15,000 Egyptian Pounds (the Pound or LE) for each job opportunity created by the project, on the condition that the investment costs of the project exceed LE 15 million. The decree can be implemented on both new and on-going projects.

Companies Law 159 of 1981: This law applies to domestic and foreign investment in sectors not covered by the Investment Incentives Law, whether shareholder, joint stock, or limited liability companies, representative offices, or branch offices. The law permits automatic company registration upon presentation of an application to GAFI, with some exceptions. These exceptions include companies whose founders have failed to comply with procedures and laws in the past, as well as companies whose founders have demonstrated insufficient qualifications to operate a business. The law does provide a right to petition a denial of incorporation. It also removes a previous legal requirement that at least 49 percent of shareholders be Egyptian; allows 100 percent foreign representation on the board of directors; and strengthens accounting standards. Founders of joint stock and limited liability companies must submit a bank certificate to GAFI showing that 10 percent of the company's issued capital has been paid in.

Law 94 of 2005 (mentioned above) also amended some of the provisions of the Companies Law. It removed restrictions on board members representing other board members by proxy in board of directors meetings and made it possible for a board of directors to be formed of an even number of members. Law 94 also added a provision stipulating that companies operating in the Sinai do not acquire legal persona unless approved by a decree from the chairman of GAFI. It also granted companies established under the Companies Law or the Commercial Law certain incentives under the Investment Incentives Law, including protection from nationalization, imposition of obligatory pricing and cancellation or suspension of licenses to use immovable property. It also granted companies the right to own real estate required for their activities and the right to import raw materials, machinery, spare parts and transportation methods without being required to register at the Importers Register.

Other laws governing foreign investment:

Land/Real Estate Law 15 of 1963: This law explicitly prohibits foreign individual or corporate ownership of agricultural land (defined as traditional agricultural land in the Nile Valley, Delta and Oases). Prime Ministerial Decree No. 548 for 2005 removed restrictions on foreign property ownership in a number of tourist and new urban areas, namely the Red Sea coast, including the beach resort of Hurghada, the Mediterranean beach resort Sidi Abdel-Rahman and Ras Al-Hekma, also on the Mediterranean in Matrouh Governorate. Foreign individuals are still, however, limited to ownership of a maximum of two residences in Egypt. Companies/citizens of other Arab countries have customarily received national treatment in this area.

Public Enterprise Law 203 of 1991: Egypt has an ongoing privatization program under the Public Enterprise Law for the sale of several hundred wholly or partially state-owned enterprises and all public shares of at least 660 joint venture companies (joint venture defined as mixed state and private ownership, whether foreign or domestic). The law permits sales to foreign entities. Law 203 was amended in 1998 to allow the general assemblies of the public holding companies that manage public enterprises in a particular sector to accept bids below the initial reserve price. Although the amendment allows sales below the reserve price, very few assets have been sold below the reserve price since 1998. The Egyptian government has expressed a desire to privatize some public enterprises, authorized for sale under the Public Enterprise Law 203, but have not released final details on how this would move forward.

MOI has made enterprises in all sectors subject to privatization, and has sold entities in the construction, petrochemical, telecoms and chemicals sectors, all previously considered "strategic" sectors and therefore not part of the privatization program. Several of these companies have been sold to foreign investors, who are treated equally to local investors in the privatization process. Crude oil and natural gas production companies remain subject to a strict 49 percent limitation on foreign ownership. MOI has also opened the privatization program to include services and some public utilities. Some infrastructure areas, including ports and airports, power generation, and cellular phone networks have also been opened to private investors on a build-own-operate-transfer (BOOT) basis. Foreign companies have won major BOOT tenders in power generation and airport and maritime port construction. The new Upper Egypt – Red Sea road is a typical case of BOOT, under the new government PPP initiative. However, as of early January 2010, this project still did not include any foreign investors.

A variety of privatization methods are currently in use by MOI, including asset unbundling and leasing with options to buy. Incentives, including five-year tax exemptions (notwithstanding the 2005 tax law) and the removal of real estate value from company valuations, were provided for the sale of 10 distressed or loss-making companies between fiscal years 2005 and 2009, and the last company sold was Alex Sodium Carbonate at the end of 2008. In other cases of distressed companies, the MOI used some financial restructuring or other sale category such as minority stake or the selling of some assets.

MOI is also restructuring public enterprises that are facing difficulties in remaining afloat. The restructuring is tailored individually to lead to sale of the enterprises in the medium to long-term. Additional incentives have been used to make public enterprises more attractive to investors, including allowing the transfer of excess and idle assets, some working capital items, and liabilities to the public holding companies responsible for public entities in a particular sector. The MOI used financial restructuring to resettle the debts of some companies. In fiscal year 2008, about LE 20 billion (about $3.6 billion) of debt settlements took place. As of January 2010, the MOI was in its final phase of debt settlement. Bidding criteria for privatizations are generally clear and transparent.

Investors have traditionally identified valuation and commitment, as reflected in the pace of execution of deals, as the two primary obstacles to effective privatization in Egypt. While the government's commitment and the pace at which it has concluded privatizations have increased markedly since MOI took responsibility for the program, privatization remains controversial in Egypt. Starting in mid-2006, concerns were raised about potential price and supply problems in various industries under consideration for privatization, such as sugar and pharmaceuticals. Political opposition and pressure to slow the privatization program reached a head with outcry from parliament, the media and the public over sale in 2007 of the department store Omar Effendi to a Saudi investor. Accusations of undervaluation of the store's assets resulted in parliamentary investigations, which affirmed that there was no evidence of wrongdoing. Despite the flap over Omar Effendi, the government has proceeded with plans to privatize some major assets. The government has made financial sector reform one of its top priorities and the privatization and/or reorganization of some of those companies have been successful.

Capital Market Law 95 of 1992: This law and its amendments and regulations govern Egypt’s capital markets. In 1998, the government made significant amendments and changes to the law to strengthen stock market regulations against fraud, price manipulation, and insider trading. Foreign investors can buy shares on the Egyptian Stock Exchange (the ESE, formerly the Cairo and Alexandria Stock Exchange (CASE)) on the same basis as local investors. In April 2006, CASE announced new membership rules for brokerage firms, including an increase in their capital requirement from LE 250,000 to LE 5 million. In October 2005, the Capital Markets Authority (now part of the EFSA) announced that it would allow same-day trading on the Egyptian stock market. As of November 2009, 34 brokerage firms have licenses for same-day or intra-day trading.

In July 2007, the Capital Market Authority (now part of the EFSA), the capital markets regulator, amended existing regulations to speed up the process of listing new shares of companies on the stock market. The regulations stipulate that the primary source of a company's profitability should be income from continuing operations, while net profit for the last fiscal year before listing should exceed 5 percent of the company's capital. The CMA issued a decree in September 2007 to modify the capital adequacy criteria for securities intermediation companies to enhance management of market, settlement, liquidity, operational and credit risks.

In June 2008, the People's Assembly ratified Law No. 123/2008, amending certain parts of the Capital Market Law. The amendments provide local and foreign institutions with opportunities to issue bonds and also lower the minimum per value of shares to LE 0.10 from LE 1.00. The amendments also strengthen the administrative role of the CMA (now part of the EFSA) by increasing its authority to maintain market integrity, enforce standards of fairness and transparency, regulate prices and prevent information exploitation.

Also in 2008, Egypt's Small and Medium Enterprise stock exchange, called the NileX, began operating. It is designed for companies with capital of less than 2.5 billion Egyptian pounds. The auditing and disclosure requirements are also less burdensome than on the ESE.

Maritime Law 1 of 1998: This law amended the General Egyptian Maritime Organization Law 12 of 1964. The Maritime Law permits the private sector, including foreign investors, to conduct most maritime transport activities, including loading, supplying, and ship repair.

Electricity Law 18 of 1998: This law amended Law 12 of 1996 to allow the government to sell minority shares of electricity distribution companies to private shareholders, both domestic and foreign. A draft electricity law expected to be enacted in 2010 will further open electricity generation and distribution to the private sector.

Tenders Law 89 of 1998: This law amended the Tenders and Bidding Law 9 of 1983 governing foreign companies' bids on public tenders. It required the government to consider both price and best value in awarding contracts and to issue an explanation for refusal of a bid. However, the law retained preferences for Egyptian domestic contractors, who are accorded priority if their bids do not exceed the lowest foreign bid by more than 15 percent. The law was amended in mid-2006, requiring contracting government entities to acknowledge price fluctuations in the first year of the contract or increases or decreases in cost, and to compensate contractors where necessary. In June 2008, another amendment was ratified by parliament requiring a revision of the value of contracts every three months for contracts having durations longer than six months.

Insurance Law 156 of 1998: This law amended Law 91 of 1995, removing a 49 percent ceiling on foreign ownership of insurance companies, authorizing privatization of state-owned insurance companies, and abolishing a ban on foreign nationals serving as corporate officers. Law No. 118, issued in May 2008, amended certain articles of Law 10 of 1981. The amendments lifted the ban on operation of foreign insurance intermediaries in Egypt and increased the minimum capital level for insurance companies from LE 30 million to LE 60 million and allowed the Egyptian Insurance Regulatory Agency (EISA) greater independent control over its budget. Executive regulations for this decree have not been issued yet.

Commercial Law 17 of 1999: This law has more than 700 articles covering general commerce, commercial contracts, banking transactions, commercial papers (including checks), and bankruptcy.

Central Securities Depository and Registry Law 93 of 2000: This law allows bookkeepers and companies dealing in central depository instruments to dematerialize shares (i.e. replace physical entries for securities to book entries).

Special Economic Zones Law 83 of 2002: This law authorized establishment of special zones for industrial, agricultural, and service activities that are mainly export-oriented. Firms operating in these zones enjoy incentives and facilities designed to encourage increased local and foreign investment in export-producing sectors.

Telecommunications Law 10 of 2003: This law stipulated that Telecom Egypt (TE) would relinquish its monopoly status as Egypt's sole domestic fixed-line operator and sole international operator by January 2006 and provided for greater flexibility in selling shares of TE through public offerings. Although the government did not meet the January 2006 deadline, the Ministry of Communications and Information Technology (MCIT) announced that the license for a second fixed-line operator would be sold by auction in September 2008. The National Telecommunications Regulatory Agency (NTRA) blamed the delay on continuing negotiation over interconnection agreements and tumultuous global markets. The NTRA said the deferment would give the regulator more time to lay the foundations for a fixed-to-mobile interconnection agreement. As of January 2010, the MCIT had still not issued a license for a second fixed-line operator and blamed the delay on the world economic crisis. The MCIT refuses to set a date or conditions by which they plan to issue a second fixed-line license.

Banking Law 88 of 2003: This law replaced a number of laws regulating the Central Bank of Egypt, the banking sector, foreign exchange, account secrecy, and privatization of public sector banks. The law strengthened prudential banking regulations, raised minimum capital requirements for banks and foreign exchange bureaus, and re-affirmed the government's authority to privatize public sector banks.

Informal Barriers: While the Nazif government has taken significant steps to attract foreign investment, certain informal barriers still exist. Foreigners may function as commercial agents, but are prohibited from acting as importers for trading purposes. A foreign company wishing to import for trading purpose must do so through an Egyptian importer. In the banking sector, the Central Bank has not issued a new commercial banking license in almost 20 years. In practice, the only way for a new bank, whether foreign or local, to enter the market (except as a representative office) is to purchase an existing bank. As part of a plan to restructure the banking sector, the government has sold shares in several joint venture banks to foreign banking entities since 2004. The first public bank to be fully privatized was Bank of Alexandria, which was sold to a foreign banking entity, Sanpaolo Intesa of Italy in October 2006. In 2009, the Central Bank announced that it had no plans to privatize the three remaining state-owned banks (Banque Misr, Banque du Caire, the National Bank of Egypt), citing poor market conditions. The three banks control at least 40 percent of the banking sector's assets.

In the insurance sector, the government has stated that it will not issue licenses for new insurance companies, in order to focus investor attention on privatization of the existing firms. Therefore, as in the banking sector, foreign firms can only enter the Egyptian insurance market through purchase of shares in existing insurance firms. In 2006-07, MOI began restructuring the public insurance companies in preparation for privatization. In September 2007, the companies were merged and placed under an insurance holding company, and real estate assets were stripped out of the companies and transferred to a newly established affiliate, Misr for Real Estate. A foreign consultant was helping the holding company to prepare a prospectus, and the MOI took some of the consultant's recommendations into considerations, but there have been no significant events in this regard since 2007.

The Egyptian government controls prices in the pharmaceutical sector to ensure that drugs are affordable to the public. The government does not have a transparent mechanism for pharmaceutical pricing. The Pharmaceutical Committee in the Ministry of Health and Population reviews prices of various pharmaceutical products and negotiates with companies to adjust prices based on a cost-plus formula. This method, however, does not allow price increases to compensate for inflation and the pricing policy has failed to keep pace with the rising cost of raw materials. In 2007, the government granted price increases for selected pharmaceutical products, but the approved increases were minimal.

About 85 percent of active pharmaceutical ingredients in Egypt are imported. In 2004, the government reduced customs duties on most imports of pharmaceutical inputs and products from 10 percent to 2 percent. In that same year, the MOHP lifted restrictions on exporting pharmaceuticals to encourage pharmaceutical investment and exports.

Other obstacles to investment include excessive bureaucracy, a shortage of skilled mid-level managers, limited access to credit, slow and cumbersome customs procedures in some areas, and non-tariff trade barriers. The Egyptian judicial system, which generally upholds the sanctity of contracts, is extremely slow and can take several years to process cases. The judicial system is also subject, in some cases, to political influence.

In April 2008, the government stopped construction of a fertilizer plant after the Canadian company Agrium invested $280 million and four years of planning in the plant. While local activists raised environmental concerns about its location along the Mediterranean coast, Agrium noted that it was adjacent to other industrial plants. Agrium agreed to sell its stake in the plant in September 2008 to a state-owned firm, which does not plan to resume construction. Egypt's reputation as an attractive location for foreign direct investment (FDI) risked being affected because of the dispute.

Conversion and Transfer Policies Return to top

Egyptian law allows individuals and businesses to conduct all normal foreign exchange transactions, including establishing foreign exchange accounts and transferring foreign exchange in and out of Egypt. Authorized banks may provide the full range of foreign exchange transactions, including accepting deposits, executing transfers, and opening letters of credit. Foreign currency is available at banks and foreign exchange bureaus.

The 1992 U.S.-Egypt Bilateral Investment Treaty provides for free transfer of dividends, royalties, compensation for expropriation, payments arising out of an investment dispute, contract payments, and proceeds from sales. Transfers are to be made in a "freely convertible currency at the prevailing market rate of exchange on the date of transfer with respect to spot transactions in the currency to be transferred."

The Investment Incentives Law stipulates that non-Egyptian employees hired by projects established under the law are entitled to transfer their earnings abroad. Conversion and transfer of royalty payments are permitted when a patent, trademark, or other licensing agreement has been approved under the Investment Incentives Law.

Banking Law 88 of 2003 regulates the repatriation of profits and capital. The government has repeatedly emphasized its commitment to maintaining the profit repatriation system to encourage foreign investment in Egypt. The current system for profit repatriation by foreign firms, announced in late June 2002, requires sub-custodian banks to open foreign and local currency accounts for foreign investors (global custodians), which are exclusively maintained for stock exchange transactions. The two accounts serve as a channel through which foreign investors process their sales, purchases, dividend collections, and profit repatriation transactions using the bank's posted daily exchange rates. The system is designed to allow for settlement of transactions in less than two days.

Expropriation and Compensation

As noted previously, the Investment Incentives Law provides guarantees against nationalization or confiscation of investment projects under the law's domain. The law also provides guarantees against seizure requisition, blocking, and placing of assets under custody or sequestration. It also offers guarantees against full or partial expropriation of real estate and investment project property. The U.S.-Egypt Bilateral Investment Treaty also provides protection against expropriation. Private firms are able to take cases of expropriation to court, but as noted previously, the judicial system is very slow and can take several years to resolve a case.

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The Nazif administration has moved much more quickly than previous governments to resolve investment disputes. The government resolved the concerns of two major foreign investors through enactment of new legislation in mid-2005. A number of disputes with U.S. investors, however, remain unresolved. These involve widely differing issues, and do not appear to reflect a pattern or any discrimination against U.S. investments. The U.S. Embassy recommends that U.S. companies put clauses specifying binding international arbitration of disputes in their commercial agreements.

Egypt acceded to the International Convention for the Settlement of Investment Disputes in 1971 and is a member of the International Center for the Settlement of Investment Disputes (ICSID), which provides a framework for arbitration of investment disputes between the government and foreign investors from another member state, provided that the parties agree to such arbitration. Without prejudice to Egyptian courts, the Investment Incentives Law recognizes the right of investors to settle disputes within the framework of bilateral agreements, the ICSID or through arbitration before the Regional Center for International Commercial Arbitration in Cairo, which applies the rules of the

United Nations Commissions on International Trade Law. The U.S.-Egypt Bilateral Investment Treaty allows for the possibility of an investor taking a dispute with a party directly to binding third-party arbitration. The Egyptian courts generally endorse international arbitration clauses in commercial contracts. For example, the Court of Cassation has, on a number of occasions, confirmed the validity of arbitration clauses included in contracts between Egyptian and foreign parties.

Egypt adheres to the 1958 New York Convention on Enforcement of Arbitrary Awards; the 1965 Washington Convention on the Settlement of Investment Disputes between States and the Nationals of Other States; and the 1974 Convention on the Settlement of Investment Disputes between the Arab States and Nationals of Other States. An award issued pursuant to an arbitration that took place outside Egypt may be enforced in Egypt if it is either covered by one of the international conventions to which Egypt is party or satisfies the conditions set out in the Arbitration Law.

Egypt's Dispute Settlement Law 27 of 1994 also provides for the arbitration of domestic and international commercial disputes and limited challenges of arbitration awards in the Egyptian judicial system. The law was amended in 1997 to include disputes between public enterprises and the private sector. The Egyptian judicial system functions extremely slowly, and cases can often remain in the system for several years. Arbitral awards are made in the original currency of the transaction, via the competent court in Egypt, usually the Cairo Court of Appeal. A special order is required to challenge an arbitration award in an Egyptian court. To enforce judgments of foreign courts in Egypt, the party seeking to enforce the judgment must obtain an exequatur. To apply for an exequatur, the normal procedures for initiating a lawsuit in Egypt must be satisfied. Moreover, several other conditions must be satisfied, including ensuring reciprocity between the Egyptian and foreign country's courts and verifying the competence of the court rendering the judgment.

Egypt does not have a bankruptcy law per se, but the Commercial Law 17 of 1999 includes a chapter on bankruptcy. The terms of the bankruptcy chapter are silent or ambiguous on several key issues that are crucial to the reduction of settlement risks. According to the Ministry of Trade and Industry, the government is planning to amend the bankruptcy provisions of Law 17 of 1999, but these amendments are still pending.

Performance Requirements and Incentives

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Performance Requirements: No performance requirements are specified in the Investment Incentives Law. The ability to fulfill local content requirements is no longer a prerequisite for approval to set up assembly projects, but in most cases assembly industries still must meet a minimum local content requirement in order to benefit from customs tariff reductions on imported industrial inputs. Article 6 of Decree 420/2000 allows for the reduction of customs tariffs on intermediate goods if the final product has a certain percentage of input from local manufacturers, starting from 30%. As the percentage of local content rises, so does the tariff reduction. In certain cases, a ministerial approval can grant tariff reductions, up to 40%, in advance to certain companies without waiting to reach a corresponding percentage of local content. Manufacturers wishing to export under trade agreements between Egypt and other countries must fulfill certificate of origin and local content requirements contained therein. Oil and gas exploration concessions, which do not fall under the Investment Incentives Law, do have performance standards, which are specified in each individual agreement and which generally include the drilling of a specific number of wells in each phase of the exploration period stipulated in the agreement. The Labor Law 12 of 2003 requires that foreign workers account for no more than 10 percent of the total workforce of a firm. This law's requirements do not apply to the oil and gas industry, but most or all individual concession agreements have some sort of requirement on percentage of local employees.

Tax Incentives: As noted previously, parliament passed a new personal and corporate income tax law in July 2005. The law eliminated tax incentives for new businesses, and reduced all taxes by 50 percent. The law also changed the relationship between the Tax Authority and taxpayers, requiring taxpayers to do a self-assessment and then submit a tax return, which can be audited by the Tax Authority. Under previous legislation, the Tax Authority assessed all taxpayers' returns and presented a bill, a process that could take several years. Tax revenues have been increasing steadily since the new law. Tax revenue increased from LE 97.7 billion in fiscal year 2005/2006, to LE 114.3 billion in fiscal year 2006/2007, and 137.2 billion LE in 2007/2008, and 163.2 billion LE in 2008/2009. Domestic and foreign individuals and businesses are treated equally under the new tax law. The executive regulations of the new tax law were issued in late 2005.

Communities Law 3 of 1998: This law establishes a number of urban communities, built over the past two decades, to help shift population density out of major cities. All incentives under this law were removed with the new income tax law. While no new incentives have been stipulated in the form of legislation, as is the case with Upper Egypt (Law 719/2007), the government remains committed to provision of infrastructure and certain facilities in the new communities. Facilities provided include sale of land to investors through a closed auction system or on an installment basis and extension of infrastructure, such as gas, water, electricity to the new communities.

Pricing and Customs Preferences: By law, the government may not intervene to set the prices or profits of companies established under the Investment Incentives Law, except for pharmaceuticals, as noted previously.

Geographical Areas: There are no formal legal geographical restrictions on investments. However, due to congestion in Cairo, the government generally denies approval for investments in manufacturing facilities in Cairo, unless a compelling economic rationale exists. The government also offers incentives to move existing manufacturing facilities out of Cairo. Upon request, government officials will assist investors in locating a site for a project, often in one of the new industrial sites located outside Cairo, and will sometimes provide necessary infrastructure. In addition to the new industrial sites outside Cairo, the government has targeted Upper Egypt for development by private investors. Land in industrial zones in Upper Egypt is offered free of charge. The government will also provide hookups to infrastructure (water, sewer, electricity, and gas) and transfer land titles to the developer three years after project startup. As noted above, approval by the security services is generally required for investments in the Sinai Peninsula.

In July 2007, MOI finalized procedures for granting usufruct rights (use by an investor of a plot of land for a certain period of time to establish a project and profit from it, after which both project and land are given to public ownership) in the Sinai, with the aim of boosting investment levels in this region. The procedures include facilitation of real estate registration; enabling use of real estate as a guarantee for loans; enabling banks to register pledges on real estate and foreclose in cases of non-payment.

Research & Development (R&D) Projects: Large-scale R&D activities in Egypt are relatively modest. Information released during the World Science Forum held in Budapest, Hungary in November 2007, indicated that the Egyptian expenditure on R&D, had increased from 0.3 percent of the GDP in 1981/1982 to almost one percent in 2006/2007, reaching a total of LE 4.6 billion. The Economic and Social Development Plan of the government for 2007/2008 earmarked LE 450 million for spending on research and development, distributed among the Ministry of Scientific Research, the Scientific Research Academy and the Science and Technological Development Fund. The majority of government-funded R&D programs are in agriculture, health, and, to a lesser extent in the manufacturing sector. There are no reports of discrimination against U.S. or other foreign firms wishing to participate in R&D programs in Egypt. Most Egyptian R&D programs are established by government initiative to target specific problems and/or opportunities. Donor support plays an important role in Egypt's R&D activities, constituting about 15 percent of total R&D spending.

Import and Export Policies: Shortly after taking office in July 2004, the new government cut tariffs sharply and simplified the customs regime to stimulate trade and economic development. The government removed GATT-inconsistent services fees and import surcharges, dismantled tariff inconsistencies, including sharp escalation and reverse progression on tariff rates, and rationalized national sub-headings above the six-digit level of the Harmonized System (HS). In February 2007, import tariffs were further reduced by a presidential decree, in conformity with the government's adoption of the World Customs Organization HS – 2007 for classifying commodities. In April 2008, further reductions were introduced to custom tariffs on a score of items including processed foods, agricultural goods, paper products, cement and steel and related products and some durable household goods. Various items became exempt from custom tariffs. Tariffs on fabric imports were significantly reduced and tariffs on clothing were finally made consistent with Egypt's WTO commitments. A BSE-related ban on U.S. beef imports was lifted in early 2005, and a requirement that beef imported for direct consumption contain no more than 7 percent fat content was made voluntary.

In February 2009, a presidential decree amended the customs tariff schedule for 250 items, lowering import duties on many items and removing entirely duties on some raw materials and capital and intermediate goods such as inputs for spinning and weaving products. While the decree generally lowered tariffs, it increased tariff rates on some basic chemicals, rubber and bamboo manufacturing products, some basic machinery, and medical equipment. The changes in the tariff schedule in Decree 51 have been described by the Egyptian government as temporary stimulus measures, and were intended to be phased out by the end of 2009. In December 2009, however, the Ministry of Trade and Industry extended decree until the end of June 2010

As a result of the reforms since 2004, Egypt's number of ad valorem tariff rates was reduced from 27 to 5 and average weighted tariff rate has fallen from 14.6 percent to 5.5 percent.

In October 2005, new import and export regulations were issued, which reduced the number of imported goods subject to inspection by the General Organization for Export and Import Control (GOEIC) and permitted importers to provide their own certificates of health and safety conformity from any internationally accredited laboratory inside or outside of Egypt. The new regulations also transferred responsibility for issuing and reviewing certificates of origin from GOEIC to the Egyptian Customs Authority.

Despite the government's sweeping customs/tariff reform and easing of import restrictions, significant problems remain. Egypt adopted the WTO customs valuation system in 2001. Even though government officials report that Egypt has almost fully implemented the system, some importers face a confusing mix of new invoice-based and old reference price-based valuations depending on the type of imports. Acknowledging these problems, the Ministry of Finance (MOF) has committed to a comprehensive reform of Egypt's customs administration and is working in concert with USAID, which is funding a comprehensive six-year program to support reform efforts. A new customs law was drafted and sent to the Minister of Finance and is scheduled to be sent to the People’s Assembly in early 2010 with an expectation that it will be passed and implemented in mid-2010. This new law includes a new enforcement and penalty regime that allows for international information sharing. There has been some success in reducing the amount of time required for incoming goods to clear customs thus far.

A number of non-tariff barriers or bans continue in force to protect local producers. Mandatory quality-control standards make importing certain products into the Egyptian market difficult. Over 130 categories of imports are still subject to mandatory quality-control inspections, including foodstuffs, appliances, electrical products, and auto parts. Although the government says that the quality control standards are applied equally to imports and domestically produced goods, in practice, imports are scrutinized more rigorously by multiple government agencies. Enforcement remains inconsistent.

Many U.S. agricultural products also face burdensome import licensing requirements. Although a ban on whole poultry was lifted in July 1997, imported poultry parts are still prohibited, ostensibly because they do not meet halal (religious) standards. Health food products such as low-calorie foods, diet pills, and vitamins also face informal barriers to trade. These products must obtain a special registration from the Food Institute of the Ministry of Health, which can take months to process. Products with domestic substitutes have experienced substantial delays, some as many as six months to one year. A large shipment of U.S. wheat for human consumption was denied entry to Egypt in June 2007, ostensibly due to bug infestation. Although such infestations are common and can be handled through a simple sanitization process, media reports circulated claiming the wheat was "cancerous." The Ministry of Trade and Industry bowed to political pressure and rejected the wheat, which was re-exported and sold for human consumption in Spain. In late 2009, a separate shipment of 63,000 tons of U.S. wheat was detained by the Plant Quarantine authorities in Damietta, although the wheat did not prevent any threat to human health and led to questions about the Egyptian inspection procedures.

Shelf-life standards also act as an indirect trade barrier. Egypt sets the shelf life of many imported products using non-science-based standards that do not recognize quality, safety, and technological differences between producers. By government decree, imports (mainly food products) must have 50 percent or more of their shelf life remaining. The government is reviewing Egypt's shelf life standards to make them more science-based and WTO-consistent.

The import inspection process remains confusing, despite the designation of the GOEIC as the coordinator for all import inspections. The Ministries of Health and Agriculture maintain their own inspection units and procedures. Imported refrigerated containers of foodstuffs typically take 25 days to clear customs. While two-month delays were common in the past, overall customs clearance times are improving, and import inspections now typically take three to four weeks.

Ministerial Decree 619 of 1998 required a certification of origin for imports and stipulated that consumer goods (durable and non-durable) be shipped directly from the country of origin. The decree was amended in late 1999 to ease requirements for the certificate of origin and allow shipment of imported consumer goods from the main branches of the producing company and its distribution centers. Company invoices noting the country of origin and bearing the endorsement of an Egyptian overseas commercial office can now be used as certificates of origin. Ministerial Decrees 577 and 580 of 1999 require cars to be imported in the year of production. In 2000 the decrees were amended adding one year after the year of production to the period during which passenger vehicles can be imported. Since May 1999, the Central Bank of Egypt has required 100 percent coverage for credit lines opened for goods imported by traders for resale purposes.

The Export Promotion Law 155 of 2002 aimed to improve the duty drawback and temporary admission systems for exporters by establishing a central unit under the joint supervision of the Ministries of Finance and Trade and Industry to monitor and streamline the systems. The duty drawback system requires full custom duties to be paid on semi-finished imports. There is a one-year time limit for re-exporting these imports as part of a final product in order to claim a full rebate of the duties and taxes paid. In November 2002, the Ministries of Finance and Trade and Industry jointly inaugurated the first upgraded temporary-admissions unit at the Port of Alexandria. With assistance from USAID, three other central units for temporary admissions are now operational in Suez, Port Said, and Damietta.

The Export Promotion Law also established an "Export Development Fund," to promote Egyptian exports and increase their share in foreign markets. The Fund supports a number of sectors, mainly textiles, ready-made garments, and food industries, with an export subsidy that ranges between 8-10% of the value of exported goods. The Fund also subsidizes some shipping costs and start-up costs of export-oriented businesses. The Fund’s annual budget currently stands at LE 3.7 billion.

Aside from the subsidies provided by the Export Development Fund, the government of Egypt rarely provides additional agricultural export subsidies and does not impose export performance requirements. The Ministry of Trade and Industry imposed a ban on rice exports in March 2008 and on cement exports in April 2009, citing the need to ensure domestic supply. Both bans have been extended until October 2010. As noted above, exporting industries, including Investment Incentives Law projects, are required to pay the full customs rate on imported inputs but receive a rebate of duties and taxes when they export finished products. Although exporters had previously reported lengthy delays in the customs rebate process, recent rebate transactions have been processed faster and more efficiently than in the past. The paperwork process associated with import-export transactions also has been simplified and updated.

Right to Private Ownership and Establishment Performance Requirements

By law, foreign and domestic private firms have the right to establish and own business enterprises and engage in all forms of remunerative activity, except for the restrictions on foreign business noted previously. Private enterprises may freely establish, acquire and dispose of interests in business enterprises. In practice, private firms sometimes find themselves at a disadvantage when competing for resources with state-owned firms. For example, state-owned firms often have easier access to bank credit from the state-dominated banking system than do private firms, whether domestic or foreign. Lack of access to credit is one of the major complaints of the business community in Egypt as the interest rate is high and the banks have restrictive policies on lending. Lack of risk assessment capacity in the banking sector is also a factor in banks' overly cautious lending policies. Also, some companies have experienced difficulties in dissolving companies.

Protection of Property Rights

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The Egyptian legal system provides protection for real and personal property, but laws on real estate ownership are complex and titles to real property may be difficult to establish and trace. Reforms in 2007 simplified the registration process for residential construction in new urban areas built on the outskirts of Cairo and Alexandria. The new procedures will be introduced in older areas of the two cities and in other Egyptian cities over the next few years. A National Title Registration Program was introduced by the Ministry of State for Administrative Development and was implemented in 5 areas within Cairo. This program aims at simplifying the registration procedure, which in turn facilitates easier mortgage financing. There are price controls on older residential and commercial real estate property resulting in apartment rents as low as $10 per month. However, these rent controls do not apply to real estate put into service in recent years. There are no restrictions on foreign ownership and rental of non-agricultural real estate in Egypt although specific procedures are required in some cases depending on the geographical location and building codes in different governorates.

The mortgage market is still in its infancy in Egypt, though the MOI has made it a priority. The Real Estate Mortgage Law of 2001 established the Mortgage Finance Authority (MFA), and authorized both banks and non-bank mortgage companies to issue mortgages. The law also provides procedures for foreclosure on property of defaulting debtors and amendments passed in June 2004 allow for the issuance of mortgage-backed securities. There are currently16 banks and11 mortgage finance companies. The total value of the mortgage market as of December 2008 stands at LE 3 billion ($555 million). In 2007 the MFA set new regulations in order to allow mortgage finance companies to offer financing in foreign currency, with a ceiling of 65% of the value of the property. The funding will be from the foreign currency portion of the company's capital.

In 2006, a mortgage refinancing company began operation, with a paid-in capital of LE 200 million, and a license for up to LE 1 billion. The company plays the role of a market maker by providing long term finance to banks and mortgage financing companies. The World Bank and IFC have supported the new facility and commercial banks are the principal shareholders. Despite the efforts to foster a mortgage market, the concept of mortgage-based purchases remains new and is still a largely underutilized in Egyptian society.

Real estate registration fees, long considered a major impediment to development of the real estate sector, were capped in May 2006 at no more than LE 2000, irrespective of the contract value. In August 2006, MOI issued the new schedule of property registration as follows: LE 500 for areas up to 100 square meters, LE 1000 for up to 200 sq. meters, LE 1500 for up to 300 sq. meters and LE 2000 for areas over 300 sq. meters.

Law No. 83 for 2006, issued in June 2006, amended certain provisions pertaining to notarization fees, which remain high, and the Land Register Law. In June 2008, the Egyptian parliament approved a new real estate tax law. The new law dramatically reduces the tax rate to 10 percent on properties with market values above LE 500,000. Properties worth less than LE 500,000 are exempt from taxation, as are rental incomes below LE 6000 per annum. However, the amendments end many of the exceptions which had enabled most homeowners to avoid property taxes. Property values are to be re-assessed every 5 years by an evaluation committee, with caps of 30 percent and 45 percent on residential and non-residential properties, respectively. Maintenance expenses up to 30% and 32% per annum for residential and non-residential units, respectively, are deductible. The law exempts all state-owned property, public service facilities and religious facilities from real estate taxes. The new real estate tax is expected to be implemented starting January 2009.

For information on protecting your Intellectual Property Rights, see Chapter 3 Protecting Your Intellectual Property

Transparency of Regulatory Return to top

The Egyptian government has made considerable effort to improve the transparency of government policy. The process has proven difficult, however, given the extremely opaque policies in place prior to 2004 and resistance from entrenched bureaucratic interests. Significant obstacles continue to hinder private sector investment, including the often-arbitrary imposition of bureaucratic impediments and the length of time needed to resolve them. In 2005, new import and export regulations were issued, completely replacing all prior regulations. The regulations have reportedly sped up import and export clearance processes, but Customs officials still have significant flexibility in classifying goods. Enforcement of health and safety regulations remains uneven and is complicated by a multiplicity of laws, agencies, and opinions. For example, at least four ministries regulate the operation of restaurants.

Law 89 of 1998 amended the Tenders and Bidding Law 9 of 1983 to improve equality and transparency in government procurement. Key provisions of the law include: a prohibition on reopening negotiations after final bids have been received; more transparency in the criteria for bid acceptance and rejection; equality among bidders, contractors, and government agencies; more weight given to the technical aspects of a tender or bid; protection of contractor rights; reduction of insurance fees; immediate return of deposits once the government announces bid or tender results; and the establishment of a Central Office for Complaint Resolution in the Ministry of Finance.

In January 2005, parliament passed the Law on Protection of Competition and Prohibition of Monopolistic Practices. A new agency, the Egyptian Competition Authority, began operating in 2006 to implement the law. Funding for the new agency comes from direct government appropriations and/or donations from professional or academic bodies. The MOI also issued corporate governance guidelines as Ministerial Decree No. 332 in October 2005. The non-binding guidelines – formulated along the lines of OECD principles – apply to private sector share-holding and limited liability companies, in addition to brokerages. In July 2006, corporate governance guidelines for public sector companies were also issued by MOI.

Accounting standards in government entities are still not fully consistent with international norms, although efforts are underway to bring standards into conformity with International Financial Reporting Standards (IFRS). The MOI issued a directive in September 2006 with new accounting standards for all companies listed on the Egyptian stock exchange, including public entities. The new standards, which came into effect in January 2007, are close, but not identical to IFRS. Over the last two years the Ministry of Finance has also adjusted its own budget classification system according to the Government Finance Statistics Manual for 2001 of the IMF.

Egyptian law does not require that proposed legislation be published prior to consideration in parliament. In practice, however, proposed legislation is occasionally circulated among concerned parties such as business associations and labor unions. Responsiveness on the part of legislators to feedback received from concerned parties is questionable. After approval by parliament, new legislation is published in the Official Gazette.

Efficient Capital Markets and Portfolio Investment Return to top

The government has taken steps to streamline capital markets and overcome years of stagnation in the banking system, which had hampered economic growth. Credit in the banking system is increasingly allocated on market principles and policy interest rates are now more market-determined than before, though credit to the government and interest rate spreads remain high. Although foreign investors have equal access to credit, the business community consistently cites lack of credit as a continuing impediment to economic growth.

The Capital Market Law 95 of 1992, along with the Banking Law of 2003, constitutes the primary regulatory framework for the financial sector. The law grants foreigners full access to capital markets, and authorizes establishment of Egyptian and foreign companies to provide underwriting of subscriptions, brokerage services, securities and mutual funds management, clearance and settlement of security transactions, and venture capital activities. The law also authorizes the issuance of corporate bonds and bearer shares, and makes income from most stocks and bonds non-taxable. The law specifies mechanisms for arbitration and legal dispute resolution and prohibits unfair market practices. Law No 10/2009 brought the regulation of all non-banking financial services under the newly created Egyptian Financial Supervisory Authority (EFSA),

The Central Securities Depository and Registration Law and its executive regulations, issued in 2000, eased registration and deposit of securities. Settlement of transactions now takes one day for treasury bonds, two days for dematerialized issues, four days for materialized issues and same day for 62 active stocks that are not bound by the 5 percent daily price movement ceiling. Thirty three brokerage companies have the license to deal in same day trading among 157 companies. Although Egyptian law and regulations allow companies to adopt bylaws limiting or prohibiting foreign ownership of shares, only four companies listed on the stock exchange have such restrictions. A significant number of the companies listed on the exchange are family-owned or dominated conglomerates, and free trading of shares in many of these ventures, while increasing, remains limited. However, stocks are de-listed from the exchange if not traded for six months.

In 2002, the then Minister of Foreign Trade added an additional chapter to the executive regulations of the Capital Market Law to allow margin trading to increase liquidity and trading in the market through brokerage firms and financially solvent licensed companies. In April 2003, the U.S. Securities and Exchange Commission included the CASE in its list of accredited stock exchanges, allowing U.S. financial institutions to invest in the Egyptian stock market without undertaking the cumbersome procedures previously required. In May 2006, the CMA issued Decree No. 50 for 2006, organizing online trading on the CASE. The decree allows brokerage companies to receive requests for buying/selling of shares by clients via the Internet. The decree also mandates infrastructure requirements, mainly web security provisions, which brokerage firms must meet in order to provide online services. To date, seventy companies have obtained online trading licenses.

Leasing Law 95 of 1995 allows for the leasing of capital assets and real estate and was designed to reduce the high start-up costs faced by new investors. Notably, the law specifically allowed for the purchase of real estate assets through leasing mechanisms. The Leasing Law was amended in 2001 to make leasing more attractive for investors by exempting financial leasing activities from sales taxes and fees; specifying financial standards that leasing companies must adhere to; increasing the control, organization and efficiency of the leasing activities; and incorporating clear guarantees for the parties involved.

The government undertook significant banking reforms starting in 2004 to consolidate the banking sector and improve asset quality. Non-performing loans dropped from about 25 percent in 2005to 14 percent in 2008. Most public sector banks have become profitable but overall credit to the private sector has fallen as credit to the government to fund fiscal deficits has risen.

Political Violence

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Egypt suffered a number of terrorist attacks in the past few years, in Taba in October 2004, Cairo in April 2005, Sharm el Sheikh in July 2005, Dahab in April 2006, and Cairo in February 2009. These incidents appear to be aimed at undermining government authority via the tourism sector. The incidents were not directed at foreign investors or their property, though they targeted hotels and areas frequented by foreign tourists. Although tourist numbers decreased somewhat in the immediate aftermath of these events, the decrease was temporary and the inflow of tourists continues to increase steadily. The government has increased security in tourist areas following these incidents; all Americans are urged to be vigilant and exercise good security practices while in Egypt.

Recent reforms have fostered a more open public debate regarding Egypt's political future. This debate has generated frequent public demonstrations, most of which have remained peaceful. There have been incidents involving violence, however, but the violence was not directed toward foreigners or foreign investment. The general security situation in northern Sinai has recently declined resulting in carjackings and random violence, but foreigners have not been specifically targeted.

Corruption

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While U.S. investors have reported corruption by lower-level government officials, they have not identified corruption as a leading obstacle to foreign investment. Corruption in Egypt is a crime. Two agencies oversee enforcement of corruption laws in the public sector – the Administrative Control Authority (ACA) under the authority of the Cabinet of Ministers and the Illicit Gain Office under the authority of the Public Funds Prosecution of the Ministry of Interior. In the private sector, there are two types of corruption cases, commercial and civil. Commercial cases are subject to the Commercial Law and the Dispute Settlement Law. The district attorney's office and the civil courts adjudicate civil cases. The ACA may intervene when corruption occurs in the private sector if public money and/or public interests are involved.

Giving and accepting bribes are criminal acts in Egypt. Penalties include pecuniary fines and imprisonment. Bribing foreign officials is also a crime in Egypt. High-profile corruption cases since 2002 have resulted in lengthy trials, and convictions in some instances, for several former government officials, including a former Minister of Finance, former head of the Egyptian Customs Authority, and the former Governor of Giza Province. Several businessmen and prominent bankers also have been charged (and some convicted) for alleged corruption related to non-payment of loans. Enforcement of corruption laws does not appear to be disproportional against foreigners, but evidence indicates that cases brought to court are often politically motivated, i.e., cases tend to be brought against individuals who have fallen out of favor with the government.

Egypt is a signatory to the UN Convention Against Corruption, but has not signed the OECD Convention on Combating Bribery or any other regional anti-corruption convention. Transparency International's Corruption Perceptions Index ranked Egypt 111 out of 180 surveyed countries in its 2009 survey. In 2006, Egypt was ranked 70th out of 163 surveyed countries on perceptions of corruption.

The law provides criminal penalties for official corruption, but the government did not consistently and effectively implement the law, and impunity was a problem. Media routinely reported on confirmed cases of low-level corruption, including the fraudulent alteration of official documents, embezzlement, and bribery. The Central Agency for Auditing and Accounting (CAA) is the government's anti-corruption body and submits biennial reports to the People's Assembly, which are not available to the public. The CAA stations monitors at state-owned companies to report corrupt practices. Observers did not judge the CAA to be effective.

Bilateral Investment Agreements

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Egypt has signed investment agreements with over 40 other countries, including Armenia, Belgium, China, Finland, France, Germany, Greece, Italy, Japan, Libya, Luxembourg, Morocco, the Netherlands, Romania, Singapore, Sudan, Sweden, Switzerland, Thailand, Tunisia, the United Kingdom and the U.S. The U.S-Egypt Bilateral Investment Treaty provides for fair, equitable, and nondiscriminatory treatment for investors of both nations. The treaty includes provisions for international legal standards on expropriation and compensation; free financial transfers; and procedures for the settlement of investment disputes, including international arbitration.

In addition to specific investment agreements, Egypt is also a signatory to a wide variety of agreements covering trade issues. Egypt joined the Common Market for Eastern and Southern Africa (COMESA) in June 1998. In July 1999, Egypt and the United States signed a Trade and Investment Framework Agreement (TIFA), a step toward creating freer trade and increasing investment flows between the U.S. and Egypt. In June 2001, Egypt signed an Association Agreement with the European Union (EU). Egypt's parliament ratified the agreement in March 2003, and it entered into force on June 1, 2004. The agreement provides for immediate duty free access of Egyptian products into EU markets, while duty free access for EU products will be phased in over a twelve-year period.

In recent years Egypt has worked on reaching agreements with 11 Arab League members in connection with the Arab Common Market Treaty of the 1960's. In February 2004, Egypt signed a free trade agreement with Jordan, Morocco and Tunisia. The Agadir Agreement, as it is known, committed the parties to removing substantially all tariffs on trade between them by January 1, 2006, and to intensifying economic cooperation through harmonization of standards and customs procedures. Ratification was completed and the agreement entered into force in 2006.

On December 14, 2004, Egypt and Israel signed an agreement to take advantage of the U.S. government Qualifying Industrial Zone (QIZ) program. The purpose of the QIZ program is to promote stronger ties between the region's peace partners by granting duty-free access to goods produced in QIZs in Egypt and Jordan using a specified percentage of Israeli input. Under the QIZ agreement, the US waives duties on imports from Egypt if the value includes 10.5% Israeli content. At present, 749 Egyptian companies have registered to export under this program. The industrial areas currently included in the QIZ program are Alexandria, areas in Greater Cairo such as Sixth of October, Tenth of Ramadan, Fifteenth of May, South of Giza, Shobra El-Khema, Nasr City and Obour, areas in the Delta governorates such as Dakahleya, Damietta, Monofeya and Gharbeya, and areas in the Suez Canal such as Suez, Ismailia, and Port Said. The Upper Egyptian governorates of Minya and Beni Suef were designated as QIZs in January 2009, though the program has not yet been implemented in the two governorates. Egyptian exports to the U.S., ready-made garments in particular, have risen rapidly since the QIZ program was introduced in December 2004. The value of the Egyptian QIZ exports to the U.S. amounted to $745 million in 2008, roughly one-third of Egypt's total exports to the U.S.

In July 2007, Egypt signed the Declaration on International Investment and Multinational Enterprises with the Organization for Economic Cooperation and Development (OECD). The declaration implies a policy commitment to improve the investment climate in the country and encourage further contribution of foreign investors and multinational companies.

OPIC and Other Investment Insurance Programs

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In July 1999, Egypt and the U.S. signed an updated investment agreement to facilitate the U.S. Overseas Private Investment Corporation (OPIC)'s provision of political risk insurance for U.S. private investment as well as for bid, performance, and advance payments, and customs bonds and guarantees issued on behalf of U.S. suppliers and contractors in Egypt.

Egypt is included in a plan by OPIC to offer financing for construction of low cost housing in several countries in the Middle East and North Africa. OPIC is also currently considering a direct loan to a private financial entity in Egypt to issue low cost, long term mortgages.

Egypt is also a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA).

Labor

Egypt's labor force has grown steadily in recent years, with upwards of 600,000 new entrants into the labor market each year, though the number declined to 400,000 in the past fiscal year, likely as a result of the financial crisis. Official statistics put the labor force at 24.7 million, with 22.5 million employed in 2008. Unemployment officially stood at 9.4 percent in the third quarter of FY2009. In 2008, the government employed 5.3 million people, state-owned enterprises employed 1 million, and the private sector employed16 million people.

There is universal agreement that the government bureaucracy and public sector enterprise are substantially over-staffed compared to private sector business. Skilled labor in most professions is in short supply, despite high numbers of university graduates in those fields, and foreign companies frequently pay internationally competitive salaries to attract workers with valuable skills. Millions of Egyptians continue to seek employment abroad on both a temporary and permanent basis, and the government is considering establishing an office to assist workers overseas.

The Unified Labor Law (Law 12 of 2003) provides comprehensive guidelines on labor relations, including hiring, working hours, termination of employees, training, health, and safety. The law grants a qualified right for employees to strike, as well as rules and guidelines governing mediation, arbitration, and collective bargaining between employees and employers. Non-discrimination clauses are also included, and the law complies with labor-related International Labor Organization (ILO) conventions regulating the employment and training of women and eligible children (Egypt ratified ILO Convention 182 on Combating the Worst Forms of Child Labor in April 2002). The law also created a national committee to formulate general labor policies and the National Wage Council, which discusses wage-related issues and national minimum-wage policy. . Law No. 53 for the year 1984 set the minimum wage at LE 35 per month.

Under the Unified Labor law, workers may join trade unions but are not required to do so. A trade union or workers’ committee may be formed if 50 employees in an entity express a desire to organize. Most union members, about 27 percent of the labor force, are employed by state-owned enterprises. All trade unions are required to belong to the Egyptian Trade Union Federation. The ILO's Committee of Experts has emphasized repeatedly that a law requiring all trade unions to belong to a single federation infringes on the freedom of association, but the government has not changed the law.

Regarding the right to strike, workers have the right to strike peacefully, provided a general trade union organizes the strike in defense of vocational, economic, and social interests and announces it at least ten days in advance. Strikers must also notify the employer and concerned administrative officials of the reasons and time frame of the strike. The law prohibits strikes in strategic or vital establishments in which the interruption of work could result in disturbing national security or basic services provided to citizens. In practice, workers strike regularly without following these procedures.

Collective negotiation is allowed between trade union organizations and employers or their organizations when attempting to improve labor terms, conditions, and employment provisions; cooperating between labor parties to achieve social development for workers of an establishment; and settling disputes between workers and employers. Agreements reached through negotiations are recorded in collective agreements regulated by the Unified Labor law.

The Ministry of Manpower and Migration sets worker health and safety standards, which also apply in public and private free zones and the Special Economic Zones (see below). Enforcement and inspection, however, are uneven. The Unified Labor law prohibits employers from maintaining hazardous working conditions, and workers have the right to remove themselves from hazardous conditions without risking loss of employment.

The labor laws allow employers to fully or partially close down or downsize their firms for economic reasons. The unemployment insurance law, also known as the Emergency Subsidy Fund Law No. 156 of 2002, sets a fund to compensate employees whose wages are suspended due to partial or complete closure of their firm or due to its downsizing. The Fund allocates financial resources that will come from a 1 percent deduction from the base salaries of government, public enterprise, and private sector employees.

According to foreign investors, certain aspects of Egypt's labor policies are significant business impediments, particularly the difficulty of dismissing employees. The Unified Labor Law is somewhat more flexible in this area than the previous one, allowing employers and employees to terminate employment contracts under specific circumstances, but the process is still not easy. The privatization program in some cases also requires a company's new owner to retain all workers. The government has, however, used privatization proceeds to offer early retirement and/or other separation incentive packages to workers in some privatized companies.

Foreign Trade Zones/Free Ports

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Public and private free zones are authorized under the Investment Incentive Law and are established by a decree from GAFI. Free zones are located within the national territory but are considered to be outside Egypt's customs boundaries, granting firms doing business within them more freedom on transactions and exchanges. Companies producing largely for export (normally 80 percent or more of total production) may be established in free zones and operate in foreign currency. Free zones are open to investment in any sector, by foreign or domestic investors. Companies operating in free zones are exempted from customs duties, sales taxes or taxes and fees on capital assets and intermediate goods.

As part of a set of revenue-generating measures to offset a 30 percent public sector wage increase, the government announced in May 2008 that companies operating in free zones would be taxed on natural gas obtained at concessionary rates from the government. Warehouse companies are also subject to an annual fee of 1 percent on the imported product's value, and production and assembly profits are subject to an annual fee of 1 percent on the value added of the final product.

There are currently 10 public free zones in operation in the following locations: Alexandria, Damietta, East Port Said Port Zone, Ismalia, Koft, Media Production City, Nasr City, Port Said, Shebin el Kom, and Suez. The Port Said free zone was initially scheduled to be phased out by 2007, but President Mubarak has extended the timeline multiple times, and Port Said continues to operate as a free zone. Private free zones may also be established with a decree from GAFI but are usually limited to a single project. Priority is given to export-oriented industrial projects. The investor has the freedom to select his activity and there is no restriction on foreign ownership of capital in private free zones.

The Special Economic Zones (SEZ) Law 83 of 2002 allows establishment of special zones for industrial, agricultural, or service activities designed specifically with the export market in mind. The law allows firms operating in these zones to import capital equipment, raw materials, and intermediate goods duty free. Companies established in the SEZs are also exempt from sales and indirect taxes and can operate under more flexible labor regulations. The law’s executive regulations were issued in September 2002 and the first SEZ was established in the northwest Gulf of Suez. The Gulf of Suez SEZ is concentrated in a 20 square kilometer region around the port of Ain Sokhna, and has attracted foreign investments from China and the United Arab Emirates.

Law No. 19/2007 issued in May 2007 authorized creation of investment zones, which require Prime Ministerial approval for establishment. The government regulates these zones through a board of directors, but the zones are established, built and operated by the private sector. The government does not provide any infrastructure or utilities in these zones. Investment zones enjoy the same benefits as free zones in terms of facilitation of license-issuance, ease of dealing with other agencies, etc., but are not granted the incentives and tax/custom exemptions enjoyed in free zones. Projects in investment zones pay the same tax/customs duties applied throughout Egypt. The aim of the law is to assist the private sector in diversifying its economic activities.

Foreign Direct Investment Statistics

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Measurements of foreign direct investment (FDI) in Egypt vary according to the source and the definitions employed to calculate the figure. The Ministry of Petroleum keeps statistics on investment in the oil and gas sector (which accounts for the bulk of FDI in Egypt), while GAFI keeps statistics on all other investments. The Central Bank records figures on quarterly and annual investment flows based on financial records, for Egypt's balance of payments statistics. There are wide disparities between the three sources, and none can be considered definitive in assessing levels of foreign investment.

GAFI's figures are calculated in Egyptian Pounds at the historical value and rate of exchange, with no allowance for depreciation and are cumulative starting from 1971.

GAFI statistics indicated that U.S. investors had FDI in Egypt at a total of $5.8 billion for the period of 1971 - 2008 outside the oil/gas sector. The U.S. is ranked first in terms of FDI in Egypt. In addition to their major role in the energy sector, U.S. firms are active in a wide range of manufacturing industries, producing goods for the domestic and export markets. Examples of U.S. investors include American Express, AIG, American Standard, Bechtel, Bristol-Myers Squibb, Citibank, Coca-Cola, Commercial International Bank, Energizer, ExxonMobil, Eveready, General Motors, GlaxoSmithKline, Guardian Industries, H.J. Heinz, Johnson and Johnson, Devon Energy, Microsoft, Procter and Gamble, Pfizer, PepsiCo, Pioneer, and Xerox. Leading investors from other countries include such companies as BG, ENI-AGIP, Shell, and Union Fenosa (in the oil/gas sector), Unilever, the M.A. Kharafi Group (Kuwait), and the Kingdom Development Company (Saudi Arabia).

INVESTMENT STATISTICS (USD billions)

	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Foreign Direct Investment (flow)	.701	.407	3.902	6.111	11.053	13.237	8.113
Portfolio Investment (flow)	-.41	-.2	.8	2.764	-.9367	-1.374	-9.211
US FDI (stock)	2.6829	3.524	4.644	5.354	5.911	6.704	4.715

*2004/2005 data includes the Energy Sector

*U.S. FDI figures are for calendar year.

*Sources: The Financial Monthly U.S. Department of Commerce,; Central Bank of Egypt