



Submission No 3

Inquiry into Australia's Trade and Investment Relations with North Africa (Algeria, Egypt, Libya, Morocco, and Tunisia)

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EMBASSY OF THE
ARAB REPUBLIC OF EGYPT
CANBERRA



سفارة جمهورية مصر العربية
في كانبرا - أستراليا

The Secretary
Trade Sub-Committee
Joint Standing Committee on Foreign Affairs, Defence and Trade
Parliament House
CANBERRA ACT 2600



RE: Inquiry Into Australia's Trade and Investment Relations with North Africa (Algeria, Egypt, Libya, Morocco and Tunisia).

Dear Ms. Burton,

In response to your letter regarding a call for submissions regarding the Trade Sub-Committee's inquiry into Australia's trade and investment relations with North Africa (Algeria, Egypt, Libya, Morocco and Tunisia). I am pleased to present to the esteemed Sub-Committee's attention a submission that deals exclusively with the economic environment in Egypt and the possibilities to improve Australia's trade and investment relations with Egypt.

1- **Overview**

Egypt, which sits geographically and historically at the crossroads of international developments, has traditionally played a leading role both regionally and internationally to promote justice, the peaceful settlement of disputes and security for all peoples. We actively promote dialogue among cultures and mutual understanding among peoples.

In this regard, we consider that security, inclusion and poverty alleviation are the three main prerequisites for accelerating development in our region. Egypt recognizes its responsibilities towards its region and has been focusing its efforts on all three fronts.

Security can only be attained through the just settlement of the region's prolonged conflicts. A sound political process can replace violence in a manner that would provide both Palestinians and Iraqis with the means to build their nations in an orderly fashion. Egypt will continue to work with all relevant parties to stop violence, build capacities for enforcing law and

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order, mediate efforts for the peaceful settlement of conflicts, and invest in the welfare of our region.

Our own reform process is well underway on all fronts.

Our political reform agenda was accelerated last February by President Mubarak's initiative to amend the constitution in order to allow for multi candidate presidential elections for the first time in Egypt's history. The government is committed to conduct a free and fair election next September.

Egypt recognises that free markets and democracy go hand in hand. We have made the link between opening our society and opening our economy, thus we have embarked on an ambitious and progressive path towards economic reform.

Egypt also clearly recognizes that human rights are closely connected with democracy, security and peace. The newly formed National Council for Human Rights has just issued its first report, which the cabinet has reviewed. The government announced that its intention to deal with the issues addressed in this report to expand human rights practices.

We cannot promote economic stability and expand our markets without including women into this equation. Egypt has been taking bold initiatives to expand the role of women and engage them in civil society in all areas. We have increased the participation of women in parliament and government. The National Council for Women has been extremely active over the last year by enhancing the status of all women, maximizing their contributions to the growth and development of Egypt and working towards narrowing the existing socio-economic gaps.

Recent terrorist operations have redoubled our resolve to combat terrorism and to persevere in our promotion of peaceful coexistence and understanding among cultures.

2 Egyptian Economic Performance:

The Egyptian government has launched since 1991 a comprehensive program of economic reform and structural adjustment. This program freed interest and exchange rates, sharply reducing the budget deficit and disciplined monetary growth.

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Now, into the third phase of the reform program, a surge in investor confidence underlines the vitality of the Egyptian economy. The elimination of all exchange restrictions and the recent stability of the exchange rate, have resulted in a US\$4 billion current account surplus, and foreign currency reserves reaching US\$18.7 billion by March 2005. Over the past financial year, the fiscal deficit was reduced to less than 3% and is forecast to decline further. The rise in the consumer price index has declined to 4.7% and the debt service ratio to 19% of exports. The budget deficit is now roughly 5 to 6 per cent of a G.D.P of US\$89 billion dollars.

According to the Investment policy review on Egypt, prepared by the United Nations Conference on Trade and Development (UNCTAD), the macro-economic adjustment and stabilisation efforts pursued since 1991, have successfully redressed internal and external imbalances, while the real economic growth rate in 2004/2005 reached 4.9% in comparison with 4.1% in 2003/2004, and 3% in 2002/2003, which reflects the improvement in general economic performance in comparison with the previous financial years, resulting in the stabilisation of the monetary and financial policies which allow the Egyptian Economy to overcome the lag period which occurred as a consequence of the events of 11 September 2001 and regional conflicts. The sources of growth are also more broad-based as public expenditure has shrunk and the private sector investment has accelerated, particularly in the tradeable sectors of agriculture, manufacturing, mining, transport and tourism.

According to the statistics of the Egyptian Ministry of Planning, the rate of growth increased in the financial year 2004/2005, in the main sectors such as energy (electricity, petroleum and natural gas), transport services and tourism. The gas sector achieved an overall growth rate of 22.8%, the oil sector 4.6%, income from the Suez Canal 19.8%, tourism 19.5%, and manufacturing 11% .

The most recent reform measures undertaken or initiated, that have helped to reinvigorate the economy, include:

- lower customs duties and simplified customs procedures.
- a series of tax reforms lowering personal and corporate rates to stimulate both consumer spending and domestic and foreign investment.
- accelerating privatization programs by giving additional incentives to companies who purchase public enterprises, restructure them administratively and modernize them financially. The proceeds of privatisation in the last nine months

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have equalled what was garnered in the last four years combined. This year alone the government's priority is to embark on privatising Egypt's oil, gas and transport sectors, in addition to jump-starting the process to privatise Telecom Egypt. In the financial sector, one of the four major state owned banks, the Bank of Alexandria, is scheduled for privatisation before the end of the year.

- reform of government subsidies to make them more efficient and targeted to the needs of underprivileged sectors. This will be accomplished hand in hand with strengthening social safety nets including the expansion of social security coverage, health care networks and educational benefits.

The Government's key strategy is to move quickly to integrate its economy into the international system by maintaining a balanced macroeconomic framework, providing a competitive business climate, promoting its stock market into one of the region's leading emerging financial centres, and executing a well designed program of privatisation that covers major public holdings in the industrial, agriculture, tourism and service sectors such as port services, telecommunications, banks and insurance companies. Foreign direct investment is offered what is arguably one of the most attractive and liberal incentives packages in the Middle East region, including tax privileges, capital repatriation and the absence of control on the level of equity participation.

The Egyptian Government has set a target of 6% growth by the current financial year 2005/2006, with national savings rising to more than 20% and investments to 24% of G.D.P, whilst maintaining low inflation, securing a stable exchange rate and prudent, predictable, monetary and fiscal policies.

3- Egypt's Economic Prospects:

Egypt has significant oil reserves. Oil production averages 900,000 barrels per day, of which 500,000 barrels are exported, and accounts for approximately US\$5 billion a year in revenue. The petroleum and natural gas sector represents about 10% of Egypt's GDP, while petroleum and gas products make up 53% of total exports. The production of natural gas and its derivatives is expected to increase by 5.2 % annually.

The agricultural sector continues to be of importance to the Egyptian Economy, as it represents 20% of the GDP and 36% of total employment.

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It is the area in which government has pushed economic reform the farthest.

The services sector is an important locomotive of growth. Tourism is attracting a high volume of new investment and, as more than 8 million tourists annually visit Egypt, is now the country's largest foreign exchange earner. Tourism revenues have increased from 1,771 billion dollars in the fiscal year 1992/93 to an average of 6 billion dollars in 2004/05.

Due to its geographical location and the Suez Canal, Egypt has potential to be an important transportation centre. Alexandria, Damietta, Port Said and Ain Sokhna have thriving port facilities, and the Egyptian government is encouraging commerce through the establishment of free zones in each city.

4- Foreign Direct Investment:

Foreign direct investment has been flowing into Egypt at a steadily increasing pace in the 1990's. Annual inflows were below US\$200 million in 1990, they are now nearly US\$2 billion. The main sources of Investment are Europe and the United States.

Although higher peaks have been reached in the past, the current level of inflows appears to be more stable than in earlier years. In the immediate future, FDI into Egypt will be sustained primarily by domestic economic growth. On the domestic front, both foreign and Egyptian investors are responding positively to the improved business climate, economic stability and the reformed institutional environment.

The free trade and preferential treatment agreements which Egypt enjoys at the regional and international levels (such as the economic partnership agreement with the European Union, the Arab free trade zone, the common market of East and Southern Africa (COMESA), in addition of bilateral Free Trade Agreements with a number of countries) open up a range of opportunities for foreign investors.

Foreign investors can thus produce in Egypt and benefit from these arrangements while enjoying tariff exemptions and taking advantage of an established industrial base providing efficient and low cost manpower and major infrastructure facilities.

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Egypt currently hosts operations by 26 out of the 100 world's largest trans-national corporations. Their investments in Egypt cover a variety of fields including electronics, the automobile industry, petroleum, chemicals, pharmaceuticals, and the food and beverage sector.

The Egyptian private sector is increasingly playing a lead role on the investment front. In the current business friendly environment, the private sector represents 70% of GDP and contributes 54% of investments.

A feature of FDI in Egypt is the effort to diversify the geographical concentration of industry. This effort includes the establishment of industrial zones, new industrial cities, free trade zones and technology parks. The first and second generation of eight new industrial cities established in Northern Egypt have successfully attracted investment. New such zones have also been launched in Southern Egypt. In total, industrial cities hosted 3,194 projects valued at US\$ 30 billion and employing around 20% of the total manpower in Egypt.

The performance of the Egyptian stock market has produced large margins of profit in the past two years which allowed it achieve the highest performance among international stock markets as of January 2005. The Egyptian stock market index, Case 30, achieved a 236.8% increase from July 2004 to July 2005. Many analysts consider that the levels of the Egyptian stock market are still relatively low and attractive to potential investors. The benefits of some shares are predicted to achieve a multiple of 12.

Among the administrative steps taken to reduce barriers to investment was activating GAFI – Egypt's Investment promotion agency, which will set up a company for investors in three days verses four months in the past.

5- Economic Relations between Egypt and Australia:

Trade between our two countries has remarkably grown from \$256 million in 2003 to \$685 million in 2004, with a surplus in Australia's favour to the amount of \$613 million. The major Australian exports are focused mainly on wheat and wheat flour, fresh vegetables, meat and live animals, wool, chemicals and related products, and machinery and transport equipment, whereas the major Egyptian exports are focused on refined petroleum, floor coverings, crude fertilizers and textiles.

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There is a potential for trade levels to rise far beyond current levels, as Egypt is a market of more than seventy million people, but this can best be achieved by addressing the current trade imbalance. Access of Egyptian commodities to Australian markets should be encouraged in order to widen the pool of businesses involved in trade on both sides. Among Egyptian products that enjoy a comparative advantage in international markets, are raw fibres, textiles, cotton fabrics, leather products, fertilizers, aluminium products, building materials, non-metallic minerals, manufactured metals, rice, fruit and preserved vegetables.

Egypt's close proximity to the European, Middle Eastern and African markets, with the access and preferential treatment provided by free trade agreements, are among the factors that have encouraged Australian companies to invest in Egypt. The positive investment climate, including the establishment of free and industrial zones such as Ain Sokhna on the Gulf of Suez, offer many outstanding features to Australian investors.

The major Australian investments in Egypt are, so far, concentrated in the mineral and petroleum fields. Some examples of Australian companies working in Egypt are:

- Santos Limited Corporation, involved in a joint eight-well exploration venture over three years in the Gulf of Suez.
- Magnesium International Limited, has chosen Ain Sokhna as the location for its 88,000 tonne per year magnesium smelter.
- The Gippsland Limited corporation, involved in the exploration of tantalum-tin in the central Eastern desert of Egypt. The same company has also recently announced the discovery of gold in three key areas in the south of the Eastern desert, in addition of the company's work in the mining of copper and nickel.

The potential for future cooperation is substantial. Economic cooperation could focus on joint projects in Egypt in the areas of agriculture, fisheries and live stock development and food industries. Fertilizer manufacturing may be another avenue to explore to make use of Egypt's enormous phosphate deposits. Also, Egypt's location and infrastructure qualify it to become a regional hub for the storage and redistribution of agricultural products. Education is another important area for potential cooperation.

Tourism is an important avenue between Egypt and Australia. During the first quarter of 2005, 10786 Australians visited Egypt. This number represents a 30% increase compared with the same period last year. This is a significant evolution, as tourism leads to better understanding

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our two peoples and, over and above its direct economic benefits,
indirectly facilitates economic activity in other sectors.

Please accept the assurances of my highest esteem.

Sincerely,



Mohamed Tawfik
Ambassador