



**Egypt-EFTA Free Trade Agreement:
Benefits and Opportunities
for Companies from Egypt and the EFTA States**

Speech by

Christian Etter

Ambassador

(Delegate of the Swiss Federal Government for Trade Agreements)

held at the launching event for the Egypt-EFTA Free Trade
Agreement, Cairo

Cairo, 10 September 2007

Ms. Minister, Mr. Minister, Excellencies, Ladies and Gentlemen

It is a pleasure for me to be here and represent the Swiss Government today - at an event, which marks an important step in the relations between Egypt and the EFTA States (Switzerland, Norway, Iceland, Liechtenstein).

This event not only celebrates the entry into force - a little more than a month ago - of the Free Trade Agreement (FTA) between Egypt and the EFTA States.¹ This event also brings together government representatives of Egypt, Norway and Switzerland as well as members of the business communities of these countries, with a view to reinforce already existing business relations and to develop new ones.

On a personal note, I particularly enjoy the opportunity to be back to Cairo, Egypt. As the EFTA Spokesman and head of the Swiss delegation in the last years of the negotiations between Egypt and the EFTA States, the negotiations brought me many times to this beautiful and impressive country. If there is a sad thing about the fact that the negotiations have come to an end and the Agreement is now in operation, it is that I will have to find new “excuses” to convince my government to send me back here...

At this occasion, I would like to thank very warmly my counterpart and friend, Sayed Elbous, Senior Adviser to the Minister of Foreign

¹ The FTA and the bilateral agricultural agreements were signed by Ministers on 27 January 2007 in Davos and entered into force on 1st August 2007

Trade and Industry, who was head of the Egyptian delegation during the latter part of the negotiations. Thanks to his efforts we were able to prepare the ground for Minister Rachid and State Secretary Gerber from the Swiss Ministry of the Economy to bring these negotiations to a successful conclusion. Even if the work on the EFTA-Egypt-Agreement was sometimes hard and took a long time, the cooperation with Mister Elbous and the other members of the Egyptian delegation was always based on trust and friendship, and - above all - on the shared goal and determination to accomplish together a piece of work that would enhance opportunities for producers, businesses and consumers of Egypt and the EFTA States, and that would bring the peoples of the involved countries closer together.

The Free Trade Agreement between Egypt and the EFTA States is an important achievement for the benefit of the economies of our countries. It creates new trade and investment opportunities on both sides. As I will explain later, the main immediate benefit of the Agreement lies in the fact that it does away with, or dismantles over a transition period, customs duties on a large majority of products traded between the EFTA States and Egypt. In addition, the Agreement will become part of the Euromed cumulation zone, called for by the Barcelona Declaration on establishing a comprehensive partnership between the European continent and neighbouring countries around the Mediterranean Sea.

Before sharing with you more detailed thoughts on what economic operators can expect from the EFTA-Egypt FTA, let me have a look

at the current economic relations between the EFTA States and Egypt and share some considerations on the importance of the Free Trade Agreement with Egypt in the context of EFTA's free trade policy.

Bilateral economic relations

Egypt is a very dynamic economy. GDP growth is close to 8% and is expected to further increase, and investment shows solid growth, too. Egypt is a major economic factor in the Middle-East and North-Africa, and indeed much beyond. All this makes it an important trading partner of the EFTA States. Total trade in goods between the EFTA States and Egypt amounted to close to 500 million USD in 2006, with EFTA exports amounting to over 350 million USD, and exports of Egypt to over 50 million USD.

Trade between Egypt and Switzerland accounted for about 85% of the total trade between Egypt and the EFTA group. Main products traded between Egypt and Switzerland were - as regards Egyptian imports - machinery, pharmaceutical and chemical products, watches and precision instruments, and - as regards Egyptian exports - agricultural products (grains, fruits, vegetables, cotton, textiles, jewellery) chemical products and machinery.

Looking at the development of trade over the last few years, Swiss exports grew by 7% in 2006 compared to the year before, totalling approx. 330 million USD. Still, they were 23% below the level of 2000. Over the same period, Egyptian exports to Switzerland grew

significantly, ² albeit from a rather low level, reaching about 30 million USD in 2006.

These figures imply that there is much unexploited potential, which – due to the new Free Trade Agreement – will be able to be tapped much better in the future. Indeed, as I will explain, the slow development in Swiss exports to Egypt may be, at least in part, due to the fact that a free trade agreement between Egypt and the EFTA States was missing.

Looking at investment, there are more than 100 Swiss companies established in Egypt, stretching from agribusiness, food and food processing industries over the pharmaceutical sector and machinery to cement production and services industries such as financial services and trade related services. The stock of Swiss foreign direct investment in Egypt amounts to about 400 million USD (2005).

The FTA with Egypt in the context of EFTA free trade policy

This morning, the Deputy Secretary General of EFTA informed you about EFTA trade policy. From a Swiss perspective, the EFTA approach to Free Trade Agreements fits well into the Swiss foreign economic policy strategy.

Switzerland's foreign economic policy rests on three main pillars: membership in the WTO, the bilateral agreements with the

² Except for 2006, where exceptional circumstances lead to a decrease of 7% compared to 2005

European Union (by far our most important neighbour and trading partner), and preferential agreements with important partners outside the European Union.

While it is conventional wisdom that foreign economic interests, particularly concerning small and medium-sized economies, are best served by multilateral trade liberalisation (if it takes place...), preferential agreements with selected trading partners are an important complementary means to defend foreign economic policy interests. Again, this is especially true for smaller countries, the economies of which heavily depend on foreign economic relations. Switzerland, in 1960, was a founding member of EFTA, the European Free Trade Association, one of the oldest free trade areas in the world. In 1972, Switzerland (as the other EFTA States) concluded a free trade agreement with the EU, the since then many times enhanced core element of Swiss-EU contractual relations.

In the last 15 years, Switzerland - mostly together with its EFTA partners - concluded a considerable number of free trade agreements with countries in Eastern and South-Eastern Europe, in the Mediterranean region, and with overseas partners. Many of these Free Trade Agreements EFTA concluded with Mediterranean partner countries, as this is the case now also with Egypt. EFTA is currently negotiating more FTAs - among others - with the GCC-Group of countries, and is exploring FTA negotiations with partners such as Indonesia and India.

What are the benefits for companies of Egypt and of the EFTA States?

In general terms, the Egypt-EFTA FTA, by establishing a contractual basis for preferential treatment, provides favourable and stable framework conditions for bilateral trade. This will foster and further promote economic relations and co-operation between economic operators of Egypt and of the EFTA States, strengthen export capacity, enhance investments and contribute to sustainable development, employment, and improved living standards.

Past experience shows that growth rates of trade flows between the EFTA States and their free trade partners were, in the first couple of years after the entry into force of an FTA, on average more than double compared to the figures with the other trading partners.

This should not come as a surprise. In many cases - and this is also true in relation to the Egypt-EFTA FTA - the free trade agreements concluded by EFTA mutually ensure similar market access conditions compared to other free trade partners of the EFTA-States and of the respective partner country.

Take our new agreement as an example: Egypt as well as all the EFTA States already have had free trade relations with the EU for several years. This means that imports into the EFTA States from Egypt had to compete in the past with preferential imports from the EU. Likewise, Swiss, Norwegian, Icelandic or Liechtenstein exports to Egypt had to compete with exports from the EU which enjoyed since 2004, due to the EU-Egypt Association Agreement,

preferential tariff treatment when entering the Egyptian market. This situation, now gradually remedied by the EFTA-Egypt FTA, could explain part of the recent slow development of bilateral trade between Switzerland and Egypt referred to before.

How about the specifics of the FTA?

In the field of industrial products, Egyptian exports to the EFTA States are duty-free as from 1 August 2007. E. g., an this may be of particular interest to Egypt, world famous Egyptian cotton and manufactured textile products now enjoy tariff free market access to the EFTA markets. Egypt on its side will gradually eliminate the custom duties on imports of industrial products from the EFTA States, with a similar schedule as is applied under the Egypt-EU Association Agreement. Concretely, tariffs on a number of industrial products originating in the EFTA States were reduced on 1 August 2007 and will be eliminated on 1 January 2008. Over the next couple of years, Egypt will progressively dismantle tariffs on many more products. The tariffs on the last remaining industrial products will be eliminated on 1 January 2020.

The FTA between Egypt and EFTA also grants preferential market access conditions for many agricultural products, relating to particular export interests of the agricultural sector of Egypt.

Notably, *fresh vegetables* (such as onions and shallots, lettuce, tomatoes, beans, and many more) coming from Egypt and imported into Switzerland have been benefiting since 1 August 2007 from zero tariffs within the relevant WTO global quota. Further concessions from Switzerland to Egypt include tariff free quotas, e. g., for *potatoes, table grapes* and *olive oil*. In addition, a number of other products such as *fresh fruits* and *jams* benefit from reduced customs tariffs.

With regard to *processed agricultural products*, the EFTA States grant Egypt for 5 years the same preferences as they apply to the same products originating in the EU, while Egypt continues to apply MFN tariffs to imports from the EFTA States. Five years from now, concessions from all parties will have to be negotiated.

From a business perspective, as mentioned before, it is important to note that the EFTA-Egypt FTA will be part of the Euromed cumulation system, opening up the possibility for producers, exporters and importers to take advantage of so called diagonal cumulation. This means that inputs and parts from all participating countries can be combined in the production process, and the end product is still eligible for preferential tariff treatment when exported to any country participating in the Euromed system, in particular to the large EU-market. This not only further enhances the competitiveness of Egyptian Exports to the EFTA States and of EFTA Exports to Egypt. It also makes products from Egypt and the EFTA States more competitive on the EU-market.

The conclusion of a FTA not only contributes to an increase in trade flows between the preferential partners, but also constitutes a significant additional incentive for investments in the particular partner country.

Also with regard to investments, the Euromed cumulation system is important. As just mentioned, production facilities based in Egypt can now source and deliver parts, components and other intermediate products as well as sell the end products at preferential conditions throughout the Euromed region. Given the comparative advantage of Egypt in the textile and agro-processing industries, and the fact that these sectors do produce and export on a regional basis, the interest of investors may focus on these, but also other Egyptian industries will become more interesting for foreign direct investors.

The FTA will enhance the interest of investors in Egypt not only from Switzerland and the other EFTA States, but indeed also from other countries, as establishments in Egypt can make use of the Euromed-cumulation system irrespective of the nationality of their parent company. I am convinced that the FTA between Egypt and the EFTA States will send a strong signal to economic operators looking for new investment opportunities, provided overall investment conditions prove to be right. In this regard Egypt has

accomplished important reforms, e.g. in the areas of taxation and customs, and more reforms are underway.

There are more provisions in the Agreement that contribute to improved trade and investment conditions. There are rules, e. g., on subsidies and competition policy. Moreover, the Agreement provides for protection of intellectual property rights in areas such as patents, copyright, undisclosed information, industrial designs and geographical indications. Specific provisions regarding investment call for the Parties to create favourable conditions and protection for, as well as to promote, investment. In addition, the Agreement stipulates the objective of liberalising trade in services and prohibits restrictions on payments for current transactions, and on capital movements relating to direct investments.

The Agreement finally establishes a Joint Committee which supervises the application of the Agreement and will examine the possibilities of further developing and deepening the cooperation between the Parties. This institutional setting further underlines the privileged partnership established by the Agreement between Egypt and the EFTA States.

In order to make sure that the Agreement fully deploys its effects and Egyptian companies can take as much advantage of the new FTA as possible, Switzerland and the other EFTA States will accompany the entry into force of the Agreement with measures in the form of technical and financial assistance regarding, inter alia, promotion of exports and of investments, capacity building for

SMEs, technical cooperation in areas such as cleaner production, customs reform and product regulations.

In this context I can report that a few days ago in Bern a Memorandum of Understanding between Switzerland and Egypt on technical and financial assistance was signed by the Minister of International Cooperation, HE Minister Abounaga, and the Swiss Minister for Economic Affairs, Federal Councillor Doris Leuthard. Corresponding programmes are foreseen by Norway and Iceland.

Let me sum up

The new FTA concluded between the EFTA States and Egypt provides significant opportunities for the business communities on both sides. It is now up to the business sector to make best possible use of the new framework. Let me thank you all for the continued cooperation in building and further developing business and personal relations between the EFTA States and Egypt, across the Mediterranean Sea, which throughout history always was a fertile basin not only for cultural and human development, but as well for economic exchange and progress.

* * *