

## **EU-Egypt trade under the Association Agreement** ***2008 - FOUR YEARS ANNIVERSARY***

The **Barcelona process** launched by Euro-Mediterranean Foreign Ministers in 1995 formed an innovative alliance based on the principles of joint ownership, dialogue and cooperation. The Partnership has been driven by a common political will to build together a space of peace, security and shared prosperity. It has been **successful in creating long-term political and institutional links** between Europe and its Mediterranean partners; in establishing the foundations for free trade and in engaging Mediterranean partners to the path of reform. The target of a **Euro-Med Free Trade Area** was set for 2010 both through a regional dimension (South-South Agreements) as well as through bilateral Association Agreements that have been concluded with individual Mediterranean partner countries.

The EU-Egypt Association Agreement forms the legal basis governing relations between Egypt and the EU, modelled on the network of Euro-Mediterranean Partnership Agreements between the Union and its partners in the southern flank of the Mediterranean Sea. The Association Agreement reflects the approach of the Barcelona Process, as it contains provisions with respect to the three pillars of the Euro-Mediterranean partnership, namely political dialogue, trade and economic integration, and social and cultural co-operation. The Association Agreement was signed in Luxembourg on 25 June 2001 and entered into force on 1 June 2004, following ratification by the Member States and by Egypt. A Protocol has been concluded which amends the Agreement to accommodate the enlargement of the Union to 27 Member States in 2007.

The core of the Association Agreement is the establishment of a Free Trade Area between the EU and Egypt, which implies reciprocal tariff liberalisation for industrial and agricultural goods. The agreement with Egypt incorporates free trade arrangements for industrial goods, concessionary arrangements for trade in agricultural products, and opens up the prospect for greater liberalisation of trade in services, and farm goods. Indeed, negotiations on further liberalisation of agricultural, processed agricultural and fishery products are likely to be completed in 2008 and negotiations on liberalisation of services have just started. The tariff dismantling provisions are asymmetrical in favour of Egypt which is a developing country. The EU has granted a complete dismantling of customs duties and quotas for Egyptian industrial products and a list of agricultural products exported to the EU. On the other hand Egypt is implementing a gradual abolition of customs duties for European industrial products and some agricultural products over an implementation period of 15 years from the date of entry into force of the Association Agreement.

Furthermore the agreement includes provisions on freedom of establishment and liberalisation of services, free movement of capital, competition rules, the strengthening of economic co-operation on the widest possible basis and the co-operation on social matters, supplemented by cultural co-operation.

### **Positive impact of the Association Agreement on EU/Egypt trade**

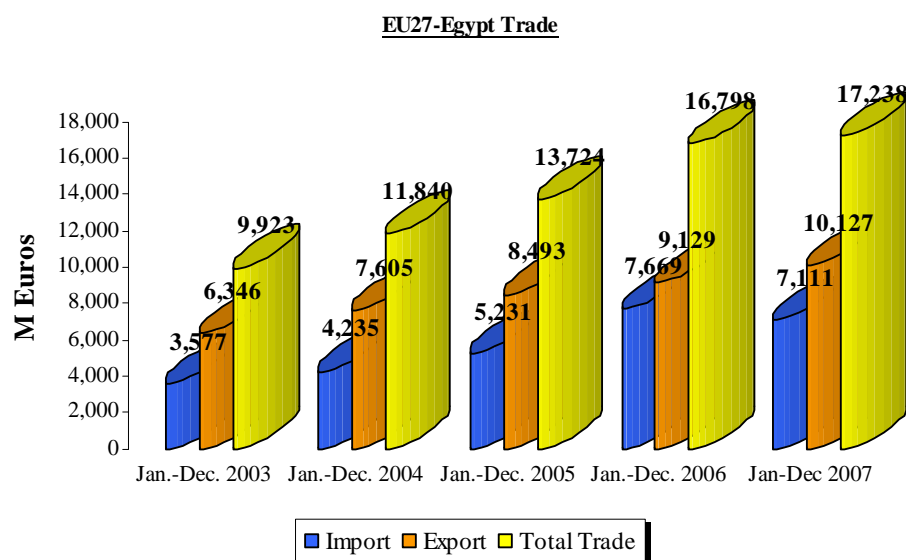
EU-Egypt bilateral trade has been steadily increasing: based on Eurostat data, €11.5 billion in 2004, €13.3 billion in 2005, €16.8 billion in 2006 and **an estimated €17.2 billion in 2007** (73% increase in 4 years), compared to an average of €10 billion before the entry into force of the Association Agreement. Preliminary data for 2007 suggest that Egyptian exports to the EU experienced a decrease of -7.28% year-on-year, whereas, at the same time EU exports to Egypt rose by 11%. The subdued performance of Egyptian exports in 2007 is imputable to one particular sector, namely the mineral fuels sector. Conversely, the Egyptian non-oil export sectors showed a rather healthy growth trend in 2007.

### EU27 imports from Egypt (mineral fuels)

PERIOD	Jan.-Dec. 2004	Jan.-Dec. 2005	Jan.-Dec. 2006	Jan-Dec 2007
Quantity in 100 KG	75,232,992.00	83,457,417.00	132,112,965.00	99,612,616.80
Value in Euros	1,677,477,992.00	2,400,413,103.00	4,304,205,493.00	3,060,088,232.40
Evolution	n.a.	11%	58%	-25%

Source: Eurostat

Overall, since 2004, the exports of Egypt to the EU have increased annually by 20% on average, and EU's exports to Egypt have risen by 12% annually.



Source: Eurostat

The EU is Egypt's first trading partner. In 2007, the EU accounted for nearly 34% of Egyptian imports and 33% of Egyptian exports with the balance of trade still in the EU's favour<sup>1</sup>. Among EU Member States, United Kingdom, Italy, Germany and France are Egypt's largest trading partners. Egypt ranks as the EU's 35th largest trading partner.

Below is a comparative table of Egypt's trade flows with its main trading partners. The source for these data is the Central Bank of Egypt; as such comparative information is not available from Eurostat. Notwithstanding the different reference periods (fiscal year versus calendar year), one has to be informed that some limited discrepancies from Eurostat data may be noticed. This simply reflects the existence of two distinct basic information sources: the European Union's customs administrations in the one hand, the Egyptian customs administration in the other hand. Whatever statistics sources we are looking at, they all clearly shows that the EU is Egypt's N°1 trading partner.

<sup>1</sup> Monthly Statistical Bulletin, January 2008, pg. 84, Central Bank of Egypt

### EG Global Trade by geographical distribution (US\$ mn)

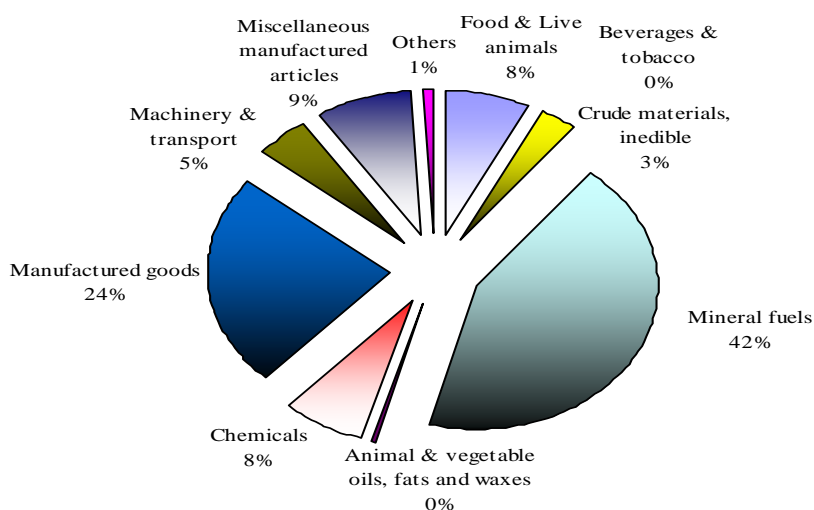
	2004/2005			2005/2006			2006/2007		
	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total
EU	5,144.10	7,849.00	<b>12,993.10</b>	6,948.00	11,289.40	<b>18,237.40</b>	7,440.60	13,005.50	<b>20,446.10</b>
Other European countries	752.90	1,972.70	<b>2,725.60</b>	964.50	2,340.10	<b>3,304.60</b>	1,048.60	3,205.60	<b>4,254.20</b>
Russia	57.60	548.20	<b>605.80</b>	68.70	744.80	<b>813.50</b>	151.90	685.20	<b>837.10</b>
USA	4,625.10	5,220.20	<b>6,000.00</b>	5,644.30	5,737.10	<b>11,381.40</b>	6,849.80	8,262.30	<b>15,112.10</b>
Arab countries	1,557.10	2,133.60	<b>3,690.70</b>	2,125.20	2,735.70	<b>4,860.90</b>	2,729.60	3,244.40	<b>5,974.00</b>
Asian countries	1,379.70	3,603.60	<b>4,983.30</b>	2,094.00	4,444.80	<b>6,538.80</b>	2,969.00	6,027.60	<b>8,996.60</b>
African countries	182.40	148.00	<b>330.40</b>	251.30	176.50	<b>427.80</b>	328.10	269.20	<b>597.30</b>
Australia	11.70	127.20	<b>138.90</b>	16.90	277.10	<b>294.00</b>	64.00	107.80	<b>171.80</b>
Other	122.20	2,590.30	<b>2,712.50</b>	342.20	2,695.50	<b>3,037.70</b>	435.90	3,026.60	<b>3,462.50</b>

Source: Central Bank of Egypt

- **Main EU imports from Egypt**

The main products exported from Egypt to the EU are mineral fuels (crude oil, petroleum, coal, etc), accounting for 42% Egypt's exports to the EU, and then manufactured goods, chemicals and agricultural products.

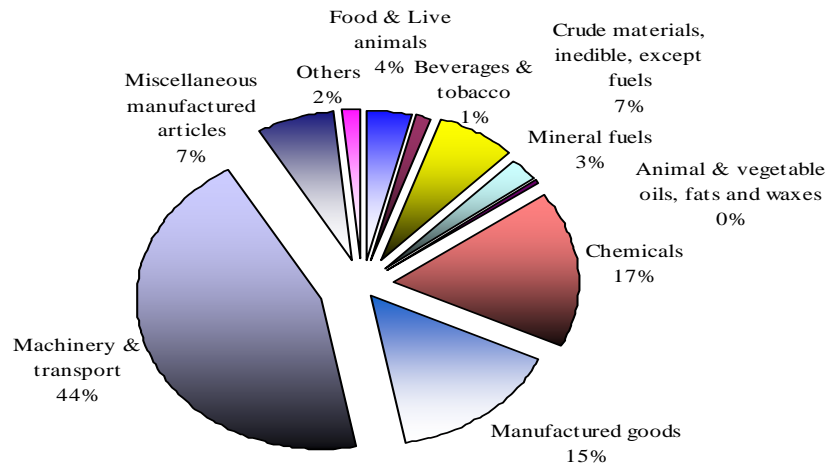
#### EU imports from Egypt by product (2007)



Source: Eurostat

- *Main EU exports to Egypt*

**EG exports to the EU by product (2007)**



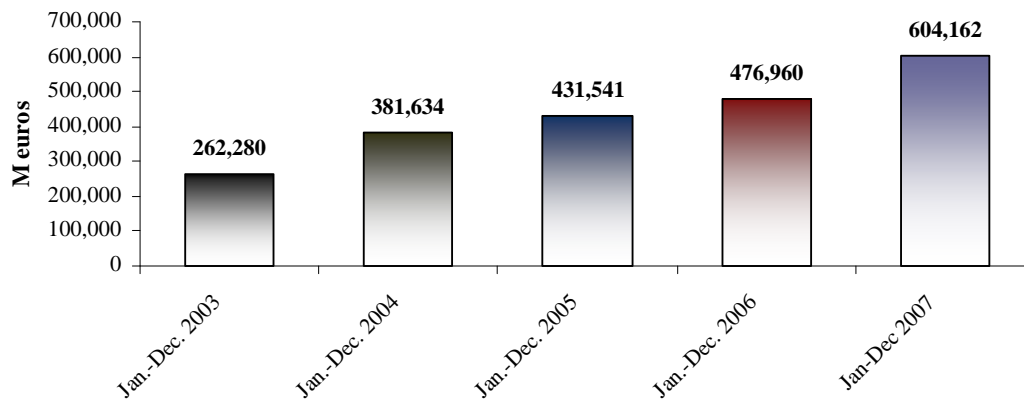
The EU exports to Egypt consist of mainly machinery and transport equipment (44%), manufactured goods and chemicals.

- *Agricultural products*

The Association Agreement has improved Egypt's access to the EU market via **reduced Custom duties and increased quotas**. As a consequence, Egypt's exports of agricultural products have increased by **80%** since the implementation of the Agreement.

In addition, the EU and Egypt are negotiating further liberalization of trade in agriculture, processed agriculture goods and fisheries products which will lead to increased market access for Egyptian products to the EU market and vice-versa. The year 2007 witnessed an increase of **25%** from previous year on Egypt's exports of agricultural products to the EU. Yet, Egypt's exports of agricultural products to the EU represent only **8%** of total Egyptian exports to the EU.

**EU Imports from EG (agricultural products)**



*Source: Eurostat*

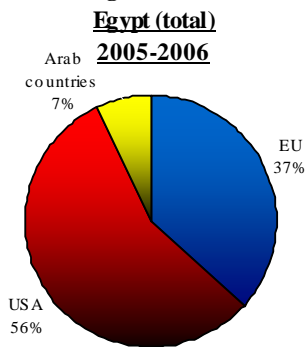
- **EU foreign direct investments (FDI) in Egypt**

The EU is the N°2 (closely following the US) investor in Egypt and **Egypt is the main recipient of EU investments in the Mediterranean** region with €3 billion for the fiscal year (July to July) 2006/2007 (€2.4 billion for the fiscal year 2005/2006). The 2007 UNCTAD World Investment Report indicates that Egypt has moved upwards in the ranking of Inward FDI Performance Index from the rank 68 to the rank 33.

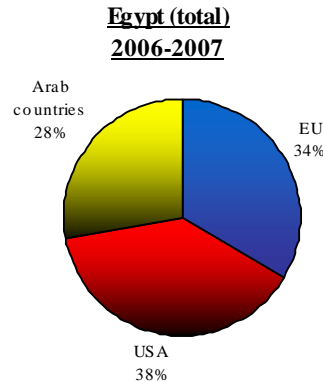
Investments are spread in the oil and gas, info technologies, construction and industrial sectors. In fiscal year 2006 non-oil investments reached 70% of total FDIs, compared to a more 30% in previous years.

Amongst the EU MS, the main investors in Egypt are UK (with 54% of the total investments), followed by Italy (40%) and Germany (2%).

**Inflow of foreign direct investment in**



**Inflow of foreign direct investment in**



*Source: Central Bank of Egypt*

**The tasks of the Mediterranean Partners**

Alongside bilateral "vertical" trade liberalisation with Europe, the Mediterranean Partners are committed to implement free trade among themselves ("horizontal" or South-South integration). As for example the Arab Maghreb Union (Morocco, Algeria, Tunisia, Mauritania and Libya) and the Agadir Agreement signed in February 2004 by Morocco, Tunisia, Egypt and Jordan.

**Pan-Euro-Mediterranean cumulation of origin**

Pan-Euro-Mediterranean cumulation of origin refers to the initiative launched by the Euromed Trade Ministers to extend the system of pan-European cumulation of origin to all Mediterranean partners. The initiative is aimed at reinvigorating trade and economic cooperation among Barcelona partners and other European Countries.

A "pan-Euro-Mediterranean" protocol on rules of origin was developed in a working group with all partner countries concerned. This protocol was endorsed by the Euro-Med Trade Ministerial meeting in Palermo on 7 July 2003 and entered into force between most of the Pan-Euro Mediterranean trade partners at the beginning of 2006.

**What are the agreed priorities for joint co-operation relevant to business?**

- **Economic reform and investment:** creating jobs, improving economic governance, improving the overall business climate, building up the private sector, financial sector and tax reforms, boosting inward investment

- **Trade related issues, markets and regulatory framework:** continued liberalisation of trade in goods, agriculture and services, opening the EU internal market of over 500 million consumers to Egyptian products, supporting reform of standards and conformity assessment, improving industrial competitiveness, new technologies
- **Transport, Energy and Environment:** co-operation in air, maritime, road safety, linking transport networks; energy co-operation in electricity, oil and gas, renewable energy, efficiency and supply; co-operation in climate change, cleaner Mediterranean Sea, air, coastal management, desertification, soil and water pollution.
- **Science and technology, research, communication:** strengthen scientific co-operation and research, develop national capabilities in R&D and innovation, broaden links with EU R&D institutions, promote information technology for business, government and citizens
- **Social development:** improving quality of life and living standards for citizens, reducing poverty and illiteracy, expanding social security coverage, develop education and schooling, health reforms
- **People-to-People contacts:** encourage more exchange between citizens, in education (including ENP scholarship programme), between youth, researchers, civil society, sports and cultural groups, business, trade unions.

### Useful links

**EC Delegation in Cairo website:**

<http://www.eu-delegation.org.eg/>

**EU-Egypt's Association Agreement:**

[http://www.ec.europa.eu/external\\_relations/egypt/aa/06\\_aaa\\_en.pdf](http://www.ec.europa.eu/external_relations/egypt/aa/06_aaa_en.pdf)

**Egypt's Country Strategy Paper:**

[http://www.ec.europa.eu/world/enp/documents\\_en.htm](http://www.ec.europa.eu/world/enp/documents_en.htm)

**DG Trade's website, Egypt profile:**

[http://ec.europa.eu/trade/issues/bilateral/countries/egypt/index\\_en.htm](http://ec.europa.eu/trade/issues/bilateral/countries/egypt/index_en.htm)

**EU-Egypt's Action Plan:**

[http://www.ec.europa.eu/world/enp/pdf/action\\_plans/egypt\\_enp\\_ap\\_final\\_en.pdf](http://www.ec.europa.eu/world/enp/pdf/action_plans/egypt_enp_ap_final_en.pdf)