



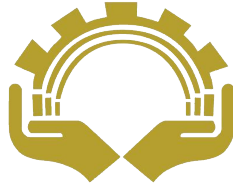
اتحاد الصناعات المصرية
FEDERATION OF EGYPTIAN INDUSTRIES

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REFORM AGENDA TO PROMOTE INDUSTRIAL GROWTH AND FOREIGN INVESTMENTS IN EGYPT

ISSUED BY: THE FEDERATION OF EGYPTIAN INDUSTRIES (FEI)





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FEDERATION OF EGYPTIAN INDUSTRIES

The Federation of Egyptian Industries (FEI) is one of the country's largest employers' associations, with 19 active industrial chambers as members, representing over 60,000 industrial enterprises out of which more than 90% belong to the private sector; accounting for more than 7 million workers and 18% of the national economy.

Since its inception The Federation of Egyptian Industries [FEI] has been carrying out its responsibilities towards defending and supporting Egyptian industries, firmly believing in industry as the pillar of the sustainable development of the country and as the tool to alleviate poverty and attain prosperity.

Therefore, FEI effectively advocates the common interests of its members and defends their positions towards governmental and legislative bodies, as well as other local and international associations.

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Motivated by a strong sense of purpose and duty, the Federation of Egyptian Industries (FEI), has developed a national agenda for reforms that are both urgent and necessary. The agenda details reforms that can be implemented in a short-term horizon to boost industrial growth rates and increase foreign direct investment flows into the Egyptian industrial sector. FEI's effort is grounded in the recognition and belief that the private sector and a free market economy have a pivotal role to play in achieving sustainable development, and thereby bring substantial benefits to the economy and society at large. Thus, it is hoped that this effort will bring about a paradigm shift towards a more systematic and constructive engagement between the Egyptian industrial community and government bodies. A more collaborative context for discussing the obstacles and challenges facing the Egyptian industry, and presenting realistic and actionable remedies will surely result in tangible improvements in the short term, while contributing to the realization of the comprehensive development strategy over the longer term.

The reform agenda, presented in this paper, captures the views of all stakeholders in the sector. It focuses on a number of cross-cutting priority areas that have clear negative impacts on the efficiency and the smooth running of industrial processes, and deters many foreign investors from investing in the sector. At the same time, the reform agenda addresses issues and challenges faced by a number of specific industries within the sector. Accordingly, the recommended reforms are divided into two categories: 1) cross-cutting (applicable sector-wide) and, 2) industry-specific. The former includes general reforms and issue-specific reforms targeting areas including: the cashless economy, industrial land acquisition, industrial licensing, taxation, customs, property registration, utilities and public services, shipping, transportation and storage services, and the Labor Law. The latter, the industry-specific recommendations, presents proposed reforms that are relevant to specific industries, including pharmaceuticals, food processing and agriculture products, automotive, grain, leather, petroleum and mining, and mineral resource processing. The recommended reforms, both the policy and the procedural, were carefully reviewed and well-vetted to ensure that they do not have any negative repercussions on any industrial sector, and that their benefits are broad-based.

In this regard, it is worth mentioning that in developing the reform agenda, FEI, in partnership with the Center for International Private Enterprise (CIPE), has sought input and feedback from multiple stakeholders, including the Egyptian Center for Economic Studies, the American Chamber of Commerce in Egypt and Chambers of Industry, members of FEI. Thus, the proposed agenda reflects broad consensus among a wide spectrum of Egyptian industrialists regarding the reforms needed to revitalize the industrial sector.

Finally, it should also be noted that accelerating the implementation of this agenda will translate into tangible results, including enhancing the business environment for domestic investors and improving Egypt's ranking in the Global Competitiveness Report, which, in turn, is expected to contribute to increasing the rate of foreign direct investment. Additionally, easing the rules and regulations for the private sector, one of the proposed areas for reform, will result in increasing production and exports, improving the quality of manufactured products, diversifying production methods, and driving industrial innovation.

Proposed Cross-Cutting Reforms (Sector-wide)

The following discussion pertains to the industrial sector at large. It presents general and detailed issue-specific reforms that if implemented, hold promise for benefitting the manufacturing sectors, lifting potential growth, and incentivizing investment.

General Reforms

- ✿ Establish a Cabinet-level committee to coordinate all economic and business-related decisions before issuing them. The committee should include representatives of FEI and the Federation of Egyptian Chambers of Commerce (FEDCOC).
- ✿ Coordinate and harmonize the production policies across the entire spectrum of economic sectors to ensure greater complementarity and accelerate growth rates across the board.
- ✿ Support an expanded role for the private sector in the economy to unleash Egypt's economic potential. Indeed, the diversity of the Egyptian economy, and the multiplicity of its productive sectors confirm the important role played by the private sector in the economy and point out clearly that economic production is not controlled by one sector.
- ✿ Make e-government a priority to increase the efficiency of government transactions and curb administrative corruption. Set a deadline of 2022 for completing the effort.
- ✿ Issue a binding decision that obligates sovereign creditors to work on rescheduling the senior debt of distressed companies. This effort should be done in close coordination with banks to ensure the availability of liquidity so as not to hinder the restructuring efforts of distressed companies, and at the same time, protect the banks against risk of losses.
- ✿ Expedite the issuance of the micro and small enterprises law to encourage formalization of informal enterprises.
- ✿ Support and strengthen the Industrial Development Bank to enable it to fulfill its role of funding and expanding industrial enterprises in Egypt.
- ✿ Reduce delays in court proceedings to enhance the timely delivery of justice, and build the capacity of judges in economic courts, with a focus on increasing their knowledge of economics and business.
- ✿ Revive the Egyptian Regulatory Reform and Development Activity, ERRADA Initiative, which was designed to vet all economic laws, and ensure that all its members have adequate expertise and capable to operate under the auspices of the Prime Minister.
- ✿ Reconsider the security screening process required for foreign investors as it consumes an inordinate amount of time (up to seven months). A notification requirement should suffice; foreign investors should start operating upon notification while maintain a competent security body.

- ⚙ Do not impose a real estate tax in free zones.
- ⚙ Consider exempting factories from real estate tax.
- ⚙ Review the sanctions-related provisions in all business-related bills and laws, and eliminate any sanctions that entail deprivation of liberty, thereby making them consistent with the Investment Law. The latter expressly states that no penalties that entail deprivation of liberty shall be imposed on investors in any economic or business activity, and that penalties shall be limited to fines.
- ⚙ Reconsider the required percentage of employer contribution to health insurance; under the current system, employers who do not pay their share (free riders) end up benefitting at the expense of employers who do—all employers should share the burden, and contribute their share.
- ⚙ Resolve the controversy surrounding the insurable wage so that the percentage of employer's contribution to the social insurance system be calculated on the basis of insurable wage.
- ⚙ Consider amending the Comprehensive Health Insurance Law (Law No. 2 of 2018) to address a number of shortcomings. The amendments should address the following points:
 - ⚙ The amount of contribution that businesses are required to make under the law termed "Takafulia" should be calculated based on the net annual income of the business instead of the gross annual revenue. Additionally, the contribution should not exceed 1% of the net annual income. Undertaking this measure will help in reaching consensus on this contentious issue, and thus avoid challenging the law in court. NB: Takafulia is an Arabic term derived from the root word "kafal", which in the literal sense means to mutually guarantee and protect one another
 - ⚙ The required contribution should be tax deductible.
 - ⚙ Money-losing businesses should be exempted from paying this contribution.
 - ⚙ The special nature of some companies (e.g. commission-based businesses) should be taken into consideration when applying the law.

General Reforms



The Cashless Economy

Responsibility

- The National Council for Payments
- The House of Representatives
- The Cabinet of Minister
- The Central Bank of Egypt
- The Ministry of Finance.

Challenges:

No doubt that a cashless economy is important in attracting foreign investment. Adoption of cashless transactions is essential for enhancing transparency and promoting confidence in the economy. Despite the efforts exerted toward promoting financial inclusion and limiting cash transaction in Egypt, a number of institutional and legislative barriers persists including:

- \$ Overlapping jurisdictions between the National Council for Payments and other government agencies.
- \$ With few exceptions, laws regulating sovereign payments do not include provisions that require electronic or bank payments. As of the date of this agenda, the use of an **electronic payment** mechanism is required only under Law 201 for 2014 (amending the Income Tax Law No. 91 of 2005) and Decrees No. 117 and 172 of 2015 issued by the Minister of Finance.
- \$ Laws regulating non-banking financial services do not include provisions that require electronic payments or **payments** through bank accounts (e.g. Companies Law, Capital Market Law, Insurance Services Law, Mortgage Law and Financial Leasing Law).



Proposed Reform Measures:

- \$ Create an executive secretariat for the National Council for Payments, and task it with overseeing the implementation of its decisions and coordinating between the various competent government entities to prevent conflicts and overlapping powers.
- \$ The National Council for Payments should develop a national plan, which includes clearly-defined interim objectives, well-developed implementation mechanisms, and criteria for measuring and assessing performance.
- \$ Amend the relevant laws regulating sovereign payments so that they require the use of bank or electronic payment mechanism for transactions exceeding a prescribed threshold amount. The amendments should also allow the use of mobile payments for transactions that fall below the threshold amount.
- \$ Include new provisions in the laws regulating non-banking financial services such that non-cash payment mechanisms—bank accounts, electronic means, including mobile phones—become mandatory for concluding any transaction, which entails buying, selling, payment of insurance installments, or finance leasing.

Provision of Industrial Land

Responsibility

- The Industrial Development Authority
- The New Urban Communities Authority
- The National Center for Planning State Land Use

Challenges:

- ∅ Lack of transparency in land allocation, and irrational pricing schemes; absence of comprehensive information on the availability and prices of land, as well as the land acquisition procedures.
- ∅ Excessive increase in land prices and the lack of pricing standards.
- ∅ Lack of standardized procedures for land allocation across the various government entities, and lengthy and cumbersome allocation procedures.
- ∅ Change in the purpose of land use after allocation.
- ∅ Land policies are developed in the absence of an updated integrated land information system.
- ∅ Small investors face shortage of appropriate industrial land since the Industrial Development Authority (IDA) lacks the financial resources needed for equipping industrial land with utilities, and the high cost of bringing utilities to undeveloped plots. Thus, IDA's lack of financial resources is likely one of the barriers to delivering on its plan of making available 60 million sq. mts. of land by 2020.
- ∅ Lack of land plots (500 square meters) for small enterprises in industrial zones, in line with the Industrial Licensing Law.
- ∅ Contrary to Law No. 15, "Simplification of Licensing Procedures for Industrial Enterprises Law", the New Urban Communities Authority, which is affiliated with the Ministry of Housing, requires investors to submit a letter of guarantee in order to acquire a land plot in industrial zones.
- ∅ Land registration requires conducting cadastral surveys. However, the current capacity of the Egyptian Survey Authority, does not allow it to respond to survey requests nation-wide in a timely manner, thus expedited requests for registration are put on hold.



Proposed Reform Measures:

- Ø The Prime Minister should promptly issue a decree to clarify jurisdiction issues related to industrial land: IDA has the sole responsibility for and jurisdiction over land administration and allocation, while the New Urban Communities Authority has sole responsibility for and jurisdiction over the land, and the provision of utilities and infrastructure. The decree should also clearly outline the role and function of each of these entities
- Ø Create a well-integrated and accessible information system for industrial lands; ensure that it remains updated.
- Ø Replace the numerous laws governing state land with a single unified and simplified law to administer state land.
- Ø Allocate additional land to IDA to increase the industrial land supply available for investors, and develop objective and transparent mechanisms for land allocation.
- Ø Allocate the plots of land which were inventoried by the governors to “Shoughlak fee Karyetak” Initiative (Your Job next to Your Home Initiative) and transfer the jurisdiction over these plots of land to the Ministry of Investment, as well as make available funds for the construction of the industrial enterprises.
- Ø Authorize the establishment of accreditation offices to carrying out cadastral surveys to facilitate the land registration process, similar to the case under the “Simplification of Licensing Procedures for Industrial Enterprises Law and Investment Law, which authorizes the establishment of accreditation offices to facilitate the licensing process;
- Ø Allow security-cleared entities to use modern techniques of geographic photography.
- Ø Make available land plots, and facilitate land acquisition procedures. Authorize the development of public markets, major commercial complexes, and hypermarket chains, which are critical for marketing locally manufactured products at competitive prices and increasing demand for these products.

Implementation and Enforcement of Industrial Licensing Law

Responsibility

- The Cabinet
- The Industrial Development Authority

Challenges:

- © To date, a decree establishing a new board of directors for IDA, pursuant to Law No. 95 of 2018, "The Industrial Development Authority Law", has not yet been issued. More so, the executive regulation for the new law are yet to be issued.
- © The limited capacity of IDA is reflected in a number of areas, including:
 - © Inadequate staffing levels in IDA governorate-level offices renders these offices ineffective.
 - © Staff in the governorate-level offices do not have real authority to make decisions without consulting with headquarters in Cairo.
 - © Staff are not well qualified and the majority do not have adequate understanding and knowledge of the procedures; many lack the skills and abilities to engage effectively with the public.
- © The ongoing overlapping jurisdictions between IDA and other government entities is in conflict with Law No. 15 of 2017, which gave IDA a clear and comprehensive mandate over industrial activities.
- © The license processing time continues to be long.
- © The service fees imposed by IDA are excessive, causes burdens, and drains the capital of investors.
- © The limited availability or lack of accreditation offices that are designed to speed up the licensing process.
- © Unsurprisingly, due to poor communication and interaction between IDA and investors, the majority of investors are not aware of Law No. 15 of 2017. IDA's website requires to be improved and further developed to serve as the prime platform for interaction with investors.



- © Banks refuse to finance industrial activities until operations start and the operating license is issued.
- © The multiplicity of oversight and inspection entities, and the prevailing practice of imposing fines and shutting down enterprises (e.g., the Ministry of Finance, the Ministry of Environment, the National Authority for Social Insurance, the Civil Defense Department, and local administration units).
- © IDA issued 16,000 licenses, however, it does not have the manpower to monitor and review these licenses.

Proposed Reform Measures:

- © Promptly establish IDA's new board of directors, in accordance with the new law.
- © Expedite the issuance of the executive regulations of Law No. 95 of 2018, "The Industrial Development Authority Law".
- © Enact a new law to regulate the administration of industrial zones. The new law should clearly define the responsibilities and relationships between and among all the parties concerned, similar to the case of the free zones and zones that are run by independent operators, mostly from the private sector.
- © Pledge and work towards reaching the industrial licensing waiting time targets, in line with the new law, by 2020: seven days for licenses issued under the notification license system, and three months for licenses issued under the pre-licensing system.
- © Enable IDA to play its role effectively by preventing other entities from interposing in the industrial licensing process.
- © Provide IDA with financial resources, in the short run, to strengthen its human and technical capacity, and enable it to establish an effective and efficient presence in all governorates.
- © Authorize governorate-level offices to grant licenses after completing procedures without having to secure the approval of the center.
- © Provide IDA staff with intensive training to enhance their capacity and enable them to engage with investors in a professional, impartial and ethical manner.

Implementation and Enforcement of Industrial Licensing Law

Challenges:

- \$ Taxes represent a major burden on industrial activities as they result in higher prices, thereby making products less competitive. Among the most significant tax-related challenges facing manufacturers are the following:
 - \$ The continued practice of arbitrary tax assessment, and the disregard of balance sheets and tax returns submitted by tax payer.
 - \$ The imposition of a value-added tax on capital goods, which results in higher production costs, and thus weakens competitiveness.
 - \$ Raising the VAT registration threshold to LE500,000, in accordance with the Value-Added Tax Law, will lead many enterprise to exit the formal economy sphere, ending in state losing potential tax revenue.
- \$ The very lengthy process that exporters have to go through to reclaim the VAT incurred on inputs, raw materials and supplies, used in the production process; the right to reclaim these funds expires in two years.

Responsibility

- The Egyptian Tax Authority



Proposed Reform Measures:

- \$ Cease the practice of arbitrary tax assessment; ensure the full and consistent application of the law—tax returns submitted by investor must be honored. Conduct random review of tax returns, in case of inconsistencies, the tax returns should be reassessed.
- \$ Simplify all tax-relevant laws, regulations and guidelines to limit the discretionary power of tax administrators.
- \$ Adopt a lump-sum tax regime, whereby a fixed amount of money is collected from enterprises—a flat tax. The collected amount should not be subject to any increase, except if a review of invoices and other relevant documentation revealed that the amount of taxes due exceed the amount paid by the enterprise.
- \$ Issue a national tax identification number for enterprises, to be used for reporting on the various types of taxes applicable to enterprises (income tax, VAT, customs duties, insurance, and others).
- \$ Tax authorities to endorse an enterprise's approved balance sheets (prepared within the past five years), to resolve tax disputes and collect taxes due in a timely manner.
- \$ Consider implementing the tax facilitations and procedural simplification measures proposed by the Ministry of Trade and Industry in the draft law of micro, small, and medium-sized enterprises draft law.
- \$ Develop a simplified tax system for small and medium-sized enterprises under the unified tax system to reduce the tax burden and compliance costs for these enterprises; at the same time, introduce a lump-sum tax regime tax for micro enterprises.
- \$ Amend the real estate tax law, or issue a new one, which exempts businesses (e.g., factories, hospitals, etc.) from paying real estate taxes.
- \$ Introduce a method of combined reporting for VAT and income tax—filing a single tax return that combines the VAT return and income tax return.

Responsibility

- The Egyptian Customs Authority
- The General Organization for Import and Export Control
- The Agreements and Foreign Trade Sector/ Ministry of Trade and Industry

Challenges:

- % Problems in implementing the temporary admission and drawback procedures, thus, both systems are less able to fulfil their purposes.
- % Businesses face many problems with the temporary admission system, including:
 - % The procedures for releasing the letters of guarantee are lengthy and complex.
 - % Customs duties are imposed on imported factors of production, especially equipment and machinery, that are used in the manufacturing of export products.
 - % Exporting is complex and time consuming. It usually takes a year to conclude an export operation—from the time the bank guarantee is issued to the release of the shipment for exporting; this issue is compounded by the fact that these procedures are lengthy, and usually go beyond the grace period granted to investors (the period of time immediately after the arrival of the imported raw materials, during which investors should export their products).
- % Similarly, the drawback system poses a series of challenges, including the large number of required documentation, the multiplicity of entities involved in the process, as well as the difference in opinions between the manufacturing exporters and customs officials regarding the mechanisms for determining the rates at which drawback could be granted (e.g., waste and input coefficients, and percentages of processing and waste raw material), and delayed payment of drawback claims (sometimes it reaches two years).
- % The outdated provisions of the Customs Law regarding container handling operations undermine the efficiency of the process. Inefficient container handling can also be attributed to many long-standing problems related to operational efficiency. For example, containers are transported from seaports to dry ports under the supervision of the Customs Authorities and Police Department, in which case the client bears all fees and the consequences of delays. At the same time, there are no representatives from the various authorities (these authorities may include Ministry of Health, Ministry of Agriculture, etc. depending on type of goods) responsible for authorizing the release of cargoes in dry ports. Thus, in the event a dispute arises between importers and customs authorities in dry ports, importers are forced to go back to the original destination port for addressing the issue.

Proposed Reform Measures:

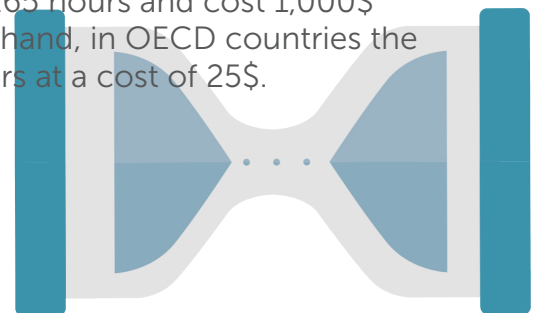
- % Revamp the duty and fees refund process (refunds of safe custody fees, and other duties and fees associated with withheld cargo and imports released under temporary admission). This should build trust and confidence in the customs and tax authorities.
- % Adopt the system of risk management for customs control. Under this system, businesses with an established solid reputation as importers, as well as reputable suppliers and customs brokers would be cleared through the green clearance track (no inspection). At the same time, take necessary and adequate protective measures, and in the case of offences, impose punitive measures, including having offenders go through the red clearance track (inspection).
- % Introduce a web based notification system, whereby importers, companies and factories, receive expiration alert notices once they log onto the website using the client identification number. The system should allow clients sufficient time to renew and resubmit their documents as required in Customs Handbook No. 46.
- % Take steps to expedite the resolution and settlement of new claims that might arise as a result of an additional review of previously cleared a cargo. Along with notifying businesses (via registered mail) of any additional fees or duties, which were determined by the audit department, provide the relevant customs broker with a photocopy of the claim notification. More so, allow the customs broker to review and discuss the claim with the audit department, and have them sign a statement indicating that they will notify the concerned business of the claim to avoid the unnecessary escalation of the situation; businesses can avoid the risk of an administrative freeze in the event they fail to address the claim as they may not be aware of any pending claim.
- % Oblige all relevant entities, including the Customs Authority, to refrain from issuing any import/export directives or regulations without consulting with the Agreements and Foreign Trade Sector of the Ministry of Trade and Industry.
- % Amend Article No. 98 of the Customs Law No. 66 of 1963, as amended by Law No. 172 of 2018, concerning the temporary admission system.
- % The new customs law should adhere to the revised Kyoto Convention on the simplification and harmonization of customs procedures, and reflect the best practices included in it. More so, Egypt should accede to the International Convention for Safe Containers (CSC).

Responsibility

- The Egyptian Customs Authority
- The General Organization for Import and Export Control
- The Ports Authority

Challenges:

- = Customs clearance is a very lengthy and redundant process in Egypt. Whereas customs processing time does not exceed two days in neighboring countries such as Turkey and the United Arab Emirates, it ranges from two to five weeks in Egypt. These delays disrupt production, hinders the ability of manufacturers to meet delivery times, and diminishes the efficiency of working capital. Ultimately businesses incur significant losses due to late delivery penalties that they must pay out. Several factors contribute to such delay, including:
 - = The procedures for inspecting, appraising, reviewing and examining cargoes are laborious and lengthy.
 - = In many instances, spaces allocated for examination of cargo are located outside the customs area, which prolongs the timeframe for sample examination.
 - = The severe shortage of ultrasonic testing equipment, and the reliance on the manual examination and inspection, which entails opening the containers.
 - = Insufficient number of laboratories in customs points to carry out all kinds of analysis and testing.
 - = The continued reliance on traditional paper-based processes, rather than adopting digital communication methods for interacting with clients or other government entities.
 - = The less than adequate digital interconnectivity across the various customs points, especially in remote areas, which results in delays in cargo release.
- = According to the World Bank Group's Doing Business 2018 Report:
 - = The custom clearance process for exports in Egypt consumes 88 hours at a cost of 100\$ per container, whereas in OECD countries, it is about 2.4 hours at a cost of 35.4\$ per container.
 - = Importing into Egypt takes 265 hours and cost 1,000\$ per container. On the other hand, in OECD countries the process takes about 3.5 hours at a cost of 25\$.



Proposed Reform Measures:

- = Set a target to reduce the customs clearance processing time from 16 days to 24 hours by 2020 (similar to the processing time in developed countries), as well as eliminate financial penalties associated with delays.
- = Introduce a customs risk management system and an import risk analysis scheme, under which source countries and goods are classified based on specific risks identified.
- = Streamline the cargo inspection practices. While the Ministerial Decree No. 991 of 2015 emphasizes preshipment inspection, the practice of inspecting cargo upon arrival continues. It is essential that customs adhere to the Agreement on Preshipment Inspection, and carryout random inspections using the relevant sampling standards and procedures.
- = Adequately furnish customs points with the necessary equipment, including detection devices, electronic gates, scales, floodlights, lighting and cameras.
- = Develop the laboratories of the General Organization for Exports and Imports Control and the Chemistry Administration, and provide them with sufficient lab equipment, as well as accept and recognize testing carried out by independent international laboratories and other scientific entities.
- = Ensure digital interconnectivity across all customs points; address the problem of recurring system failure; and establish a network to connect the Customs Authority with the Central Bank of Egypt and other banks.
- = In line with Presidential Decree No. 106 of 2000, carryout all cargo examinations within the confines of the customs offices, under the supervision of the General Organization for Exports and Imports Control.
- = Bring all entities that engage with the Customs Authority under the umbrella of the Agreements and Foreign Trade Sector/ Ministry of Trade and Industry or the General Organization for Exports and Imports Control. Ensure the representation of all parties involved in import and export process.
- = Increase staffing to adequate levels to ensure the completion of the clearance process within 24 hours and resume the implementation of the decree issued by the former Prime Minister regarding increasing the number of shifts in customs points to facilitate the clearing of the incoming shipments.

Customs Clearance

Responsibility

- The Real Estate Registry
- The Egyptian Survey Authority

Challenges:

- The current mechanisms for defining the real estate property and carrying out cadastral surveys are antiquated and falls within the responsibilities of Egyptian Survey Authority, which is affiliated with the Ministry of Irrigation.
- The process of proving and registering the right of possession of a property suffers from two problems: 1) Cumbersome, time-consuming and bureaucratic procedures, and 2) Costly process—registration fees are paid to the Real Estate Registry and many other entities.
- Given the fact that formal property registration is low, it is likely many disputes will arise in situations that involve proving ownership and possession, and real estate transactions.

Proposed Reform Measures:

- Adopt modern surveying techniques and utilize the services of security-cleared entities that provide geo-imaging.
- Increase the automation budget of the Real Estate Registry; use advanced software to streamline procedures; and reduce the time it takes to process the paperwork.
- Develop El-Segel El-Ainy (the Real Folio System): real estate property and ownership should be registered based on a unique number identifying the property, database of real estate properties should be linked with the national ID database of the Civil Registry.
- Expedite the automation of the Real Estate Registry to assist with speeding up the registering of the various transactions.
- Consolidate all types of fees charged by the various entities so that clients make one single payment instead of multiple payments; make the Real Estate Registry the exclusive point of interaction with the public on matters relevant to real estate registration; and require that payments of all fees be made via electronic mechanisms.
- Introduce an efficient judicial mechanism to address disputes that arise between parties engaged in real estate registration matters. This mechanism should be an interim measure, until the comprehensive registration of real estate property is achieved.

Responsibility

- The Cabinet
- The Industrial Development Authority
- Ministry of Finance
- Ministry of Local Development
- Ministry of Electricity
- Ministry of Petroleum

Challenges:

- ≈ The procedures for extending utilities to industrial establishments are cumbersome, lengthy, and costly.
- ≈ Industrial areas lack in services such as transport, health facilities, shops and restaurants.
- ≈ Pricing of different energy products for industrial establishments does not follow any uniform standards; pricing schemes vary according to the nature of the industrial sector.
- ≈ The high price of natural gas has a negative impact on industrial competitiveness (particularly for steel factories); the domestic gas price reached 7\$/million British thermal unit compared to 3\$/million British thermal unit in the global market.

Proposed Reform Measures:

- ≈ Consider offering payment plans, including an installment scheme, to allow industrial enterprises to pay for utilities over time; the payment plan should be commensurate with the size of the enterprise.
- ≈ Provide reliable and economical transportation to serve workers in industrial zones.
- ≈ Make available commercial properties in industrial zones that can be used by food and beverage providers, as well as rest and recreation areas.
- ≈ Provide emergency medical facilities in industrial areas.
- ≈ Adopt a standardized mechanism for pricing energy products used in factories in order to achieve greater transparency and fairness. Similar to the situation in most industrial nations, the mechanism should be based on a well-defined formula that takes into consideration global prices, including their upward and downward fluctuations.
- ≈ Exercise flexibility when pricing natural gas, especially for factories with high consumption of natural gas. Domestic prices should correspond to global prices, and at the same safeguard the competitiveness of the local product.





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FEDERATION OF EGYPTIAN INDUSTRIES

FEI REFORM AGENDA TO PROMOTE INDUSTRIAL GROWTH AND FOREIGN INVESTMENTS IN EGYPT



Challenges:

- 👤 The draft law adds excessive financial burdens to business owners, for example:
 - 👤 It calls for the creation of multiple funds such as Penalties Fund, the Vocational Training Fund, the Irregular Employment Fund, which represents a significant burden on the cost of industry.
 - 👤 It is overly permissive regarding vacation leave—the number and types of leave, are way exaggerated, whereby time-off can reach over 190 days a year, including the weekly day of rest.
 - 👤 It obligates bankrupt employers to compensate workers in case of total or partial shutdown, in addition to obligating employers to pay bonuses to a worker in the event that a fixed-term employment contract is not renewed on expiry.
 - 👤 It continues to establish the concept of never-ending employment contracts, either by stipulating that, fundamentally, the contract is fixed-term, or by obliging the employer, to resort to the judiciary to dismiss a worker who committed a serious infraction.
 - 👤 Flaws in the provisions regulating right to strike.

Responsibility

- The House of Representatives
- The Ministry of Manpower



Proposed Reform Measures:

- Ensure that the foundational objective of the draft law is the fair balancing of employer and worker interests. In other words, while the law should consider the interests of the workers, it should not harm the interests of business owners. An efficient and profitable business ultimately benefits workers as it ensures employment security and increased income associated with higher productivity.
- Reconsider the management mechanism of the Vocational Training Fund, so that the private sector, the main financier, is adequately represented on its board, and decisions are made by vote. Additionally, the board should create sectoral councils, each to be allocated a budget, the percent of which should be commensurate with the sector's contribution to the fund's overall budget. This will ensure that benefits are shared fairly among sectors.
- Ensure that the draft law is well aligned with the state's development plan, which stresses increased productivity of Egyptian workers as a critical goal to enhance competitiveness,
- The right to strike, which is recognized by business owners, should be in line with international labor standards, and striking should be regulated in a manner that does not undermine the interests of the business enterprise. The authority of the authorized labor representative to organize strikes must be well-defined.
- A worker should not be entitled to a bonus compensation if the employment contract is not renewed.

Shipping, Transportation and Storage Services

Responsibility

- The Ministry of Transportation
- The Ports Authorities;
- The General Authority for Roads, Bridges and Land Transport; and
- The Egyptian National Railways
- The Ministry of Civil Aviation

Challenges:

✦ **Sea transportation:**

- ✦ The low efficiency and productivity of port cranes — the container moves per crane per hour in the Port of Alexandria is 12-10/hour, compared to a global average of 25-20/hour.
- ✦ The poor quality of many of the services offered, including the transporting of bulk goods, services for vessels carrying vehicles; and inadequate shipping lines.
- ✦ The charging of trucking waiting fees (while cargo is being unloaded) in some ports, even though the long waiting time is primarily due to the lack of warehouses in these ports.
- ✦ The Inland Ports Authority imposes stevedoring charges even though, the responsibility for the loading and unloading of cargo falls on the transport operators.
- ✦ Rising freight rates due to a number of reasons, including increasing costs of transportation and marine fuel.

✦ **Air transportation:**

- ✦ Shortage of cargo storage areas, and antiquated cold storage facilities (privately-owned) at Cairo Airport.
- ✦ Loading and unloading operators lack the needed experience.

✦ **Land transportation:**

- ✦ There is no distinct law that regulates land transportation, currently, land transportation is governed by the Trade Law.
- ✦ The lack of collection facilities to merge cargo shipments that are less than an export container load. More so, inland waterways are never used for transporting containers, and railways are rarely used, because of the many bottlenecks and problems caused by poor infrastructure.



Proposed Reform Measures:

- ✦ Increase the capital budgets of the maritime, air and inland ports authorities to enhance their capacity to accommodate and clear goods in the shortest possible time.
- ✦ Reduce the customs clearance time, and the adopt best management practices to improve storage area efficiency in ports.
- ✦ Raise the capacity of shipping and transport workers; and increase the number of work shifts in ports to speed up discharging of cargoes.
- ✦ Enact a law to regulate the land transportation sector. Develop rules and regulations to govern companies operating in the sector, taking into account categorizing companies according to the size of investment and fleet size, and including occupational health and safety standards.
- ✦ Strengthen the capacity of the General Authority for Roads, Bridges and Land Transport to enable it to monitor the road transport activities and develop appropriate mechanisms and guidelines for the efficient and effective management of the sector.
- ✦ Regulate road user charges (tariffs) and ensure that the tariff information is disseminated to the public.
- ✦ Adopt a multimodal transportation system in all its aspects. This requires the development of a smooth-running and flexible customs system, and the adoption of the concept of «door-to-door» shipments, using multimodal bill of landing. In this regard, bottlenecks associated with inland waterways and railways transportation should be addressed to take advantage of these important resources and optimize their use. This promises to revolutionize the transport and logistics system in Egypt, and greatly enhance the efficiency of supply chains.

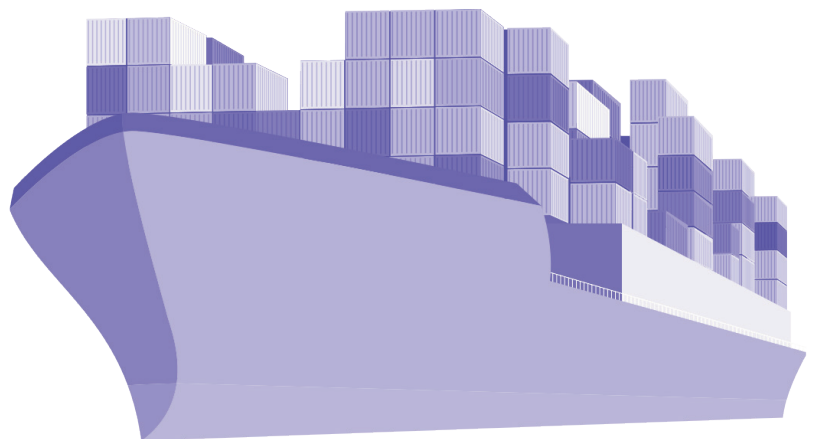
Shipping, Transportation and Storage Services

Proposed Reform Measures:

- ♦ Reevaluate the reference prices of imported raw materials and other goods to reduce customs duty evasion, and periodically update them in coordination with the chambers of industry across the industrial sectors. Correcting reference prices will help reduce opportunities for customs evasion, restore balance to the market, and promote fair competition.
- ♦ Repeal the instructions of the Industrial Development Authority regarding the registration of production inputs. The said instructions contradict the provisions of Article 15 of Ministerial Decree No. 835 of 2017, the law which amended some provisions of Law 118 of 1975 Executive Regulations issued by Ministerial Decree No. 770 of 2005. Repealing these instructions will ensure rationality and consistency since input tariffs are applied equally to industrial and commercial activities; the only exception is the assembly industries, which are subject to different input tariffs regulated under other rules.
- ♦ Reconsider the executive procedures related to Ministerial Decree No. 43 of 2016, which amended the rules governing the registration of factories eligible to export their products to Egypt (the decree was intended to serve as an interim prior to the decision to float the

Responsibility

- The Ministry of Trade and Industry
- Industrial Development Authority





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Preference for Domestic Products

Proposed Reform Measures:

- ♦ Undoubtedly, Law No. 5 of 2015, which prescribes preferential treatment for domestic products in government contracting, if fully enforced, will deepen domestic industry, reduce reliance on imports, and increase the availability of hard currency in the economy, thereby contributing to economic stability and stimulating foreign investment.
- ♦ However, to date, the law is not fully enforced. Many government agencies as well as economic bodies and public sector companies circumvent the law.
- ♦ Therefore, it is necessary to issue directives to all ministries and agencies obligating them to enforce the law, and at the same time, develop compliance monitoring mechanisms to ensure enforcement of the law. Efforts should be made to link the future needs of the national projects with local industries to replace imports.
- ♦ Revisit the domestic preference percentage (currently %15) prescribed in the Law No. 5 of 2015. The law should be binding on all ministries, government agencies, national projects, and all government contractors from the private sector.

Responsibility

- The Prime Minister
- The Ministry of Finance
- The Ministry of Trade and Industry





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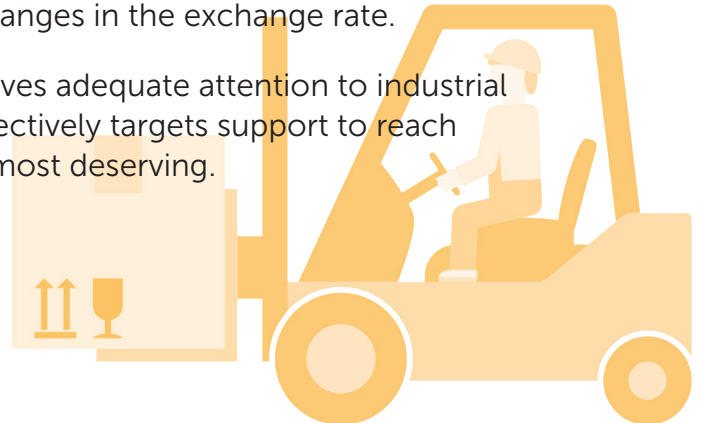
Preference for Domestic Products

Responsibility

- The Prime Minister
- The Ministry of Finance
- The Ministry of Trade and Industry

Proposed Reform Measures:

- ♦ Carry out a thorough performance evaluation of the Egyptian Exports Support Program (EESP), with a focus on assessing its impact on the rate of growth of industrial exports since its launch 2001. The evaluation should also provide an analysis of each of the industrial sectors, identify the winners and losers, as well as measure the impact of the support provided on the profitability and competitiveness of exported products. The results of the evaluation should serve as the basis for designing a forward looking comprehensive strategy to develop Egyptian exports.
- ♦ Improving the international competitiveness of Egyptian exports should be the foundational priority for EESP, rather than the provision of cash support to exporters against the delivery of export invoices. It should be stressed here that there are non-price factors that determine competitiveness, including product quality and the efficiency of the production process (the technical, human and administrative components).
- ♦ Import substitution should be an integral part of Egypt's vision. Replacing imports with domestic production is no less important than exporting, especially that it contributes to the same strategic objective of reducing the trade deficit and providing hard currency.
- ♦ Export support or import substitution should be linked to a range of non-monetary incentives, such as land allocation, extending utilities to land plots, provision of labor training programs, customs and tax incentives, and encouraging the application of modern production techniques.
- ♦ Reconsider increasing the allocation for export support, to move parallel to changes in the exchange rate.
- ♦ Ensure that EESP gives adequate attention to industrial deepening, and effectively targets support to reach industries that are most deserving.



Responsibility

- The Prime Minister
- The Ministry of Communications and Information Technology

Proposed Reform Measures:

Infrastructure:

- ♦ Expand affordable internet access and cloud computing, keeping pace with the spread of 4G use in other countries. This can be achieved by promoting competition among service providers; expansion of services should be carried out according to well-publicized timed stages.

Skills:

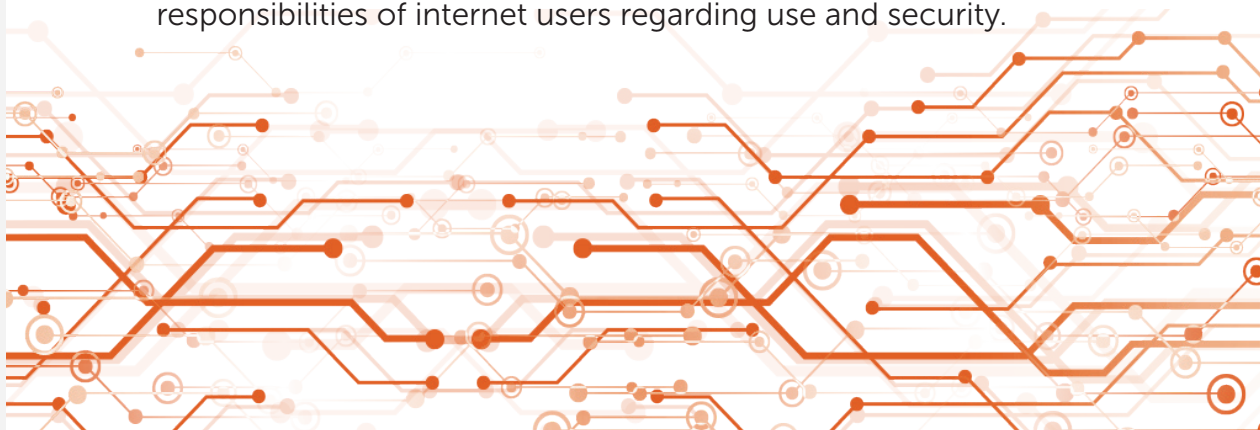
- ♦ Take advantage of internet services and smart devices in schools, and promote digital literacy among teachers and students, especially in regard to the uses of cloud computing.

Regulatory approach:

- ♦ Developing an effective privacy management and information security framework requires striking the right balance between upholding the concept of free flow of information and data security and privacy, including the cross- border information flow.
- ♦ Simplify the Intellectual Property Rights processes, such as filing trademark applications.

Role Modelling-Information Economy

- ♦ The government should set an example by adopting technological solutions to better serve citizens and improve the efficiency of public services. In this regard, government should partner with the private sector in the area of cybersecurity risks, and raise awareness about the rights and responsibilities of internet users regarding use and security.





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Proposed Industry-Specific Reforms

The Pharmaceutical Industry

Responsibility

- The Ministry of Health
- The Chamber of Pharmaceuticals and Cosmetics

Challenges:

- Pharmaceutical pricing policies are not in sync with many changes in the market, including exchange rate movements, rising inflation, and increases in energy prices, operating costs, and interest rates.
- The current pricing scheme— a cross- reference pricing scheme that takes into account the prices of pharmaceuticals in 36 countries— is unfavorable to the industry. Under this scheme, the lowest price in any of the reference countries is used to guide the pricing of pharmaceuticals in the Egyptian market, with no consideration to the difference in distribution margins, which should be a key factor in pricing. Needless to say, the current system needs to be seriously and comprehensively reviewed in order to make it more responsive to market changes, and render investment in the industry attractive.
- Registration of new pharmaceuticals products is a very lengthy process in spite of the fact that these products have already been approved and licensed in developed countries, which should serve as a solid reference for pharmaceuticals quality control testing.
- The policy named the “Box”, which regulates the registration of pharmaceuticals in Egypt, is abused by international pharmaceutical companies that hold the patents. These companies fill up a particular “Box” with phantom products, thereby locking up the “Box”, and thus hindering effective competition of local companies, and limiting the availability of affordable pharmaceuticals in the local market. (NB: The “Box” policy, which regulates the registration of pharmaceuticals in Egypt, limits the number of generic drugs of any brand that could be registered in the local market to a maximum of ten products. Each “Box” is composed of one brand product, and 11 generic products (10 locally manufactured generic products and 1 imported generic product).
- The cosmetic products registration process is unnecessarily long and costly and hinders the expansion and competitiveness of the local industry.

Proposed Reform Measures:

- Revisit the current pricing policy, bringing it in line with the requirements of the global market, and the practiced pricing mechanisms. This should increase the volume of pharmaceutical exports, and make it commensurate with the size and capacity of the industry in Egypt.



- Grant instant approval of pharmaceutical registration applications if the product concerned is registered in any two countries that are considered advanced in pharmaceutical industry.
- Abolish the “Box” system and allow Egyptian companies to produce and register generic pharmaceutical products.
- Establish an independent national body to monitor the safety of pharmaceuticals in the Egyptian market.
- Registration of cosmetics should be for the product formula and not the product Stock keeping Unit (SKU); instant approval of registration applications should be granted if the product concerned is registered in any two developed countries.
- The registration process of pharmaceutical factories should be reformed: it should entail submitting a Common Technical Document (CTD) dossier and payment of LE 120,000 in registration fees. The registration process should be completed in less than six months, and there should not be a set limit for the number of dossiers to be submitted each month.
- Over the coming two years, complete the registration of all cosmetic products that are currently in the registration queue.
- For new CTD submissions, generic products should be priced at 65% of the brand-name product’s price (the original patent).
- Approve the pricing of registered cosmetic products, giving priority to alternative products and products which are in short supply or missing in the market.
- Expedite the re-pricing of registered pharmaceuticals, which are not yet marketed, even if their notifications have lapsed (these pharmaceuticals were priced prior to the floating of the Egyptian pound).
- Pharmaceutical factories should obtain international accreditation from the World Health Organization (WHO), the U.S. Food and Drug Administration (FDA), and the European Medicines Agency (EMA). If a factory fails to obtain such accreditation within a grace period (5 years), it should not be registered.
- Consider abolishing the VAT on pharmaceutical raw materials, which are pre-blended and processed of two or more ingredients. At the same time, subject them to the rate of duty of 2%, prescribed for customs category No. 3003, rather than the rate of duty of 5%, prescribed for customs category No. 3824, in addition to the 14% VAT.

The Pharmaceutical Industry

The Food Industry and Agriculture Products

Responsibility

- The Ministry of Agriculture
- Food Safety Authority
- Agriculture Research Center
- The Cabinet
- The Ministry of Trade and Industry
- The Egyptian Customs Authority

Challenges:

- Non-compliance with good agricultural practices (GAP), including the requirements for a monitoring system and general quality standards.
- Failure to implement a food safety system and non-adherence to international standards and specifications.
- Irrigation water shortages, and its contamination with sewage in a number of areas.
- Extensive use of inorganic pesticides.
- Poor performance and ineffectiveness of agricultural extension agents in regard to guiding farmers during the entire production process.
- Insufficient budgetary allocations for the agricultural research centers.
- Problems of reclaimed land allocation and pricing.
- Not only does the Veterinary Authority inspect and approve the manufacturer of animal-based products in countries exporting to Egypt, but it also requires that its staff attend production processes, even in countries known to abide by the rules of halal slaughter, such as Saudi Arabia.
- The severe inadequacy of R&D investments geared towards improving this sector.
- The lack of satellite images to assist in monitoring and regulating agricultural activities and the illegal construction on agricultural land.
- The estimated loss in agriculture production is %30; supply chains weaknesses and logistics, as well as ineffective farming methods are the primarily causes of this loss.



Proposed Reform Measures:

- Carry out a comprehensive restructuring of the Ministry of Agriculture and its various agencies.
- Modify the agricultural policies and link them to the industrial and export policies; use findings and recommendations produced by agriculture research centers to inform these policies.
- Review customs duties on raw materials, and facilitate import procedures by speeding the health inspection and customs clearance process for industrial inputs.
- Strengthen agricultural technical education and training, and encourage enrollment.
- Expedite the issuance of the new law designed to regulate the protection of biological resources.
- Impose dissuasive penalties on companies committing violations; penalties can include banning offenders from exporting for a certain period of time, in addition to imposing large financial penalties, and denying offenders access to export support.
- Increase funding for agricultural research to improve crop productivity (e.g., cotton and other important crops), as well as plant breeding.
- Expand the establishment of pesticide residue laboratories.
- Establish logistics hubs across Egypt to improve the supply chain of agricultural products.
- The Veterinary Authority should only inspect and approve the manufacturer of animal-based products in countries exporting to Egypt, and forgo the requirement that members of its staff attend the production processes.
- Review and revamp the Ministry of Agriculture Seed Committee to improve its operational efficiency and responsiveness to the requirements related to seed exports.
- Introduce a farm coding system, and accredit farms to export and sell products in the local market.

The Food Industry and Agriculture Products

Food Safety

Responsibility

- The Cabinet
- The House of Representatives
- The National Food Safety Authority

Challenges:

- The National Food Safety Authority is not yet fully activated.
- Inadequate financial allocations impede the National Food Safety Authority's ability to perform and fulfill its mission.
- The unified law for food safety and control has not yet been issued.

Proposed Reform Measures:

- Expedite the issuance of the unified law for food safety and control to replace the many other existing laws.
- Expedite the issuance of the executive regulations of the Food Safety Law.
- Activate the National Food Safety Authority to empower it to exercise the authorities vested in it by law and prevent other government entities from interfering in its operations.
- The Board of Trustees of the National Food Safety Authority should coordinate all food safety efforts, and clearly define the roles and responsibilities of the different bodies concerned during the transitional period in order to ensure complementarity.
- Allocate sufficient resources to the National Food Safety Authority to attract qualified professionals, and provide professional development training to its staff.





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The Automotive Industry

Responsibility

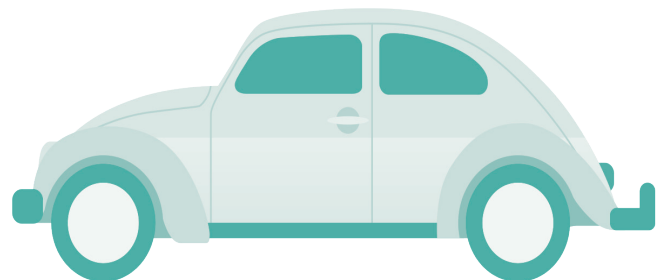
- The Ministry of Trade and Industry
- The Ministry of Finance

Challenges:

- Ministerial Decree 907 of 2005 led to the demise of the industry as it allowed car manufacturers to circumvent the local component requirements, by exporting either local components or finished cars. Manufacturers have abandoned the development of the local industry and concentrated their efforts on low value-added upstream industries. As a result, car companies unjustly benefit from tariff incentives, and the state treasury loses billion of Egyptian annually in revenues.
- While the free trade agreements with Europe and other countries grant full customs duty exemptions for finished cars and their parts, yet, other duties and fees continue to be imposed, including VAT, development fees, and domestic licensing fees for auto parts and spare parts. These problems are compounded by the existing flaws in the taxation and the customs systems.

Proposed Reform Measures:

- Cancel Ministerial Decree 907 of 2005 and develop a realistic and comprehensive strategy to incentivize the automobile industry in Egypt, as well as other related upstream industries.
- Stop the levying of the VAT, the development fee, and the domestic licensing fees on imported auto components and spare parts that are used in manufacturing and not sold in the market; address flaws in the taxation and customs systems.





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The Grain Industry

Responsibility

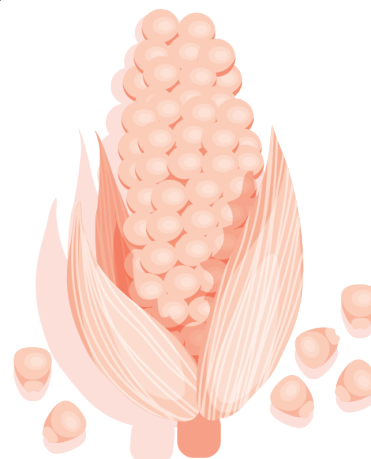
- The Ministry of Supply and Domestic Trade
- The Export Development Fund
- The Ministry of Transportation

Challenges:

- The instruction contained in Decree No. 46 2015 have spawned several problems for mills in regard to the tax accounting methods they are entitled to use; there are variations in the tax accounting methods applied to the different type of mills.
- The ban on establishing new mills that produce 72% extraction flour represents a capacity constraint.
- The industry faces problems with transportation storage quality.

Proposed Reform Measures:

- Promptly address all issues related to the tax accounting methods, with a particular attention to Decree No. 46 of 2015. Additionally, standardize the tax accounting methods applied to mills that produce 82% extraction flour, as they are acting for the Ministry of Supply, which acquires all their products.
- Lift the ban on establishing new mills that produce 72% extraction flour, to maximize utilization of capacity that has been idle for ten years; reconsider imposing the ban if needed.
- Stop using dirt-floored barns for storing locally produced wheat and other grains to safeguard against wheat contamination and waste.



- Include the 72% extraction flour and the coarse wheat bran within the categories of products eligible for export support to encourage investment in wheat and stimulate exports in order to increase the foreign exchange resources.
- Exempt privately-owned vehicles, which are used for transporting the flour from mills that produce subsidized flour, from the decree that bans heavy vehicles from using the Ring Road and some other routes in governorates. This will help ensure the uninterrupted supply of flour to the productive units of the Ministry's mills, and secure bread supplies to citizens.
- Modify the wheat quota allocated to the mills that produce the 82% extraction flour in order to ensure the availability of a strategic reserves of flour. A memorandum to this effect was submitted to the Ministry of Supply on 25/7/2018 (Memo Incoming No. 9742).
- Amend Ministerial Directive No. 18 dated July 29, 2018 concerning the executive procedures and measures for regulating the milling of subsidized wheat Tamween, the most important of which is (documenting and standardizing the testing procedures used in the central labs of the Ministry of Supply and the mills). A July 24, 2018 memorandum to this effect was submitted to the office of Minister (Memo Incoming No. 6313) and another memorandum to the same effect was submitted to the Oversight and Distribution Sector at the Ministry of Supply in July 2018 (Memo Incoming No. 2546).
- Adjust the percentage of acid- insoluble ash for the 82% extraction flour from 0.15% to 0.20%. This should reduce the residue of the insoluble ash in the acid, without affecting the quality of the final product (in accordance with the Standardized Specification No. 1251/1 of 2015).
- Expand the production/use of flour No. 2 (whole wheat four) in mills as it is high in nutritional value (protein, vitamins, and other nutrients ...)

The Grain Industry

The Leather Industry

Responsibility

- The Ministry of Trade and Industry
- The Export Development Fund

Challenges:

- The industry lacks key support infrastructure, namely technological innovation and fashion design services. Currently, there is only one center, affiliated with the Ministry of Trade and Industry, that provides such services to the entire sector. The industry can benefit from the establishment of many such centers to assist with developing production technologies and raising product quality.
- The unjustified drastic increases in imports of low quality footwear and leather products that do not conform to the standard specifications is negatively affecting the industry. This spike in low quality imports is due to manipulative practices by some importers, who present to customs fraudulent import invoices that do not reflect the real production cost in the country of origin. It should be noted here that while reference price lists are used for verifying the declared value of the imports of footwear and other leather products, yet, some importers are still able to circumvent this system, by entering their imports under a customs sub-category that is not subject to the application of reference price lists.
- The Egyptian market is overflowing with smuggled Chinese footwear that have bypassed customs or inspection .

Proposed Reform Measures:

- Allocate funds for setting up training and technology development centers to help improve competitiveness of the industry.
- Revise the current reference price lists used for clearing imports of footwear and leather products.
- Keep a strict watch on the market to combat the dangers of the Chinese footwear smuggling phenomenon, which can lead to the collapse of the leather industry.





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The Leather Tanning Industry

Responsibility

- The Ministry of Trade and Industry
- The New Urban Communities Authority

Challenges:

- Irregular water supply in El Roubiki Leather City.
- Irregular sewer services in El Roubiki Leather City.
- Frequent absenteeism among workers due to delays in delivering the housing units.
- Infrastructure works for the second phase has not yet started, thus it is not possible to relocate enterprises currently located in the area of Magra El Eyoun to El Roubiki Leather City.

Proposed Reform Measures:

- Expedite the completion of all infrastructure works and services in El Roubiki Leather City to help attract investors into the leather industry.





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The Mineral Industry

Responsibility

- The Cabinet
- The Ministry of Trade and Industry
- The Ministry of Electricity and Renewable Energy

Challenges:

- Direct reduced iron (DRI) production plants (sponge iron) are not economically feasible due to the high price of natural gas (\$7). In fact, DRI production plants should be treated like fertilizer and petrochemical plants, since natural gas is used as an input in the iron reduction process, and not as fuel. This gas pricing scheme has undeniable negative effects on the productive efficiency of the DRI production plants, and impairs 6 million tons of sponge iron production capacity that can benefit the Egyptian economy.
- The fixed electricity charges (electric load charges) were supposed to represent less than 25% of the actual consumption. However, in the case of the metal casting industry (where the smelting is done within a day and the finishing within a week), as well as the factories which have to cease production for any reason, this fixed charge far exceeds the actual consumption cost.
- Factories that have requested additional electrical power above 500 kilowatts are required to pay generation fees equivalent to LE 550/kilowatt for low voltage electricity, and up to LE 3000/ kilowatt for high voltage electricity.
- The practice of auctioning off heavy industry licenses works against the goal of expanding exports, which requires increasing production beyond the needs of local market, and making good use of the industry's comparative advantage (cost of fuel and gas is lower than in the countries that have to import). Needless to say, such a practice represents an additional burden on new factories, and unlevels the playing field for the competition between new factories and the already established ones.



Proposed Reform Measures:

- Similar to the case of the fertilizer industry, natural gas should be treated as a raw material, rather than a fuel, for (DRI) production plant—they should be charged \$4.5/million British thermal unit. This measure will enhance their competitiveness and increase their production capacity from the current 7 million tons/year to 13 million tons/ year.
- Put a cap on the fixed electricity charges, so that they do not exceed 25% of the actual consumption. This will benefit the metal casting industries, as well as factories which cease production for any reason, and maintain a competitive environment.
- Competent authorities need to promptly address the complaint regarding the exorbitant charges imposed on factories that request additional electrical power above 500 kilowatts. Addressing this issue will resolve the existing competitiveness imbalances between established factories and new ones.
- Abolish the system of auctioning off heavy industry licenses.
- Impose protective tariffs on imported steel products, as is the case in many advanced economies; take into consideration that these tariffs do not affect the prices of the inputs in steel industry, and subsequently, the prices of the domestically produced finished products.



The Mineral Industry

The Mineral Industry (2)

Responsibility

- The Cabinet
- The Ministry of Trade and Industry
- The Egyptian Customs Authority
- The Industrial Development Authority
- The Assay and Weights Authority

Challenges:

- The erroneous classification of some plants as energy-intensive industries, such as nail factories, cast iron foundries and aluminum casting factories, hurts industries as they are charged the same energy prices as that charged to energy-intensive industries, such as steel and aluminum smelters.
- The circumvention of regulations governing the export of scrap metal, especially copper, aluminum, and lead negatively adversely affects small industries that use these products. It is worth mentioning here that these practices are driven by the foreign exchange rates in the domestic market, as well as the metal prices in the metal exchanges outside Egypt.
- The precious articles and jewelry industry encounters a range of problems with the Customs Authority, the Taxation Authority, banks and the Assay and Weights Authority. The current practice of calculating fees and dues as a percentage of the value of the product is not reasonable in the case of gold products, where the value is very high and the rate of profit rate (workmanship) is low.
- While the mineral industry's share in Egypt's non-petroleum exports is more than 20%, yet the industry, small and big businesses, are denied any export support services, as well as the benefits of the duty drawback system. This is illustrative of the lack of clarity regarding objectives of the export support program, and its meager benefits to the export industry (on the other hand, export support programs in other countries, such as China, Turkey and the United States, lends strength to their exports).

Proposed Reform Measures:

- Seriously consider adopting the IDA's recommendation regarding the erroneous classification of some plants as energy-intensive industries, in other words, de-link the definition of heavy industry from the type of the product produced.
- Tighten controls and use modern inspection devices to prevent exporters from circumventing the export of scrap metal regulations.
- Restructure the Assay & Weights Authority and bring it back under the umbrella of the Ministry of Trade and Industry. The restructuring exercise should entail reviewing and reformulating and improving the relationship between the Assay & Weights Authority and the gold manufacturers and traders, to combat the rampant fraud prevailing in the market so that the industry can reclaim its credibility and foreign markets. More so, the effort should include reviewing and reforming the customs regulations that limit the export of precious articles, and raw materials used in the production of jewelry, as well as addressing all bureaucratic obstacles that hinder the industry.

The Petroleum, and Mining Industry

Responsibility

- The Cabinet
- The House of Representatives
- The Ministry and Mineral Resources

Generally speaking, the petroleum and mining industry is facing a myriad of challenges, many of which are due to fundamental deficiencies in the legal and regulatory framework: The Law of Mineral Wealth No. 198 of 2014 (the Law), and its Executive Regulations No. 1657 of 2015 (the ERs). Thus, the recommendations proposed below focus primarily on reforming the governing framework to ensure that the industry is revitalized and is able to significantly contribute to Egypt's economic growth.

Proposed amendments to Law of Mineral Wealth No. 198 of 2014:

- Designate the Egyptian Mineral Resources Authority (EMRA) as the competent entity responsible for the management of mineral wealth-related activities in mines, quarries and salterns. This will help avoid the problem of overlapping jurisdictions of government bodies.
- Grant EMRA the right to carry out exploration activities However, this right should not extend to exploitation or reserving any geographic area for the purpose of exploitation.
- Prohibit EMRA from setting up companies to carry out mining or exploitation activities or participating in any company that carries out such activities. This should ensure that regulatory and oversight functions are separate from business execution to safeguard against potential conflict of interest.
- Facilitate the granting of licenses for exploration and exploitation activities, without placing any restrictions on the size of the area as long as the licensee meets all the requirements stipulated by the Law.
- Grant the Law-prescribed Higher Technical Committee (HTC) the authority to specify the rental payments and royalty rates, according to the circumstances of each individual case, and make its opinions binding, and not only of an advisory character, on implementing entities.
- Rental payments and royalty rates should be reviewed every four years, the rate of change, whether upwards or downwards, should be determined according to the circumstances of each individual case, and approved by HTC.
- Licenses are to be automatically renewed as long as the licensee is adhering to all the legal and regulatory requirements (currently, licenses have a 15-year expiry period).

- Allocate to governorates 25% percent of the rental payments and royalty revenues generated from mines, quarries and salterns falling within their geographic jurisdiction.
- Allocate to EMRA 25% of royalty revenues generated from mines, quarries and salterns; funds should be used by EMRA to carry out its activities.
- EMRA should be obligated to develop and make available an investment map database, for the areas it plans to offer for exploration and exploitation.
- EMRA should notify the license applicant of its decision-approval or rejection- no later than three months from the date of submitting the application. In the case of non-response within the specified period, the application should be deemed approved, and the applicant must notify EMRA of commencement of the exploration or exploitation, accompanied by the documents proving that a license application has been submitted.
- Rentals payment amounts, and royalty rates should be determined and revised, as necessary, by HTC; the licensee should have the opportunity to discuss and exchange ideas with the HTC regarding these payments. Rental payments and royalty rates should be determined on scientific and factual bases, and should vary according to the type of ore, the location, and the nature, circumstances, and method of extraction.
- The requirements governing export approvals should take into consideration the on-the-ground-reality, and the obstacles facing exporters.
- Provide guarantees and incentives to attract greater investments in the industry.
- Reconsider incarceration of workers or investors as a sanction; instead, impose monetary penalties or annul contracts taking into account the circumstances of each particular case.
- The Law should address the mining of the raw materials that are considered hot commodities on the stock and commodity exchanges, including: non-ferrous metal, gold and base metals, critical metals, energy substitutes, industrial metals, and rare earth minerals.
- are required to pay generation fees equivalent to LE 550/kilowatt for low voltage electricity, and up to LE 3000/ kilowatt for high voltage electricity.

The Petroleum, and Mining Industry

The Petroleum, and Mining Industry (2)

Responsibility

- The Cabinet
- The House of Representatives
- The Ministry and Mineral Resources

- The practice of auctioning off heavy industry licenses works against the goal of expanding exports, which requires increasing production beyond the needs of local market, and making good use of the industry's comparative advantage (cost of fuel and gas is lower than in the countries that have to import). Needless to say, such a practice represents an additional burden on new factories, and unlevels the playing field for the competition between new factories and the already established ones.

Proposed procedural reforms:

- Restructure the mineral resources sector, dividing it into three bodies: 1) The Geological Survey Authority, 2) The Mineral Resources Regulatory Authority (mines, quarries and salterns), and 3) The Holding Company for Mining Companies.
- Strengthen EMRA and provide it with adequate technical and administrative staff to ensure it performs its functions in an effective and efficient manner.
- Develop a strategic plan that identifies the areas in which the state plans to focus its efforts over the next three to five years. The plan should focus on the following four priority areas:
 - Significantly increasing the areas available for exploration and expanding licensing.
 - Developing a forward-looking plan for mineral product manufacturing, with an eye on domestic, regional and international markets.
 - Developing a corporate social responsibility framework for the mining sector, and working towards supporting its implementation.
 - Attracting new individual investors, companies and corporations to the mineral exploration sector.
- Replace the current system of profit sharing or production sharing in the case of the gold mines exploration and exploitation agreements with a royalties and taxes system; this arrangement is more in line with the practice worldwide.
- Adopt a clear functional definition of the value added in regard to the processing of the different classes of mineral ores.



- Develop a professional classification system for mineral resources that clearly sets standardized procedures to guide the exploration, development and exploitation of mining and quarrying resources. Obligate the licensee to adhere to these standards in order to avoid waste of raw materials during the extraction process, and impose financial sanctions on offenders. In this regard, use either the Australasian Code, JORC, or the Canadian CIM Definition Standards to guide the development of the classification system.
- Simplify and shorten the licensing process, as well as the renewal procedures. EMRA should be made the focal point for obtaining all the required permits (from the armed forces, archeology, environment, social insurance departments) through a one-stop shop.
- In the case of mining agreements that are signed into law, EMRA should secure all the required security approvals from the competent authorities before issuing the mining tenders. With respect to exploration and exploitation contracts, security approval should be secured prior to licensing. In all cases, these approvals should remain in effect, without requiring any renewal or update, except in case of emergency situations, then, investors should be notified by EMRA.
- Shorten the timeframe for activating the mining agreements that are signed into law. It defies all logic that it takes two years to sign an agreement, from the time the tender is issued.
- Examine the challenges of exporting and identify key reform measures to tackle them, whether legislative (laws, regulations and decrees) or logistical (transport, ports and skilled labor). Attention should be given to helping exporters increase Egyptian exports of raw materials which are abundant, or which have been processed to raise their value added; carefully study the mining agreement that Egypt had signed, and raise awareness of the advantages of each of these agreements to increase the rates of mineral exports, particularly after increasing their added value.
- For tax purposes, establish clear accounting standards appropriate to the nature of the mining activity (general tax and VAT).
- Upgrade EMRA's laboratories so that their test reports become internationally accepted.
- Establish a digital database for the mining community to include the areas available for exploration, types of ores, and areas available for mining and quarry exploitation.

The Petroleum, and Mining Industry (2)

The Petroleum, and Mining Industry (3)

Responsibility

- The Cabinet
- The House of Representatives
- The Ministry and Mineral Resources

- Develop a list of large mining investment opportunities, and prepare a study for each of the opportunities covering various angles, including the mining, industrial, financial and legal; to gain traction, effectively promote these opportunities locally and internationally.
- Establish oversight and monitoring arrangements to ensure the quality of work performed, especially in the exploitation phase, to prevent the waste of mining and quarrying materials; detect any violations and infractions and address them according to the law; examine and assess the performance of public companies working in the area of mining to determine their economic viability, and thus the rationale of their existence.
- Carryout field research to explore the major obstacles impeding the work of some companies, and identify the best course of action to address these obstacles.
- Explore the most effective ways and mechanisms to attract the informal enterprises to work within the formal sector; ensure that the effort is coordinated with the other competent agencies and entities, as sanctions alone are not sufficient to address the phenomenon of informality.
- Build linkages and strengthen cooperation between industrial enterprises that use mineral raw materials and mining companies to address the shortage in the supply of mining materials in the domestic market; examine the reasons behind the importation of mineral materials that are already being produced locally.
- Promote university-business cooperation; universities should give priority or prominence to applied research in the area of mineral exploration, extraction, and processing to increase value adding to mineral raw materials.
- Encourage the establishment of new joint stock mining industry-related companies by inviting the public to subscribe for shares. New companies may cover areas including: mine drilling, mine development, geophysics, laboratory testing, as well as engineering designs for mines and quarries, and other aspects of mining services.
- Communicate and coordinate with Arab and international federations (e.g., Prospectors & Developers Association of Canada (PDAC)) to develop cooperation protocols to exchange experiences.

- Engage with donor agencies and development funds to secure their technical, environmental or financial support for mining activities, with the objective of benefiting from technological innovation and knowledge, and increasing their production capacity.
- Ensure that Egypt's sovereign wealth fund undertakes investments, even if small, in the following areas:
 - Developing a technical regulatory framework, which clearly identifies, describes and defines all mining exploration, development and extraction activities, with an eye on promoting the sector's corporate social responsibility, and encouraging investments of all kinds.
 - Conducting remote sensing studies using advanced airborne technologies; the studies should be carried out by an internationally-recognized specialized company, in cooperation with the Egyptian Armed Forces and the Egyptian Remote Sensing Authority (similar to the recently concluded seismic survey of the Red Sea coasts to determine the location and size of oil reservoirs).
 - Launching an investment marketing and promotion campaign to attract international investments in the mining industry. Before launching the campaign, it is critical to review the mining law to ensure that it is enabling—addresses all concerns of international investors, and includes incentives and guarantees— and that it facilitates investment. Investors need to be assured that they can maintain their right to search and exploration in their concession areas, as long as they are serious and invest adequate resources. In other words, it is essential not to impose inflexible timelines on exploration companies provided they are producing promising results—inflexible concessions result in unreasonable spending of investors' resources and unsatisfactory outcomes, which will consequently have a negative impact on Egypt's overall image.

The Petroleum, and Mining Industry (3)



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