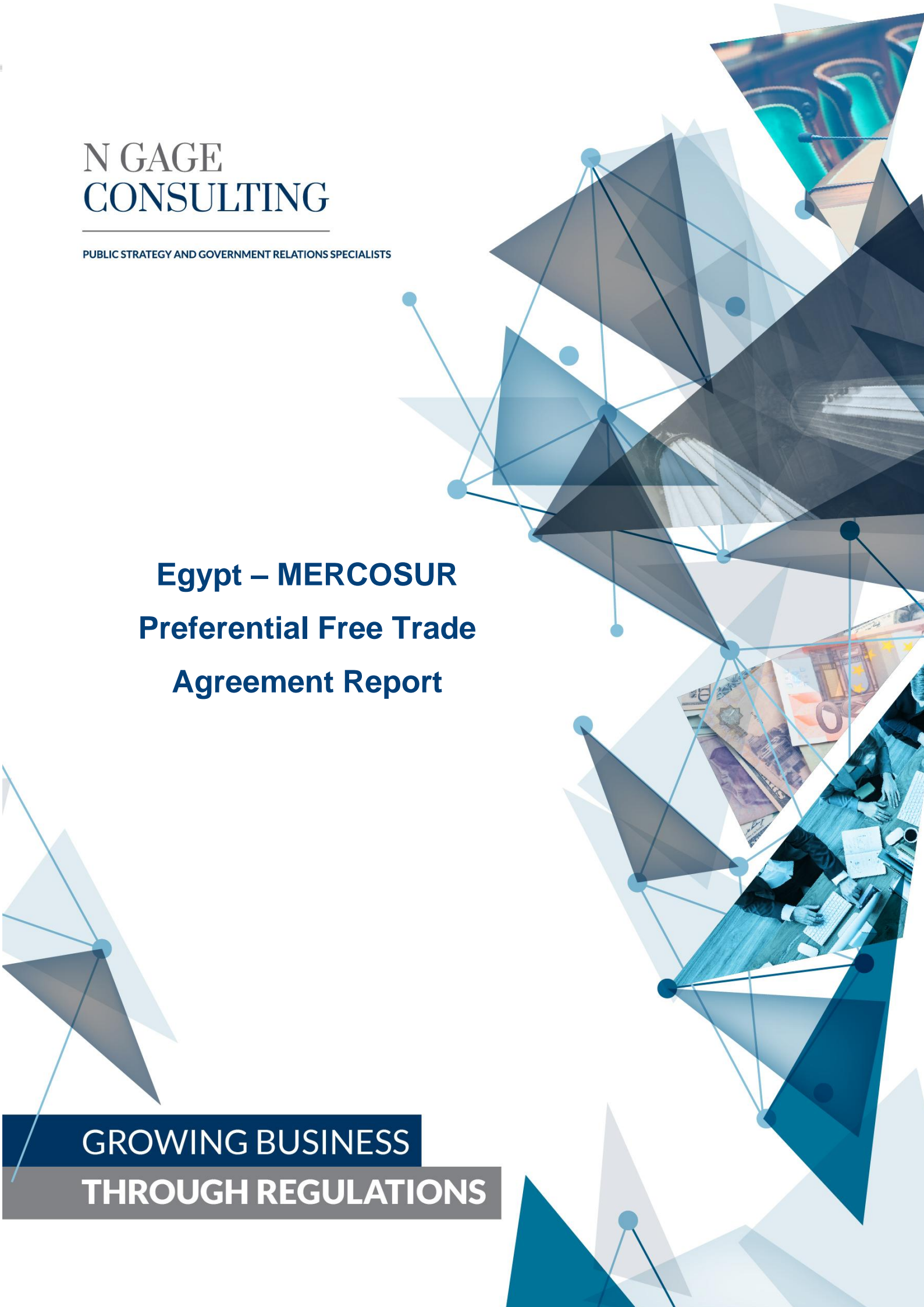


**Egypt – MERCOSUR
Preferential Free Trade
Agreement Report**

**GROWING BUSINESS
THROUGH REGULATIONS**



ABSTRACT

Egypt has been going through the negotiations of the Egypt - MERCOSUR Preferential Free Trade Agreement (FTA) since 2010, but finally, the agreement has come into force in September 2017. This report is a guide to the Agreement, it will be walking you through its provisions as well as giving a comprehensible explanation of its key articles. Finally, it will offer some analysis to give the reader an idea of how relevant the Agreement is to Egypt.

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1

About the MERCOSUR Countries

Overview

The MERCOSUR coalition is considered as one of the most successful South – South economic blocs in Latin America. It originated as a Common Market in 1991 and it developed till it became a customs union in 1995.

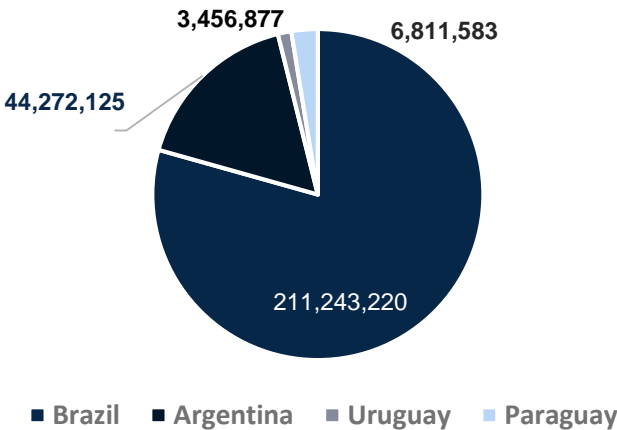
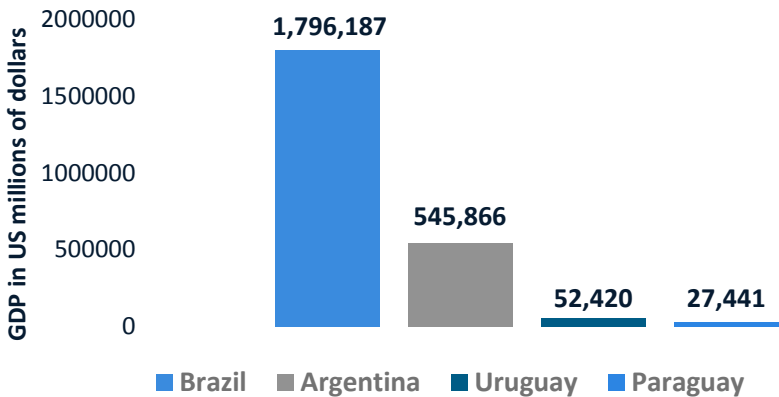
Member States:

- Brazil
- Argentina
- Uruguay
- Paraguay

Associate States:

- Chile
- Bolivia
- Colombia
- Ecuador
- Peru

GDP & POPULATION BROKEN DOWN BY COUNTRY



COMBINED FACTS & FIGURES OF MERCOSUR

261M

POPULATION

12M km²

AREA

USD 1.709Tn

GDP

7.1%

GDP GROWTH RATE

USD 235Bn

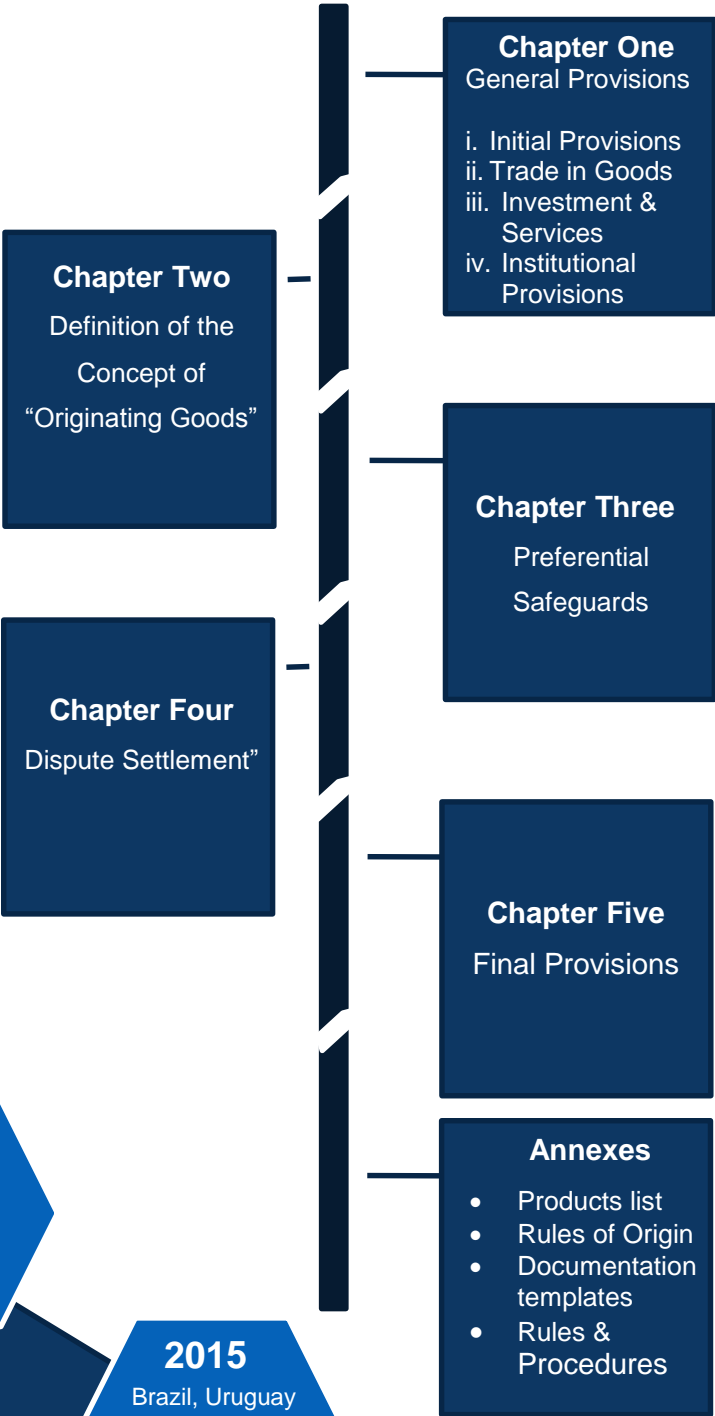
WORLD IMPORTS

USD 288Bn

WORLD EXPORTS

2 The Agreement

The agreement is composed of five chapters, shown in the following diagram:



Background of the Agreement

The “Egypt – MERCOSUR” preferential FTA was signed by Egypt on August 2010 after six rounds of negotiations. Throughout this period, Egypt was keen on actively participating with Latin American countries; to ensure access to important privileges in commodity lists.

The Framework Agreement of 2004 highlighted the willingness of the parties to create more favorable conditions for sustainable development and economic co-operation in areas of common interest, on the basis of equality, mutual benefit, non-discrimination and international law. It also expressed the desire to contribute to the multi-lateral trading system, it has also declared the readiness to explore the possibility of developing and deepening the economic relations among the parties in question by extending the fields covered by this agreement.

TIMELINE OF THE AGREEMENT

2010

The Egypt – MERCOSUR FTA was signed.

2012

Egypt Ratified the Agreement.

2015

Brazil, Uruguay & Paraguay finalized the ratification procedures.

2017

The Argentinian Parliament ratified the agreement.

2.1

Agreement's Provisions

CHAPTER ONE

I

Initial Provisions

- Definitions
- Establishment of a free trade zone between the two parties.
- Stressing on the fact that the parties in question should abide by the provisions of the GATT.

III

Investment & Services

- This section puts emphasis on encouraging investments and the transfer of technology between both; the MERCOSUR countries and Egypt.
- The parties should aim at achieving gradual liberalization and the opening of their markets for trade in services, in accordance with the GATS.

II

Trade in Goods

- Goods are classified into categories that will be concerned with the liberation of trade.
- The liberalization process will take place over a period of 10 years.
- The 5 goods categories are explained in the next page

IV

Institutional Provisions

This section is concerned with the duties of the joint committee, which are as follows:

- Administering, reviewing and monitoring the implementation of this agreement, its annexes and additional protocols.
- Determining means of deepening cooperation between the parties.

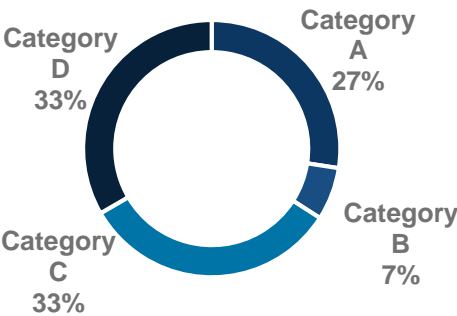
2.1 Agreement's Provisions

Goods Categories & their Liberalization Process

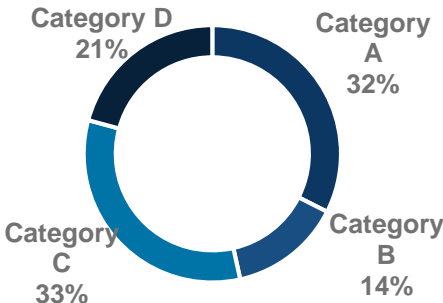
Custom duties shall be gradually eliminated for each category as follows:

A	B	C	D	E
Upon entry into force of this Agreement. Including; Sheep, peas, sugar beet, vaccines	Four equal stages, the first one taking place on the date of entry into force of this Agreement and the three following stages at 12-month intervals. i.e: 25% annual discount. Including; Butane, propane, nitrogen, glues....	Eight equal stages, the first one taking place on the date of entry into force of this Agreement and the seven following stages at 12-month intervals. i.e: 12.5% annual discount. Including; Livers, anchovies, aluminum ores...	Ten equal stages, the first one taking place on the date of entry into force of this Agreement and the nine following stages at 12-month intervals. i.e: 10% annual discount. Including; mats, woven fabrics, blankets....	The treatment of this category shall be determined by the Joint Committee. Including; Liquors, tobacco, shampoos

Relative Weight of each Category – Egyptian Imports



Relative Weight of each Category – Egyptian Exports



• In accordance with the articles of the agreement, the tariff rate that will be used as the basis for the tariff reduction will either be the MFN rate imposed in 2010 or 2017 (once the agreement has been put into force)- depending on whichever is lower.

2.2 Agreement's Provisions

CHAPTER TWO

The concept of “Originating Goods” is the essence of this free trade agreement; for it is the concept that allows or deprives exporters to benefit from the tariff reduction.

This chapter provides the basis for what should be considered as an “Originating Good” under this FTA

QUICK OVERVIEW ON ORIGINATING GOODS

The idea of “originating goods” means that this good could be granted the certificate of origin to be able to benefit from the tariff reduction. A good could be considered originating from any signatory party under this agreement if it is included in the list of the “Wholly Obtained Goods” or if it is considered as eligible under articles 3 (cumulation of origin) and 5 (sufficiently worked or processed goods) of this agreement.

Article five states that, a good could qualify as originating if it is subject to specific rules of origin (ROO) or if it satisfies some specific rules of origin in annex II.4.

If the good is not subject to specific ROO it should either undergo change its tariff classification or if this could not be attained, we could simply rely on the criterion that states that the value of the non-originating material used in its manufacture should not exceed 45% of the ex-works price of the final good and in case of Paraguay, it should not exceed 55%.

A good shall be considered as originating in a in accordance with one of the following

I. Goods are wholly produced or obtained in the territory of the Signatory Party

II. Goods are not wholly produced in the territory of the Signatory Party, provided that the said goods are “eligible” under articles 3 & 5.

I. WHOLLY PRODUCED GOODS

- A.** Mineral goods extracted from the soil or subsoil of any of the Signatory Parties;
- B.** Plants and plant goods grown, harvested, picked or gathered there;
- C.** Live animals³ born and raised there, including by aquaculture;
- D.** Goods from live animals as in (c) above;
- E.** Animals and goods thereof obtained by hunting, trapping, collecting, fishing and capturing there;
- F.** Waste and scrap resulting from utilizing, consuming or manufacturing operations conducted in the territory of any of the Signatory Parties, provided they are fit only for the recovery of raw materials;
- G.** Goods obtained from the seabed and subsoil beyond the limits of national jurisdiction provided that the Signatory Party has the rights of exploitation;
- H.** Goods of sea fishing obtained, only by their vessels according to paragraph 2, under a specific quota or other fishing rights allocated to a Signatory Party by international agreements;
- I.** Goods made aboard their factory ships exclusively from goods referred to in g) and h) above; and,
- J.** Goods produced in any of the Signatory Parties exclusively from the goods specified in subparagraphs a) to i) above.

2.2 Agreement's Provisions

II. Goods are not wholly produced in the territory of the Signatory Party, provided that the said goods are “eligible” under articles 3 & 5.

II. Article 3: CUMULATION OF ORIGIN

Goods originating in any of the Signatory Parties, when used as an input for a finished good in the other Signatory Parties, shall be considered as originating in the latter.

Goods are considered originating if:

- a. They are **not subject to specific rules of origin**, when;
 - i. Changing the tariff classification (first four digits of the Harmonized System (HS)).
****A good will be considered to have undergone a change in tariff classification if the value of all non-originating materials that are used in the production of the good and that do not undergo the applicable change in tariff classification do not exceed 10% of the ex-works value of the good, this applies only on trade between Uruguay and Egypt & Paraguay and Egypt.**
 - ii. If “i” could not be satisfied, the value of non-originating material used in its manufacture should not exceed 45% of the ex-works price of the final good. In case of Paraguay, it should not exceed 55%.
- b. Goods that **satisfy specific rules of origin in Annex II.4**. The specific rule of origin shall prevail over paragraph “a”.

II. Article 5: SUFFICIENTLY WORKED OR PROCESSED GOODS

Those are the conditions that grant the eligibility criterion to a good mentioned in the previous page.

A BRIEF OVERVIEW ON SPECIFIC RULES OF ORIGIN

The specific ROO applied under this FTA address a number of industries that are crucial to the Egyptian economy; textile, clothing, electronic devices, food, cars and metal industries.

These rules were set based on the cooperative meetings held between the sector representatives, export councils, businessmen and chambers of federations of industries; to attain a balance between reaching the MERCOSUR market and protection of domestic industries.

Specific ROO can be summarized in the following points:

- Food Commodities – identical to EUROMED requirements.
- Textiles & Clothing – identical to the requirements of the EU for Egypt, Argentina and Brazil, as for Uruguay and Paraguay, the foreign material used should not exceed 45% of the good’s ex-works price
- Electronic devices, metal industries and cars – foreign material used should not exceed 45% of the commodity’s ex-works price

2.2 Agreement's Provisions

Other Articles to Consider Under the ROO

NEUTRAL ELEMENTS OR INDIRECT MATERIALS

“Neutral elements” or “indirect materials” means goods used in the production, testing or inspection of goods but not physically incorporated into the goods, or goods used in the maintenance of buildings or the operation of equipment associated with the production of goods, including:

- a) Energy and fuel;
- b) Plant and equipment;
- c) Tools, dies, machines and moulds;
- d) Parts and materials used in the maintenance of plant, equipment and buildings;
- e) Goods which do not enter into the final composition of the good;
- f) Gloves, glasses, footwear, clothing, safety equipment, and supplies;
- g) Equipment, devices, and supplies used for testing or inspecting the goods;
- h) Lubricants, greases, compounding materials and other materials used to operate equipment and buildings.

An indirect material shall be considered as originating without regards to where it is produced. Its value shall be the cost registered in the accounting records of the producer of the exported good.

INSUFFICIENT WORKING OR PROCESSING OPERATIONS

Those are the processes that are not sufficient to grant the eligibility criterion to a good mentioned in the previous page.

- a. Preserving operations
- b. Dilution in water or any other substance.
- c. Simple operations; removal of dust, sifting, screening, sorting, classifying, grading, matching, washing, painting, husking, stoning of seeds, slicing and cutting.
- d. Simple change of package.
- e. Simple packing
- f. Printing marks, logos...etc.
- g. Simple cleaning, removal of oil...etc.
- a. Simple assembly of parts
- b. Slaughter of animals
- c. Simple mixing of goods.
- d. Oil application.
- e. Ironing or pressing of textiles.
- f. Simple polishing operations.
- g. Partial or total bleaching, polishing, and glazing of cereals and rice.
- h. Operations to color sugar or to form sugar lumps.
- i. A combination of two or more of the above operations.

DIRECT TRANSPORT, TRANSIT AND TRANS-SHIPMENT

In order for the originating goods to benefit from the preferential treatment provided for under this Agreement, they shall be transported directly between the exporting Signatory Party and the importing Signatory Party. The goods are transported directly provided that:

- a) They are transported through the territory of one or more Signatory Parties;
- b) They are in transit through one or more territories of third countries, with or without trans-shipment or temporary warehousing in such territories, under the surveillance of the Customs Authorities therein, provided that:
 - (i) The transit entry is justified for geographical reasons or by considerations related exclusively to transport requirements;
 - (ii) They are not intended for trade, consumption, use or employment in the country of transit;
 - (iii) They do not undergo operations other than unloading, reloading or any operation designed to preserve them in good condition.

2.3 Agreement's Provisions

CHAPTER THREE PREFERENTIAL SAFEGUARDS

Objective

- Protecting the domestic industries in Egypt against the increase in imports that have a preferential treatment stated in the agreement.
- Allowing the Egyptian industries to adapt to the new competing imports that are treated preferentially and develop competitiveness.

How? The preferential safeguard measures in this chapter should consist of temporary suspension or reduction of the tariff preferences established in this agreement for the good subject to the measure. Any increase in the rate of customs duty on the good subject to preferential safeguard measures shall not exceed the MFN customs duty or base duty, whichever being lowest.

Conditions for Applying Preferential Safeguard Measures:

- Preferential Safeguards are to be applied when the imports of a good under preferential terms have increased in such quantities, absolute or relative to domestic production, and under conditions as to cause or threaten to cause a serious injury to the domestic industry of the importing party or Signatory parties involved.
- Preferential safeguard measures shall be applied only to the extent necessary to prevent or remedy serious injury.

OTHER Articles

- Preferential safeguard measures shall not be applied after a period of 4 years from the date of finalization of tariff elimination, unless otherwise agreed by the parties.

- The MERCOSUR may adopt the preferential safeguard measures as a sole entity, or on behalf of one or more of its member states.
- Egypt has the right to apply those measures to imports MERCOSUR or MERCOSUR member states.
- The Party that applies a preferential safeguard measure should establish an import quota within which the good concerned would benefit from the agreed preference established in this Agreement. This import quota shall not be lower than the average imports of the good concerned during the representative period over which serious injury was determined. A higher level of quota may be applied if it is duly justified.

🕒 Period of Application:

- The maximum period of the preferential safeguard measures application is two years, however, it is allowed in some exceptional circumstances for the joint committee to extend the period for a maximum of two more years.
- This mechanism is a temporary, and none of the parties could resort to it after 4 years of full liberation of the lists of commodities, except if the parties agreed to extend the period of the mechanism application

2.2 Agreement's Provisions

CHAPTER THREE PREFERENTIAL SAFEGUARDS



Investigations

- There is an article stating that the MERCOSUR bloc should carry out the investigation process as a single entity, or a country on behalf of another one or more countries; to guarantee that the Egyptian industry will not face numerous requirements from more than one investigation authority.
- The investigations to determine serious injury or threat of serious injury as a result of increased imports of a good under preferential terms, shall take into consideration all relevant factors of an objective and quantifiable nature having a bearing on the situation of the domestic industry affected, **in particular the following:**
 1. The amount and rate of the increase in preferential imports of the good concerned in absolute and relative terms.
 2. The share of the internal market taken by increased preferential imports
 3. The consequent impact on the domestic industry of the like or directly competitive goods, based on factors, including: changes in level of sales, production, productivity, capacity utilization, profits, losses and employment
 4. The existence of a causal link between the increased imports of the good under preferential terms and serious injury or threat to the domestic industry.



Investigation Procedures

- Each party should establish or maintain published procedures for the application of preferential safeguard measures.
- Investigations shall include reasonable public notice to all interested parties and public hearings or other means by which exporters and importers could present their evidence and views, including the opportunity to respond to presentations of other parties.
- Investigation authorities should maintain the secrecy of the information presented by the parties.
- Investigations should be over in a period of 8 months.



Investigation Requirements

- The party that intends to apply preferential safeguards should provide adequate opportunity for prior consultations with the other party; aimed at reaching a mutually satisfactory solution.
- If no satisfactory solution is reached within 30 days of the notification, the party may apply preferential safeguard measures
- A party or signatory party proposing to apply those measures should endeavor to maintain a substantially equivalent level of concessions (adequate means of trade compensation) to that existing under the agreement, between it and the party which would be affected by such a measure.

2.4

Agreement's Provisions

DISPUTE SETTLEMENT

Objective

This chapter aims at settling the disputes that arise between Egypt and the MERCOSUR countries as a result of the agreement, which will guarantee Egypt's rights in the face of the MERCOSUR.

Span of Application

- The application of this section is restricted to the articles of free goods movement.
- Issues of dumping, subsidies and global protection are excluded from the span of application of this section.
- The agreement grants the complainant the right to choose whether to settle the dispute arising from implementing the agreement through the dispute settlement mechanisms of the GATT or those mechanisms mentioned in the Egypt – MERCOSUR FTA.
- Once the complainant resorts to one mechanism, he cannot shift to the other. (The dispute starts once consultations start)
- MERCOSUR countries act as one country, in case Egypt had a problem with more than one country; common responses are set up.

C
H
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MECHANISM

01 CONSULTATIONS

- The party to which the request for consultations is made shall reply within 15 days of the request's receipt.
- Consultations should be held within 45 days of the receipt of the request & shall be deemed concluded within 75 days of receipt

02 JOINT COMMITTEE INTERVENTION

- If consultations fail, the joint committee intervenes.
- The committee should convene within 45 days.
- Recommendations should be given within 30 days after its first meeting

MEDIATION

- If the committee fails, the parties seek recourse to a mediator.
- A meeting between both parties should be convened within 30 days after the mediator is selected.
- The mediator's opinion should be given within 60 days after he is chosen. Awards are non-binding

ARBITRATION

- This is done when parties have failed to resolve the dispute by recourse to consultations.
- Hearing sessions should be held.
- The process takes 90-120 days.
- Awards are binding.

F
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R

3 N Gage Analysis

This section will be representing the positive spillovers of the Agreement on Egypt as well as analyzing the trade pattern between Egypt and the MERCOSUR countries.



Enhancing the trade relations between Egypt and the MERCOSUR bloc and taking advantage of the wide market of the MERCOSUR countries

47%

Liberating trade between both parties over a period of 10 years, taking into consideration that 47% of the Egyptian exports will be immediately fully exempted from all custom duties once the agreement comes into force.



Reducing the expenses of the Egyptian imports from the MERCOSUR countries.



Attracting more investments from the MERCOSUR in case they faced any obstacles during the transition period of liberating the imports from the MERCOSUR nations.



Presence of an institutional mechanism to resolve the problems that cripple trade between the two parties; the annual joint committee meeting



Protection of domestic industries against increased imports under preferential treatment that cause or threaten to harm it.

AVG Applied MFN Tariff Rate in 2010 for Key Sectors

Country	Product	2010 Range	2017 Range
Egypt	Clothes and textiles	10.9% to 28.8%	11.5% to 38%
	Food products	4.5% to 24.2%	6.1% to 14.6%
	Chemicals	4.70%	6.1%
Brazil	Clothes and textiles	15.7% to 35%	15.7% to 31%
	Food products	8% to 18.5%	16.5% to 18.3%
	Chemicals	8.30%	8.3%
Uruguay	Clothes and textiles	15.3% to 20%	15.3% to 20%
	Food products	8.4% to 18.5%	8.3% to 17.4%
	Chemicals	7.80%	7.8%
Paraguay	Clothes and textiles	13.1% to 20.6%	12.9% to 20.6%
	Food products	8% to 19.6%	7.6% to 19.9%
	Chemicals	7.80%	7.6%

3.1

N Gage Analysis

Trade Patterns (Refer to annexes for further details)

EGYPT
&
BRAZIL**Prominent areas of trade (meat, machinery and chemicals, cereals, plastics and vehicles)**

It is observable that Brazil's share of the Egyptian exported **minerals** was 0.23% in 2016. Also, Brazil imported 5.3% of the total Egyptian exports of **fertilizers**. Brazilian **meat** contributed to **53.5%** of the Egyptian imports of meat in 2016. Egypt imported 8.2% of total imports of **cereals**, 0.86% of total imports of **machinery** and 0.62% of imported **vehicles** from Brazil.

EGYPT
&
PARAGUAY**Prominent areas of trade (oil, seeds, animal fodder, fertilizers, plastics, paper, pharmaceuticals and electric machinery)**

Paraguay contributed to USD 8297 thousand of Egypt's imports from the **prepared animal fodder** in 2016. A worth of USD 7027 thousand of the USD 3105216 thousand worth Egyptian imports of **cereals** in 2016 came from Paraguay. Egypt's imports of **meat** in 2016 were worth USD 1411738 thousand, Paraguay provided worth of USD 4497 thousand.

EGYPT
&
ARGENTINA**Prominent areas of trade (cereals, vehicles, plastics, meat, oil seeds, chemicals and fertilizers)**

Argentina serves as a market for more than one of our eminent exports; **Minerals, Plastics, Machinery** and **Cotton**. Argentina contributed to the Egyptian imports of **prepared animal fodder** in 2016 by **60.5%**. In addition to its contribution to Egypt's imports of **cereals** by **18.2%**.

EGYPT
&
URUGUAY**Prominent areas of trade (oil seeds, meat, wood, cereals, plastics, pharmaceuticals, clothing & textiles and electric machinery)**

Uruguay imports USD 7584 thousand worth of Egyptian **fertilizers**, nearly the same share as Brazil. As well as it imports **machinery** with a value of USD 804 thousand.

3.2 N Gage Analysis

IMPORTANT INDUSTRIES TO THE EGYPTIAN ECONOMY AS PER THE DATA FROM THE MINISTRY OF INDUSTRY & TRADE



CHEMICAL INDUSTRIES



Category A contains 403 chemical item out of 1703 items. Including gluey and semi-gluey graphite.



91 items out of 739 items in category B are chemicals. Including phenols and alcohols.



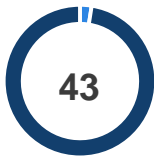
173 out of 1717 items in category C are chemicals. Hard rubber included



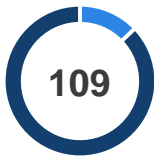
Category D includes 1091 items, 101 of them are chemicals.



TEXTILE INDUSTRY



Category A contains 43 items for clothing and textiles. (i.e.: will be immediately exempted)



109 items in category B are clothing items, the total number of items in that category is 739.



330/1717 items in category C are clothing and textile items.



27.5% of the items in category D are clothing and textile items.



FOOD INDUSTRIES

- MERCOSUR countries are granted a 30% discount on the tariff rate for Poultry under codes (020711 & 00712) given that certain weights (at minimum) are satisfied;

Brazil
1000 Tons

Argentina
400 Tons

Uruguay
500 Tons

Paraguay
500 Tons

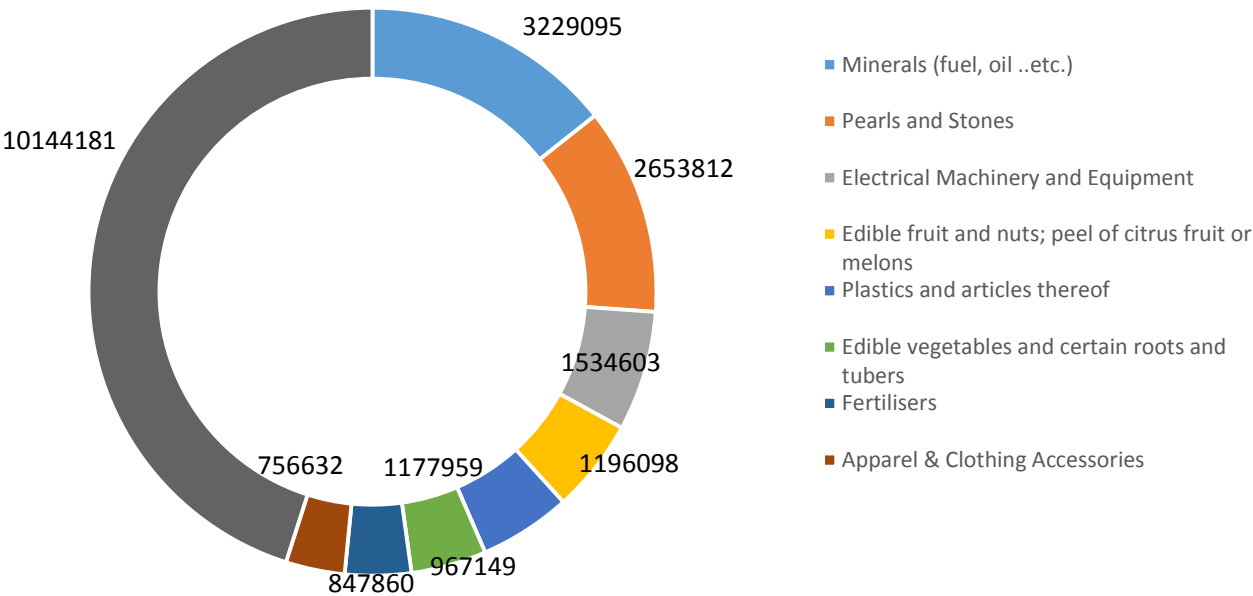
ANNEX I

Trade Relations of each Country with the World as of 2016

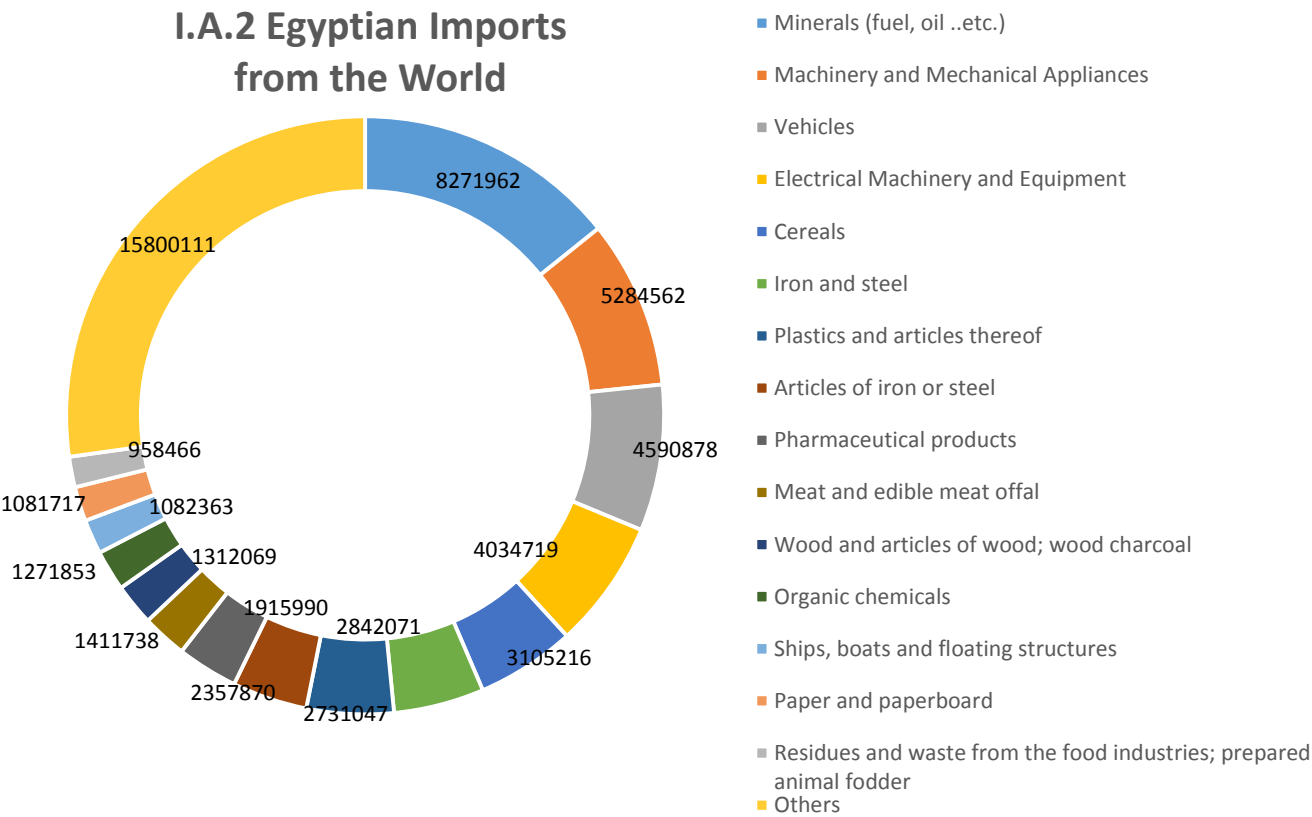
Note: all numbers are in thousands of USD

I.A - Egypt

I.A.1 - Egyptian Exports to the World

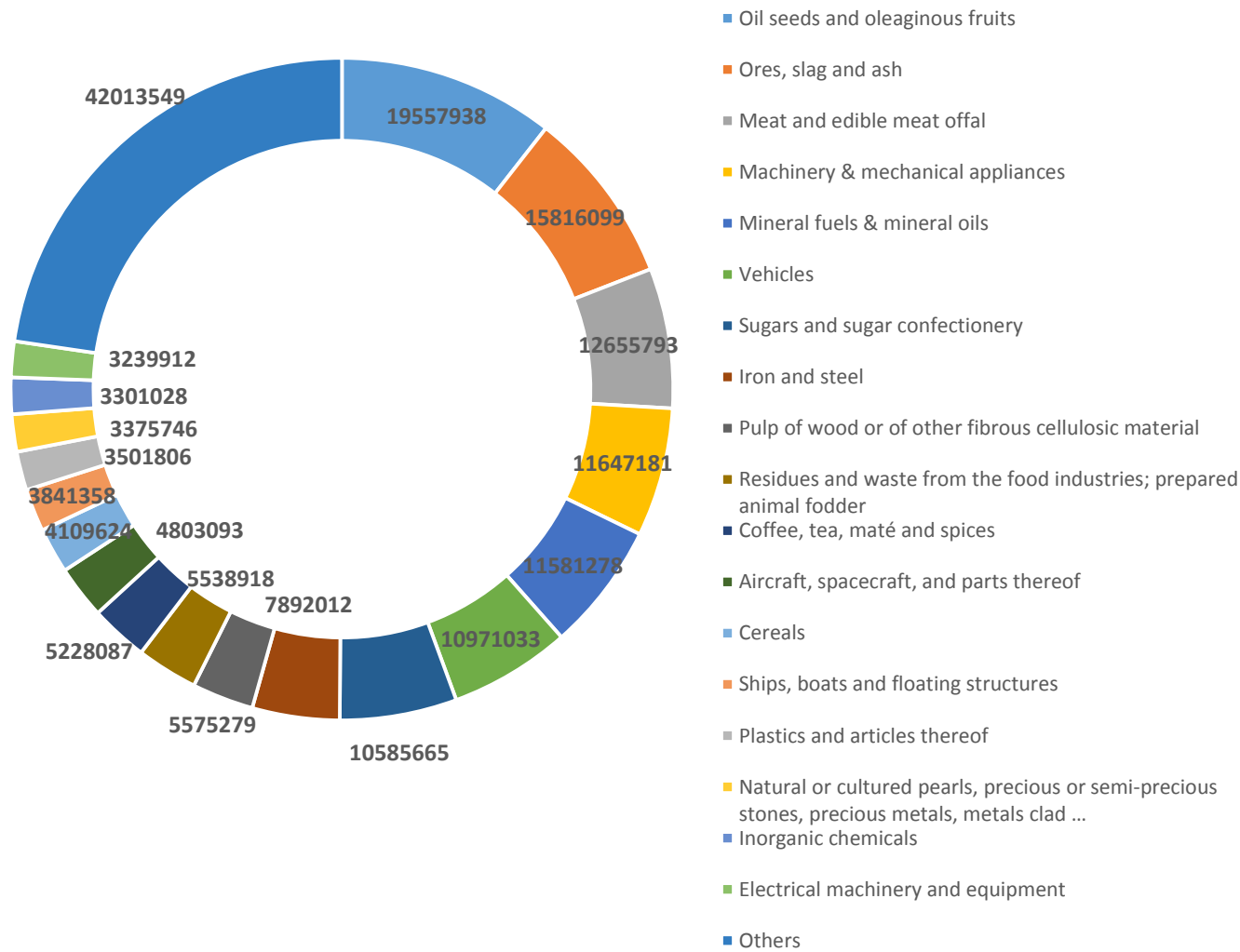


I.A.2 Egyptian Imports from the World

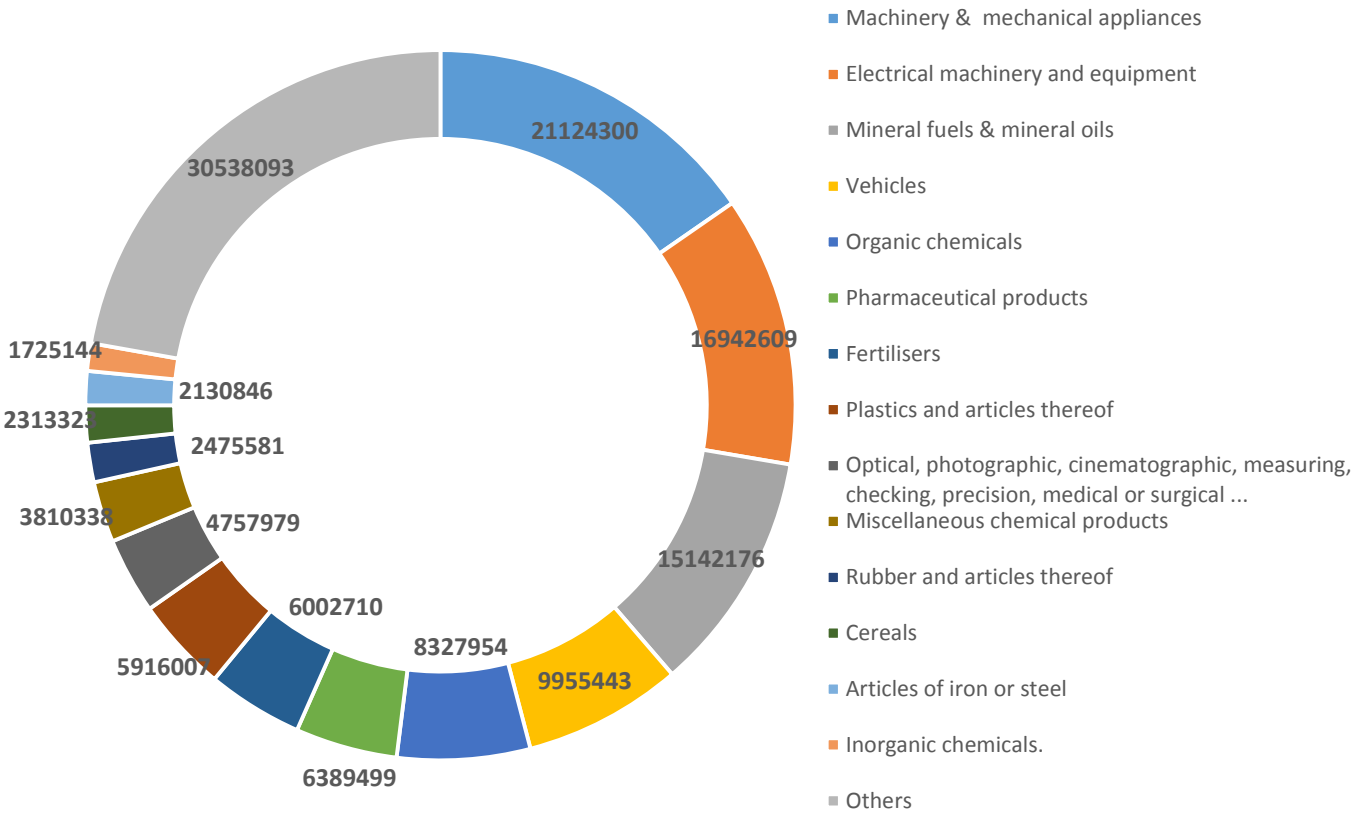


I.B - Brazil

I.B.1 - Exports of Brazil to the World

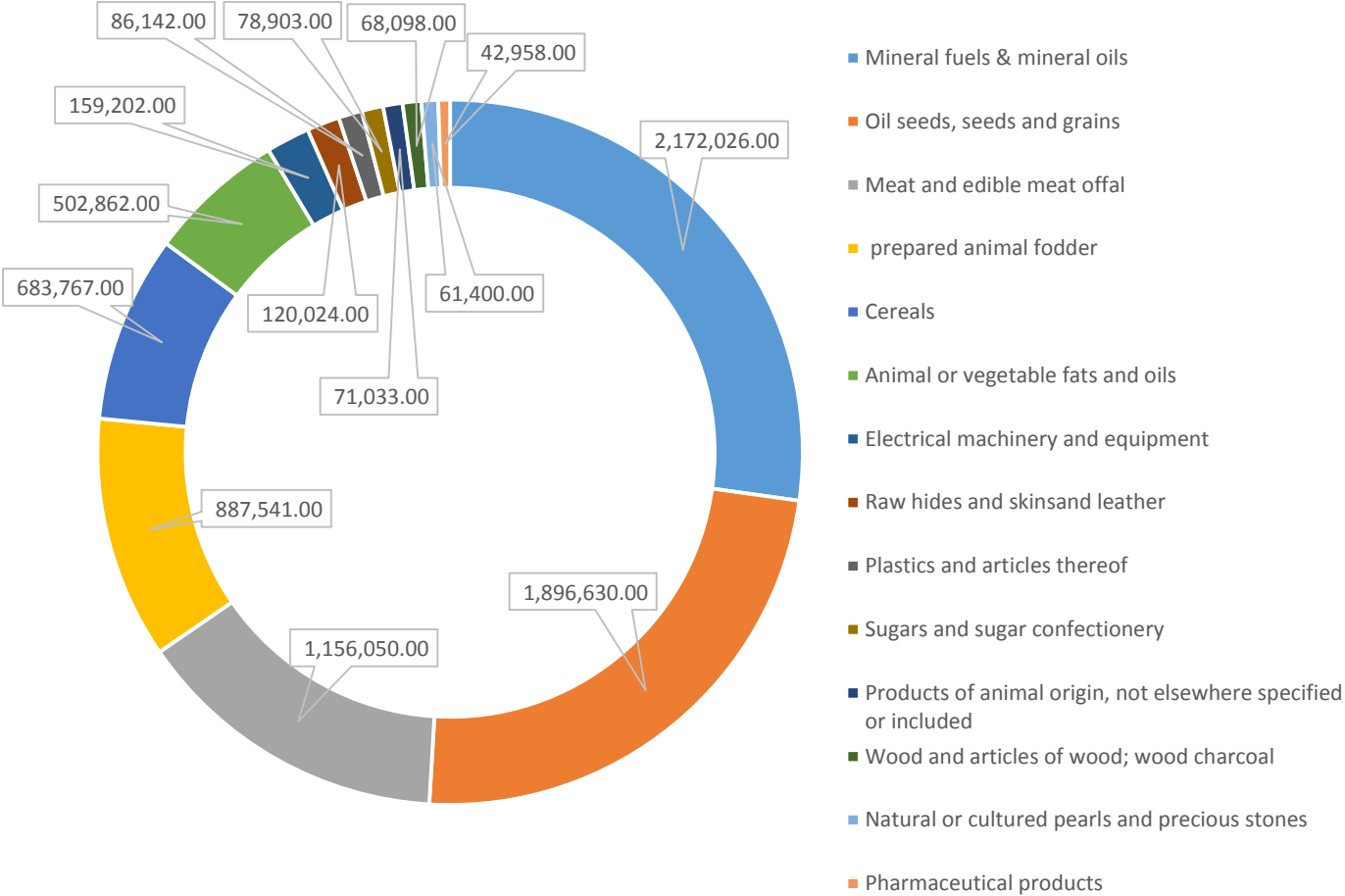


I.B.2 - Imports of Brazil from the World



I.C - Paraguay

I.C.1 - Exports of Paraguay to the World

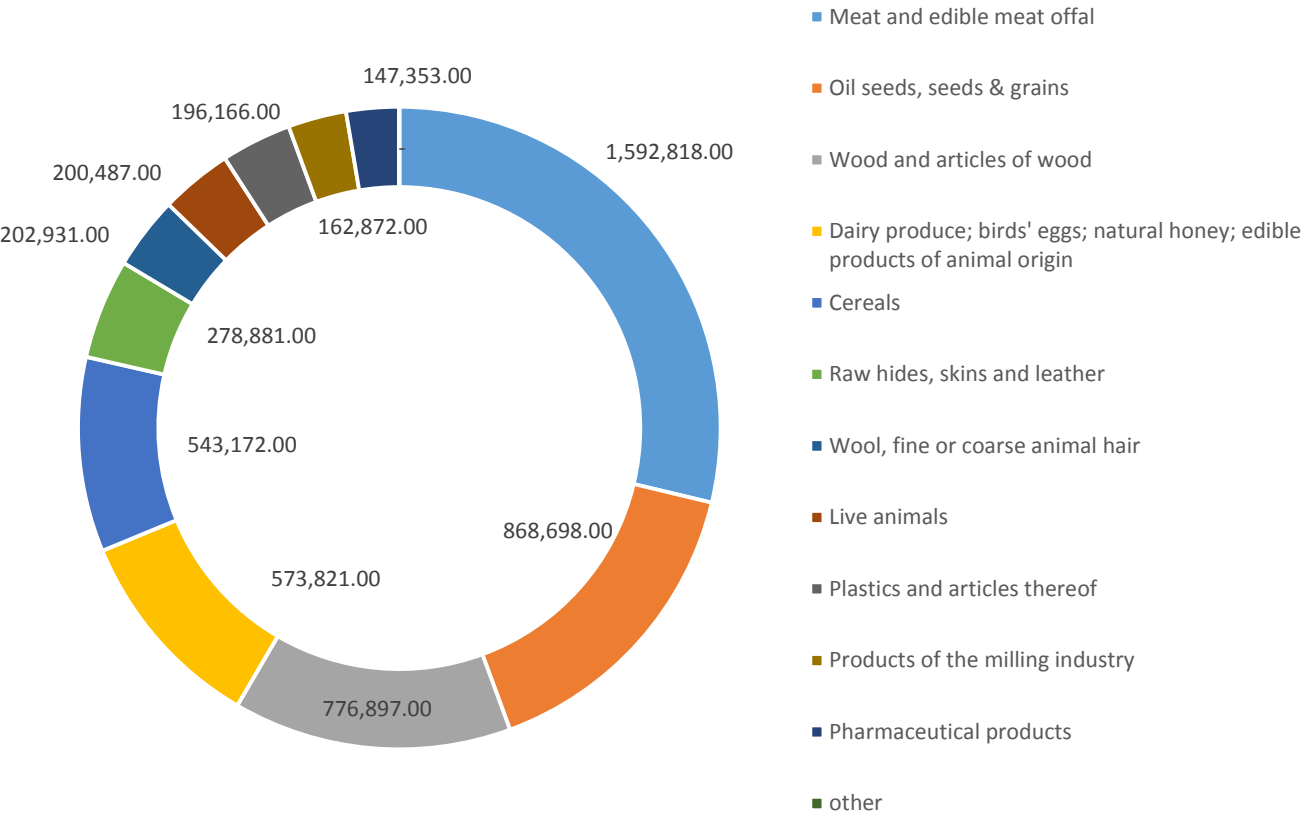


I.C.2 - Imports of Paraguay from the World

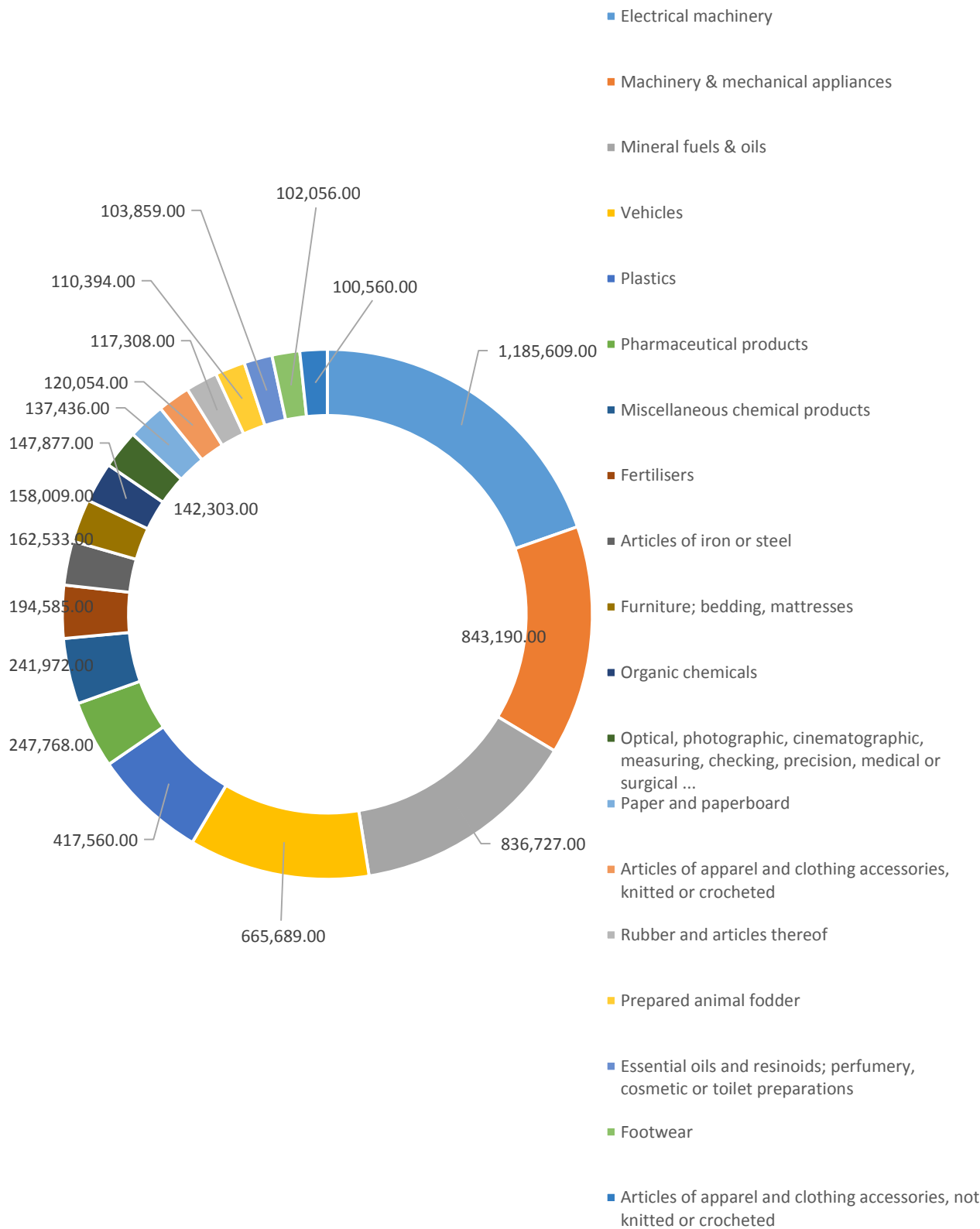


I.E - Uruguay

I.E.1 - Exports of Uruguay to the World

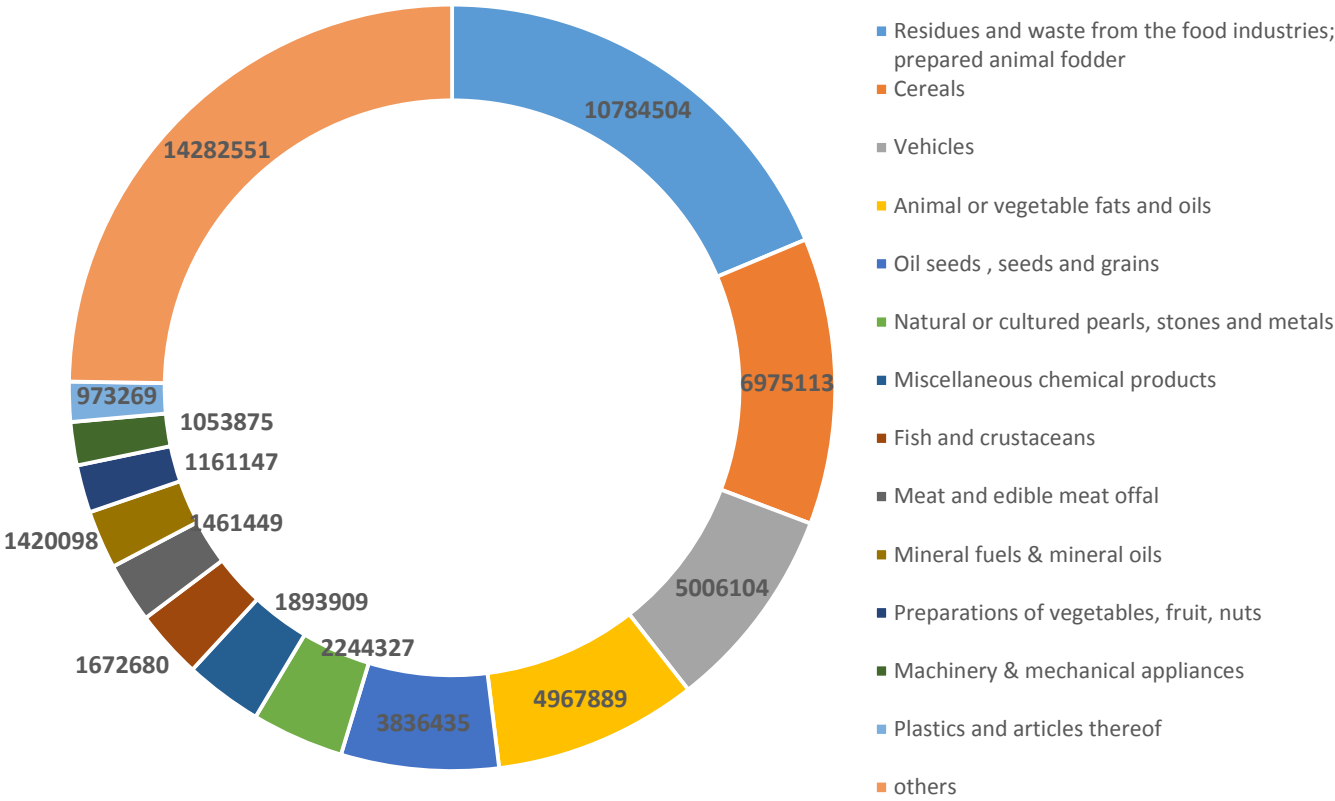


I.E.2 - Imports of Paraguay from the World

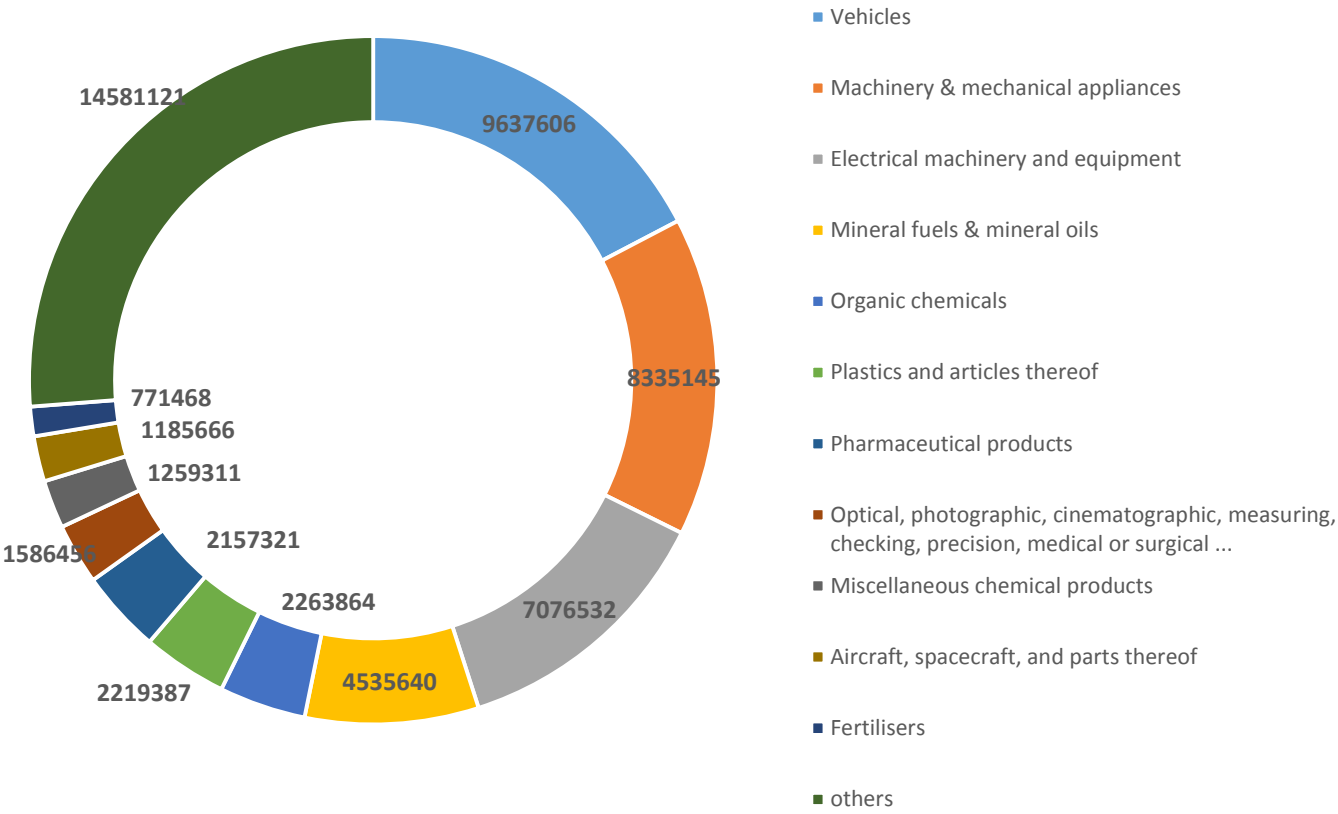


I.D - Argentina

I.D.1 - Exports of Argentina to the World



I.D.2 - Argentina's Imports from the World



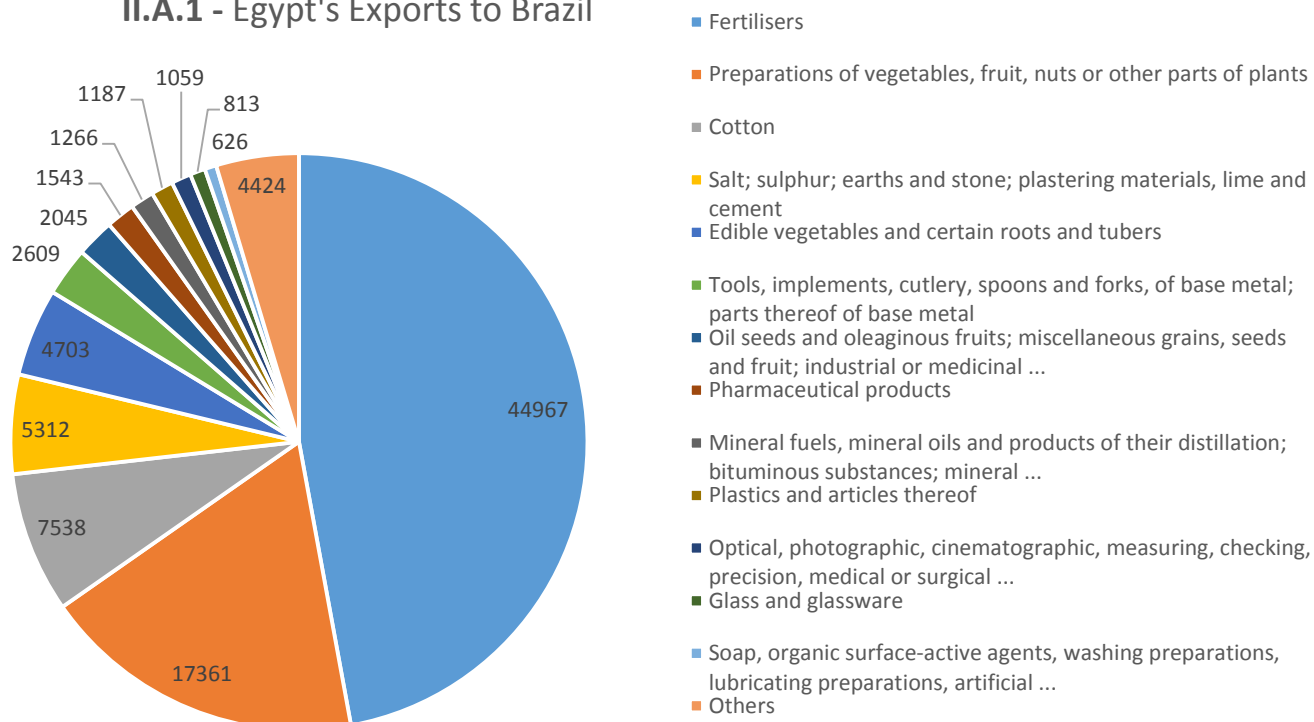
ANNEX II

Egypt – MERCOSUR Trade Relations as of 2016

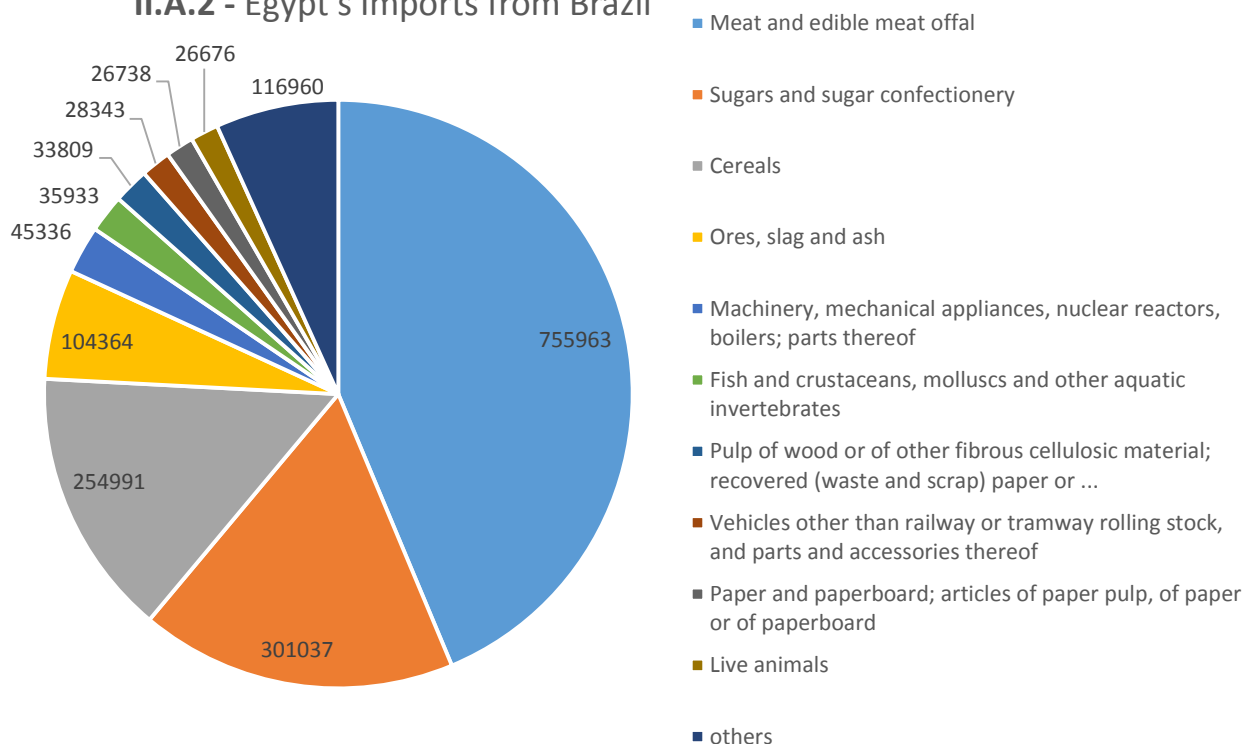
Note: all numbers are in thousands of USD

II.A. Egypt - Brazil

II.A.1 - Egypt's Exports to Brazil

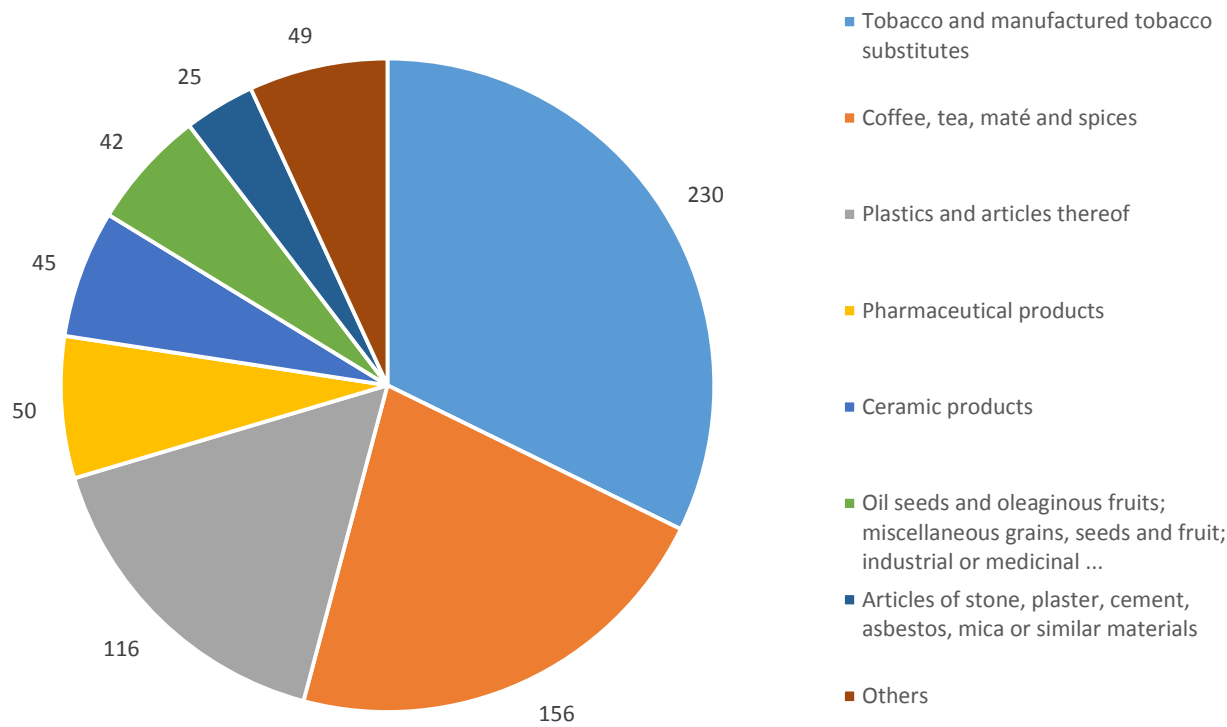


II.A.2 - Egypt's Imports from Brazil

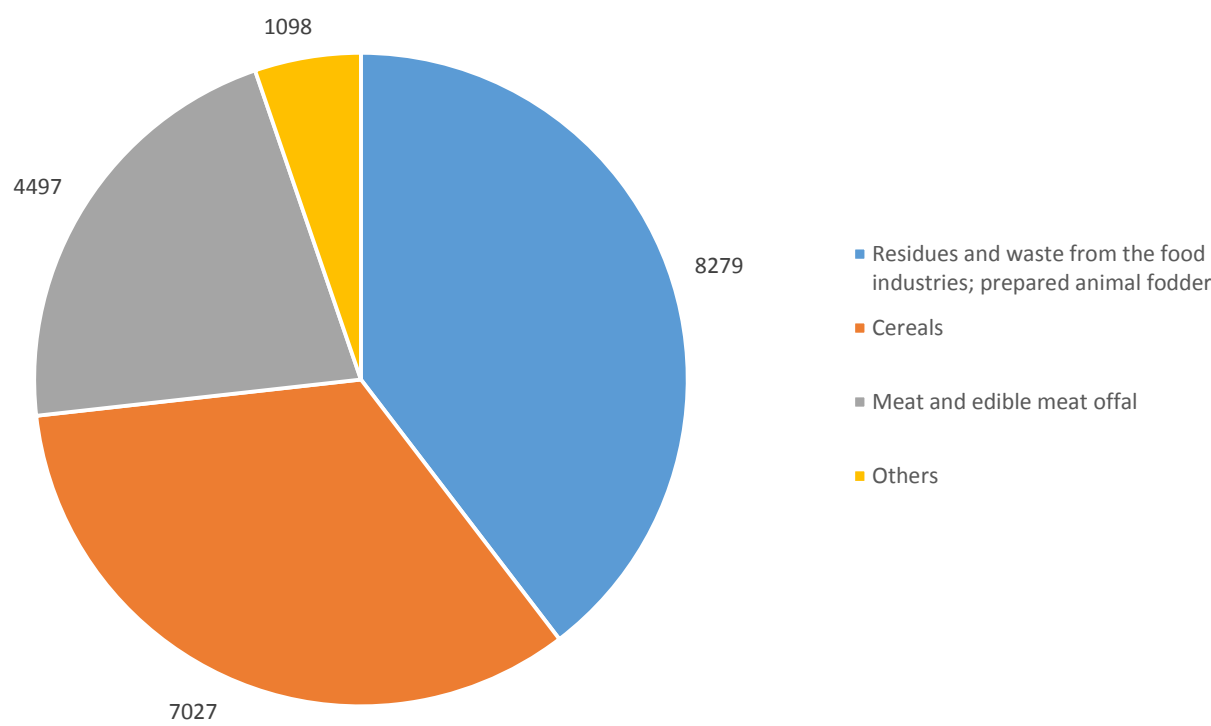


II.B - Egypt - Paraguay

II.B.1 - Egypt's Exports to Paraguay

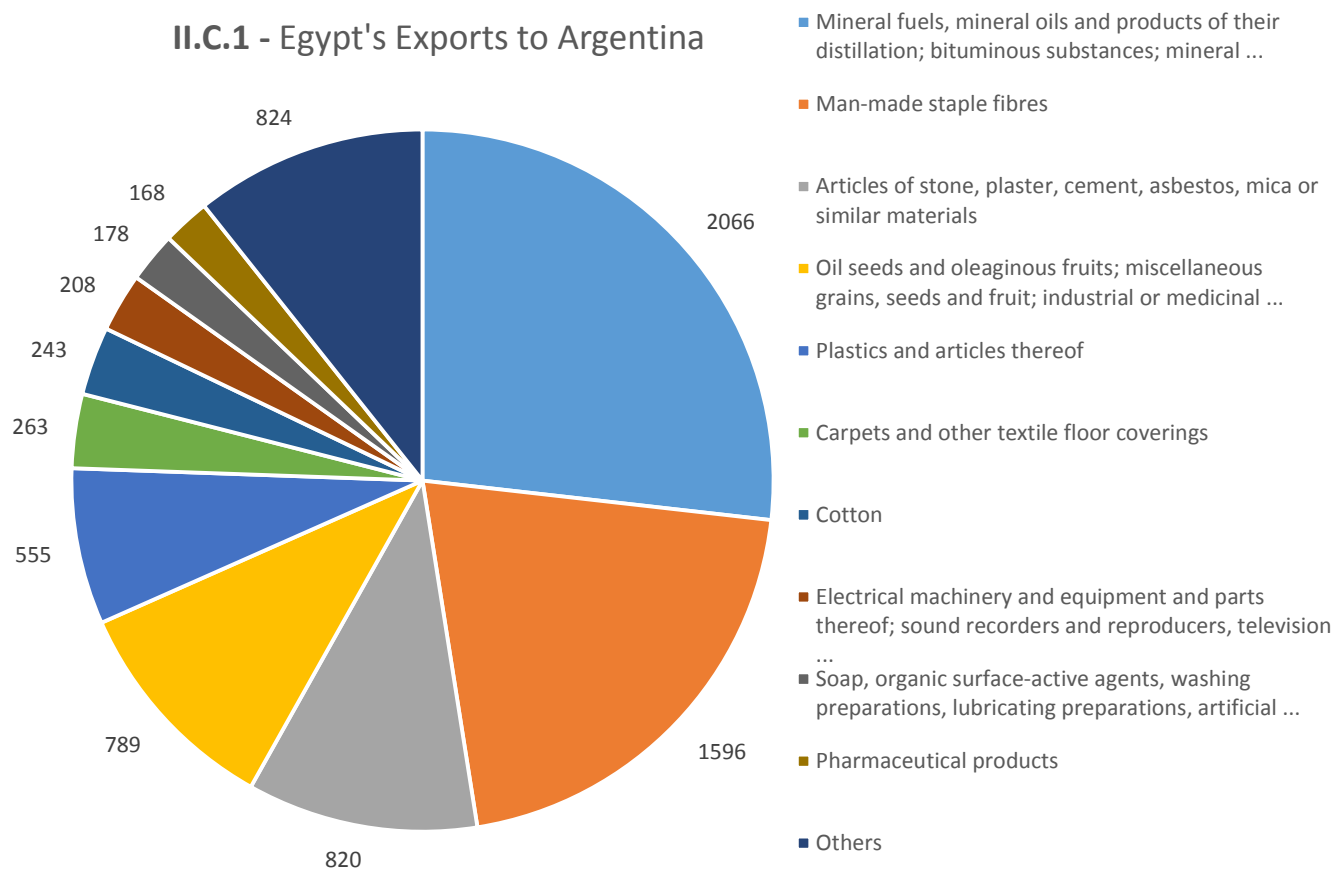


II.B.2 - Egypt's Imports from Paraguay

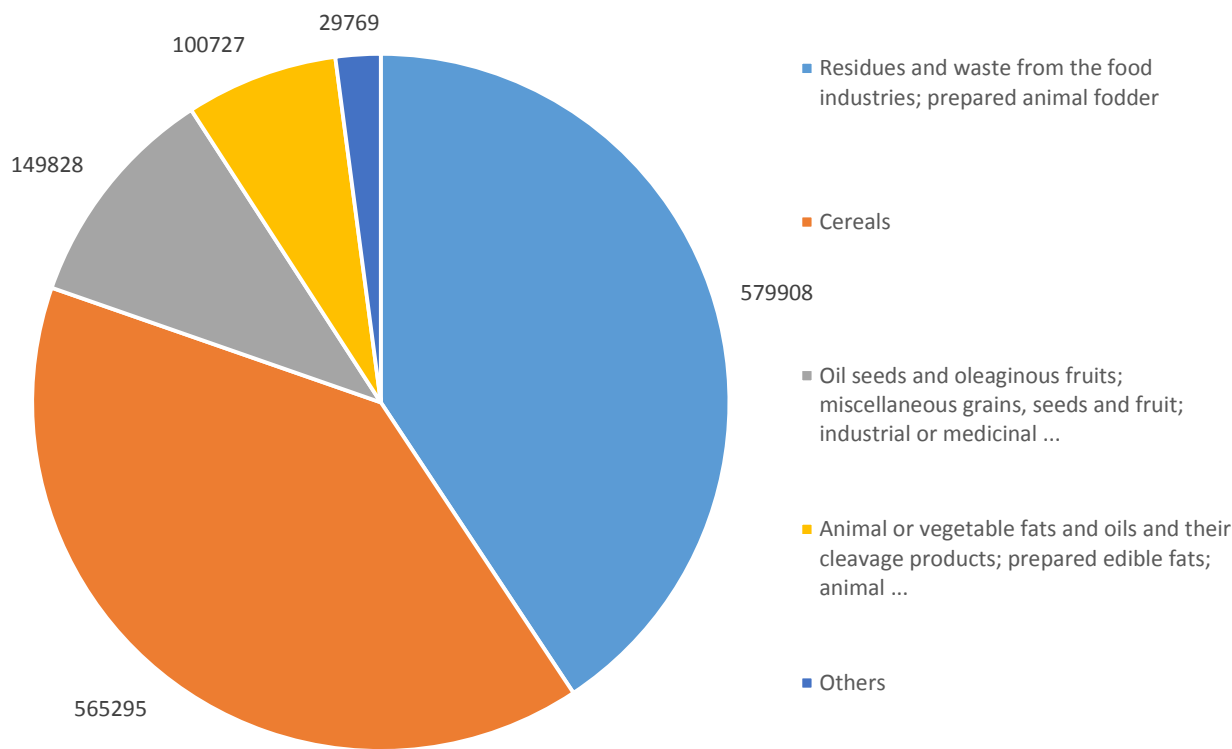


II.C - Egypt - Argentina

II.C.1 - Egypt's Exports to Argentina

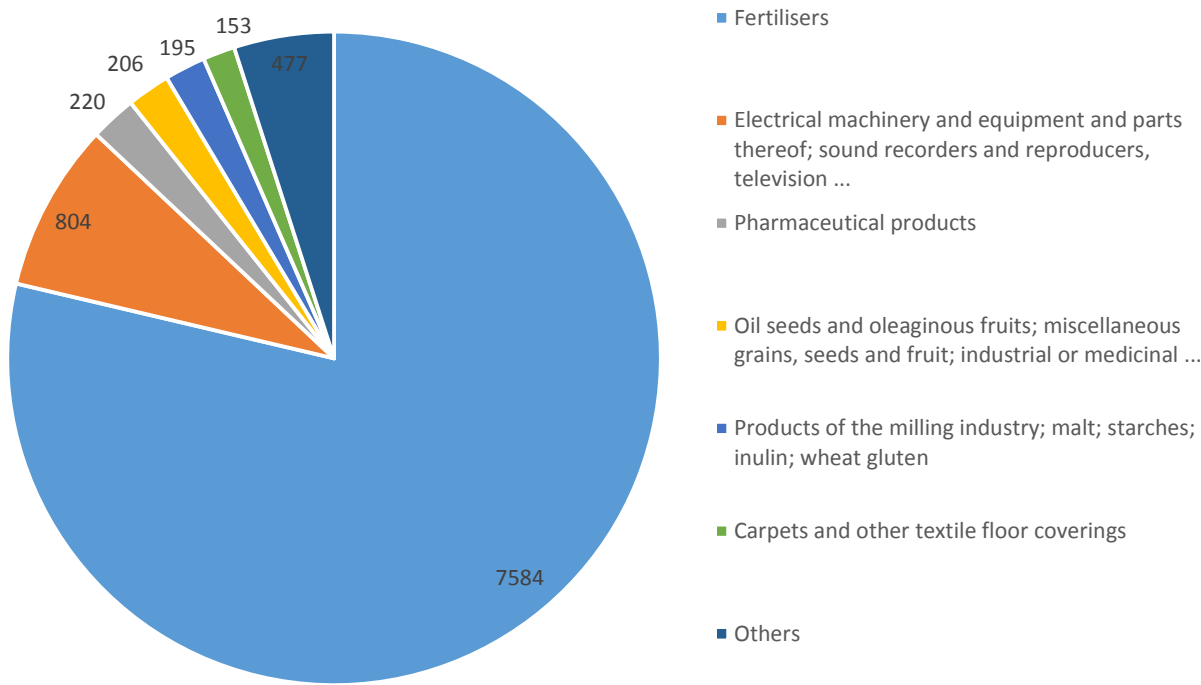


II.C.2 - Egypt's Imports from Argentina in 2016

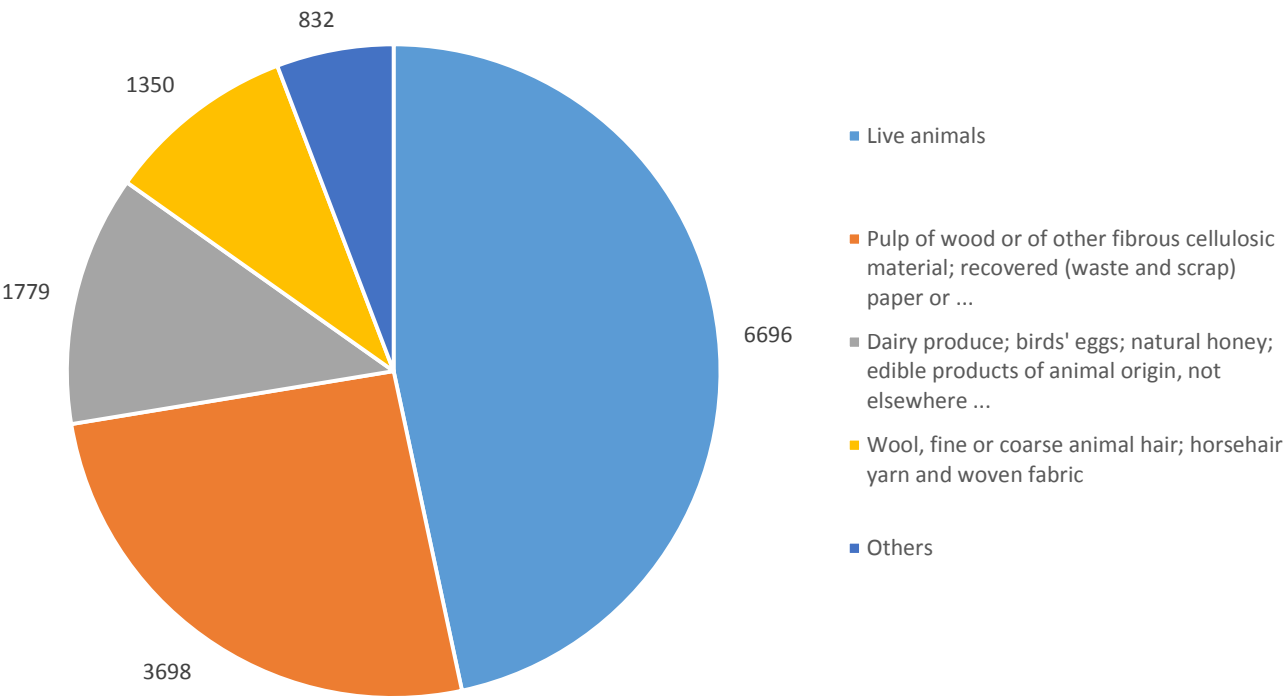


II.D - Egypt – Uruguay

II.D.2 - Egypt's Exports to Uruguay



II.D.2 - Egypt's Imports from Uruguay in 2016



THANK YOU

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