



September 2009

## **FACT SHEET**

### **Free Trade Agreement between the EFTA States and Egypt**

#### **Overview**

The Free Trade Agreement (FTA) between the EFTA States (Switzerland, Iceland, Liechtenstein, Norway) and Egypt was signed on 27 January 2007 in Davos and entered into force on 1<sup>st</sup> August 2007. The Agreement constitutes a solid basis for the further development of economic cooperation by creating new trade and investment opportunities on both sides. It also contributes to improve legal security and stability of the framework conditions for the economic relations between the EFTA States and Egypt. The main benefit arises from the abolition or dismantlement of customs duties on a large majority of traded products. In addition, the Agreement is part of the Euromed cumulation zone, which was created in the context of the Barcelona Process initiated by the EU and aiming at establishing a comprehensive partnership between the European continent and neighbouring countries around the Mediterranean Sea.

The FTA with Egypt extends Switzerland's network of preferential agreements with other partners from the Mediterranean area. The EFTA-Egypt FTA covers trade with industrial products, processed agricultural products and fish and other marine products. The concessions concerning basic agricultural products are covered by bilateral agreements that every EFTA State has concluded individually with Egypt in parallel to the FTA. The Agreement contains provisions regarding intellectual property rights, competition and principles on technical assistance as well as evolutionary clauses regarding services, investment and public procurement. The Agreement is in part asymmetric, taking into account the different levels of economic development of the EFTA States and Egypt.

#### **The FTA with Egypt in the context of EFTA's free trade policy**

While foreign trade interests of small and medium-sized economies are, in principle, best served by multilateral liberalisation, entering into preferential agreements with selected trading partners has become an important complementary instrument for maintaining and improving the competitiveness of EFTA economies in the world market. In particular, competitive disadvantages of EFTA operators, resulting from preferential agreements concluded by trading partners with main competitors (such as the European Union, the USA and Japan) can only be avoided or eliminated by concluding preferential agreements with these partner countries.

In the last 20 years, Switzerland – mostly together with its EFTA partners - concluded a considerable number of FTAs with countries in Europe, the Mediterranean region and overseas. In addition to the EFTA Convention and the Free Trade Agreement with the European Union (EU) of 1972, Switzerland currently has a network of 20 free trade agreements (FTAs) with 29 partners outside the EU. Negotiations are ongoing with other partner countries.

The conclusion of FTAs with the Mediterranean countries participating in the Barcelona Process of the European Union is a condition for EFTA's participation in

the Euro-Mediterranean free trade area emerging under the Barcelona Process. The EFTA States are very supportive of the Euromed process as a tool for the construction of a zone of shared prosperity through economic partnership.

### **Bilateral economic relations between Switzerland and Egypt**

Egypt is an important trading partner of the EFTA States in the Middle-East and North-Africa region. Economic growth has been very dynamic in recent years, with GDP growth rates around 7% between mid-2005 and mid-2008, declining to 4% last year. Bilateral trade in goods between the EFTA States and Egypt amounted to 727 million USD in 2008, with EFTA exports amounting to 665 million USD, whereas import from Egypt to the EFTA States represented 62 million USD.

Among the EFTA States, Switzerland is by far the main trading partner of Egypt, accounting for about 85% of the overall bilateral trade. In 2008, Switzerland exported for 625 million Swiss francs (approx. 580 million USD) to Egypt, an increase of 34% compared to 2007. Swiss imports from Egypt valued 28 million Swiss francs (approx. 26 million USD), 1,5% more than in 2007. Switzerland's main export products to Egypt are pharmaceuticals (45%), machinery (23%), and precision instruments/watches/jewellery (12%), while the main products imported from Egypt are agricultural products (42%), textiles (20%) and chemicals (15%, mainly essential oils). In the first half of 2009, bilateral trade between Switzerland and Egypt continued to grow despite a global decline of trade flows.

Nowadays, there are more than 100 Swiss companies established in Egypt, in particular in the sectors of pharmaceuticals, machinery, food processing and agrobusiness as well as in the cement business. Switzerland is an important foreign investor in Egypt, with a stock of more than 558 million Swiss francs (approximately 512 million USD) at the end of 2007. Due to the important size of Egypt's domestic market and to its function as hub for the Middle East and Northern Africa, there is a good potential for increased investment activities.

### **Major elements of the EFTA-Egypt FTA**

In the field of **industrial products**, Egyptian exports into the EFTA States are duty-free as from the entry into force of the Agreement on 1<sup>st</sup> August 2007. Egyptian cotton, for instance, benefits since then from tariff free market access into the EFTA markets. On the other side, Egypt gradually eliminates custom duties of imports on industrial products from the EFTA States with a similar schedule as provided under the Egypt-EU Association Agreement (with one year delay). By 1<sup>st</sup> January 2020, custom duties on almost all industrial products will have been eliminated.

With regard to **processed agricultural products**, the EFTA States grant Egypt comparable preferences as to the EU for an initial period of five years. During this period, Egypt continues to apply MFN tariffs to imports from the EFTA States. After this period reciprocal concessions from all parties have to be negotiated.

Trade in **basic agricultural products** is covered in bilateral agreements negotiated separately between individual EFTA States and Egypt. These agreements provide tariff concessions for a large number of products. In the case of Switzerland, the concessions concern the reduction or elimination of tariffs, normally within WTO or bilateral quotas and seasonal restrictions, for many agricultural products for which Egypt had signalled a particular interest (e.g. fresh vegetables such as potatoes, onions and shallots, lettuce, tomatoes, beans, as well as olive oil, fresh fruit). On the other hand, Egypt grants specific reductions concerning cheese, baby food, milk

powder and prepared tomatoes. The agreement contains an evolutionary clause stipulating that further possibilities of liberalisation in agricultural trade will be examined at latest four years after the entry into force of the Agreement.

The Agreement also includes provisions relating to the elimination of **other trade barriers** as well as trade-related disciplines including rules on competition, state monopolies and subsidies.

Regarding **intellectual property**, the Agreement contains provisions strengthening the protection of intellectual property rights, inter alia in the fields of patents, copyright, industrial designs, undisclosed information and geographical indications.

The agreement includes also evolutionary clauses aiming at achieving future liberalization for trade in **services** and access to **public procurement** markets. Other provisions relate to the promotion of **investments**, current payments and capital movements and institutional and procedural matters. The Agreement also establishes a **Joint Committee** which supervises the application of the Agreement and will examine the possibilities of further developing and deepening the cooperation between the parties.

In order to make sure that Egyptian companies can take full advantage of the Egypt-EFTA FTA, Switzerland and the other EFTA States accompany the Agreement with a number of measures and initiatives in form of **technical assistance** to promote trade and investment relations between the countries. The EFTA States agreed with Egypt on bilateral Memoranda of Understanding on technical assistance. In the case of Switzerland, the development co-operation is focused on activities promoting investments and transfer of technology and know-how into Egypt, supporting SME development, promoting Egyptian exports to Switzerland, assisting the reform process in Egypt in relation to technical barriers to trade, export quality control, intellectual property rights and customs.

### **Benefits for EFTA and Egyptian companies**

In general terms, the FTA between Egypt and the EFTA States creates an improved contractual basis for the development of economic relations and co-operation between Egypt and the EFTA States, thus contributing to the development of the export sectors of the parties and finally to the development of the economies as a whole, presenting also positive effects on employment and living standards. The FTA also grants EFTA and Egyptian economic operators similar market access conditions in the respective markets as their main competitors, in particular from the EU, enjoy.

Past experience has shown that the conclusion of a FTA not only contributes to an increase in trade flows between the preferential partners, but also constitutes a significant additional incentive for investments in the particular partner country. In this regard, the Euromed cumulation system, to which the EFTA-Egypt FTA is contributing, opens the possibility to take advantage of diagonal cumulation, in particular with the large EU market. This means that inputs and parts originating in any of the participating countries can be combined in the production process, and the end product is still eligible for preferential tariff treatment when exported to any country participating in the Euromed system. This not only further enhances the competitiveness of Egyptian Exports to the EFTA States and of EFTA Exports to Egypt. It also makes products from Egypt and the EFTA States more competitive on the EU-market.