New Dialogue for a New Era in the U.S.-Egypt Economic Relationship

Working Together to Strengthen Ties

U.S.-EGYPT BUSINESS COUNCIL

U.S. CHAMBER OF COMMERCE
International Affairs

American Chamber of Commerce in Egypt

EGYPT-U.S. BUSINESS COUNCIL

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Recommendations from:
U.S. Chamber of Commerce, U.S.-Egypt Business Council,
American Chamber of Commerce in Egypt & Egypt-U.S. Business Council

Introduction

While Egypt is at an important turning point in its history, it is equally important to recognize that the relationship between the United States and Egypt also stands at a critical juncture. Today, there is an opportunity to begin a new era in the relationship between the United States and Egypt and build a new partnership based on mutual respect, common interests, shared prosperity and cooperative security. While not diminishing the significance of long-standing security cooperation and other key facets of the historic relationship between the two countries, it is imperative that this new partnership prioritize a critical ingredient: economic engagement. Healthy societies are built upon economies driven by free market principles and a centerpiece of the U.S.-Egypt strategic conversation should be the expansion of the bilateral economic relationship based on a mutual respect as well as the desire of the United States to positively impact and directly contribute to Egypt's economic resurgence led by President Abdel Fattah el-Sisi.

As home to the U.S.-Egypt Business Council, the U.S. Chamber of Commerce, working in close cooperation with its partners, the American Chamber of Commerce in Egypt (AmCham Egypt) and the Egypt-U.S. Business Council, is eager to work with the governments of Egypt and the United States to enhance this crucial bilateral economic relationship and unleash the innovative and dynamic forces of the private sector to help reform and modernize the Egyptian economy and set it on a sustainable path of extended economic growth.

The government of President Sisi inherited daunting twin tasks: reversing the deteriorating macroeconomic indicators and introducing and implementing fundamental economic and institutional reforms to correct deep-seated structural challenges which have long hindered Egypt from fulfilling its full economic potential. In a short time, President Sisi has moved confidently and successfully by taking steps to arrest the downward slide of the Egyptian economy, pursue an economic revitalization agenda and put its fiscal house in order by making bold decisions such as reducing the untenable fuel subsidies. And now the government has started aggressively to establish the conditions for sustained higher economic growth that would create sufficient jobs to absorb the rapidly growing and young labor force featuring a population in which 49.9% of all Egyptians are under the age of 24.

Under the leadership of President Sisi, Egypt's economic conditions are noticeably improving. For example, Foreign Direct Investment reached $1.8 billion in the first quarter of 2014/2015, more than double the same period last year. We have witnessed accelerated GDP growth to a six-year high of 6.8% in Q12014/2015 from

3.7% in Q42013/2014. We have seen Egypt working to make good on its outstanding obligations to international energy companies. And international ratings agencies have been looking positively on Egypt's progress with Standard and Poor's raising its outlook on Egypt from "stable" to "positive" in May 2015. Moody's changed its outlook to "stable" in April 2015 and asserted it expects Egypt's GDP to recover from last year's 2.2% to 4.5% in 2015, and then to rise to between 5% and 6% in the next four years. Fitch, having upgraded Egypt's sovereign credit rating for the first time since 2011, confirmed in 2015 Egypt's "B" rating and its outlook as "stable."

Egypt is the largest nation in the Arab world and the cultural hub of the region. As long-standing allies, there has been significant military and intelligence cooperation between our nations, which will be imperative to maintain. Consequently, the transformation that is underway in Egypt is vitally important to the United States as well as the Middle East region and the greater global community. With two revolutions in three years, Egypt has undergone a period of political turmoil, social unrest, and a declining security situation – and this naturally created considerable uncertainty for both domestic and foreign investors. The virtual collapse of tourism resulted in serious external and fiscal imbalances. The financial crisis in Europe led to a decline in the demand for exports and a sharp falloff in foreign investments and visitors. Finally, the ongoing upheavals in the countries in the immediate neighborhood led to the return of Egyptian workers and the subsequent decline in workers' remittances and likely contributed to the deterioration of the security situation in the Sinai.

During the period of the three governments that followed the revolution of January 2011, Egypt's macroeconomic picture steadily worsened. Economic growth during 2011-2013 averaged a lethargic 2% per year and by 2013, the unemployment rate had risen to over 13 percent and youth unemployment reached a staggering 35%. It is abundantly clear that the Egyptian economy inherited by President Abdel Fatah el-Sisi has been in a state of distress since the beginning of 2011 and in need of both macroeconomic stabilization and major economic and institutional reforms.

In November 2014, the U.S. Chamber and the U.S.-Egypt Business Council led a business delegation to Egypt, in cooperation with AmCham Egypt and the Egypt-U.S. Business Council, to identify economic opportunities in the country and areas for increased engagement between the American and Egyptian business communities. With more than 150 business executives from nearly 70 companies, the group was the largest Chamber-led delegation in recent history, underscoring the U.S. business community's interest and optimism in the Egyptian market. As a follow-up to the business mission, our four organizations strongly supported the Egypt Economic Development Conference and coordinated robust participation by American businesses.

We strongly believe that American companies can help Egypt achieve its objectives in a number of critically important sectors. Whether it is producing new levels of electricity to ensure supply to meet peak demands

during the summer period or bringing new technologies to the table in the form of an integrated food security network for grain storage, U.S. companies are already making a crucial difference in Egypt. And it's not just in power generation and food security. From healthcare, information technology, energy, financial services and tourism, to aviation, defense, infrastructure, manufacturing and transportation/logistics, American businesses have and will continue to do important work. Opportunities for U.S. companies in Egypt are vast across these and other sectors, and we will continue to encourage an expansion of trade, investment and commercial activities and support those companies willing to escalate their work in Egypt.

Throughout Egypt's transition, the U.S. Chamber has remained confident in Egypt's economic potential and is committed to expanding American commercial ties with the country. To this end, the U.S. Chamber consulted with our members, colleagues at the Egypt-U.S. Business Council and AmCham Egypt, and economic experts to develop this white paper which contains the following sections:

- **Economic Realities** provides context for the arduous road ahead by describing the bleak economic environment inherited by the Sisi Administration.
- **Bilateral Objectives** introduces areas where the two governments can operate collaboratively to strengthen economic ties and improve Egypt's economic performance.
- **Collaborative Policy Priorities** highlights key areas where U.S. emphasis and Egyptian reform can significantly stimulate trade and investment.
- **Suggested Egyptian Initiatives** highlights the key areas of local reform which the Government of Egypt could launch with relatively immediate positive impact.

It must be remembered that when addressing economic challenges of this magnitude, it is easy to label them "intractable" which gives permission to all parties to forego bold remedies in favor of palliative solutions – and the fundamental problems, however long or short the list, are never solved and the society never regains it economic health let alone realize its full potential. This cautionary note highlights the importance of the Strategic Dialogue. A regularized government-to-government conversation has the stature and stamina to identify real issues, agree upon expectations which will deliver real solutions, and monitor follow-through which will be the key to success.

Economic Realities

President Sisi took office in June 2014 with a mandate to revive the economy and set it on a path of sustained high economic growth. It is evident that the economic and competitiveness conditions in place when President Sisi took office were dismal. The projections for 2015 by international agencies indicate growth between 3-4 percent in 2015, well below Egypt's potential growth rate of over 6 percent. Furthermore, and critical to its

recovery, Egypt is not viewed as a business-friendly country, ranking low on the standard indicators of competitiveness presented in the following table.

Egypt's Competitiveness Rankings

Survey	Rank	Total Economies
World Bank's Ease of Doing Business 2015	112	189
WEF's Global Competitiveness Index 2014-2015	119	144
Global Innovation Index 2014	99	143
Heritage Foundation's Index of Economic Freedom 2015	124	178

In the World Bank's *2015 Doing Business Report*, Egypt ranked particularly low on construction permits (142), paying taxes (149), enforcing contracts (152), and resolving insolvency (126).

The Heritage Foundation's *Index of Economic Freedom*, which takes a wider perspective than the World Bank, evaluates a country on more categories—the rule of law, limited government, regulatory efficiency, and open markets. On this index, Egypt's score put it in 124th place (out of 178 countries evaluated), or the bottom third of all countries in the world. Furthermore, Egypt is the fourth lowest ranked country of the 15 Middle East countries evaluated, besting only Algeria, Yemen and Iran. On a positive note, over the past five years Egypt's economic freedom score had declined; however, this decline has come to a halt in the 2015 Index.

The *Global Innovation Index* is co-published by Cornell University, INSEAD, and the World Intellectual Property Organization and ranks economies' innovation capabilities and results. While in the bottom 30%, Egypt did climb to 99 out of 143 in 2014 from position 108 in 2013.

According to the World Economic Forum's 2014-2015 *Global Competitiveness Index*, Egypt's ranking has slipped from 81 in 2010 to 119 out of 144 countries surveyed, and the rating on investor protection went from 69 to 117. The reasons cited for the fall in ranking were: political instability; government instability (number of changes of government); reduced access to financing by businesses, particularly SMEs; introduction of foreign exchange regulations on international transfers; and the deterioration of infrastructure.

Overall, it is these indexes that are commonly examined by market analysts and foreign investors, and they show an economy with steep challenges.

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Bilateral Objectives

The U.S. Chamber, the U.S.-Egypt Business Council, the Egypt-U.S. Business Council and AmCham Egypt applaud the Governments of the United States and the Arab Republic of Egypt for their efforts to improve the relationship between our nations, including strengthening commercial and investment ties, by inaugurating a U.S.-Egypt Strategic Dialogue. This Dialogue will serve as an important vehicle to address critical issues that could enhance the bilateral relationship on a number of levels. With an eye toward enriching the economic component of the discussion, the following goals might be useful to consider.

1) **Agree on a list of economic issues** which, if addressed, in the near term could immediately and favorably impact the Egyptian economy.
2) **Identify concrete steps** that both sides can take over the next six months which would confront the just-identified economic challenges.
3) **Provide a framework and mechanism for accomplishment** so that the Dialogue is an action-forcing event for both sides and compels all participants to deliver material progress throughout the year.
4) **Publicize the common economic agenda** in order to demonstrate to a variety of stakeholders and audiences, Egyptian and American, that both countries and both business communities are committed to a set of steps and objectives which are designed to bring about renewed prosperity in Egypt.
5) **Announce the date for the next meeting** of the Dialogue or, at least, the proposed timeframe to validate that it is an ongoing process and a platform that will be utilized by both governments for constructive cooperation.

Collaborative Policy Priorities

The Chamber, the bilateral Councils and our partners support and stand ready to collaborate in efforts to deepen and develop a more robust trade and investment relationship between the United States and Egypt. The Dialogue provides both governments an opportunity to identify and resolve hindrances to increasing trade and investment and to work together to upgrade the overall economic relationship through a vision and a plan that will yield concrete benefits to both nations.

Trade and a Path to a Free Trade Agreement

While both governments deserve praise for agreeing to take the important step of inaugurating a Strategic Dialogue, which includes a focus on economic issues, each government should also be open and make preparations necessary to discuss negotiations for a future bilateral free trade agreement (FTA) between the United States and Egypt. We appreciate that an FTA is by no means on the short-term agenda given such

agreements generally take many years to conclude. However, we believe both governments should recognize the significant opportunities that an FTA offers and have such an agreement as a future goal.

An FTA would not only open up the massive U.S. market for Egyptian exports and give them an advantage over their competition in other developing countries, it instinctively would overlay Egypt's economy with the prevailing principles of good governance, open markets and greater regulatory certainty, all of which are important to global investors and multinational corporations weighing where to locate manufacturing and research and development centers.

An excerpt from a 2011 report entitled "The Role of FTA Negotiations in the Future of U.S.-Egypt Relations," prepared by the Center for Strategic and International Studies, fittingly summarizes our view on this important subject:

> *If our wish for Egyptians is that they choose a pathway that lessens the state-centered nature of their economy, negotiating a free trade agreement by its nature will have this effect. A forwardly deployed economic strategy, involving the aspirational goal of a future free trade agreement, would be a clearly understood gesture of good will and encouragement to Egyptians at an uncertain time when it could make a difference.*

Trade Facilitation

We recommend the United States and Egypt cooperate to fully implement the commitments made in the recently concluded WTO Agreement on Trade Facilitation. The Trade Facilitation Agreement contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It further contains provisions for technical assistance and capacity building in this area.

Small and medium-sized enterprises, in particular, cannot afford the high costs of compliance with customs and border procedures and other non-tariff measures. Full implementation will help Egyptian businesses become more competitive as suppliers, better integrate into regional and global value chains, and benefit from enhanced economic growth.

Standards

Standards play a central role in facilitating trade in goods and services. However, too often they can restrain commercialization of a product or service in markets and serve as a barrier to greater economic activity. Even where standards are harmonized or internationally recognized, the testing and conformity assessment procedures required to verify the quality, safety and integrity of the good or service can obstruct access to markets in a timely and efficient manner.

We know that standards-related issues have been raised across a number of Egyptian sectors. For example, in the automotive sector, Egypt's acceptance of the European Union (EU)-crafted auto standards model has proven to be a challenge for U.S. automakers. The U.S. Government and Egyptian Government, in cooperation with industry, have been working to address this through a program of mutual recognition or equivalency to EU-based standards, but the process has taken too long and is yet to be satisfactorily completed.

Given our mutual desire to have in place a standards regime that meets the shared goals of ensuring overall health, safety and environmental protections while ensuring nondiscriminatory access to the market, we recommend that the Governments of Egypt and the United States establish a Standards Commission under the umbrella of the Strategic Dialogue through which the relevant governing authorities would be directed to develop a work plan to facilitate a twinning of U.S. and Egyptian standards and/or a program of "parallel recognition" across a number of impacted sectors.

In addition, a platform of technical training could be established between U.S. and Egyptian regulators to improve understanding and share best practices. We would also suggest that a representative be stationed permanently at the U.S. Embassy in Cairo to advocate for the use and adoption of U.S. standards as well as conduct general outreach and promotion of the U.S. system of standard setting across sectors. Lastly, we would encourage both governments and stakeholders in impacted sectors to develop and conduct a series of technical workshops and/or exchanges for regulators and industry experts to collaboratively work through issues and better understand one another's perspectives.

Suggested Egyptian Initiatives

Egypt has the potential, the talent, and the resources to become a vibrant and growing emerging market economy. This section outlines recommended policies and reforms to revive the Egyptian economy and put it on a path to achieve this goal. While these reforms will likely take time to yield substantial outcomes, this moment in time provides an important opportunity to take action that will have a lasting impact and it should be seized. The U.S. Chamber, the U.S.-Egypt Business Council, the Egypt-U.S. Business Council and AmCham

Egypt look forward to working with the Government of Egypt to address these recommendations which we believe are vital to attracting investment and sustaining economic growth.

For Egypt to become a more market-oriented economy in which the private sector has the primary role, the government should undertake a series of key economic reforms, including:

- Streamlining business and investment regulations to encourage domestic and foreign investments.
- Revising bankruptcy procedures to allow firms to cease operating and creditors and shareholders to be fairly treated.
- Continue to pursue tax reform that favors broad-based, non-discriminatory taxes and aims for transparent, predictable tax systems with improved tax collection.
- Modifying anti-monopoly laws and regulations to increase competition and prevent individual firms from dominating sectors of the economy.
- Improving labor market flexibility in order to facilitate the allocation of labor to growth sectors.
- Advancing the privatization of management of state-owned enterprises.
- Promoting small and medium-size enterprises (SMEs) and increasing their access to financing.
- Compelling the education system to reduce the skills mismatch in the labor market.
- Developing and modernizing Egypt's infrastructure, such as roads, rails, ports, water systems, housing, power generation and transmission, etc.

In credit to the current administration, some of these objectives are already being pursued. As to this list of needs, priorities must be set by Egypt's leadership on what it should do immediately and what should be done in the medium-term. Many of the structural and institutional reforms fall into the second category. Having made a good start through a series of direct and timely actions to tackle three immediate challenges -- energy supply, public finances, and external financing -- the government must now shift its focus to policies to raise the overall investment rate and increase commercial activity.

To ascertain the views of American businesses and investors on needed economic reforms, the U.S. Chamber of Commerce's U.S.-Egypt Business Council undertook a survey of its members operating in Egypt, held a roundtable session to listen to members and conducted in-depth interviews with others. The Council is comprised of the leading American companies investing and doing business in Egypt, and the basic purpose of this outreach was to yield input identifying particular reforms that businesses on the ground felt should receive priority. The survey posed the following specific question: *What are the one or two most important reforms the Government of Egypt could implement to improve the business climate in Egypt and thereby encourage you to increase your investments in the country?*

Businesses responding to the questionnaire and participating in the roundtable and interviews split almost evenly between services (IT, healthcare, and banking and insurance) and manufacturing and production (automotive, engineering and construction, energy, commercial aviation, food and beverages, and agribusiness). And, the main areas of reform identified as critical were foreign exchange; protection of intellectual property rights; labor reforms; bankruptcy and dispute resolution procedures; and standards. At the same time, our members know, based on documented experience, that reducing tax rates to the lowest possible levels will stimulate economic growth and, as a consequence, will increase government tax revenue and long-term job creation.

Foreign Exchange

A major issue for multinational subsidiaries operating in Egypt is the lack of foreign exchange. Without foreign exchange, the multinational subsidiaries cannot import critical items and they cannot expand production, and investment slows and employment of Egyptians is negatively impacted. Finding a solution to this challenge would provide an immediate and significant boost to the economy.

Of equal importance, many multinational subsidiaries are building up substantial Egyptian pound positions which they are unable to remit due to the lack of foreign exchange. This problem sends a troubling message to possible investors and may be a factor in stifling FDI. It is important to develop a mechanism to enable multinational subsidiaries with 'trapped' cash to repatriate.

Lastly, another critical issue is the question of foreign currency availability guarantees from the Central Bank of Egypt to external lenders who may want to provide financing for large infrastructure projects. Most of this financing would be provided directly to government agencies, guaranteed by the Ministry of Finance. However, the Central Bank acts separately and independently from the Ministry. Therefore, it is essential the Central Bank and Ministry be coordinated on key transactions with foreign currency availability assurances.

Cross-Border Data Provisions

Governments, businesses, and consumers should not have to choose between the privacy and prosperity—we can take a path to achieve both. Global companies increasingly rely on modern communication networks and data flows to deliver services to customers, run internal operations, optimize manufacturing technologies, and manage global supply chains. Restrictions on the ability of companies to securely move data across borders would undermine Egypt's economic growth and impede Egypt's ambition to become a technology center for the region. We suggest the Government of Egypt adopt policies that encourage legitimate cross-border data flows to support the growth of critical sectors, including healthcare, banking and financial services, ICT, and insurance. This should include prohibitions against data and server localization requirements or other restrictions on data flows critical to Egypt's economy.

Development of the Life Sciences Sector

Under the current Minister of Health, there has been a notable improvement in the approval times of new medicines. A recent Ministerial Decree significantly reduces the time to register new pharmaceutical products from 3 years to 15-18 months. This has been a priority for our members and it sends a positive signal to those companies and investors looking at the business climate in Egypt.

This represents a laudable improvement, but there remains room for greater progress. The Government in Egypt wants patients to have access to promising new medicines, and is targeting the innovative medicines industry for investment. If Egypt wants to be more regionally and globally competitive in innovation and investment, it should work toward adopting reforms that reduce the review and approval times even further down to approximately 90-180 days. Singapore, which attracts more than USD 1 billion in new investment to its pharmaceutical sector each year, is now able to license new medicines for human use in only 60-90 days, provided they have already been approved by authorities in 2 of the 7 reference countries (U.S., Canada, Switzerland, EU, Japan, Australia, and New Zealand). Egypt should consider adopting a similar regulatory scheme to improve its competitiveness while also ensuring patient safety.

Another important issue is patent linkage. The Central Administration for Pharmaceutical Affairs (CAPA) was reviewing and approving generic copies of innovative pharmaceutical products that are protected by valid patents issued from the Egyptian Patent Office. Not only does this harm the rights and operations of patent holders in the near-term, it sends a fundamentally chilling message to those businesses weighing whether to invest and/or expand commercial activities in the Egyptian market. Having raised this issue, the Ministry of Health (MOH) has indicated it will not license copycat versions of patented products whenever the Ministry is informed by the company owning the patent products and demonstrating a patent certificate.

While the Ministry's action is a step in the right direction, we believe a formal, transparent patent linkage process should be established between CAPA and the Egyptian Patent Office whereby no marketing authorization is issued for a generic copy until the expiry of the Egyptian patent. Such a process may be done through Ministerial decree and is critical to developing this sector in Egypt.

Similar to the patent linkage issue, it is important to establish a predictable, transparent pricing system in order to encourage investment and innovation in the Egyptian market and to improve access for Egyptian patients to new products. The overriding concern is that the existing pricing system under Decree 499 does not ensure patient access to innovative products and favors certain groups in the supply chain, such as distributors and pharmacies, at the expense of the industry that discovers, develops and manufactures these products.

We believe that the ex-factory pricing system reflects the real cost of these products borne by the industry. If we apply a reasonable margin for the distributors and pharmacies matching with the neighboring countries, this will benefit the patients. And in referencing other countries' public prices, it is important to be mindful that some prices are subsidized by the governments, and accordingly, public prices do not reflect the real ex-factory costs. Additionally, due to currency devaluation, companies are reaching the point where products are being sold at a loss. A mechanism enabling companies to select 5-6 products to adjust the prices to account for the significant recent devaluation would be an important step to begin to address this challenge.

Lastly, we are aware new regulations are being developed to enhance the investment environment in clinical research. These regulations are the product of many months of advice and counsel from experts in the field and would raise your standards to global best practices. Upgrading these regulations promises to bring in an immediate infusion of investment in Egypt promising clinical research sector benefiting hospitals and universities across the country. We would urge immediate approval and implementation of this regulation.

Transparency, Predictability and Consultation in the Regulatory Processes

With all of the recommendations above and other constructive proposals for reform, we believe that a key to Egypt's success will be ensuring greater transparency and predictability and establishing a culture of consultation with the business community, i.e. those who are the engine of the economy and are affected by the laws, decrees and regulations proposed by the government.

We were pleased to learn during the November 2014 business mission to Egypt that not only does the Government of Egypt share our perspective on the importance of signaling to global investors and the international business community that Egypt is 'open for business,' but that it is committed to working in a collaborative manner with the business community as it develops policies impacting commercial, investment and trade activities. Furthermore, businesses and investors disdain uncertainty as it makes planning and budgeting difficult. Having transparency and predictability in the regulatory process and tax and tariff rate structures will be beneficial to all stakeholders.

We believe that the business community and the Government of Egypt should engage in a consistent, systematic and transparent consultative process. Many American companies doing business in Egypt are very interested in sharing insights and best practices based on their global experiences and expertise. Members of the U.S.-Egypt Business Council as well as the Egypt-U.S. Business Council and AmCham Egypt are willing and enthusiastic to work with the government to discuss and consider steps that can be taken to improve the business climate, facilitate greater investment, and expand job opportunities in Egypt.

Bankruptcy and Dispute Resolution Procedures

Egypt does not have a separate bankruptcy law. Commercial Law 17 (1999) contains a chapter on bankruptcy, although it has serious omissions and ambiguities regarding settlements and the reduction of settlement risks.[1] According to the World Bank's 2015 Doing Business Report, Egypt ranks 126th out of 189 countries in resolving insolvency. More specifically, it takes an average of 2.5 years to complete a bankruptcy procedure and the average recovery rate is 26.6 cents on the dollar. The government of Egypt has recognized that the absence of a fully-functioning bankruptcy code seriously hampers investments and the Government has stated that a modern bankruptcy law is under preparation and should be enacted relatively soon. This should be a high priority for the Government.

The dispute resolution mechanism is effectively dysfunctional. The WEF 2014 Global Competitiveness Index ranks Egypt 106th out of 148 countries in the efficiency of the legal framework in settling disputes. The judicial system functions very slowly and cases can be in the system for several years without resolution. Arbitration awards can only be challenged in an Egyptian court via a special order, which is only given in rare and special cases.

For U.S. investors, however, the U.S.-Egypt Bilateral Investment Treaty which entered into force in June 1992, allows the investor to take a dispute directly to binding third-party arbitration and Egyptian courts have generally endorsed the international arbitration clauses in commercial contracts. However, a problem arises when a U.S.-owned company is registered in Egypt and involved in a dispute with an Egyptian company. The issue must then be resolved through domestic arbitration or through Egyptian courts, which can be an arduous, expensive, and time-consuming process. The Egyptian government needs to develop a transparent rules-based dispute settlement mechanism to reassure investors and remove this obstacle to new investment.

And furthermore on the judicial system, several companies contend that the current system fails to provide finality. Too often, they are faced with the repetitive filing of cases for the same subject which imposes tremendous costs on the impacted companies. We would urge reform of the legal system to provide a clear decision that ensures the same issues are not continually relitigated.

Labor Reforms

Investors have two main concerns regarding the labor market. First, there is a multiplicity of unions and a dramatic increase in strikes. Second, it is been extremely difficult to dismiss workers irrespective of cause.

For over 50 years, the sole representative of workers was the Egyptian Trade Union Federation (ETUF). All wage contracts were negotiated between ETUF and employers and were binding for the relevant sector. Since

[1] Department of State: 2014 Investment Climate Statement, June 2014.

the uprising of 2011, hundreds of new independent unions, under the umbrella of the Egyptian Federation of Independent Trade Unions (EFITU), were formed covering some 2 million workers. Strikes by these unofficial unions became commonplace and hit virtually all sectors of the economy including textiles, transport, hotels, healthcare, and ports. These unofficial or "wildcat" strikes severely impacted industry and it has been estimated that in the fiscal year ending June 2013 had cost the economy about $15 billion in losses. While some strikes were successful at increasing wages and working conditions, a large number ended without resolution as businesses were struggling in a deteriorating economy.

The second area of concern to businesses has been the inability to fire workers for cause. Even when the worker was willing to leave, under the Labor Law of 1989, the financial costs of redundancy were substantial, ranging from an average of 27 weeks of final salary to a full year's salary in the case of workers employed for over 10 years. Such prohibitive financial costs essentially mean that workers cannot be fired for low productivity or even gross incompetence. Moreover, the courts have tended to favor employees even when the employer has a legitimate legal case to terminate the employee. Furthermore, under the Labor Law of 1989, employers could not renew or extend the contract of a temporary worker as any extension renewal was considered binding for an indefinite period.

The new Labor Law of 2013 (Law No. 12) attempted to resolve both the issue of strikes and the form of employment contracts. Strikes are permitted but have to be approved by a two-thirds majority of the Board of Directors of the relevant union, and employees in establishments deemed strategic or vital by the government are not allowed to strike. Employers can now offer temporary contracts and renew them if needed. This enables employers to hire workers on a continuous temporary basis, thereby giving them the flexibility to terminate the contract at the end of the term.

While the new Labor Law does introduce a degree of flexibility into employer-employee contracts, employers remain concerned about two aspects of the law. First, redundancy payments remain high at one month's salary for each year of the contract up to five years, and one-and-half month's salary for each subsequent year. According to the WEF 2014 Global Competitiveness Index, Egypt ranks 136th out of 144 countries in redundancy costs.

Second, while legal actions relating to the employment relationship have now been transferred from the regular Egyptians courts to a Judicial Committee in which both unions and employers are represented, the decisions of the new committee can be appealed to the Court of Cessation. In other words, employers believe that yet another bureaucratic layer has been added. While it remains to be seen how the new Labor Law will work over time, continued efforts to bring greater certainty and flexibility about contracts in the Egyptian labor market are important to fueling investment and economic growth in Egypt.

Intellectual Property Rights

A strong commitment to protecting intellectual property rights (IPR) is key to attracting investment. IPR in Egypt is covered by Law No. 82 of 2002, which contains the main provisions of the WTO TRIPS Agreement.[2] Because both legal protection and enforcement of existing laws are weak, Egypt has been placed on the US Trade Representative's Special 301 Watch List for IPR violations.[3] As such, Egypt ranks low among countries on IPR protection and enforcement. In the 2014 International IPR Index, Egypt ranked 75th out of 97 countries and 6th out of 7 countries in the MENA region.[4] Similarly, in the WEF 2014 Global Competitiveness Index, Egypt placed 94th out of 104 countries on IPR.

As an example, technology and healthcare companies have asserted that pirated software, television content, medicines, and printed materials seriously hamper their ability to operate in the market and have thus adversely affected their growth and profits as well as diminished prospects for locating manufacturing and/or research and development centers in Egypt. Law No. 82 has not been adequately enforced and needs substantial strengthening. Egypt's new 2014 constitution (Article 69) explicitly states that IPR in all fields will be protected and establishes an agency to regulate these rights. We suggest that Egypt take the steps necessary to institute a robust IPR regime, and work with the United States to create an IPR training and enforcement strategy. Without adequate safeguards in place, Egypt may lose critical opportunities to become a hub of investment in innovative and knowledge-based sectors.

Combating Illicit Trade

Increased enforcement against illicit trade in counterfeit goods is important to improving the confidence of those doing business and investing in Egypt. Due to Egypt's large domestic market and position as a hub for the region, the danger and challenges posed by trade in illicit goods is real. These products not only present a threat to the health and safety of Egypt's citizens, the large profits realized through this illegal activity may be used to support criminal enterprises or terrorist causes which imperil Egypt's security and stability. Additionally, trade in illicit goods has a direct negative impact on Egypt's budget as these goods do not generate revenues for the government. To combat illicit trade, the business community is willing to work with the government to share best practices and support training efforts to strengthen its enforcement regime to the benefit of the government, its citizens and the business community.

[2] The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is an international agreement administered by the WTO that sets out minimum standards for many forms of IPR for the signatories.
[3] Department of State: 2014 Investment Climate Statement, June 2014.
[4] http://www.internationalpropertyrightsindex.org/.

Conclusion

President Sisi and the Government of Egypt have repeatedly signaled that revival of Egypt's economy is a paramount priority. It has already taken important first steps to achieve this objective, including coordinating the Egypt Economic Development Conference in March 2015. Going forward, the government has to maintain momentum and address the policy challenges which stand in the way of economic growth. To be sure, transforming the economy to meet the aspirations and hopes of the Egyptian people will be difficult and will take time – but it must be done.

The U.S. Chamber of Commerce and the U.S.-Egypt Business Council, in cooperation with AmCham Egypt and the Egypt-U.S. Business Council, look forward to continuing to work with the Governments of Egypt and the United States to strengthen our trade and investment relationships and to help transform Egypt into a thriving private sector-led market-based economy that provides jobs and shared prosperity to all its citizens. And we believe that a healthy and active economic pillar of the U.S.-Egypt Strategic Dialogue, which will provide systematic engagement by both governments on key economic issues, is essential to ensuring our bilateral economic relationship realizes its full potential and Egypt and its people achieve greater economic security and prosperity.

Many have said that as Egypt goes, so goes the Middle East. It has been the historic leader in the MENA region and what it does on the economic front can be a model for other countries in the region. This is well understood and appreciated by the Gulf countries, the United States, Europe, and the international financial and development institutions. It is, therefore, in the world's interest that Egypt is successful on its new path to economic prosperity.

We believe the magnitude of this endeavor is immensely vital. There is a window of opportunity to take substantial action and demonstrate tangible progress. We are fully committed; we believe failure is not an option; and, we look forward to working in cooperation with the stakeholders in the Egyptian and U.S. public and private sectors to create the conditions that kindle a new era in Egypt defined by growth, job creation, and shared prosperity that ensures a bright tomorrow for future generations and serves as a foundation for a stronger partnership between the United States and Egypt.

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