

Egypt – Turkey Free trade Agreement

1. Background to the Agreement

Egypt and Turkey began the first of six rounds of trade negotiations in 1998, signing a final draft of the Egypt–Turkey Free Trade Agreement on December 27, 2005. The ratified FTA came into effect on March 1, 2007 in a context governed by the Euro-Med process.

THE EURO–MED CONTEXT

In November 1995, European and Mediterranean countries signed the Barcelona Declaration, agreeing to establish a free trade area by 2010 and regional as well as bilateral partnerships on trade, economic, and security matters. Thus, in 2001, Egypt and the EU signed the Egypt–EU Association Agreement, providing each reciprocal market access in industrial and selected agricultural products; and Egypt and Turkey recently signed their own FTA. In addition, trade between the EU and Turkey is governed by a Customs Union, and Turkey is seeking to become a full member of the EU.

In part, bilateral trade agreements within the context of the Euro–Med partnerships, such as that between Egypt and Turkey, are motivated by Pan-Euro Med rules of origin that permit *three-way* or *diagonal cumulation*. Most agreements provide for *two-way* or *bilateral* cumulation, which permits the reciprocal use of inputs from countries party to an agreement. Diagonal cumulation allows partners to count inputs of third-parties—countries not party to an agreement—in meeting the rule of origin. Thus, Egypt may use inputs from Turkey in its exports to the EU and still retain market access benefits under the Egypt–EU Association Agreement. Likewise, Turkey may use inputs from Egypt and still claim duty free access to the EU.

Egypt-Turkey FTA and the Egypt-EU Association Agreement

Many aspects of the Egypt-Turkey FTA resemble the Egypt–EU Association Agreement, with entire sections adopted from it. Its rules of origin are identical to those governing each country’s agreements with the EU (e.g., the “one list” is included), allowing them both to benefit from Pan-Euro Med rules of origin. In addition, the tariff phase period out for Egypt’s nonagricultural goods is nearly identical to that granted to Egypt by the EU in recognition of Egypt’s developing country status. The Association Agreement specifies four categories of goods at the product level, delineating a phase-out period of 3 years, 9 years, 12 years, and 15 years. These schedules have been largely incorporated, and on a product-specific basis, into the Egypt-Turkey FTA with specified years—2008, 2014, 2017, and 2020—to phase out tariffs on the four categories of goods. (The only differences between the Egypt-EU and Egypt-Turkey agreement lists are three HS codes related to electrical engines and generators, which were moved from the third to the fourth list.)

In this manner, Pan-Euro Med rules of origin enable a regionwide market that goes beyond simple bilateral trade flows, leveraging the industrial infrastructure of neighboring countries and others in

the region. To participate in diagonal cumulation with the EU, partners must (1) have concluded an FTA with the EU and with each other, though the agreements need not be identical; (2) follow identical rules of origin in the cumulation process; and (3) notify the EU of intent to cumulate with other free trade partners, and obtain EU approval.

Although these rules of cumulation offer more trade opportunities, seizing these opportunities will require that Egypt and its partners implement a regional integration strategy. Diagonal cumulation provisions will provide benefits only to the extent that governments and industry take the final steps. Egypt and Turkey have significant work ahead to leverage the full advantages of the Pan-Euro Med rules of origin. These include the following:

- Raising producers' awareness of the advantages and documentation requirements of diagonal cumulation.
- Improving customs cooperation between partner countries.
- Reducing nontariff barriers by simplifying standards and testing rules and procedures.
- Spreading knowledge of regional materials and sourcing.
- Standardizing and automating verification procedures, including certificates of origin.
- Enabling local legislation and regulations to encourage investment in new cost-competitive capacities.

Should Egypt choose not to pursue a regional strategy, industries and governments in neighboring countries might still very well do so themselves. If so, Egypt's exports to the EU would face heightened competition as other preferential suppliers in the Pan-Euro Med area gain from productivity and specialization efficiencies (costs, services, and quality) and new investments.

OTHER MOTIVATIONS AND BENEFITS

In addition to the obligation of the Barcelona Declaration, the Egypt–Turkey FTA was motivated by a number of factors. The FTA not only provides Egyptian industrial exports with total and immediate free access to the large Turkish market, but also facilitates access to the EU market. Egyptian exporters face stiff challenges in accessing that market even with the Egypt–EU Partnership Agreement. The Egypt–Turkey FTA is expected to help exporters meet the EU's strict regulations and standards by integrating Turkish and Egyptian industries and by enabling Egyptian exporters to benefit from Turkey's experience in the EU. Just as important, the FTA is expected to increase confidence in the Egyptian economy and further position it as a hub to other African, European, and Arab countries. It is expected to generate substantial investments in Egypt and Turkey, which will help generate additional employment opportunities in the two countries. And most generally, the heightened competition of freer trade usually boosts productivity and improves standards of living.

In Chapter 2 we summarize the main provisions of the Egypt–Turkey FTA. Chapter 3 describes trade and investment between Egypt and Turkey. Chapter 4 describes the potential economy-wide impact of the FTA on Egypt's economy, covering exports and imports, employment, and overall welfare, using the GTAP Computable General Equilibrium Model. It also examines the FTA's impact on specific sectors. The report concludes by examining trade barriers facing Egyptian exporters in the Turkish market (Chapter 5).

2. Main Provisions of Agreement

The Egypt–Turkey FTA has four major components: the main text, Protocol I, Protocol II, and Protocol III. Protocol I relates to the abolition of customs duties and charges having equivalent effect on imports between Egypt and Turkey. Protocol II relates to the exchange of concessions in basic agricultural, processed agricultural, and fishery products between Egypt and Turkey. Protocol III relates to the definition of the “originating products” and methods of administrative co-operation. The full text of the agreement, including attachments, can be accessed through the Trade Agreements Sector website (<http://www.tas.gov.eg/English/Trade%20Agreements/Countries%20and%20Regions/Europe/turkey>).

MAIN TEXT

The main text of the Agreement consists of 39 articles. Its key provisions include the following:

- **Articles 4 and 6** abolishes Customs duties and charges having equivalent effect on *imports*, and all quantitative restrictions on imports and measures having equivalent effect in accordance with the provisions of the Agreement, and stipulates that no new measures on *imports* may be introduced and that those already applied may not be increased in trade between the parties.
- **Articles 7 and 8** abolishes customs duties and charges having equivalent effect on *exports*, and all quantitative restrictions on imports and measures having equivalent effect in accordance with the provisions of the Agreement, and stipulates that no new measures whatsoever on *exports* may be introduced, and that those already applied may not be increased in trade between the parties.
- **Article 20** lays down the system of Pan-Euro-Med cumulation of origin, which governs the application of the harmonized preferential rules of origin between the two countries.
- **Article 23** governs the rights and obligations of the parties with respect to subsidies to be administered by Articles VI and XVI of the GATT 1994, the WTO Agreement on Subsidies and Countervailing Measures, and the WTO Agreement on Agriculture.
- **Article 28** outlines means of promoting investment and technology flows between the two countries to achieve economic growth and development.
- **Article 29** establishes a framework for achieving gradual liberalization in trade in services in accordance with the provisions of the WTO General Agreement on Trade in Services (GATS).

Articles that outline preventive and defensive measures include the following:

- **Article 14** allows Egypt to take exceptional measures to protect infant industries or sectors that face difficulties in the form of increased customs duties. In this case Customs duties applicable on imports from Turkey into Egypt may not exceed 25 percent ad valorem and must maintain an element of preference for products originating in Turkey. The total value of imports of products subject to these measures may not exceed 20 percent of total imports of industrial products from Turkey, as defined in Article 3, during the last year for which statistics are available. These measures can be applied for a period not exceeding five years.
- **Articles 15 and 16** allow parties to take measures against dumping or to apply safeguard measures in accordance with WTO Agreements.
- **Article 17** allows both parties to take measures in case of serious shortage in an essential product to the exporting country that leads to serious difficulties.
- **Article 19** allows either party to take measures in case of balance of payments difficulties in accordance with relevant WTO and IMF articles.

Through **Articles 30 and 31**, the FTA establishes an Egyptian–Turkish Joint Committee with representatives to administer the FTA, resolving problems arising during implementation and discussing the possibility of further concessions.

SCHEDULES OF CONCESSIONS

Protocols I and II attached to the main text provide the schedules of concessions. Protocol I covers the abolition of customs duties and charges having equivalent effect on imports between Egypt and Turkey; Protocol II covers the exchange of concessions in basic agricultural, processed agricultural, and fishery products.

Industrial Products

Industrial products (HS 25 to HS 97) are treated in accordance with Protocol I. One part covers Egypt's exports to Turkey and the other covers Egypt's imports from Turkey. Industrial products originating in Egypt shall enjoy an immediate removal of all customs duties and other charges having equivalent effect, when the FTA enters into force. Therefore, all Egyptian exports of industrial products will enjoy free access to Turkey.¹ Customs duties on industrial products originating in Turkey shall be gradually abolished according to the four lists attached to the protocol.

- **List 1** covers raw materials that are important as inputs for most industries. This list enjoys 75 percent reduction from the Most Favored Nation (i.e. non-preferential) duty from the day of entry into force of the agreement. Products on the list will enter Egypt duty-free in the second year of entry into force of the agreement (i.e., 2008). The list consists of about 2,070 HS tariff

¹ Products in Annex I of the FTA are treated as agricultural or processed agricultural products and are not considered industrial products even though some are classified between chapters 25 and 97 of the HS.

lines, including aluminum ores, sodium chloride, sulphur, wood, parts of machines, aluminum oxide, and copper alloys. Egypt's MFN duties on those products are 0, 2, 5, or 10 percent.

- **List 2** covers intermediate goods. Tariff phase-out for these products will start in 2008. Egyptian imports will enjoy duty-free access starting in 2014. The list consists of about 1,204 HS tariff lines, including carbon, chemical preparations, papers, glasses fibers, tubes and pipes of vulcanized rubber, insecticides, and vacuum flask. Egypt's MFN duties on those products are 2, 5, 10, 20, or 30 percent.
- **List 3** covers final goods for which tariff phase-out will begin in 2010 and end with complete liberalization in 2017. The list consists of nearly 1,650 HS lines, including apparel, textiles, shoes, iron and steel, and electrical equipments and machines. Egypt's MFN duties on those products are 2, 5, 10, 20, or 30 percent.
- **List 4** includes mainly vehicles and some electrical engines and generators. Tariff phase-out will occur from 2011 to 2020. The list includes only 23 HS lines. Egypt's MFN duties on those products are 10, 30, 40, or 135 percent.

Tariff reductions for Egyptian imports are summarized in Table 2-1.

Table 2-1. Tariff Phase-out for Egyptian Imports of Industrial Products from Turkey, 2007–2020

List	07	08	09	10	11	12	13	14	15	16	17	18	19	20
1	75%	100%	-	-	-	-	-	-	-	-	-	-	-	-
2	-	10%	25%	40%	55%	70%	85%	100%						
3	-	-	-	5%	10%	25%	40%	55%	70%	85%	100%			
4	-	-	-	-	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%

Agricultural, Processed Agricultural, and Fishery Products

Concessions on agricultural, processed agricultural, and fishery products are outlined in Protocol II. The two parties have agreed to grant each other concessions either as tariff rate quotas (TRQs) or tariff reductions on agricultural, processed agricultural, and fishery products. The two parties exchanged the same concessions on processed agricultural products.

Protocol II has two tables of concessions. Table A includes agricultural and processed agricultural products originating in Turkey that will be subject to TRQs and/or reduced duties when exported to Egypt. Table B includes agricultural, processed agricultural, and fishery products originating in Egypt that face TRQs and/or reduced duties when exported to Turkey. Thus, Egyptian exports of agricultural products have better market access opportunities into the Turkish market than Turkish exports of similar products into the Egyptian market. Moreover, Egyptian fishery exports, except HS 0301, face a 50 percent MFN duty reduction when entering the Turkish market, while some live plants will access the Turkish market on a duty-free basis. Although

limited, the products listed in Tables A and B (Tables 2-2 and 2-3) are important for both countries. Nevertheless, the two countries may discuss expanding those concessions at a later date through the joint committee.

Table 2-2. Tariff Concession Schedule for Turkish Exports of Agricultural and Processed Agricultural Products into Egypt

CN Code	Product Description	Quantities (tons)	Tariff Reduction from MFN Duties (%)
0802.21	Hazelnuts or filberts (<i>Corylus</i> spp)	2,000	100
0802.22			
0804.20	Figs	500	100
0809.20	Cherries (including sour cherries)	500	100
0813.10	Dried apricots	500	100
1507.90.91	Soya-bean oil, semi-refined in bulk	10,000	100
1512.11	Crude sunflower or safflower oil	20,000	100
1512.19.91	Sunflower seed oil, semi-refined in bulk		
1515.21	Crude maize (corn) oil and its fractions	10,000	100
1517	Margarine; edible mixtures or preparations of animal or vegetable fats or oils or of fractions of different fats or oils of this chapter, other than edible fats or oils or their fractions of heading 1516	1,000	100
1704	Sugar confectionery (including white chocolate), not containing cocoa	2,000	15
1806	Chocolate and other food preparations containing cocoa	1,000	15
1902	Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagna, gnocchi, ravioli, cannelloni; couscous, whether or not prepared	1,000	15
1905	Bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa; communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper and similar products	1,000	15
2001.10	Cucumber and gherkins, prepared or preserved by vinegar or acetic acid	1,000	15
2008	Fruit, nuts and other edible parts of plants, otherwise prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, not elsewhere specified or included	500	15
2009	Fruit juices (including grape must) and vegetable juices, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter	500	15
2102.10	Active yeasts	3,000	15

Table 1-3. Tariff Concession Schedule for Egyptian Exports of Agricultural and Processed Agricultural Products into Turkey

CN Code	Product	Quantities (tons)	Tariff Reduction from MFN Duties (%)
Chap. 3	Fish and crustaceans, molluscs and other aquatic invertebrates (excl. 0301)	Unlimited	50
0602	Other live plants (including their roots), cuttings and slips; mushroom spawn (excl. 0602.90.91, 99)	Unlimited	100
0603	Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, fresh, dried, dyed, bleached, impregnated or otherwise prepared	15	100
0701.90	Other potatoes, fresh or chilled	400	100
0703.20	Garlic, fresh or chilled	100	100
0705	Lettuce (<i>Lactuca sativa</i>) and chicory (<i>Cichorium</i> spp.), fresh or chilled	600	100
0706	Carrots, turnips, salad beetroot, salsify, celeriac, radishes and similar edible roots, fresh or chilled		
0709	Other vegetables, fresh or chilled (excl. 0709.90.31, 39)		
0710	Vegetables (uncooked or cooked by steaming or boiling in water), frozen (excl. 0710.80.10)		
0711	Vegetables provisionally preserved (for example, by sulphur dioxide gas, in brine, in sulphur water or in other preservative solutions), but unsuitable in that state for immediate consumption (excl. 0711.20, 40)		
0712	Dried vegetables, whole, cut, sliced, broken or in powder, but not further prepared		
0804.10	Dates, fresh or dried	5000	100
0804.50	Guavas, mangoes and mangosteens, fresh or dried	1000	100
0810.10	Strawberries, fresh	200	100
0909	Seeds of anise, badian, fennel, coriander, cumin or caraway; juniper berries	100	100
0910	Ginger, saffron, turmeric (<i>curcuma</i>), thyme, bay leaves, curry and other spices	100	100
1006.20	Husked (brown) rice	30000	100
1006.30	Semi-milled or wholly milled rice, whether or not polished or glazed	10000	50
1202	Groundnuts, not roasted or otherwise cooked	500	100
1704	Sugar confectionery (including white chocolate), not containing cocoa	2000	15
1806	Chocolate and other food preparations containing cocoa	1000	15
1902	Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni; couscous, whether or not prepared	1000	15
1905	Bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa; communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper	1000	15

CN Code	Product	Quantities (tons)	Tariff Reduction from MFN Duties (%)
	and similar products		
2001.10	Cucumber and gherkins, prepared or preserved by vinegar or acetic acid	1000	15
2008	Fruit, nuts and other edible parts of plants, otherwise prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, not elsewhere specified or included	500	15
2009	Fruit juices (including grape must) and vegetable juices, unfermented and not containing added spirit	500	15
2102.10	Active yeasts	3000	15

RULES OF ORIGIN

Protocol III outlines the rules of origin under the FTA. Both parties will apply the Pan-Euro-Med rules of origin, which allow goods produced from materials originating in any Euro-Med countries to enter the EU market with preferences. As the Egypt–Turkey FTA enters into force, Egypt and Turkey can benefit from cumulation of origin under the Pan-Euro-Med rules of origin, establishing originating integrated industries and exporting resulting goods into the EU. These cumulation opportunities will likely expand with the entry into force of other Agreements by both Egypt and Turkey with other Euro-Med countries under the auspices of the Barcelona Declaration.²

Definition of Originating Products

Protocol III of the Egypt–Turkey FTA defines originating products as products that are either wholly obtained in Egypt within the meaning of Article 5 or “products obtained in Egypt incorporating materials which have not been wholly obtained there, provided that such materials have undergone sufficient working or processing in Egypt within the meaning of Article 6.” The definition of these "sufficient" operations is presented in Annex II. The annex contains a complete list of operations that are considered as conferring origin to a non-originating raw material for all products. Those operations might involve one or a combination of the following types of criteria:

- A minimum percentage of value-added that has taken place in Egypt
- A specific process that must have taken place in Egypt
- Restrictions stating that specific inputs must be wholly obtained in Egypt
- Change of tariff heading.

Cumulation Concept

In the context of the Pan-Euro-Med zone, cumulation means that

² Since the Pan-Euro-Med Rules of Origin are quite complex, we encourage interested readers to read Protocol III at <http://www.tas.gov.eg/English/Trade%20Agreements/Countries%20and%20Regions/Europe/turkey>

products that have obtained originating status in one partner country may be used with products originating in another partner country without prejudice to the preferential status of the finished product. In the case of cumulation the working or processing carried out in each partner country on originating products does not have to be 'sufficient working or processing' within the meaning of Article 6 in order to confer on the finished product, the origin of the partner country but it must go beyond the minimal operations in Article 7.³

As indicated earlier, in bilateral cumulation materials are imported from a country to which the finished product will be exported (e.g. Turkish materials processed in Egypt for export to Turkey). But with diagonal cumulation, materials are imported from a country other than the country to which the finished product will be exported (e.g., Turkish materials processed in Egypt for export to the EU).

No Draw Back Rule

In the Pan-Euro-Med zone drawback is generally prohibited in diagonal trade. Article 15 in Protocol III of the Egypt–Turkey FTA provides that non-originating materials used in the manufacture of products originating in Turkey, Egypt, or in one of the other Euro-Med zone countries cannot be subject in Egypt or in Turkey to drawback when those manufactured products are destined for export to the zone. However, Egypt and Turkey may, except for products falling within HS Chapters 1 to 24, benefit from drawback until December 31, 2009 subject to the following provisions:

- A 5 percent rate of customs charge shall be retained in respect of products falling within Chapters 25 to 49 and 64 to 97 of the Harmonized System, or such lower rate as is in force in Egypt or Turkey;
- A 10 percent rate of customs charge shall be retained in respect of products falling within Chapters 50 to 63 of the Harmonized System, or such lower rate as is in force in Egypt or Turkey.⁴

Thus, the protocol allows Egyptian exporters to benefit from drawback in purely bilateral trade between Egypt and Turkey (until 2009 and not including HS chapters 1-24). In diagonal trade the Egyptian exporters may apply for preferential proof of origin and pay duties on imported parts or they may not apply for preferential proof of origin and benefit from drawback on imported parts. The decision depends on the preferential margin on the exported product and the rate of duty on imported materials.

Proof of Origin

To benefit from tariff concessions granted in preferential agreements, products must be originating and exporters must have proof of origin. To enable operators to fully benefit from the

³ A User's Handbook to the Rules of Preferential Origin used in trade between the European Community, other European Countries and the countries participating to the Euro-Mediterranean Partnership, p 10.

⁴ Egypt-Turkey Free Trade Agreement, Protocol III, Article 15, paragraph 7.

system it is necessary to submit either a movement certificate EUR.1; a movement certificate EUR-MED; or an invoice declaration given by the exporter on an invoice, a delivery note, or any other commercial document that describes products in sufficient detail to enable identification. An invoice declaration may be made out by an approved exporter or by any exporter for any consignment consisting of one or more packages containing originating products whose total value does not exceed EUR 6,000.