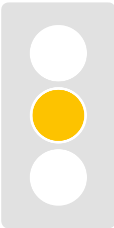
POSITIONPAPER:
Re-introduction of Automotive Tariffs in Egypt

VDA-Position



VDA supports the development of the economies and especially the automotive industries in Africa. The establishment of the African Continental Free Trade Area (AfCFTA) and trade and investment agreements with Europe and other countries and regions will support all countries in developing their industries. In the long run, local production will increase due to market growth and the development of the Pan-African Market through the AfCFTA. The establishment of a common market with uniform rules of origin will provide further incentives to invest in Africa.

For emerging economies like Egypt, special incentives might be helpful to promote the development of the economy and local investments. But they should not discriminate against the important trade partner EU and raise new trade barriers. VDA believes the reintroduction of tariffs towards the EU would be an inappropriate instrument to attract investments. Egypt should refrain from such a measure.

Egypt should rather create an attractive investment climate through opening markets with the support of the Intra-African Agreement (ACFTA) and the EU-Agreement, using incentives, such as government support for the Egyptian automotive industry or foreign investment. Measures to increase the attractiveness of the business environment can also have the form of de-bureaucratisation. For example, the new customs procedures are very complicated and could be eased.

By choosing the right measures, such as substantial government support to become more competitive and/or fast approval procedures, foreign investment could be attracted without the need of reintroducing tariffs.

Reintroducing tariffs would have a negative impact on the relations with the EU. Furthermore, it might serve as a role model for other countries and lead to further restrictions. In the end, everybody loses.

Another important aspects are discussions about investments in Egypt from invewstors from other regions outside Africa and the EU, where the re-introduction of an tariff against EU-imports would give the foreign investor additional advantages compared to EU-manufacturers.

Other Arguments and Positions

The African Association of Automotive Manufacturers (AAAM) supports the implementation of automotive policies in Africa. In this context they would also support temporary tariff measures, which is seen critical by VDA members and would lead to short- and medium term losses of competitiveness and market shares for EU-production and exports.

According to the analysis of the African Association of Automotive Manufacturers (AAAM), new vehicle production in Egypt could increase from 90,000 units per year (230,000 sales) to 800,000 if Egypt finds an amicable and balanced utilization of the FTA that allows for the implementation of progressive automotive policies that effectively industrialize the automotive sector. This magnitude would attract global OEMs and suppliers to invest in Egypt, according to AAAM.

For Africa, AAAM expects the development of an additional, new sales market of 5 million new vehicles in Africa. This would also reduce the causes of flight in Africa.
Furthermore, the supply chain could be better monitored due to "Near-shoring" of production as compared to massive purchasing from third markets, e.g. Asia.

Facts

In 2004 Egypt and the EU signed the EU-Mediterranean Agreement[1], to form the basis of a free trade area. A crucial part of that agreement is the gradual dismantling of tariffs after a transition period of 3, 9, 12, or 15 years depending on the HS-code of the product. The tariffs were gradually reduced to zero in 2019 for the products of the category with the longest transition period. However, Egypt is not satisfied with the results of the EU-Mediterranean agreement. Egypt claims vehicle imports from the EU went up, while local production seems to stagnate.

Egypt wants **to increase tariffs for vehicles from the EU** – currently at 0% - by as much as 25% - and announced an introduction possibly already as of December 1st., which seems to be postponed. Egypt has notified the EU about this intention in early October. Some sources even say tariffs could increase up to 80%. Such an increase to a level higher than 25%, however, is not possible within the framework of the EU- Mediterranean Agreement.

However, the agreement leaves a possibility for the reintroduction of tariffs. Under the terms of the agreement, Egypt has three years beginning from the elimination of the tariffs to invoke Article 11 and to derogate "from the provisions of Article 9 by taking exceptional measures of limited duration to increase or re-introduce customs duties[2]" under certain conditions. These arrangements may apply only to new and infant industries or to certain industries undergoing restructuring or facing serious difficulties, in particular where such difficulties give rise to serious social problems. "[3]**This technical window closes at the end of 2021.**

According to the VDA partner association **AAAM**, local companies and the Egyptian government fear that an increase in imported vehicles causes an imbalance and negative effects on the local production plants. According to AAAM,

[1] EUR-Lex - 02004A0930(03)-20160201 - EUR-Lex (europa.eu)
[2] Article 11, para 1.
[3] EUR-Lex - 02004A0930(03)-20160201 - EUR-Lex (europa.eu)

locally manufactured market share went down from 54% of new vehicle demand since 2017 to 41% in 2020, the Passenger car segment being impacted most with imports from the EU growing 63% in 2020.

At the same time, figures from **EUROSTAT** show for 2020 a different picture and a decline of 6 % in the imports from the EU. Furthermore, Egypt had a market growth and growth of local production, according to **OICA** statistics[4]. It is true that imports rose – but the EU share of all imports fell from 77% to 55% in 2020.

The Egypt Embassy in Berlin has also highlighted the good condition and prospects of its economy. In general, the forecasts for Egypt are good.
(See for example: https://www.gtai.de/resource/blob/584870/b2b868bc8116918b1d6e03efa079b10e/GTAI-Wirtschaftsdaten_Mai_2021_Aegypten.pdf)

Given these different figures and assessments, the economic analysis should be intensified to understand the rationale of the Government of Egypt:

Overview market developments

<u>EU PC exports (EU27) to Egypt</u>

2013: 27.541
2014: 47.285
2015: 43.240
2016: 40.692
2017: 29.367
2018: 57.582
2019: 84.384
2020: 79.138 (-6%)

Source: Eurostat

<u>Local production in Egypt (passenger vehicles)</u>

2017: 9.970
2018:19.500
2019: 18.500
2020: 23.754 (+28%)

Source: OICA

<u>Passenger vehicle sales in Egypt</u>

2019: 127.443
2020: 167.792 (+32%)

Source: OICA

4 www.oica.net

Political background

EU-Mediterranean Agreement

The agreement between the EU and countries of the southern Mediterranean is based on the Euro-Mediterranean Partnership. The agreement with Egypt entered into force on June 1, 2004.

- The agreement forms the basis for the establishment of a free trade area in the Mediterranean region in accordance with WTO rules.
- A free trade area must be established during a transitional period of twelve years from the entry into force of the agreements.
- The free movement of goods between the EU and the Mediterranean countries must result from
  - the gradual elimination of tariffs;
  - the prohibition of quantitative restrictions on exports and imports (with exceptions in certain cases) and of all measures having an equivalent or discriminatory effect between the contracting parties.

EU-Mediterranean Agreement Article 11

Under the terms of the agreement, Egypt has three years after the full elimination of tariffs in 2019 to invoke Article 11 to raise objections for "temporary derogations to Article 9 in the form of higher or reintroduced tariff rates. Such measures may apply only to new and infant industries or to certain industries undergoing restructuring or facing serious difficulties, in particular where such difficulties give rise to serious social problems." This technical window closes at the end of 2021. If Egypt invokes article 11 and reinforces tariffs, they have to be eliminated after 5 years.

Article 11
1. By way of derogation from the provisions of Article 9, Egypt may take exceptional measures of limited duration to increase or re-introduce customs duties.
2. Such measures may only apply to new and infant industries or to sectors undergoing restructuring or experiencing serious difficulties, particularly where those difficulties entail severe social problems.
3. Customs duties on import into Egypt of products originating in the Community that are introduced by such exceptional measures may not exceed 25 % ad valorem, and must retain a preferential margin for products originating in the Community. The total value of imports of the products subjected to such measures may not exceed 20 % of total imports of industrial products from the Community during the last year for which statistics are available.
4. Such measures shall be applied for no longer than five years, except where a longer duration is authorised by the Association Committee. They shall cease to apply at the latest on expiry of the maximum transitional period.

Next steps

Egypt has notified the EU of its plans to reintroduce tariffs according to paragraph 6 of article 11 of the agreement in early October, followed by a technical meeting in which Egypt explained its plans in more detail.
Currently, the EU is analysing the issue.

Egypt is required to submit more information on the legal background and the justification for the activation of article 11 of the Association Agreement.
Once the EU has received the additional information, they will intensify their investigations. **Consultations shall be held on the measures and sectors concerned** before they are implemented at the request of the EU.

When adopting such measures, Egypt shall provide the Committee with a schedule for the abolition of the customs duties introduced pursuant to this Article. Such schedule shall provide for the phasing out of the duties concerned by equal annual instalments, starting no later than the end of the second year following their introduction. The Association Committee may decide on a different schedule.

Uncertainty exists regarding the possibilities for Egypt to reintroduce tariffs without agreement with the EU and European industry.

Another open question is the scope of the tariff reintroduction, as different time schedules for phasing out vehicle tariffs of Heading 8702-8704 exist.

Overview Tariff Elimination
Source: EURO-MEDITERRANEAN AGREEMENT establishing an Association between the European Communities and their Member States, of the one part, and the Arab Republic of Egypt, of the other part

Para Article 9	Relevant Annex	Duration Transition period in years	HS-Codes
(1)	II	3	8701: 100, 300, 901, 909 8404: 212, 213, 221, 222, 231, 232, 312, 313, 321, 322, 902, 903 8708: 291, 401, 501, 601, 701, 801, 911, 921, 931, 941, 991
(2)	III	9	8703: 101 8705: 100, 200, 300 8708: 100, 210, 299, 310, 390, 409, 509, 609, 709, 809, 919, 929, 939, 949, 999
(3)	IV	12	8701: 200, 901 8702: 10, 900 8703: 102, 210, 221, 311, 312, 8704: 109, 211, 219, 229, 239, 311, 319, 901, 909
(4)	V	15	8703: 1030, 1090, 2290, 2310, 2320, 2390, 24, 3190, 3220, 3290, 3300, 9000

According to latest information, the possible tariff re-introduction could be postponed to a date later than Decmber,1 2021.

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Annex:

Summary of VDA and OICA Statistics

Sales Egypt (in units)			Source: OICA
	2019	2020	
Passenger vehicles	127.443	167.792	32%
Commercial vehicles	43.125	51.940	20%
In total	170.568	219.732	29%
Production (per unit)			Source: OICA
	2019	2020	
Passenger vehicles	18.500	23.754	28%
Commercial vehicles	-	-	
In total	18.500	23.754	28%
Exports GER-EG (in units)			Source: VDA
	2019	2020	
Passenger Vehicles	9.983	11.375	14%
	Imports		
Passenger Vehicles	108.943	144.038	32%
	Import share		
Passenger vehicles	85%	86%	
	EU Exports		
Passenger vehicles	84.384	79.138	-6%
	EU-Share of all Imports		
Passenger vehicles	77%	55%	