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## **AUTOMOTIVE INDUSTRY IN EGYPT**

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OCTOBER, 2013**

## 1. Abstract:

The Egyptian market is an important one due to its population (some 90 million), its leading position in Middle Eastern affairs, and its central location bridging three continents: Europe, Asia, and Africa.

Egypt's automotive market is growing due to an increase in car loans, however the local industry is unable to keep up with demand and additional investment is needed in this vital sector.

The earliest beginnings of the Egyptian automotive industry date back to the year 1960. During the socialist era, the government pledged to transform the country from an agricultural economy to an industrial one, and the first completely Egyptian car was produced. The car soon went out of production, as it was unable to compete with foreign brands, especially following the end of socialism and the move toward a more liberal market. It was not until 1985 that automotive giant, General Motors (GM), set up its first assembly plant in Egypt, revolutionizing the industry.

In the more than two dozens years since, the Egyptian automotive assembly business has grown from just three plants relying on mostly imported components, to 16 businesses with 26 assembly lines, manufacturing now near 100,000 annually of passenger cars, light commercial vehicles, trucks, and buses, as well as 300 factories that produce most automotive components. Besides GM, giants such as BMW, Nissan, Hyundai, and Daewoo produce a majority of their product line in their factories in Egypt. In fact, the BMW assembly line in Egypt is the only factory outside Germany where the BMW 7 Series is produced.

But it was not until 2004 that the Egyptian automotive market began to expand exponentially, along with the local production of both assembled cars and components. The total production market in Egypt consisted of only 49,335 vehicles in 2004. This figure rose to 116,683 vehicles in 2010; a 136% increase. However, due to the **political changes starting in 2011**, production was down over 31% in 2012. In 2013, Egypt was the third largest car-producing market in Africa, after South Africa and Morocco.

### Industry Overview

Egypt boasts 26 automotive assembly plants of major car brands and is considered the fastest growing automobile market in the Middle East and Africa. Some 5.6 million vehicles are registered in Egypt, 32% of which are more than 17 years old. The market is experiencing a steady increase of an average 190,000 units per year. Total production in 2011 was 133,000 units, while imported vehicles reached 97,000. At present, the market for automotive parts and accessories sold to original equipment manufacturers (OEMs) in Egypt is estimated at \$894 million, while parts and accessories demand for the after-market is estimated at \$700 million. Many internationally known auto manufacturers, including General Motors, Daimler/Chrysler (**Jeep Cherokee**), **Mercedes**, **Peugeot**, **Hyundai**, **Suzuki**, **BMW**, and **Citroen** have established assembly plants in Egypt. Most have also established service centers where mechanical servicing is provided, as well as body repair and painting.

#### Basic data

- No. of producers/assemblers: **26**
- Annual capacity: **325,000** vehicles
- No. of feeder industries factories: **338**
- Annual production: US\$ **655** million
- No. of brands: **62**
- Sales (2011): **90,000** vehicles (annually)
- No. of registered cars: **5.6** million (2011)
  - 20%** buses
  - 30%** trucks
  - 50%** passenger
- Expected No. in 2012: **7.1** million

Sources: Egyptian Automobile Manufacturers' Association (EAMA).

### **Opportunities in Automotive Industry**

Investments in the automotive sector are estimated at \$1.7 billion. Local vehicles production increased in 2010 by 34% over 2009. This increase has prompted the need for service centers with modern equipment. Knowledgeable sources in the industry report that the export-oriented feeder industries will attract the majority of investments. Many multinationals are using their base in Egypt as a springboard to penetrate to other Arab and neighboring African countries through exports. An automotive industrial zone is planned in 6th of October City with expected investments of \$1.2 billion during the next five years. Spare part imports are estimated at \$360 million per year, while their duty rates range between 10% and 40%.

### **Car Loans**

In 2011, about 40% of car sales were financed by loans, according to a market leader in car loans in Egypt, with an increase of 60% over 2010. The growth in car loans is partly related to the reform of the banking sector, and consolidation of non-performing loan portfolios.

## **2. SUMMARY**

The Egyptian automotive industry and its feeder industries (parts, service, repair, financial services, etc.) has progressed rapidly in the last ten years as the number of locally assembled cars has increased, including several that have begun exporting. Until 2010, the auto industry (sales of new autos and parts, both for factory assembly and the auto market) were relatively bright spots in the overall Egyptian economy. Heading into 2011 however, a combination of internal and external factors has resulted in a much lower estimate of activity in this sector.

The fact is, 2011 was a bad year for almost all sectors of the Egyptian economy, and the automotive industry was no exception. Sales of new vehicles dropped by approximately 20%, and although many had hoped that financial liquidity problems and a recession-like environment would improve by the end of the year. Unfortunately, government fiscal policy, protectionism, tax, customs, and valuation procedures have not yet done much to increase the attractiveness of Egypt as an investment site. Global economic downturn and the events of January 25, 2011 and the resulting near collapse of tourism worldwide have hit Egypt particularly hard. In addition, reduced prices for oil and gas (due to export to Israel and Jordan under market value) and decreased receipts from the Suez Canal have reduced Egypt's ability to obtain hard currency. Finally, many factors have put strong pressure on the Egyptian pound, which has already devalued some 25 percent from mid-2011 to mid-2012, and is expected to devalue at least another 10 percent in the short term.

## **3. Egyptian market for automobiles and auto parts, Imports**

The major market decline in production and sales of new vehicles has led to unprecedented opportunities in the aftermarket. As is common in difficult economic times, consumers and businesses are deferring the purchase of new vehicles, which means that expenses associated with maintenance and repair of older vehicles is soaring. There is a serious lack of very high quality service in Egypt, even occasionally in dealerships that service only their own models.

Egypt Import Statistics							
Commodity: 87, Vehicles, Other Than Railway Or Tramway Rolling Stock, And Parts And Accessories Thereof							
Partner Country	United States Dollars			% Share			% Change
	2011	2012	2013 (Jan-Jun)	2011	2012	2013	2012/2011
World	3,087,556,270.00	3,478,697,143.00	1,716,781,182.00	100.00	100.00	100.00	12.67
Korea South	835,835,630.00	830,299,998.00	328,471,256.00	27.07	23.87	19.13	- 0.66
Japan	493,324,038.00	638,614,229.00	318,719,633.00	15.98	18.36	18.56	29.45
Germany	562,428,519.00	531,432,531.00	304,326,283.00	18.22	15.28	17.73	- 5.51
China	318,195,881.00	330,251,437.00	152,615,843.00	10.31	9.49	8.89	3.79
Thailand	155,526,742.00	222,829,399.00	105,423,143.00	5.04	6.41	6.14	43.27
Czech Republic	119,386,409.00	187,534,798.00	102,063,101.00	3.87	5.39	5.95	57.08
India	119,479,390.00	161,665,896.00	85,140,029.00	3.87	4.65	4.96	35.31
United States	77,679,640.00	95,374,188.00	78,686,185.00	2.52	2.74	4.58	22.78
Morocco	27,438,800.00	47,177,400.00	37,935,150.00	0.89	1.36	2.21	71.94
Turkey	38,687,561.00	43,975,086.00	25,467,011.00	1.25	1.26	1.48	13.67
Italy	44,878,951.00	42,357,058.00	23,062,712.00	1.45	1.22	1.34	- 5.62
United Kingdom	12,291,144.00	42,023,855.00	17,522,709.00	0.40	1.21	1.02	241.90
France	31,195,652.00	37,573,935.00	15,347,381.00	1.01	1.08	0.89	20.45
Brazil	58,328,523.00	29,850,492.00	14,316,948.00	1.89	0.86	0.83	- 48.82
Saudi Arabia	2,135,857.00	25,625,290.00	13,887,827.00	0.07	0.74	0.81	1099.77
Spain	22,931,277.00	21,125,768.00	9,188,237.00	0.74	0.61	0.54	- 7.87
Indonesia	15,127,841.00	17,677,773.00	9,142,334.00	0.49	0.51	0.53	16.86
Russia	7,368,128.00	16,592,516.00	6,754,617.00	0.24	0.48	0.39	125.19
Taiwan	14,332,142.00	15,739,222.00	6,611,127.00	0.46	0.45	0.39	9.82
Belarus	8,746,190.00	14,340,116.00	5,862,337.00	0.28	0.41	0.34	63.96

Source of Data: Central Agency for Public Mobilization and Statistics

#### 4. Exporting

According to the European Partnership, Egyptian products are expected to be allowed into Europe free of custom duties – and European products into Egypt – but only after a transition period of 10-12 years. Automotive industrialists believe that Egypt should make use of those years and of the support offered by Europe to develop its industry and to export as much as possible.

Manufacturers are said to be less enthusiastic about exporting than the Egyptian government is, however. Most Egyptian-made products lack the quality to compete in Europe, and excluding Egypt, Common Market for Eastern and Southern Africa (COMESA) member countries together have a market of only 60,000 cars a year. Also, except for Egypt and Sudan, all other COMESA member countries are right-hand drive, which would require an adaptation of vehicles that is not justified by the size of the market.

Nearly every expert agrees that exporting should begin initially with a focus not on finished autos, but with the feeding industries. In this case, Europe may be the only viable market

for Egyptian exports as the African, Middle East, and Arab markets are not big enough and Asia is too far away and already has many low-cost factories established there.

Egypt Export Statistics							
Commodity: 87, Vehicles, Other Than Railway Or Tramway Rolling Stock, And Parts And Accessories Thereof							
Partner Country	United States Dollars			% Share			% Change
	2011	2012	2013 (Jan-Jan)	2011	2012	2013	2012/2011
World	93,535,534.00	123,304,291.00	112,054,418.00	100.00	100.00	100.00	31.83
France	919,087.00	26,207,258.00	48,901,164.00	0.98	21.25	43.64	2751.45
Germany	17,512,675.00	12,221,225.00	11,611,152.00	18.72	9.91	10.36	- 30.21
Algeria	8,991,913.00	10,994,324.00	8,363,227.00	9.61	8.92	7.46	22.27
Saudi Arabia	8,577,159.00	8,070,689.00	5,682,845.00	9.17	6.55	5.07	- 5.90
Qatar	10,821,302.00	6,777,464.00	4,997,621.00	11.57	5.50	4.46	- 37.37
United Kingdom	3,110,106.00	6,421,251.00	3,408,044.00	3.33	5.21	3.04	106.46
Kazakhstan	1,762,442.00	4,973,757.00	3,367,004.00	1.88	4.03	3.00	182.21
Cameroon	3,218,346.00	4,349,284.00	3,310,075.00	3.44	3.53	2.95	35.14
Yemen	1,442,570.00	4,008,774.00	3,232,661.00	1.54	3.25	2.88	177.89
Ghana	1,009,725.00	3,945,214.00	3,091,755.00	1.08	3.20	2.76	290.72
Czech Republic	3,050,577.00	3,730,903.00	2,827,340.00	3.26	3.03	2.52	22.30
New Zealand	154,031.00	3,686,359.00	2,459,836.00	0.16	2.99	2.20	2293.26
Congo Dem. Rep.	99,992.00	2,956,279.00	1,767,238.00	0.11	2.40	1.58	2856.53
Portugal	2,746,233.00	2,953,532.00	1,444,987.00	2.94	2.40	1.29	7.55
Sudan	2,202,858.00	2,496,839.00	1,332,160.00	2.36	2.02	1.19	13.35
Poland	656,919.00	1,882,947.00	1,067,624.00	0.70	1.53	0.95	186.63
Turkey	1,242,802.00	1,859,123.00	915,820.00	1.33	1.51	0.82	49.59
United Arab Emirates	3,239,941.00	1,612,342.00	819,400.00	3.46	1.31	0.73	- 50.24
Chad	578,226.00	1,433,388.00	588,082.00	0.62	1.16	0.52	147.89
United States	121,052.00	1,419,897.00	480,887.00	0.13	1.15	0.43	1072.97

## 5. MARKET PROFILE

The foundation of Egypt's national automotive industry was laid in 1959, when the government signed a contract with a German firm for the local manufacture of trucks and buses. That contract stipulated that a new company would be established in Egypt to manufacture approximately half of the components for each vehicle and to assemble the vehicles. To this end, **El Nasr Automotive Manufacturing Company (NASCO)** was established in 1961, and its first production line was set up in Wadi Hof near Helwan, just south of Cairo. NASCO soon thereafter forged additional contracts with European companies. The first was with the Yugoslav firm IMR to produce tractors; the second was with Fiat of Italy to produce passenger cars; and the third was with the German Company Blumhardt to manufacture trucks. NASCO began to implement these contracts in 1962, but war and economic hardships Egypt experienced in the 1960s and 1970s hampered the growth of feeder industries and reduced NASCO's budget for expansion. Financial pressures forced NASCO to give priority to its truck and bus production, especially in terms of increasing local content. This was done at the expense of its passenger car project, which had not developed at the same pace.

NASCO claims that within ten years of its launch, it was producing approximately 3000 trucks and 1600 buses per year with 70% local content. In a peak year in the 1960s the company assembled 21,000 passenger cars with 30% local content. NASCO was the first and, at that time, the only component's production company in Egypt, and the monopoly position it enjoyed enabled it to profit substantially.

However, NASCO's situation took a downturn in 1974 when the government embarked upon policies that allowed the importation of foreign cars – which had previously been banned – into the local market. Meanwhile, government's price-fixing policies for public sector industrial products continued despite of rising costs. The government directed NASCO to focus its passenger car assembly operations on one model, the Fiat/Nasr 128. In 1994, under the government's privatization program, NASCO was put up for sale. That attempt failed mainly because bids from Fiat, Iveco, Daewoo, and others were considered too low. NASCO, still a government-owned company, currently produces trucks, buses, tractors, and passenger cars in addition to diesel engines, gears, transmission parts, and truck and bus frames. **It enjoys a 22% share of Egypt's overall automotive market.**

The current percentage of local components that NASCO incorporates is said to be 90% for trucks, 83% for buses, 60% for minibuses, 50% for tractors, and around 45% for passenger cars. The company has assets worth more than \$800 million and is a major customer for some 331 local suppliers, of which 242 are from the private sector. NASCO's policies are now based on two objectives: producing the Fiat models Dogan and Shahin, and eventually getting a suitable bid from a foreign automotive manufacturer to fully privatize the company.

Auto manufacturers all over the world depend on feeder industries to provide the majority of the some 10,000 components that go into modern vehicles. These feeder industries are considered an important contributor to the development of any industrial economy due to the wide diversity of industries and large number of workers. In Egypt, feeder industries have development greatly in the past few years to serve the increasing number of car factories as well as the aftermarket. Today, they include at least 338 factories employing around 70,000 workers with an annual production of \$455 million, according to the Egyptian Automobile Manufacturing Association (EAMA) statistics.

Multinational companies assembling vehicles in Egypt have contributed a great deal to the development of the feeder industries by pushing local suppliers to reach higher standards of quality. EAMA foresees that car manufacturers will eventually localize more components, which will result in more quality and quantity development for local suppliers.

The government of Egypt (GOE) continues to encourage the establishment of automotive feeder industries. Domestic production is expected to increase substantially for three main reasons: GOE policy to protect local production by imposing customs duties on imported parts, the existence of a large vehicle market, and the opening of Arab markets for Egyptian exports. As a result, local production is improving in quality, and is also being encouraged by local assemblers due to its comparatively moderate cost.

## 6. Local production

General Motors began assembling trucks and buses in Egypt in 1983 and began assembling passenger cars in 1993. However, despite very attractively low labor costs, Egypt's relatively small market has discouraged some players from engaging in local manufacturing. Egypt's existing 26 factories have a capacity of some 325,000 vehicles per year working only one

shift. At present they are estimated to be currently using only 30% of their production capacity, and several local car manufacturers, including KIA Motors and Peugeot, are renting production capacity from existing factories such as Arab American Vehicles (“AAV”).

Until the early 1980's, Egyptian consumers had a choice of only three brands of autos: Fiat, Peugeot and Mercedes. All had very different price ranges. Buyers often had no choice of colors and had to wait weeks or months for deliver. Today, there are more than 62 different passenger cars available on the market and buyers are hard pressed to decide what to buy. As more brands entered the market, Egyptian consumers' expectations have risen. Through a recent survey of car owners conducted by Hyundai in Egypt, price, credit availability, after sales service, and reputation of the agent were found to be the most important factors consumers consider when buying an auto.

In 1992, as part of its overall liberalization policy, the Egyptian government determined to entice more foreign automobile makers into producing cars in Egypt. This decision was prompted by the need to attract foreign investment, promote a climate of competition, upgrade production, and create new job opportunities. Korean cars entered the Egyptian market in 1996, and today they are playing a major role through Hyundai, Daewoo, and Kia, primarily because of competitive prices.

The Vehicle Component Industries (VCI) is the most recently established in 1993, relatively large private sector manufacturer in Egypt. It produces competitive quality fuel tanks, interior trim and upholstery. There are plans to expand the production line to include such products as air conditioners.

## **7. Local content.**

The importance of the auto industry in Egypt stems from its support of a huge base of labor-intensive feeder industries that embrace almost every sector of the economy. Even though sales of new vehicles are only around 70,000 vehicles annually, including passenger and commercial vehicles, both locally assembled and imported, many companies have been locally established to supply parts needed for local assembly. By law (a Ministry of Industry Decree 192), the local content in assembled vehicles must be at least 45% for passenger cars and 70% for trucks and buses.

As a result of local content laws, typically some 15% of the car value is in painting and manpower needed for the assembly process. Every assembler deals with at least 30 local suppliers who provide components such as glass, tires upholstery and batteries. To comply with local content requirements, the following automobile components were developed in the local market and are now being manufactured in Egypt at or very close to international standards:

- Tires and inner tubes.
- Glass and windshields.
- Aluminum parts.
- Electrical wires.
- Leaf springs.
- Oil filters.
- Air filters.
- Upholstery material.
- Plastic parts and bumpers.

The relatively recent local content laws have caused lot of problems for many local manufacturers, especially those assembling sophisticated cars like Mercedes and

BMW. Experts in the automotive industry believe that 45% is the maximum that car manufacturers could reach in terms of local content, as any additional increase would mean having to make parts of the engine or the body in Egypt. While it is certainly possible in technical terms to manufacture those parts locally, production would not be in large enough quantities to cover the high investment cost.

## 8. Current status and future prospects.

Today, apart from the public sector firm NASCO, there are other car producers in Egypt manufacturing more than sixteen brands and models:

### 1. Al Fotouh Car Assembly Company

Assembler of the BMW 500 series

### 2. Arab American Vehicles

A joint-venture between AMC and the Arab Organization for Industrialization (assembler of the Jeep Cherokee and Jeep Wrangler)

### 3. El-Tramco

Assembler of the Polish and Czech vehicles, Rama and Jawa

### 4. General Motors Egypt S.A.E

is a car and motor vehicle manufacturer based in Maadi, Cairo The company's car factory is located in the 6<sup>th</sup> October City . A 100%-owned subsidiary of General Motors that assembles the Opel Vectra, Chevrolet and Isuzu trucks, and Frontera 4x4 vehicles

### 5. Ghabbour Brothers

Assemblers of Hyundai passenger cars and Scania buses. is an Egyptian manufacturer of Automobile, Buses, Trucks and motorcycles located in Cairo the Group is manufacturing vehicles for a lot of brands such as Bajaj, Hyundai and Volvo With an output of annual 150,000 units is the Ghabbour Group currently the largest automobile manufacturer of the Middle East.

### 6. Gorika Egypt

Assembler of trucks

### 7. JAC

Assembler of Citroen

### 8. Mercedes Egypt

Assembler of the Mercedes E200, E240, C180 and C200

### 9. Suzuki Egypt

Assembler of Suzuki passenger cars

### 10. Wagih Abaza Company

Assembler of the Peugeot 405

### 11. The Bavarian Auto Group

Is an Egyptian enterprise for manufacturing and selling BMW vehicles on the local market. It was founded by BMW in March 2003 as a competitor to the Egyptian German Automotive Company Joint -venture MB The assembly plant of the company is located in the 6<sup>th</sup> October City

### 12. Speranza Motors, Ltd

Is an Egyptian auto manufacturer based in Maadi, Cairo It is a part of the **Daewoo Motor Egypt (DME)** which itself belongs to the **Aboul Fotouh Group**. The factory is located in the 6<sup>th</sup> October City

### 13. The Seoudi Group

Is an Egyptian automobile manufacturer which was founded in 1975 with its current head office in Cairo he company began its work with the Modern Motors S.A.E. which is specialized for manufacturing Nissan Vehicles



#### **14. The Egyptian German Automotive Company**

Or short EGA, is an Egyptian car assembler which is located in the 6<sup>th</sup> October City assemble vehicles of the Mercedes Benz

#### **15. El Nasr Automotive Manufacturing Company)**

Is Egypt's state owned automobile company, founded in 1960 in Helwan, Cairo Since 1979 the company has produced licensed versions of the Fiat

Statistics from the Ministry of Industry show that in fiscal year 2000, these private companies produced 41,500 passenger cars, 13,100 trucks, 2350 heavy-duty cars, 3000 mini and minibuses, 450 standard buses, and 320 tourist buses. Industry experts note that, compared to NASCO's 30-year effort, private carmakers have raised their ratios of locally manufactured components quickly.

Egypt imports nearly 75% of its automotive requirements in the form of finished vehicles. The remaining 25% are manufactured domestically. The parts and accessories market for the OEM manufacturing sector stands currently at about \$600 million, but not all of that market is available for foreign export penetration. There is a 45% minimum local content requirement for the production of automobiles, as well as required minimums for other types of vehicles, such as buses (70%) and trucks (90%).

The economic issues at the end of 2011 have negatively affected car assemblers and importers equally. Dealers who have sold vehicles on credit are having difficulty collecting and consequently are deferring on their bank payments. Nevertheless, demand for motor vehicles by the increasingly affluent Egyptian population far exceeds the country's production capability. Egypt's population in 2013 will likely be 90 million and is growing at an annual rate of about 2 percent. Perhaps 15% of the population has the economic leverage to purchase a new automobile. According to the latest official statistics available, in 2012 there were 5.6 million registered vehicles in Egypt: approximately 20 percent were buses, 30 percent were trucks, and 50 percent were passenger cars.

Sources indicate that while private investment in the auto industry has clearly been significant, with investments now exceeding \$1 billion, manufacturing automobiles 100% in Egypt is another matter. For that to take place successfully a number of factors must come together, many of which Egypt still lacks. This indicates a continuing need for imported automotive parts and accessories for the partial manufacturing and assembly operations now underway.

The market for the automotive feeder industries is expected to increase in parallel with the expected improvement of the overall economy in 2014. Consumer demand is durable and future trends look positive. Reliable after-sales service, as well as spare parts and maintenance services, is the key to maintaining a competitive advantage. Assemblers of passenger cars, trucks, and buses have found that keeping approximately 40 percent inventories of parts guarantees the continuity of their production and will satisfy the needs and demands of their clients. They have also found that using credit facilities as an incentive to boost sales is an approach that works well.

Many experts see the future of the industry in Egypt as being in commercial vehicles, including buses and heavy-duty trucks, primarily because these as trucks need not be as technologically sophisticated as passenger cars. The percentage of local content in buses is already some 70 percent, and bodies are manufactured locally. At the same time, industry experts suggest the manufacturing of "an Arab car" with the help of a powerful

multinational partner: if 120,000 vehicles can be produced on the same line, it is generally affordable to go into manufacturing the power train and the sheet metals.

## 9. END-USER ANALYSIS

End-users of auto and auto parts vary according to their types of activities. Tourist companies that own and operate tourist buses have their own maintenance workshops and personnel, and they require the entire range of equipment and parts needed to maintain their fleets. Merchandise transportation companies also require the entire range of equipment and parts to keep their trucks in top running condition. A national traffic department periodically checks the mechanical condition of all passenger cars, trucks and buses on the road. However, the majority of end-users are private individuals owning cars and workshops in the different governorates of Egypt.

Egypt presents a very difficult and often challenging environment for motor vehicle users. Temperatures in the desert in the summer can easily exceed 50 degrees Centigrade (122 degrees F), with temperatures inside closed vehicles exceeding even this by a wide margin. Climate change in the Nile Valley and Nile Delta, where 99.9% of the population resides, is resulting in increasing humidity as well. The metropolitan areas are subject to a continuously high degree of sand, dust, and other particulate matter in the air. The quality of fuel is said to be uneven, with in some cases a very high level of contaminants. Many roads, both in the cities but especially in rural areas, are very rough. Accordingly, auto maintenance is essentially a constant, daily process, with especially heavy tolls taken on tires, suspension, air conditioning systems, fuel systems, and all electronic systems, including engine systems. As a general rule, the more rugged, durable, and easy to maintain the vehicle, the better it will survive Egypt's demanding conditions.

The main trends in terms of end-users profiles and segmentation needed for automotive equipment, tools, and parts are as follows:

For buses, public sector companies and governorates (similar to states) represent the largest users. Public transportation is a state monopoly implemented by national public sector companies and/or administrations. These require some genuine spare parts in addition to standard or generic parts purchased by using normal government tendering procedures. Government and public sector companies are price oriented. International companies supply auto parts through their local agents.

Large workshops are generally owned and/or controlled by local vehicle manufacturers or their agents. The vast majority of repair work, however, is done in very small, local workshops. Generally speaking, the quality of body work is outstanding, and costs are very low, while the quality of engine, electrical, and systems maintenance and repair varies greatly and is often expensive and unreliable, meaning that nothing that is fixed stays fixed for long. Local mechanics are loath to pass up any opportunity for work and often to claim to have expertise and access to appropriate parts when in fact they do not. In many cases, repairs are made using inappropriate parts, resulting in greatly increased future costs for additional repairs. Small workshops generally specialize in a given operation and typically use local or very low-end equipment from large exporters such as China due to low price. However, quality is often inferior and repairs do not last.

Major manufacturers such as GM Egypt provide genuine GM parts for maintenance services for their trucks, mini-buses, and passenger cars, but in many cases freight, insurance, and customs and taxes result in exorbitantly high prices.

International oil companies such as Mobil, Caltex and Esso have established workshops in 80 percent of their gas stations and are ideal end users of spare parts, whether original parts or from any other source on the condition that parts will be of good quality.

## **10. MARKET ACCESS**

There are no language requirements in Egypt. Although Arabic is official, English is acceptable. The country uses the metric system of measurement, but bids will not be rejected if another system is offered unless the tender specifically requires metric measurements.

## **11. Customs and WTO issues.**

Customs duties on cars are paid according to the engine capacity – the larger the engine, the higher the customs. The customs duty of Automotive is between 5-135% + 10% sales tax according to the type of cars, capacity of engine (CC) and the options.

Foreign companies invest in assembling cars locally primarily to avoid paying the high customs duties imposed on imports, especially large and higher-end models. Local assemblers pay around 26% customs duties on individual imported components on average.

Opinions vary about how the WTO will affect local assembly. Some believe that WTO and former General Agreement on Tariffs and Trade (GATT) rules could threaten the continuance of the car industry in Egypt. According to existing agreements, customs on all products eventually will be reduced to a maximum of 30%, which means it could be cheaper to import a complete manufactured car than to assemble it locally. Some go so far as to imply that this might eliminate the Egyptian passenger car manufacturing industry. Some experts point out that no 1000 cc vehicles are being produced with customs at about 40%. In fact, no car less than 1300 cc is being locally assembled, as it is less expensive to simply import it. Critics of reducing the customs charges say that this clearly shows what will happen when the customs on all types of cars is reduced to only 30%.

Current WTO rules require the eventual cancellation of the local content requirement, and in 2007 Egypt was granted a transitional period of five years which ended in June 2012. However, the government of Egypt negotiated to extend the period for another five years to help deal with a much more difficult economic situation than what was anticipated even a few years ago.

Some experts believe that the government should reduce or cancel customs on imported components, which would reduce the price of locally assembled vehicles and in turn, make locally assembled products more competitive. However, present government policies call for as much local production as possible with the ultimate goal of exporting, starting with feeder industries (including components) and slowly moving towards exporting finished cars.

GATT/WTO rules in the long run are expected to favor traders more than local assembly, however, as assemblers renting production capacity will always case manufacturing and simply import if it is less expensive to do so.

Customs tariffs on automotive parts and equipment range between 10-40% ad-valorem. There is also a 10% sales tax.

## 12. Public tender procedures.

The following is generic information on public tender procedures for major government contracts. Egyptian law requires that for public tenders, foreign companies must retain Egyptian commercial agents. Foreign firms are not required to have an agent when dealing with the private sector. However, most foreign companies have found it beneficial to engage a local agent to handle the problems associated with communications, bureaucratic procedures, local business practices, and marketing. Based on geographical location or product basis, a firm can appoint multiple agents in Egypt to further enhance its success.

Although agent commissions vary with services provided and the amount of individual contracts, agents generally charge a commission ranging from 2-4% for initiative, 2-4% for opening credits, and 1-2% for clearing goods through customs.

Parastatal companies purchase commodities through calls for international tenders. These are announced in the daily Egyptian press.

In many cases, an exporter may not be able to provide the wide variety of products required in large tenders. With the formation of a consortium, however, it can offer a bid. The Italians, Germans and Japanese have successfully used this technique in Egypt. Egyptian buyers prefer a single bid for an entire tender rather than having to piece together bids for each component.

Public sector companies may request credit in their procurement tenders. While suppliers offering credit will certainly have a better chance of winning bids, sales without credit are sometimes made since other factors such as price, quality, and a delivery schedule may be of greater importance.

Public sector companies generally also require a performance bond equal to 10% of the contract, releasable upon completion of the contract. To avoid delays in obtaining release of the performance bond, the contract must be formally amended if the buyer requests any change in delivery terms or specifications.

## 13. Import Procedures & Regulation

Egyptian companies often rely on customs brokers, or their own staff to check on shipments and to clear products through customs.

The following **documents must be presented to the customs** office in order for a shipment to be released:

1. Bill of Lading or Letter of Guarantee (L/G)
2. Commercial Invoice.
3. Packing Lists
4. Insurance Policy
5. Certificate of Origin countersigned by the Chamber of Commerce and notarized by the Egyptian Embassy or Consulate in the country of origin.
6. Import/Export Permit of the importer.

**Labeling requirements:**

- Name and address of manufacturer;
- Brand or trade mark (if applicable);
- Country of origin, type of product;
- Name and address of importer;
- The production year of the imported cars must be in the same year of the model
- Product use instructions (optional);

Importers must present one set of all import documents to the General Organization for Export and Import Control (GOEIC).