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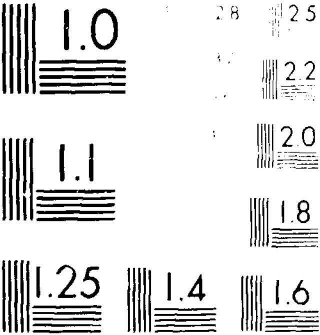
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INDUSTRIAL FREE ZONE AND INVESTMENT DEVELOPMENT, PHASE II

DP/EGY/78/007

EGYPT .

Technical report: Evaluation and promotion of industrial free-zone projects at Nasr City, Ismailia, Alexandria, Suez, Adabia and Port Said

Prepared for the Government of Egypt
by the United Nations Industrial Development Organization,
acting as executing agency for the United Nations Development Programme

Based on the work of Walter H. Diamond,
free-trade zone expert

United Nations Industrial Development Organization

Vienna

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Explanatory notes

References to dollars ($) are to United States dollars, unless otherwise stated.

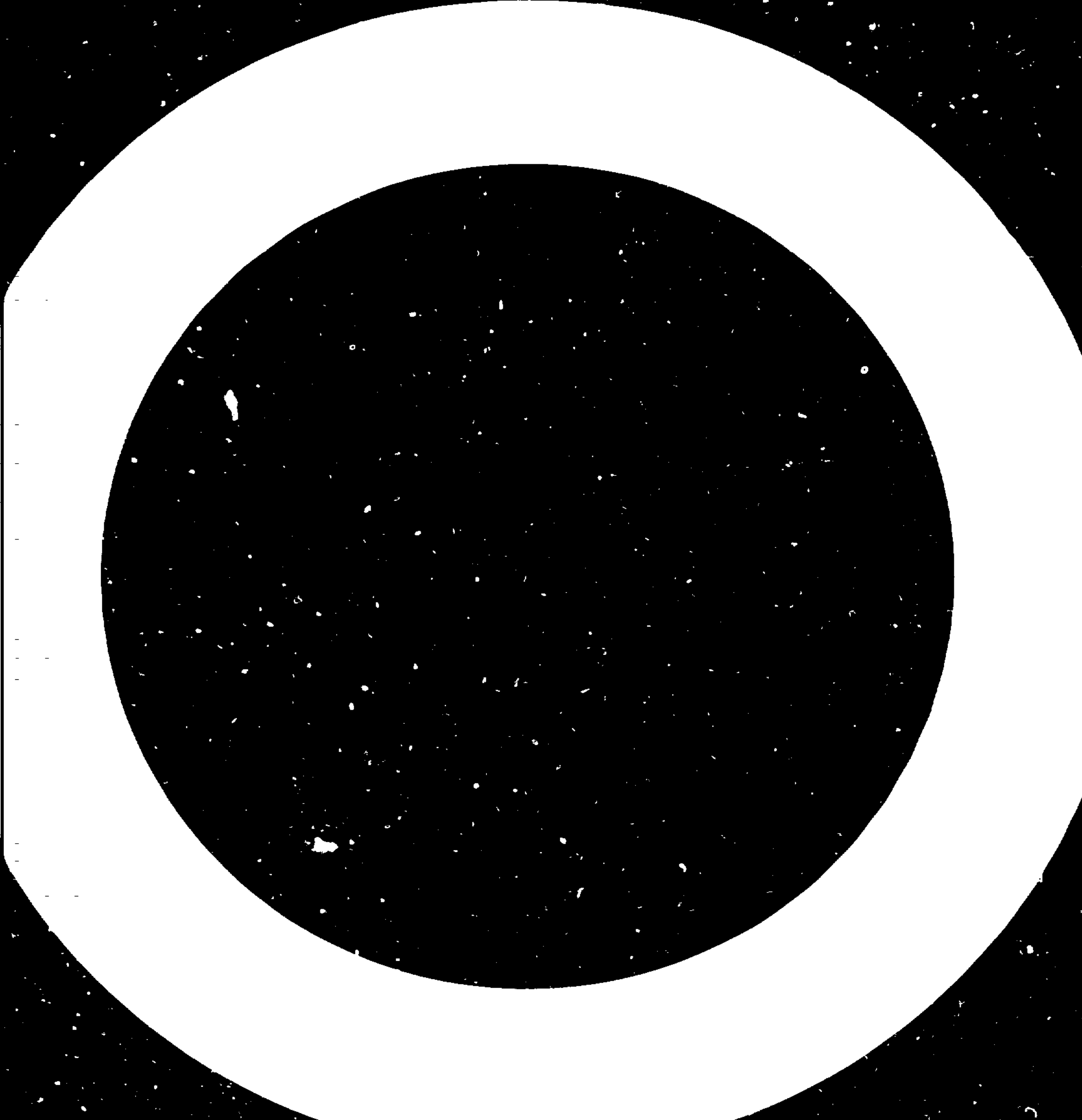
The following abbreviations have been used in this document:

AID	United States Agency for International Development
EEC	European Economic Community
GAIFZ	General Authority for Investment and Free Zones

Mention of firm names and commercial products does not imply the endorsement of the United Nations Industrial Development Organization (UNIDO).

ABSTRACT

As part of the project "Industrial free zone and investment development, phase II" (DP/EGY/78/007) an expert was sent to Egypt by the United Nations Industrial Development Organization (UNIDO), acting as executing agency for the United Nations Development Programme (UNDP). The duties of the expert were to evaluate the operations of industrial free zones in Egypt at Alexandria, Ismailia, Nasr City, Port Said and Suez and a second location of the Suez Zone at Adabia. He made suggestions for improvements so that the zones would: (a) have a greater impact on the development of the economy; (b) absorb more unemployment; and (c) show a better operating profit and thus reduce the financial burden on the Government. The expert's recommendations included suggestions to facilitate, customs procedures and inventory control; to improve infrastructure, management and public relations; and to make the zones more economically sound.



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INTRODUCTION

Because all of the previous feasibility studies and recommendations concerning Egypt's industrial free zones prepared for UNIDO and for the various zones themselves by private organizations deal principally with infrastructure and manpower, this report is designed to examine operations almost exclusively. It should be noted that several general managers of the five zones visited indicated they were not interested in operating for a profit but rather to arrive at a break-even point while still absorbing unemployment and contributing to the development of the economy. Nevertheless, the recommendations given in this report have as an objective the improvement of bottom-line profits, as well as the employment of labour and economic development.

In visiting with the general manager or head and staff members of each zone, as well as inspecting on-sight plant and equipment and meeting with 12 zone users, the expert found that the problems and deficiencies were practically alike for all zones. The report therefore analyses each problem on an overall basis and indicates what steps should be taken to remedy it, at the same time pointing out any special deficiency characteristic of a particular zone.

I. EVALUATION OF INDUSTRIAL FREE ZONES IN EGYPT

A. Location and competitiveness

The location of the existing industrial free zones is satisfactory and strategically acceptable. However, as emphasized in detail under the section on access to zones in the conclusions and recommendations, the location of each zone would be enhanced considerably if the roads leading to each zone were improved and the traffic congestion alleviated.

Each zone, with the possible exception of Ismailia, is located as it should be - in or near a heavily populated area with high unemployment. All have excellent waterways except Nasr City, which should be developed into an air cargo trans-shipment centre because of its proximity to the Cairo International Airport.

The Alexandria Zone at Al Ameria and the Port Said and Suez Zones have easy access to railroads or spurs but the absence of a rail line at the Ismailia Zone area will require it to depend upon the new airport that will be converted from existing military runways at Abou Seour, 10 km from the Zone. Since present plans call for this airport to be the largest in Egypt and one of the biggest in the Middle East, this project should be expedited.

Because each zone covers a specific area of Egypt, there should be no concern over competitiveness. If there is any overlapping of marketing area, it is likely to emerge when Ismailia begins to operate because of its proximity to the Suez Zone. However, the way to avoid any competitiveness between the two zones is to require Ismailia to be predominantly an export-processing zone while allowing Suez to remain principally a warehousing or trans-shipment zone, which it is today. Adabia, a second location of the Suez Zone, is necessary because no more space is available at Suez, but future development of this area should be planned so as not to compete for users who could be manufacturing or processing for export in Ismailia.

B. Economic impact of Nasr City and Port Said Zones

In addition to the duties given in the job description (see Annex I), an analysis of the economic impact of the Nasr City and Port Said Zones on the Egyptian economy is given below.

In respect to Nasr City, the expected full zone capacity of a maximum 4,000 workers will provide only a negligible contribution to Cairo's unemployment problem. Moreover, the increased traffic resulting from the concentration of workers at Nasr City as well as the need to piggyback and haul cargo with oversize trucks and trailers will only aggravate the situation on already congested roads to and from the Cairo Airport.

On the plus side, the proximity to the Cairo Airport should increase the use of air cargo and the inflow of foreign exchange for Egypt. However, to make the best use of this opportunity, authorities of the General Authority for Investment and Free Zones (GAIFZ) should encourage the use of manufacturing or processing of light industry products - chemicals, pharmaceuticals, canned fruits, electronic parts etc. Another contribution of the Nasr City Zone is the stimulus to the housing industry as a result of the need to build apartment houses in the area for workers and the introduction of prefabricated factory buildings at the Nasr City Zone.

The contribution of the Port Said Zone to the Egyptian economy is of a different nature and even more significant. At full capacity when the three planning stages are completed (not before 5 years and probably closer to 10 because of the great amount of work necessary to fill in the swamp areas for phase III), the Port Said Zone will have a 50,000 employee potential. The 10,000 workers who will be required when phase I is in full operation will begin to reduce the financial burdens of the Port Said municipality.

As a storage and distribution centre, the Port Said Zone is becoming a substantial foreign-exchange earner. This is necessary to offset the loss of foreign exchange suffered by the city of Port Said because of the decline in the number of tourists and sailors stopping at the city as a result of such municipal restricitons as sale of alcoholic beverages. The Port Said Zone also earns foreign excnange from marine supplies and shipping facilities. However, it is unlikely that this Zone will ever make a great contribution to Egyptian-produced exports. The present number of five industrial zones and the second location of the Suez Zone at Adabia is sufficient to handle Egypt's needs and suspension of the plan to have an industrial zone at Marsa Matruk in the north central area of Egypt on the Mediterranean is a sound decision since the Alexandria Zone at Al Ameria can handle the needs of this region.

C. Distinguishing features of Port Said

As indicated above, the Port Said Zone is primarily a warehousing and trans-shipment zone, which places it at present in the same category as Suez and Alexandria. However, phase II and phase III are expected to concentrate more on manufacturing and processing for export, which is drastically needed. At Port Said there are too many users who import consumer goods for distribution within Egypt. Some of these even import items from free trade zones in other countries, fill their storage areas with these products and then supply distributors in Egypt instead of re-exporting to other countries.

Unlike the Suez Zone, the Port Said Zone has substantial land for expansion, which should be developed as soon as feasible. Since funds for expansion are required, GAIFZ should enter negotiations with United States Agency for Industrial Development (AID), the United Nations Development Programme (UNDP), international leading institutions (World Bank etc.) or certain Arab oil producers eager to help Egypt. The Port Said Zone also has excellent adjacent waterway, railroad and road transportation as well as nearby air-cargo facilities, which make it unique. Port Said also has an aggressive public relations department that has prepared a sophisticated colour photo booklet soon to be available for distribution to prospective investors.

D. Attractiveness of Egyptian zones compared to other zones in the region

As regards attractiveness of the Egyptian zones for export-oriented industries as compared with other zones in the region, the Egyptian zones grant 100% income tax exemptions, as do the Mina Sulman free zone in Bahrain and the Mina Jebel Ali and Dubai International Airport zones in Dubai. However, this exemption does not apply to oil companies in Dubai, giving Egypt an advantage in attracting petroleum producing or petroleum-derivative companies.

The Egyptian zones also have lower wage scales, charge lower rental fees and have a greater labour supply than the two extremely sucessful zones in Bahrain and Dubai. However, the latter zones are occupied almost entirely by manufacturers and processors for export. The Israeli zones at Haifa on the Mediterranean and at Eilat on the Gulf of Aqaba can not compete with Egypt's lower wages and rental fees and abundance of labour. Moreover, Israel does not provide special income-tax exemptions to zone users. Jordan's free zone at Aqaba, about 10 miles southeast of the Israeli port of Elath on the Red Sea, limits income-tax exemption to 12 years, charges rental fees substantially higher than Egypt, pays wages 50% higher than Egypt and recruits immigrant labour from Egypt and Pakistan because of the shortage of workers.

Likewise, the Tripoli Free Port Zone in the Libyan Arab Jamahiriya can not compete with Egypt's income-tax exemptions and lower wages. However, the Libyan Arab Jamahiriya provides wide-spread training courses for skilled labour and has more modern port and berth facilities but inhibits imports and exports through more government intervention than in Egypt. The greatest disadvantage of the Egyptian zones as compared with those in Bahrain, Dubai, Israel and to a lesser extent the Libyan Arab Jamahiriya (Aqaba is a warehousing zone) is that the respective Governments strongly encourage zone users to manufacture or process for export and penalize companies that warehouse and trade without export processing.

F. Advantages of zones in Alexandria, Suez and Nasr City

On a comparative basis, Al Ameria at Alexandria is likely to become the most productive of these three zones, for a number of reasons. It has an ideal location close to a great port on the Mediterranean, although the road improvement between the port and zone must be expedited. Al Ameria, like Nasr City, also has ample land for expansion, which Suez lacks. Al Ameria also has a railway abutting the zone area. By offering direct access to the Mediterranean Sea, the Alexandria Zone is in an excellent position to supply the huge European market (300 million people and a gross national product exceeding $1,000 billion). The Suez area is convenient for Middle East markets (60 million people and a gross national product of $80 billion). Nasr City's market is limited to the 8 million Egyptians of the Cairo/Nasr City area, unless it uses the ports at Alexandria and Suez.

The Nasr City Zone could make a greater contribution to the economy by manufacturing light industrial products that could be air-transported via the Cairo airport. Previous studies maintained that the Nasr City Zone was over-designed for warehousing, so it is logical to place more emphasis on export processing. The employment density ratio of 50 workers per 10,000 m^2 is lower than that of the other zones, owing in part from an oversize area designated for warehouse and car storage. The expert was able to obtain statistical information from Al Ameria, which has an excellent economics research staff, whereas background material from Suez and Nasr City was not forthcoming, or as least not made available upon request.

F. Impact of the Adabia Zone on other Suez Canal zones

As indicated above, Adabia is necessary as a second Suez location because there is no land available for expansion at the Suez Zone and the entire area at Suez has been assigned to prospective users. The Adabia Zone area will have little impact on the Port Said Zone since it is at the opposite end of the Suez Canal. Therefore, prospective users would decide to use a zone depending on whether they intend to reach European markets (Port Said) or Middle Eastern markets (Adabia).

The Adabia Zone is more likely to compete with the new Ismailia Zone than any other Egyptian zone. For this reason alone it would be advisable to confine the Ismailia Zone to users who would manufacture or process at least 25% of their turnover or output for export. The administrative staff at Ismailia is particularly competent in the field of international commerce and it would be of considerable value to the Egyptian economy if this zone were to be assigned the role of Egypt's principal export processing zone.

G. Marketing and promotion programme

In order for a zone to achieve the goals of operating at a profit and absorbing unemployment, it should make efforts to attract foreign investors. This is clear to officials of GAIFZ and the individual zones. The expert suggested to GAIFZ a programme that had produced good results in the United States (see annex II).

II. CONCLUSIONS AND RECOMMENDATIONS

The following are the principal problems to be solved and recommendations to be adopted, not necessarily in order of importance but all of urgency, if the five industrial free zones are to have any worthwhile impact on the Egyptian economy.

A. Customs procedures

Each one of the 12 users interviewed, who represent a good cross-section of warehousing and manufacturing companies operating in the zones at Alexandria, Suez and Port Said, indicated they had difficulties with customs officers in clearing goods (users were not available for interviews at Nasr City and Ismailia because operations had not begun and at Adabia due to mine-removing activities).

The main problem was that customs officers generally would not clear documents unless they were rewarded financially, which caused unnecessary delays. A Port Said manufacturer of switches, floor tiles and cement blocks claimed that customs did not understand procedures and required too much documentation. An importer of components from Poland explained that one reason for the unhealthy situation was that there was no competition so that the user had to "pay off what customs demands". In several cases, delays on clearing goods took up to two weeks.

This customs problem is not unique to Egypt; the same complaint has been heard from most of the world's 378 free trade zones. However, the practice of making unofficial surreptitious payments to customs officials has been curbed in the 68 free-trade zones a d 11 subzones in the United States by arranging for the zone operators to deal directly with customs officers. All transactions and documentation involving customs are handled by the operator of the zone, including payments of wages and salaries. Each zone user pays a pro rata customs fee charged by the operation based on the volume of activity required by the user. In this way the customs officials have no direct contact with users, even when customs are located on the zone premises.

Recommendation

It is recommended that GAIFZ and each of the zone general managers adopt the practice that each zone operator deals directly with customs and users are allocated pro rata charges to cove. necessary customs payments.

B. Customs inspections

Suez Zone users, who for the most part rent space for warehousing, also complain that the customs law is too stringent. For instance, three firms warehousing liquor point out that they have run into considerable trouble with the embassies whose officers are permitted to requisition liquor only by signing official orders in person at the warehouse. This has resulted in a continual stream of officials from the embassies in Cairo, and the authorization to allow withdrawals from the warehouse are widely abused because of the long list of persons authorized to purchase liquor and other products for each embassy. Customs officials at Suez also rely on an unorthodox method of spot-check inspections of goods stored in warehouses. Customs inspectors checking boxes, cartons or even small containers do so by removing an item from the box or package and leaving it on top of the carton, where it remains until the next check, which generally takes place a month later. Not only is the box or container left open during the month to allow easy access, but the sample placed on top of the container may be easily harmed, broken or removed so that the count a month hence may not coincide with the established quantity or condition.

Recommendation

It is recommended that customs laws permitting favoured embassy withdrawals on the spot by a large number of people be modified and that customs inspectors checking warehouse contents be required to reseal and storage all boxes, cartons and containers after inspection to assure safety and prohibit theft.

C. Inventory control

The four operating zones at Nasr City, Alexandria, Suez and Port Said keep records of incoming and outgoing merchandise and internal movement of goods by hand, a slow, costly procedure. The Head of the Central Department, Free Zones Affairs, GAIFZ, and the general managers of the individual zones were receptive to the expert's recommendation of an inventory-control system similar to the system designed for foreign trade zones at Philadelphia, Pennsylvania; Morristown, New Jersey; and San Jose, California - three progressive and efficient zones that have the best marketing programme of all the 79 United States foreign trade zones and subzones. Annex III gives brief outline of how the system installed in the Philadelphia Zone (Delaware Valley Foreign Trade Zone No. 35) operates; it could set the pattern for Egypt's zones.

The General Manager and technical staff of the Philadelphia Zone recommended that the major inventory-control system computer could be installed in the head office of the Free Zones Sector of GAIFZ in Nasr City. A computer terminal would be installed in each zone so that both the general thority and the zone itself could record and track immediately all incoming, going and relevant transactions at any time.

Recommendation

It is recommended that an inventory-control system be installed in Egypt's zones with the major computer located at the GAIFZ offices in Nasr City.

D. Income allocation

Based on the previous feasibility studies prepared for Egypt's zones, it was pointed out by GAIFZ and the general managers themselves that all free zone expenditures should be recoverd by 1995. A rate of return on capital is targeted at about 5% per annum. This is unusually low compared with the operations most zones in developing countries. One of the principal reasons for the small return is that all Egypt's zones depend or plan to depend on rental income from warehousing or from land and buildings used for manufacture of exports in order to break even, or in the case of one zone, to show an eventual profit.

The practice of relying on rental income to operate a free zone profitably is outmoded. A typical income schedule for successful free-zone operation in most developing nations would be as follows:

(a) Rental income from warehousing and land or buildings for manufacturing, 60%;

(b) Income from licensing operations in which domestic or foreign licensees use patents or trademarks owned by foreign licensors, 20%. This is known as the "shelter plan" and has been most successfully developed by Mexico, which derives nearly three-fourths of free-zone income from licensing operations in its zones, most of which are located along the United States border. Generally, the zone operator, or in the case of Egypt the zone general manager as designated by GAIFZ, is authorized to arrange an agreement whereby from 3% to 7%, depending on the volume and type of product manufactured under the foreign license, of gross sales, based on domestic and foreign sales, of the licensee must be set aside for the zone operator. If the bulk of the end-product produced under license is sold on the domestic market, the royalty payment is lower, i.e. 2% or 3%. If all goods manufactured are exported, the royalty is usually 5% to 7% for such light-industry items as pharmaceuticals and chemicals and from 2% to 5% for such heavy-industry goods as tractors, vehicles and heavy machinery;

(c) Income from concessions for such services as cafeterias, food-vending machines and other amenities, taxis or car rentals, consulting, insurance, brokerage, banking etc., 10%;

(d) Bulk-cargo income, whereby charges are made for collecting, packaging, boxing, storing in holds of ships or shipping in units merchandise arriving from various destinations that is to be shipped to a foreign destination, 5%;

(e) Containerization charges for use of special container equipment or handling containers, 5%.

In the case of the United States where labour costs are considerably higher than in most developing nations, the above percentage breakdown is as follows:

(a) Rental income from warehousing and land and building rental, 40%;

(b) Income from licensing operations ("shelter plan"), 20%;

(c) Income from concessions, 20%;

(d) Bulk-cargo income, 10%;

(e) Containerization charges, 10%.

It should be noted that rental charges in Egypt's free-trade zones are among the lowest in the world at $1 per m^2 annually for undeveloped land and $3 or $3.50 per m^2 per annum for warehouse space. This is considerably lower than the average charge for rental in most of the world's free zones and is about one-third less than the warehouse and land rental charged by the newest United States foreign trade zones.

Recommendation

It is recommended that the Egyptian industrial free zones establish income-allocation schedules on the basis of the breakdown for developing countries of 60%, 20%, 10%, 5% and 5% for, respectively, rental, shelter, concession, bulk cargo and containerization. It is also recommended that Egypt's basic rental charges for warehousing and land and building manufacturing space be increased by approximately one-third.

E. Access to zones

In order to attract foreign investment, which should be one of the primary objectives of all of Egypt's industrial free zones, a considerable amount of road planning and improvement is necessary. Surveys of 378 free zones indicated that a foreign investor wants convenient and fast access to the plant site or headquarters operation, for himself and for staff and workers. The Bataan Export Processing Zone in the Philippines, where foreigners arriving at the Manila airport are immediately transported by helicopter to the Zone, is a good example of the practice in most zones.

In Egypt, only the Ismailia Zone has satisfactory access by road to the zone area. Although the Nasr City Zone is well-situated, has excellent highways leading to it and roads within the zone area, delays of two hours were encountered in reaching Cairo during normal business hours. Efforts should be made to expedite road improvement and the flow of traffic.

The trip from Cairo to Al Ameria (225 km) takes about two and a half hours and presents no difficulties. However, transportation from Al Ameria to Alexandria and the port there is impeded by construction sites and bumper-to-bumper traffic; about 75 minutes are required to transport cargo from Al Ameria to Alexandria and its port, a distance of 28 km. Road construction within the zone is on schedule and is satisfactory to date.

Suez City itself may be reached from the Cairo Airport by the desert highway quickly and with no delays, but considerable improvement is essential in passing through the city in order to arrive at the Port Tawfik Free Zone. An alternate route to the zone that would avoid the city should be constructed as soon as possible. The second location of the Suez industrial zone at Adabia, 8 km south of Suez City, is a good choice as it is close to the world's shipping lanes and provides a natural seaport area. However, road construction and mine removal must be expedited; it was impossible to inspect this zone because of these bottle-necks.

The Port Said Industrial Zone also can be reached from the Cairo airport on good roads via the desert highway to Ismailia, but traffic from the zone going south to Ismailia and then west to Cairo is slow and hazardous because of the numerous trucks and piggyback trailers previously loaded at Port Said. Road construction within the Port Said Zone to reach new construction sites is slow; sand barriers should be erected in certain spots to facilitate approaching. Users interviewed in Port Said and Suez said that transporting freight from the harbour at Port Said to the zones was no problem (if customs cleared merchandise without delay), but when raw materials, components or imports were unloaded at Alexandria there were long delays before they reached their destination at the zones along the Canal. Many ships stopped at Alexandria but not at Port Said, making it difficult for users at the Port Said and Suez Zones to receive merchandise on schedule. The congestion at the Port of Alexandria (users said they wait a month for unloading and loading) is recognized by the Port Authority - only 55 of the 86 quays can be used for berthing because they lack modern facilities. Plans for building new quays, further dredging and breakwater improvements must be developed so that zone users can operate more profitably. The long haul from Alexandria to the zones on the Canal could be shortened by improving the routing from Giza to the desert roads from Heliopolis west to the Canal.

Recommendation

If Egypt's industrial zones are to have a real economic impact on the country - and they must attract foreign investment to do so - efforts should be made at once to expedite present programmes of highway development and to improve the roads leading to and from all zones. It is also recommended that Egypt initiate discussions with the major shipping conferences to encourage more ships to stop at Port Said harbour rather than Alexandria so that users at the zones along the Canal can receive imported merchandise more regularly. The extension of runways at the Alexandria Airport to accomodate larger cargo and passenger planes and the planned conversion of the large military airport 10 km from Ismailia are also necessary to encourage foreign investment. Funds should be appropriated for these projects.

F. Use of domestic materials and components

An on-the-spot examination of users' operations revealed that there was little guidance or control by the authorities in requiring companies in the zones to take advantage of locally-produced items or Egyptian raw materials and components used in manufacture or processing end-products for exports. In several instances better co-ordination of marketing strategy would assure the utilization of Egyptian-made items or raw materials. For instance an Italian ready-to-wear clothing manufacturer operating profitably in the Al Ameria Zone has been importing cloth, principally from Italy but also from Belgium, and has only recently begun using Egyptian-made buttons. When questioned the general manager of the local company said that Egyptian cloth of the type required was not available.

When this problem arose in several zones in other countries, government marketing analysts helped locate domestic suppliers or marketing channels situated in another part of the country were shifted to the zone area. A case in point is the Thessalonika Zone in Greece where, before Greece's entry into the European Economic Community (EEC), imported materials from Yugoslavia and EEC countries were being used in processing finished textiles and rugs, until ample materials available from the eastern side of the country were found for shipment into the zone on the western side. An entire new system of marketing strategy was developed to eliminate the pitfall of unnecessary imports.

At the Port Said Zone, a progressive trading company established with Swedish capital is the sole agent for distribution of steel slabs in the Middle East for the Swedish producer. Besides importing and trans-shipping steel, the company also imports Japanese electronics products, television sets, cassettes, sewing machines, air-conditioners and printing and photocopy machines. In addition, the firm also imports (and is squeezed for space because of tremendous inventories) clocks, baby shoes, fans, vacuum cleaners and numerous other consumer products all made in a free-trade zone in Asia. Many of the products are sole on the Egyptian market, and the zone also serves as a distribution point for sales to the Middle East and Africa. It appears senseless for Egyptian consumers to pay duties on consumer items on products manufactured in free-trade zones in other countries where duties are not applied, especially if substitutes are available in Egypt. A Port Said user indicated that he would like to "manipulate cassettes" on the premises but there were no components available in the zone or Egypt to process. A fruit-juice processor used 60% Egyptian-grown oranges but imported 40% of the foreign nutrient foods and aluminium to produce the final canned product, although it has been learned that several of these items are now or will in the near future be available in Egypt.

Recommendation

It is recommended that better marketing procedures be adopted by GAIFZ or individual zone authorities so that companies operating in the zones would be required to use Egyptian-made products or raw materials in the manufacture or processing of items for export. Present users and future applicants should be required to inform their respective zone authorities of the percentage of foreign products used in export manufacturing, and this information should be forwarded to GAIFZ, the Ministry of Economy, Ministry of Industry and Mineral Wealth and other government bodies with marketing knowledge of Egyptian products.

G. Warehousing and Egyptian users

Studies made of the world's free zones proved that, with few exceptions, the only zones to absorb large-scale unemployment, make a sizable contribution to the economy and operate profitably are the export-processing zones. Of the 68 United States foreign trade zones, only 5 are operating profitably today - these zones emphasize processing for export.

The over-abundance of warehousing in Egypt's industrial zones is evident from statistics provided by the zone authorities. At Al Ameria, as of 30 September 1981, 86 of the 105 approved projects were warehousing and petroleum-servicing operations and only 19 were industrial projects. There are 16 private zones that employ 2,258 Egyptians and 193 foreigners, out of a total 4,576 estimated to be presently employed by the Alexandria Zones. Thus, the 16 private zones with combined employment of 2,451 represent 53.5% of the present number employed and 40% of the estimated 6,000 eventually to be working at Al Ameria when all approved projects are in operation. This lopsided percentage in relation to the substantially larger number of warehousing and servicing installations pinpoints the need to de-emphasize warehousing at Al Ameria and switch to industrial emphasis.

At Suez there also is a predominance of warehousing sites and a minimum of manufacturing or processing for export. As of 30 September 1981, 20 companies were in operation, 9 were in the implementation stages and 4 were newly-approved. There are no vacant sites, indicating the need to expedite the development of the second location at Adabia. However, including the efficient and profitable ship repairing, marine surface cleaning and parts manufacturing of the McDermott operation at a private zone 35 km from the Suez Zone, only 6 of 33 firms process for export.

The best way to increase industrial operations and decrease warehousing trade is by attracting foreign investors, who are less interested in warehousing and using Egypt as a distribution centre than in manufacturing for the expanding local market and to exporting to the Middle East products made in Egypt. A look at all the companies now operating in the five zones reveals that, although the influx of foreign capital in projects is fairly successful, too many foreign companies have in the past used the zones for warehousing and trading. For instance, at the Nasr City Zone about one-half of the production projects in the public and private zones have foreign capital. At Alexandria, there is a 60% ratio for projects that have foreign capital, 80% at Suez and 75% at Port Said. Warehousing and trading operations in all zones exceed operations manufacturing for export at a ratio of about 60 to 40. This is further confirmed by statistics showing that the combined public free-zone sector is financed with 90% foreign capital as compared with 40% foreign capital in the public industrial sector above.

Recommendation

Although the primary purpose of the Foreign Investment Incentive Law 43 of 1974, as amended by Law 32 of 1977 and Decree 375 of 1977, was to facilitate the establishment of manufacturing operations that would provide employment opportunities and earn foreign exchange through exports, another goal was to establish warehouse facilities that would enable Egyptian firms to assume the entrepôt role that Lebanese merchants formerly fulfilled vis-à-vis the Arab world. Because the latter objective has taken a firmer hand than previously anticipated, GAIFZ should discourage warehousing and trading in favour of export-manufacturing projects when approving foreign investment applications in the future.

H. Increase in private zones

The number of private zones in relation to the total number of zones is unusually large - about 20% of the total number of zone projects in operation are private-sector zones, or subzones, as they are called in most countries of the world. Under Law 43 private-sector zones may be established for a specific project in any area of Egypt, including the central cities, but this is now being limited to those activities that can not be carried out successfully in the public free zones. Applicants now qualify for private zones only if they can prove they have specific requirements that can not be met in a public zone, such as the availability of skilled labour or technical assistance, strategic location to waterways or resources, specialized utilities or pollution-control restrictions.

The Government is considering the issuance of new, private free-zone permits for manufacturing activities only. Discussions with two of the first companies to take advantage of Law 43 by making major investments in private zones indicated that the decision to operate in Egypt was not based on the option to be outside a public zone. A leading oil company that considered a marine chemicals plant in a private-sector zone indicated it could just as well as operate in the public Port Said Zone. The company was interested in receiving an income tax exemption in a free zone that produced both for the Egyptian and Middle Eastern markets. However, like many other foreign investors, the company would feel more at ease if the present profits-tax exemption, which takes effect at the start of production, took effect from the beginning of the taxable year in which a company first showed a profit, since the company does not expect to be operating in the black for at least four or five years.

Practical reasons for reducing, or even gradually eliminating, the number of new, private free-zone-sector permits are the problems already experienced in having less government control over a private zone, difficulty in obtaining up-dated information and additional costs to the zone authority.

Recommendation

Most foreign companies would still invest in Egypt, even if they were not granted private free-zone-sector permits; it is recommended that GAIFZ continue to tighten restrictions on private-sector zones and approve them only in rare cases. Private-sector zones should be limited strictly to manufacturing operations that have a predominance of exports. Consideration also should be given to the possibility of reducing the profits-tax exemption period to 8 or 10 years for companies receiving permits to operate in a private free-zone sector.

I. Tariffs and fees

Although most zone users interviewed stated that they showed profits by the third year, which is above average for companies in most of the world's free zones, they complained about the small profit margins. Several reasons were given, but all criticized the 1% annual duty on the value of goods entering or leaving a zone for account of the project or, if no such activity is conducted by the project, an annual duty not exceeding 3% of the project's annual value added.

The 1% may appear to be small, but it mounts up on high gross value sales so that the profit per unit is low for many items. This is particularly noticeable by such users at Al Ameria as the Egyptian-Saudi Arabian processor of digital watches and cassettes, a manufacturer of ready-made garment clothes from the Netherlands, and the numerous Egyptian motor-car storage operaors.

No zone user was more adamant about the high cost of tariffs and the 1% to 3% duty than the United Kingdom floor tile and electronics assembler at Port Said, whose total fees amount to 11% on components imported from Poland, which make up 50% of the final product. The company pays the 6% normal tariff since the finished product enters Egypt from the zone, the 1% duty mentioned above, plus about 4% additional charges to customs officers to have the documents processed.

At the Suez Zone, a Kuwaiti trading company stated that it could not compete in export because of the 1% duty plus high tariffs for loading and unloading goods. Moreover, the general manager of the firm said there was a three-to-five-day delay in receiving the merchandise from Port Said where it usually is unloaded. Delivery is aggravated frequently by the inability to get a telephone line for 24 hours. Telephone service, he emphasized, was extremely bad, and he had been waiting three years for a telephone. "Utility service is not bad, but not 100% efficient", he also added. All these handicaps mean a profitable operation is difficult to achieve.

In discussing the 1% duty with the individual zone authorities, each pointed out that the 1% duty was a flexible amount which could be reduced to as little as 0.2% in the case of cold storage items. However, zone users were not aware that this might be negotiable, none were found who paid less than 1% and two users claimed their overall duty value charges amounted to 3%.

Recommendation

In order to encourage more profitable operations by users, it is recommended that GAIFZ make a greater effort to review the cost-benefit analysis of each potential zone user in determining the amount of a duty to be paid. This should be done before approval of the application to operate in a zone, as it would be advantageous to both the user and the zone operator to negotiate a fixed duty at the outset. Experience of the world's leading free trade zones has shown that zone operators themselves register better earnings and fewer bottle-necks when zone users are content with their profit margins.

J. Manpower issues

An analysis of the 266 public and private industrial zones in operation and in implementation or construction stages in all zones in Egypt shows that approximately 70% are involved in storage of goods. The statistics available from the Al Ameria, Suez and Port Said Zones further show that 80% of the stored or warehouse goods are shipped from the zones into Egypt and about 20% trans-shipped as re-exports. These figures are considerably out of line with operations of the more successful zones in other areas of the world that have had good records in absorbing unemployment.

As previously pointed out, the most profitable free-trade zones in the world are export-processing zones. Correspondingly, the zones that are most successful in reducing unemployment are those that manufacture or process for export. These are the labour-intensive industries that are glaringly lacking in the Egyptian industrial free zones. Emphasis on storage of goods or warehousing facilities will never make much of a contribution to a developing economy in absorbing unemployment. This is best seen in a close look at the statistics provided by the staff of the Al Ameria Zone.

Of the 121 public and private zones at Al Ameria, 102 are storage and servicing operations. The greatest number of employees in any single storing facility is 51 (47 local and 4 foreign), but the average for warehousing and servicing is 12 Egyptian workers per company. An oil-storage servicing company employes 75 local and 6 foreign workers. On the other hand, a processor and manufacturer of blankets has 131 local and 7 foreign employees on its staff. The average number of Egyptian employees for a manufacturer or assembler is 70 vis-à-vis the 12 indicated above. GAIFZ should try to concentrate on attracting manufacturing operations and de-emphasize storing and servicing.

Statistics also reveal that the trend in shipment of goods from Egypt's industrial free zones to the domestic market is increasing while the shipment of goods to foreign markets is declining. In 1980 (the last complete year of statistics available), Al Ameria's shipments from the zones to the local market rose 87% while exports to foreign markets dropped 25%. However, the total increase in volume of merchandise was 77%, represented by the gain in shipments to the domestic market. Domestic shipments versus foreign sales were 12 to 1 in 1979 but 16 to 1 in 1980. As already indicated, manufacture for export makes the greatest contribution to the economy by absorbing unemployment.

A third factor in the overall manpower issue is the predominance of young women employees who are not the traditional major earners in the family. This is seen at Al Ameria but also to a lesser degree at other zones. This is a direct outgrowth of the type of industry sought and indigenous to a particular zone, as in the case of Al Ameria where women are required for the garment, rug and textile weaving and sewing trade. It is understood that 80% of the employees to be on the payroll in the final stages when all operations are on stream at Al Ameria will consist of women. The expert believed that it was proven in other free-trade zones, especially in Central America, that it was not conducive to economic stability to employ an abundance of young women at the expense of unemployed males in a depressed or high-unemployment area.

Finally, it was not difficult to see that in four of the five zones visited the administration buildings were over-staffed with non-administrative workers. At one zone there were five male employees at the security desk, chatting but not assigned to duties, were seen six or seven times; another group was at the top of the stairways on the second floor. In another zone, at least a dozen men stood around the entrance of the building inside the gate. At all five zones there were at least two public relations employees unassigned to work. It appears to this observer that steps should be taken to correct this misuse of available manpower.

Recommendation

In view of the predominance of storing and warehousing and servicing operations in all zones in preference to manufacturing and processing for export, it is recommended that GAIFZ make greater efforts to co-operate with and encourage the individual zones to promote the export processing advantages to foreign companies. Emphasis should not be placed on attracting operations that (a) involve simple storage facilities; (b) are of Egyptian ownership; and (c) produce such light-industry consumer items as ready-to-wear clothes, garments and rugs that employ an over-abundance of young women.

K. Evaluation studies

Officials at all the zones as well as at GAIFZ repeatedly pointed out the difficulties encountered in appraising feasibility studies presented to them for use in approving an application by a potential user in a zone. It was indicated that the key determining factors for selecting a project are often unclear in the applicant's presentation. In fact, sometimes the zone authorities themselves are not sure of the soundness of a proposed project but proceed to approve it on a chance basis.

Officials of the respective zones requested that a programme for evaluation of criteria be established. Two of the higher level staff economists said they had sought this kind of training at Egyptian universities and at local UNIDO and UNDP seminars held at Cairo, but to no avail. Representatives of three zones asked that cases of evaluation criteria for various types of industrial, construction and technological projects be sent to them. A package of sample cases collected by the expert from Harvard Business School, American Management Association, Business International and the World Trade Institute has been sent to the UNIDO Liason Officer, Cairo, to be duplicated and distributed to each of the Egyptian public zones.

Recommendation

A training course for zone analysts on how to appraise project applications soundly should be established.

L. Reception of foreigners

As pointed out under transportation accessibility, it is imperative that business executives from abroad who are visiting the Egyptian industrial free-trade zones to investigate potential investments or user operations receive "red carpet" treatment. They expect a warm welcome, utmost co-operation from the host country and the most modern facilities and services to expedite their investments. Surveys made of businessmen from the United States show that one of the leading reasons a particular country is selected for an investment is the fair treatment received, which includes the avoidance of any bottle-necks placed in their way by host countries.

First impressions are most important to business executives in determining their choice. This is more significant than ever for Egypt since many United States companies have adopted a wait-and-see attitude about investing in Egypt in order to appraise future political stability after the one-year state of emergency. In view of these circumstances, Egypt must take steps to improve its image as a preferential location for foreign investors. Improvement in the ability of GAIFZ to transport prospective foreign investors to the industrial zone areas has been analysed above. However, there are several deficiencies that should be brought to the attention of GAIFZ. The security enforced at entrances seems to be far too tight. Unnecessary searches cause frustrating delays and create a bad impression on the visitor.

Secondly, considerable improvement in reception area and washroom facilities for visitors is urgent in all administration buildings. In one of the largest zones there was no running water in the mens' and ladies' rooms (the latter was not available for use) and both required much better sanitation facilities. In four zones there was no drinking water available for visitors.

Recommendation

GAIFZ should issue instructions to the individual zone authorities to take steps to improve reception, sanitary and other facilities and services necessary to accommodate prospective foreign investors in the same manner as they are accustomed to at the parent company headquarters. These instructions should be followed up occasionally with reminders and spot checks.

M. Improvements to infrastructure

Numerous feasibility studies have already been prepared on infrastructure. The engineering, planning, designing and contracting recommendations made in the past have been carried out efficiently and with no major handicaps other than delays in completing certain projects because of lack of funds.

Water, sewers, rain drainage, electrical distribution, site reclamation, erosion prevention, customs facilities (despite lack of co-ordination and communications between customs and zone authorities) and perimeter fencing all appear satisfactory, with minor exceptions such as the need to erect occasional barriers to stop sand dune accumulation near or adjacent to internal roads. The one apparent improvement necessary is the need to widen entrance gates at all zones. This is particularly noticeable at the Nasr City entrance where the customs booth is located and at the main entrances of the administration buildings at Suez and Port Said. The entrance at Port Said is particularly difficult to negotiate and it was observed there that a medium-size truck had difficulty entering, requiring considerable maneuvering and crossing over a sidewalk entrance to the administration building.

As commercial activities in the zones increase, undoubtedly access to the zone sites will become more difficult for users. Oversize piggyback trucks and container-carrying vehicles are sure to have problems and delays in reaching their loading or unloading destinations in the zones unless the gate entrances are widened.

Recommendation

It is recommended that the general managers of each zone be alerted to the potential drawback of loading and unloading delays caused by difficult vehicle passage at zone gates. In certain instances the widening of entrances at gates will be necessary.

N. Management training through zone visits and seminars

It is understood that limited funds have been allocated by UNIDO and UNDP for the Egyptian zone administration staff to inspect selected free-trade zones in developing countries. In view of the goal that Egyptian zones become export-processing zones rather than warehousing or entrepot centres, the itinerary should avoid such trans-shipment zones as the Colon Free Zone in Panama, the Kingston Free Zone in Jamaica, or the Hamburg, Barcelona or New York foreign trade zones, which have been visited by Egyptian zone personnel in the past. The following well-run and profitable export-processing zones would provide the Egyptian zone officials with invaluable knowledge: Bahrain; Santa Cruz and Kandla export processing zones, India; Bayan Lepas (Penang), Malaysia; Bataan and Mactan, the Philippines; Mina Jebel Ali at Dubai City, United Arab Emirates; and San Jose Foreign Trade Zone No. 18, California, and Delaware Valley Foreign Trade Zone No. 35, Philadelphia, Pennsylvania, United States.

GAIFZ and individual zone officials indicated that each zone would recommend the general manager or deputy general manager to represent it on the visiting group. It was also suggested that because of the greater size of Al Ameria and Port Said these two zones would also send an economics or marketing officer. It is also recommended that the economic research officer of GAIFZ, Free Zones Sector, Mostafa Abdel Fattah Mahammed, who accompanied the expert on visits to the five zones and who has an excellent knowledge of industrial free trade zones, be assigned to the team, making a total of eight.

Following the completion of the visits to the zones on the itinerary, a seminar should be held in New York in which about 300 executives of leading United States companies with international operations would be invited to listen to the eight members of the group highlight the advantages of investing and operating in the respective Egyptian industrial free zones. This procedure has been used successfully in the past by other zones.

Recommendation

High-level Egyptian zone officials should visit a select number of free-trade zones in developing countries. The zones selected for the itinerary should include the above-mentioned zones whose operations are most similar to the goals of the Egyptian zones.

O. Marketing and promotion programme

All GAIFZ and individual zone officials interviewed were familar with the need to have widespread and intensive marketing campaigns and sophisticated promotional materials to attract foreign investors. However, little has been done in this direction because of apparent lack of funds. GAIFZ is in the process of preparing an overall brochure covering all zones while Port Said has completed layout and copy for its zone and the booklet is now being printed in the United Kingdom. The Port Said promotion material is excellent and should be helpful in attracting foreign investors if it is distributed with discretion to the right type of prospective users in Europe and North America.

Recommendations

It is recommended that a marketing programme similar to the one presented in annex III be carried out in conjunction with a United States public relations firm specializing in free-trade zones.

Annex I

JOB DESCRIPTION

DP/EGY/78/007

Post title:	Expert in evaluation and promotion of industrial free zones projects
Duration:	One month
Date required:	November/December 1980
Duty station:	Cairo, with travel in the country
Purpose of project:	To assist the General Authority for Investment and Free Zones in successfully executing its Industrial Free Zone Programme, thus strengthening and diversifying Egypt's economy.

Duties:

The expert will be attached to the General Authority for Investment and Free Zones in Cairo, with the responsibility of providing the Authority with information on the economic impact of the existing industrial free zones and those under preparation, with a view to working out and defining each zone's comparative advantage as well as to determining its impact on the region of its location. More specifically the expert will have to perform the following tasks:

(a) To analyse the location of each of the existing Industrial Free Zone as to its competitiveness;

(b) To work out the distinguishing features of the Port Said Zone;

(c) To work out the comparative advantages of the zones in Alexandria, Suez and Nasr City;

(d) To assess the impact of the proposed Industrial Free Zone in Adabia on the other zones located along the Suez Canal;

(e) To establish a frame and propose the necessary measures for the execution of the promotion programme on Industrial Free Zones.

The expert will also be expected to prepare a final report, setting out the findings of his mission and his recommendations to the Government on further action which might be taken.

Qualifications:

High-level consultant with a good background in economics or business administration and extensive practical experience in Industrial Free Zone development. Work experience in a developing country would be an additional asset.

Language: English

Background information: With direct access to the Mediterranean and situated at the cross-roads to Africa, Europe and Asia, the Arab Republic of Egypt occupies an important position on the African Continent. Its importance is, moreover, expressed by the fact that it ranges second on the continent in the size of its population. Despite of this and other development assets which the country can offer, it has yet not been possible for Egypt to integrate all available labour-force into production, thus raising the standard of living and increasing the national wealth.

Therefore, in June 1974 Law No. 43 was issued governing the investment of Arab and Foreign Funds in Industrial Free Zones. This law was to stimulate the economic development of the country by attracting foreign investors to industrial free zones to be established at various locations in Egypt. It is thought that the establishment of such zones will help to reduce unemployment, attract foreign technology and know-how and expand exports, thereby increasing foreign exchange earnings.

Since this law was issued, the Government has made all efforts to develop industrial free zones. As a consequence the General Authority for Investment of Arab and Foreign Investment and Free Zones was established. This is an independent organization, however, affiliated with the President of the Council of Ministers and supervised by the President of the Agency for Arab and International Economic Co-operation. In general it is responsible for:

(a) Implementing the Industrial Free Zone Programme by providing the country with the necessary infrastructure at selected locations;

(b) Attracting Arab and foreign investors to industrial free zones;

(c) Evaluating project applications from foreign investors;

(d) Identifying projects and preparing profiles for potential investors;

(e) Operating and maintaining the Free Zones and servicing the industries located in them.

There are several Industrial Free Zones being planned in the country: El Nasr City, Cairo and Alexandria, where relatively small industrial estates are being developed for light industry; two export processing zones to attract mainly foreign investors to Port Said and Suez which in fact will be developed out of "free ports" and have now been added to long-term town planning project including large-scale industrial zones.

With assistance from UNDP and UNIDO, Industrial Free Zones have become operational in Nasr City and in Port Said. The project "Free zones and investment development" concentrated mainly on the development and realization of the El Nasr City Free Zone. The project started in June 1975 and was successfully completed in 1977.

It contributed to the strengthening of the Authority, to its overall organization and to the planning of new industrial free zones. Now with the second phase of the project, the Government has decided to implement its public Industrial Free Zone Programme without any further delay. Assistance is requested for the preparation and development of planned industrial free zones and the promotion as well as daily supervision of the industrial free zones already operational.

Annex II

MARKETING AND PROMOTION PROGRAMME

Of the 378 free trade zones in the world today, less than 150 are operating profitably and approximately two-thirds have accomplished their original goal of absorbing unemployment in a designated depressed area. Practically all the successfully operating zones have (a) high-quality colour brochures; (b) promotion material elaborating on tax incentives, export credit insurance covering political and commercial risks and the benefits from customs duty exemptions; (c) audio-visual coloured slide presentation; (d) free-zone promotion offices in the major cities of the world; and (e) marketing teams from promotion offices that send out the promotion material on a personalized basis with a follow-up call to the international executive concerned with the decision to recommend use of a free trade zone.

A programme based on the above elements has been used with good results in more than two dozen free zones in the United States and is available for GAIFZ to consider. It is summarized below.

1. Marketing programme

(a) The major transnational companies world-wide should be advised of the customs duties, tax exemptions, available resources and skills, government subsidies, low-cost labour, absence of exchange controls, minimum registration fees and other advantages of incorporating and operating in Egyptian industrial zones. The United States companies already contacted by the expert should receive a personal call from a GAIFZ representative in New York to obtain a firm commitment as soon as possible;

(b) Contact should be made with foreign government offices and shipping companies, particularly in the European, the Middle East and the United States, to explain how the bunkering, refueling, bulk cargo, contracting or container shipping may save them money by using the zones in Egypt;

(c) Contact should be made with the management of other free-trade zones of the world in order to undertake an exchange of information on what companies are doing in their zones and to have the other zone operators encourage the use of the Egyptian zones, as the latter should be doing on a reciprocal basis with its tenants.

2. Educational programme

(a) A local public relations programme should be implemented in Egypt to acquaint the populace with the advantages of the industrial free zones and how they work. In an effort to avoid alienation of any specific interest or segment of the society, it is suggested that a press, radio and television programme be undertaken as part of a widespread educational programme;

(b) Industrial free-zone specialists in Egypt, who will be assisting the management and servicing companies in the operations of the zones, should be available to answer questions or provide information to government officials and prospective users.

3. Pilot and continuing promotional campaign

In an effort to obtain commitments from manufacturers to establish operations in the zones, the following steps should be taken:

(a) Preparation of an illustrated brochure showing the Egyptian industrial zone facilities and proposed sketches of the zones after completion. The brochure should describe the advantages of the zones, quote some of the features of GAIFZ legislation and in general attain sophistication with glossy photographs to be accompanied by maps, inserts and press releases that will fit into a double-fold kit. Approximate sizes of the brochure, inserts and kit should be 20 cm x 28 cm.

(b) Preparation of a smaller booklet (10 cm x 23 cm) which would be more detailed in describing the advantages, the legislation and the various ways companies may profit from using the Egyptian zones. The booklet would elaborate on how Egypt is undertaking a programme to attract foreign capital by complying with the 30 basic requisites to obtain foreign investment. A major vehicle for distributing this booklet would be a leading law publishing company in the United States that would sent it free of charge to its 2,000 subscribers of Foreign Tax Trade Briefs, the only up-to-date tax and investment service of 104 countries and to more than 1,000 subscribers of tax-free trade zones of the world. The booklet would be distributed along with these services' regular monthly supplements and would be inserted in each volume under Egypt for future reference by 3,000 of the world's largest companies and most prominent law and accounting firms;

(c) Development of a mailing list by offering, free of charge, the smaller booklet, whose availability would be announced in more than 20 major United States trade newspapers and magazines, including the Wall Street Journal, the Journal of Commerce, U.S. News and World Report, Business Week, Business International, 17 bank newsletters and trade association publications, Foreign Tax and Trade Briefs, the United States Department of Commerce publication, Business America and others. Based on previous experience, approximately 2,000 requests for the booklet will be received. GAIFZ representatives in New York should personally call on the interested firms. At that time the GAIFZ representative would explain in detail how the interested party might best take advantage of a particular zone and present the promotion kit and the smaller booklet. The company name would be indexed and periodic follow-up calls would be made. Names of users of the major free trade zones of the world would be provided by the United States representative of GAIFZ and mailing and personal calls would be made on the most promising users of the Egyptian zones. In addition, free trade zone specialists who are regular advisors to the principal foreign trade associations, i.e. the International Executives Association and Motor and Equipment Manufactuers Association, would personally contact members who are possible users of Egyptian zones as they do at present for several United States foreign trade zones and the zones at Shannon and Hamburg;

(d) Closely related to the above activities would be a publicity announcement of the availability of the illustrated brochure and booklet at a press meeting and reception in New York to be attended by one or more officials of GAIFZ, at which time the Egyptian zones' facilities and services would be described and photographs or slides would be shown;

(e) A continuing publicity programme would be necessary in order to keep the name of the Egyptian zones in the forefront of the business community in Europe and the United States. This promotional activity would be developed by the United States GAIFZ representative through research and experience by determining viable marketing directions. For example, if the market for Egyptian-made ladies' clothes in Europe and the United States was saturated, then the emphasis would be on discussions with textile companies that process other cloth products. The United States representative would prepare case histories for various textile and apparel publications. Similarly, articles and case histories would be prepared for other trade publications such as journals in the wood and pulp, fruit processing or marine products industries;

(f) Following successful operations of the zone (after a two- to three-year period), a full-scale public relations and sales promotion campaign would be required, which would include not only the activities described in (e), above, but also a speaking engagement programme. This would consist of occasional visits by officials from GAIFZ or the individual zones to speak at various trade meetings in the United States. Periodic mailings with reprints of articles would be sent to mailing lists and prospective users previously contacted. The United States GAIFZ representative should have a continuous rapport with the principal editors of newspapers and trade magazines in order to emphasize the benefits of the zones. The 6,000 users of the worlds' foreign trade zones, as listed in Tax-Free Trade Zones Of The World, should be contacted by mail (a complimentary copy of this book has been sent to the UNDP Liason Officer in Cairo who will send photocopies of the pages to the Egyptian industrial free zones).

Annex III

INVENTORY-CONTROL SYSTEM OF THE DELAWARE VALLEY FOREIGN TRADE ZONE

For incoming merchandise, the Zone prepares United States Customs Form 214 every day to cover all shipments of the previous day into the zone. Attached to the form is a receipt register of the previous receipts with zone status posted (F214 is an application and permit for foreign trade zone admission and/or privileged foreign status designation for zone merchandise. This is the application for liquidation of duties, and taxes if any, under the First Proviso of 19 United States Customs 81C, filed with Zone Customs entry on Customs Form 7502).

On merchandise going out of the zone, an immediate delivery (ID) permit is opened every Monday. This permit covers all zone withdrawals for the business week. The ID is closed on Friday of the same week and a duty-paid entry is submitted to customs 10 working days from the Monday the ID was opened. This means that only four duty paid entries are prepared each month.

Thus, the amount of paperwork normally associated with foreign trade zones has been minimized and the costs of operation are substantially less since salaries for bookkeepers and other personnel handling journal entries and documentation are eliminated. Moreover, the operational procedure works in conjunction with the United States Audit Inventory Customs Service (AICS) system, providing a unique and important audit trail, which the United States Customs Service regulatory audit division needs. This audit trail starts when a shipment arrives in the United States and clearly tracks the merchandise right through until it exists from the zone. It may track the merchandise either with the universal first-in first-out (FIFO) inventory system or the actual segregation by ID number.