

Voluntary Report – Voluntary - Public Distribution

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Report Name: Industries Hail Egypt's Letter of Credit Mandate Reversal

Country: Egypt

Post: Cairo

Report Category: Agriculture in the Economy

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Report Highlights:

Egypt reversed the widely criticized mandate by the Central Bank of Egypt for importers to utilize a process where letters of credit would substitute the long-established cash-against-documents process. Egyptian banks had been unable to process the vast number of applications from Egyptian importers and the long waitlists caused importers to pay large sums due to port delays and/or cancel further shipments from the United States. The cash-against-documents process has been reinstated.

On May 10, Egypt's President Abdel Fattah El-Sisi ordered the reversal of the widely criticized Instruction Number 49 issued by the Central Bank on February 13. This Instruction substituted the long-established cash-against-documents process for clearance of shipping documents with a process where importers must apply for a letter of credit through banks. President El-Sisi directed for the exclusion of production requirements and raw materials from the procedures that had been recently applied to the import process, thus returning to the previous system through collection documents.

The President formed a working group headed by the Prime Minister, and included the Central Bank Governor, the Minister of Finance, the Minister of Trade and Industry, and other competent authorities, to carry out periodic follow-up and regular evaluation of the system of import procedures and the extent to which they meet the needs of the production process. Importers of manufacturing inputs, raw materials, and ingredients will resume inward documentary collection – a method by which importers and exporters communicate through their banks about the goods and entities in the commercial transaction. The bank would then charge a fee for releasing funds from an importer's account in exchange for documentation such as a commercial invoice, a certificate of origin, a bill of lading, etc. The documentation collection usually begins with the exporter's bank sending over the necessary paperwork.

Background

On February 13, the Central Bank of Egypt issued Instruction Number 49 which, effective March 1, 2022, substituted the long-established cash-against-documents process for clearance of shipping documents with a process where importers must apply for a letter of credit through banks. The instruction to the Egyptian banks waived certain companies (with foreign affiliation) and commodities from this process. Foreign companies and their subsidiaries did not have to abide by the new decision. Banks were also allowed to accept invoices for goods that had already been shipped before the decision was issued.

The process the Central Bank imposed (now reversed) was more complicated but did offer the exporter more protection. To take on a transaction, the importer's bank would still request documents from the importer, but they would also be entering into a contract that commits them to reimburse the exporter if the importer defaults for any reason. The new process began when the importer's bank assured the exporter's bank that the funds would be available upon receipt of the shipment.

Egyptian industries were quick to protest the new mandate. The Presidents of the Federation of Egyptian Chambers of Commerce, the Federation of Egyptian Industries, and the Egyptian Businessmen's Association wrote a joint letter to Egypt's Prime Minister calling for the action to be reversed. They explained that the instruction issued by the Central Bank would worsen the already troubled global supply chain and increase their costs of production, which could drive up inflation and negatively impacts Egyptian exports.

Importers of U.S. commodities reported extreme delays when applying for letters of credit through their banks, citing reasons such as the overwhelming number of applications, the limited number of trained staff, and the cumbersome process of obtaining approvals from different levels in the banks. Some of these businesses advised that due to the lengthy process of

obtaining letters of credit they had to pay large sums for unreleased shipments at ports, either delay further shipments from the United States until they were able to secure letters of credit, or cancel future commitments.

Attachments:

No Attachments.