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# LYNX Business Bulletin

## Egypt Launches an Automotive Industrial Development Program

November 2023

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# Introduction

Egypt's automotive industry is considered small, underutilized, despite the country's market size, geographical location, and potential diverse portfolio of activities in manufacturing, assembly, and distribution. Dominated by fifteen active passenger/commercial vehicles assembly plants (mostly using imported components) and hundreds of auto-feeding companies (supplying locally manufacturing or international brands as well as selling manufacturer-approved spare parts), local automotive assembly plants produced around 51,000 passenger vehicles in 2022 (*Source: Egyptian Automotive Manufacturing Information Council.*) These figures are expected to decline in 2023 as a result of current global and local economic and supply chain challenges.

Nissan Motor, General Motors, GB Ghabbour Auto, and Al Amal have been, for some time, Egypt's main local manufacturers of passenger and commercial vehicles. Tier 2 and Tier 3 local manufacturers in Egypt are currently focused on industries such as tires and inner tubes, glass and windshields, aluminum parts, electrical wires, batteries, leaf springs, oil and air filters, upholstery material, as well as plastic parts and bumpers. Only two Tier 1 companies (Valeo and Brightskies Technologies) are currently present in Egypt,

focusing on exporting their technologies to regional and international markets.

During the past years, local automotive manufacturers conveyed to the Government of Egypt (GoE) their rising concern over the impact of Egypt's Association and free trade agreements with the European Union, United Kingdom, AGADIR member countries and Turkey on their ability to compete within a fair level playing field against imported zero customs vehicles.

During the past few years, key automotive industry players and business associations actively engaged the GoE to highlight the role that the automotive assembly and component manufacturing industry can play in stimulating multiplier effects in terms of industrial transformation. Emphasis was placed on the industry's potential role as a powerful driver of employment, foreign investment, innovation and economic growth.

Key GoE decision-makers understood and supported this approach and worked closely with industry players to develop Egypt's Automotive Industrial Development Program (AIDP).





# Introducing the AIDP

Seeking to position Egypt as an automotive manufacturing and export hub, the GoE adopted the AIDP, aiming to:



*Support the development of a competitive automotive industry in Egypt, enabling the country to become a regional automotive export hub, attract new investors, and enhance local manufacturers' ability to compete against imported vehicles.*



*Enhance the industry's contribution to the national economy, including by exporting passenger and commercial vehicles to regional and international markets, thus supporting a more stable balance of payments, as well as attracting new technologies.*



*Promote early use and investment in new green technologies, including positioning Egypt as a regional hub to produce environmentally friendly vehicles.*



*Support the development of the automotive feeding industry and increase the local added value in the production of passenger and commercial vehicles.*

# AIDP Institutional Setup

In October 2022, the Egyptian President ratified a law establishing the Supreme Council for Automotive Industrial Development. The Council, headed by the Prime Minister, oversees the adoption of overall policies, plans, and strategies for the development of the automotive industry in Egypt, including the implementation of the AIDP.

The Council, which has been convened three times, seeks to create an enabling environment for automotive manufacturing, promote legislative reforms, address evolving challenges facing the industry, and coordinate with local and international partners to advance the local industry.

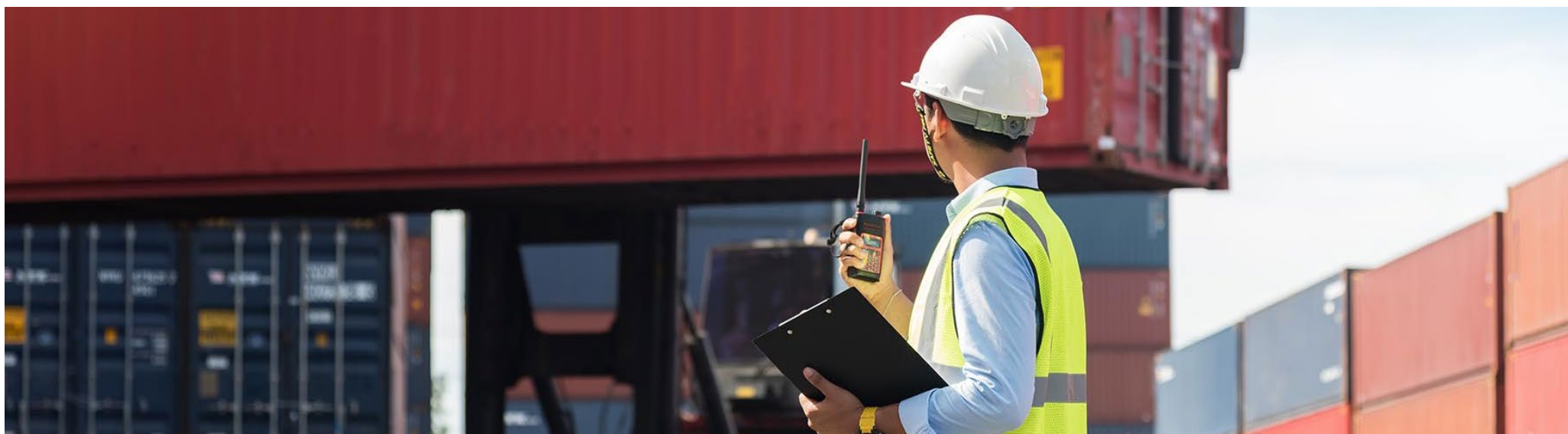
Supreme Council : Chaired by the Prime Minister of Egypt				
Who	Ministry of Finance	Automotive Unit	Automotive Industry Development Fund	Automotive Industry Development Council
Main Function	Customs procedures	Programme administration and regulation	Programme oversight	Industry oversight
Responsibilities	<ul style="list-style-type: none"> <li>1- Customs registrations</li> <li>2- Customs regulations</li> <li>3- Chapter 98 tariff implementation</li> <li>4- Implementation of relevant rebate provision for Chapter 98 administration</li> <li>5- Systems development (Tariff 9801 &amp; rebates)</li> <li>6- AIDP quarterly customs account</li> <li>7- Production incentive certificate (PIC) value management system</li> </ul>	<ul style="list-style-type: none"> <li>1- Drafting of guidelines</li> <li>2- Registration of Bona Fide Assembler</li> <li>3- Inspections and assessments</li> <li>4- Training technical staff</li> <li>5- Training industry participants</li> <li>6- Determination of localisation ratios for individual assemblers</li> <li>7- Determination of production incentive (PI) factor for individual assemblers</li> <li>8- Processing of production incentive (PI) claims</li> <li>9- Issuance of production incentive certificates (PIC)</li> </ul>	<ul style="list-style-type: none"> <li>1- Oversee and monitor implementation of policy</li> <li>2- Monitor and report programme data (statistics)</li> <li>3- Provide the Automotive Unit with adequate resources</li> <li>4- Compliance monitoring</li> </ul>	<ul style="list-style-type: none"> <li>1- Strategic direction</li> <li>2- Stakeholder consultation and coordination</li> <li>3- Policy review</li> <li>4- Industry regulatory compliance</li> <li>5- Annual industry reporting</li> </ul>



# AIDP Incentives & Calculation Methods

The AIDP seeks to support local automotive manufacturers/assemblers to achieve the economies of scale needed for competitive 'Complete Knocked Down' (CKD) production. To attain this, the AIDP offers production incentives to such manufacturers/assemblers based on four criteria: local value addition, production volumes per year, value of new investments, and type of engine technology (emissions.)

The production incentive will be issued in the form of a duty credit value, to be used by the AIDP investor in settling government payments. This includes, inter alia, the settlement of customs duties on imported CBUs and components.



Such production incentives are built on the decision of the House of Representatives on June 7, 2022 approving a **Presidential Decree amending the customs duties on imports that are essential for manufacturing**. According to the Ministry of Finance, the amendments are intended to keep pace with the developments of the 2022 Harmonized System (HS) issued by the World Customs Organization (WCO). As per the amendment, the GoE adopted a standardized tariff for the CKD and 'Semi-Knocked Down' (SKD) automotive industry components. The tariff will be applied in accordance with Customs Chapter 98 on the components of the automotive industry. The new custom tariffs are in line with GoE efforts to localize manufacturing, boost exports, limit imports, and protect local industries.

# AIDP Incentives & Calculation Methods

## Incentive Calculation

AIDP Assemblers will be granted an incentive calculated as a **percentage of Local Value Addition (LVA)** based on 4 criteria

### 1 Local Value Addition % \*\*

LVA / component Incentive % =

LVA incentive % from table below according to LVA % and vehicle type

Passenger Cars (PC) LVA & LCP %		PC LVA Incentive %		Component Incentive % (PC)		Light Commercial (CV) LVA %		CV LVC Incentive %	
From	To					From	To		
<45%		0%	0%			<55%		0%	
45%	49%	10%	15%			55%	57%	3%	
49%	52%	20%	30%			57%	59%	5%	
52%	54%	22%	36%			59%	61%	6%	
54%	56%	25%	41%			61%	63%	7%	
56%	58%	28%	46%			63%	65%	9%	
58%	60%	32%	52%			65%	70%	10%	
>60%		35%	57%			>70%		12%	

### 2 Production Volume/ Year

Production Volume Incentive % =

LVA x Rebate Factor

Incentive factor	Annual Production Volume	
Zero	< 10000 Car	
20%	10000	13000
26%	13000	18000
34%	18000	25000
44%	25000	32000
56%	32000	40000
70%	40000	50000
84%	50000	60000
100%	>60000	

### 3 Value of new Investment

New Investment Incentive % =

LVA x Rebate Factor

Incentive number of years	Incentive Factor	New Investment Million US\$	
-	Zero	< 4 Million USD	
One Year	20%	6	4
2 Years	26%	16	6
2 Years	34%	33	16
3 Years	44%	66	33
5 Years	56%	133	66
5 Years	70%	200	133
5 Years	84%	266	200
5 Years	100%	> 266 Million USD	

### 4 Emissions

Emission Incentive % =

Additional Emissions incentive % from table below according to engine emissions

Emission Incentive %	Emissions Std.
< Euro 3	0.0%
Euro 3	0.5%
Euro 4	1.5%
Euro 5 & above	3.0%
CNG/Hybrid	4.0%
EV	20.0%

Choice between this incentive and investment incentive in Investment Law 72/2017

Local value add =  $\frac{\text{Ex-factory selling price without Tax} - (\text{Imported parts} + \text{Any imported car parts purchased from the local market})}{\text{Ex-factory selling price without Tax}}$

- Electric vehicles are given the same incentives as passenger cars when **half the added value** required in the table is achieved.
- Minimum annual volume **5,000 units/model** must be achieved for ICE and no minimum for EV
- Incentive cant exceed **35%** of vehicle Ex-factory sales price

Manufacturers of electric vehicles were provided additional incentives. For example, EV manufacturers will receive the same incentives as internal combustion engine (ICE) passenger cars when only half the added value required in the AIDP incentives table is achieved. Furthermore, the AIDP does not require a minimum annual volume of manufactured units to receive AIDP incentives, compared to ICE vehicles (minimum of 5,000 units/model must be achieved.)

# AIDP Incentives & Calculation Methods

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52%	54%	22%		36%		59%	61%	6%	
54%	56%	25%		41%		61%	63%	7%	
56%	58%	28%		46%		63%	65%	9%	
58%	60%	32%		52%		65%	70%	10%	
>60%		35%		57%		>70%		12%	

### 2 Production Volume/ Year

Production Volume Incentive % =  
LVA x Rebate Factor

Incentive factor	Annual Production Volume	
Zero	< 10000 Car	
20%	10000	13000
26%	13000	18000
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EV	20.0%

Choice between this incentive and investment incentive in Investment Law 72/2017

## Illustrative Example:

Natural gas passenger car; Ex-factory selling price is **LE 200,000**, imported CKD & raw materials worth LE 105,000, local components worth **LE 55,000** produced in a factory that produces 12,000 cars. New investments worth 5million USD.

$$\text{LVA} = 200,000 - 105,000 = 95,000 \longrightarrow \text{Percentage of Value Added} = 95,000 / 200,000 = 47.5\%$$

$$\begin{aligned} &\text{LVA Incentive \%} = 10\% + 15\% & \text{Production Volume Incentive \%} = & \text{New Investment Incentive \%} = & \text{Emission Incentive \%} = \\ \text{Total LVA Incentive \%} = & 10\% & + & 20\% \times 10\% & + & 20\% \times 10\% & + & 4\% & = & 18\% \end{aligned}$$

$$\text{Total Incentive} = 95,000 \times 18\% + 55,000 \times 15\% = \text{LE 25,350} \longrightarrow \text{Represents 12.68\% of car value}$$



# Additional Incentives for Automotive Investments

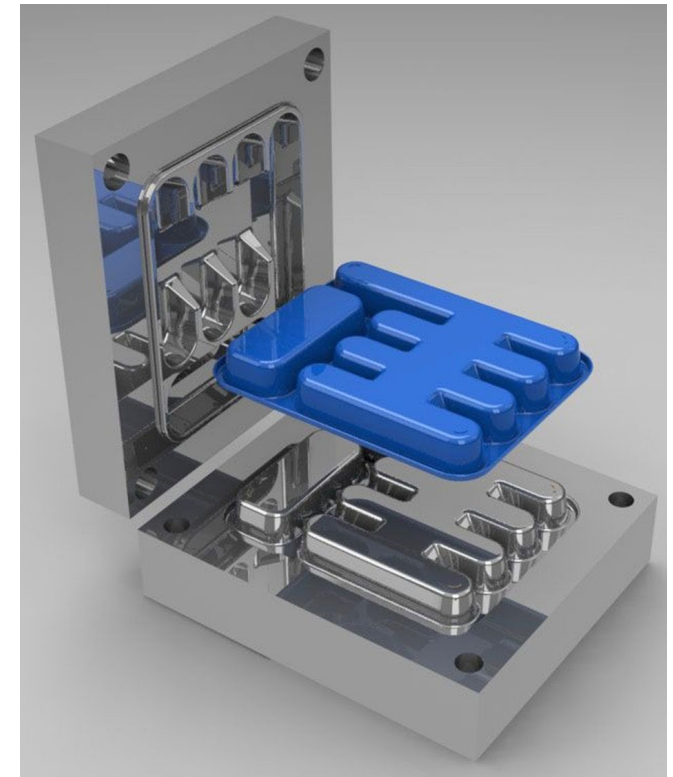
The GoE has also approved additional incentives to take the country's local automotive manufacturing sector to the next level, with an emphasis on EVs. For example:



*Imported machinery, equipment, and devices necessary for the construction of the manufacturing facilities, are subject to a unified customs tax of 2% of the value of the goods. This has been significantly reduced from an average of 30% to promote the localization of the industrial sector. These include equipment to operate EV charging stations and natural gas-powered fueling stations, environmental monitoring equipment and their spare parts, components for manufacturing electric buses, such as batteries, electric motors and unit controllers, auxiliary system units, steering units, battery cooling units and air conditioners.*



*Custom duties were also lowered for a total of 150 intermediate goods necessary for the local manufacturing industry. The GoE seeks to achieve the required balance between the tax imposed on finished goods, intermediate goods and primary raw materials that are partially or wholly involved in local production.*



*All molds, dies, and other similar production requirements may be imported without customs duties for temporary use in manufacturing products and subsequent re-exportation.*

# Additional Incentives for Automotive Investments

The GoE is offering **additional incentives within the framework of the Egyptian Investment Law**. The additional incentives include:



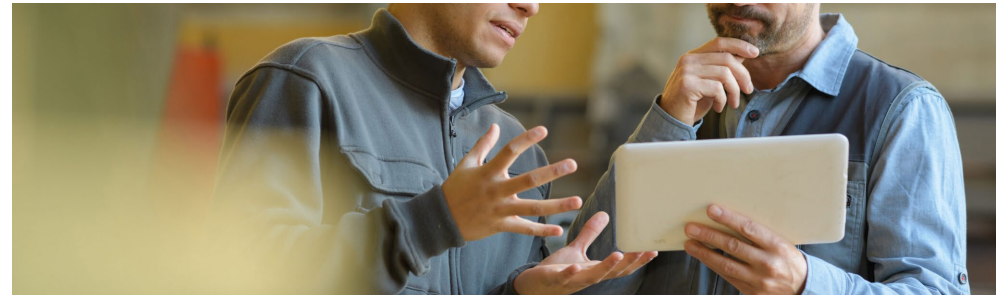
*Rebates for the expenses of connecting facilities to the designated property for the investment project, or a part thereof, after the project becomes operational.*



*Refund of half the cost of land allocated for industrial projects (operations must start within 2 years of land entitlement).*



*Exemption from real-estate property tax for 3 years.*



*Refund of a percentage of the costs for technical training of factory workers.*

The GoE, largest institutional buyer of new imported vehicles, will encourage local automotive producers to standardize and supply its vehicle fleet requirements. This will include implementing a **Preferential Procurement Policy for products from registered AIDP assemblers**, and will facilitate vehicle purchase, financing and ownership for vehicles produced from the AIDP, including for public sector employees.



# AIDP Registration

On November 7, 2023, the Supreme Automotive Industrial Council approved the launch of a digital platform that will connect local car part suppliers, manufacturers, and assemblers to enable manufacturers to receive AIDP incentives. The platform will be managed by the state-owned fintech player e-Finance.

Participation in the AIDP requires registration and approval as a Bona Fide Assembler (registered light motor vehicle manufacturer in terms of Note 1 to Chapter 98 of Schedules to the Customs Act), which unconditionally binds a participant to the rules and conditions of the AIDP. To be accredited as a Bona Fide Assembler, specific conditions and procedures must be met, including:



*Qualification requires investment – hence the manufacturer/assembler shall achieve a minimum manufacturing output of 10,000 units annually, within 3 years (36 months) from the start date of joining AIDP as per submitted production volume fulfillment plan.*



*The assembler should be a recognized global OEM or have a technical agreement with such global OEM or must be licensed to manufacture by a global OEM. (The aim is to ensure that only reputable participants in the program with long term support from the global OEMs to ensure that the quality standards are maintained).*



*A Technical Committee will confirm that the factory complies with the requirements as set out by AIDP.*



## The Egyptian Automotive Industry Development Process



# Conclusion



Today, the Egyptian economy is facing several economic challenges that were augmented by the COVID-19 and Ukraine war crises. In response, the GoE has recently shifted policy to create an empowering environment for private sector-led investments, prioritize industrial localization, rationalize spending, and offer lucrative investment incentives, all of which are creating

opportunities for foreign investors to maximize benefit from Egypt's potential to become an automotive industrial hub. The attainment of this objective is complemented by benefiting from Egypt's wide network of preferential free trade arrangements, strategic geographical location, cost-efficient, skilled labor, and a rapidly growing, young market of over one hundred million persons.

Thank You.

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