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مؤتمر
عمال مصر الديمقراطى

Position of Independent Trade Unions towards the International Monetary Fund loan

On Thursday morning, November 8, 2012, a consultative meeting was held in Cairo between representatives of the Egyptian Federation of Independent Trade Unions, Egypt Democratic Labor Congress, and the International Monetary Fund (IMF) mission in the presence of a number of economic advisers and representatives of the International Trade Union Confederation and international and Egyptian civil society organizations. The meeting discussed the preparations for the $4.8 billion U.S. dollars credit agreement being discussed between the Egyptian government and the International Monetary Fund.

The representative of the IMF mission made a presentation of the Fund's mechanisms of action in monitoring, lending, economic cooperation and its active role in Egypt and the problems of the current situation in Egypt in particular, the high situation of uncertainty associated with high rates of unemployment, structural imbalances, balance of payment deficit and its financing through drawing on reserves and exceptional flows. The presentation stressed the desire of the Fund to rebuild the economy in a way that leads to the generation of new jobs and reduction of current difficulties, to deal with the deficit in the balance of payment to boost confidence and reduce the likelihood of exposure to risk.

While the representatives of Independent Trade Unions welcomed the decision of the IMF mission to meet trade unions and non-governmental organizations and to listen to the different views – a step that was not taken by the Egyptian government itself!! – they stressed their concern about the preparations for the credit agreement being negotiated, expressing the following observations:

- First: The current talks between the Egyptian government and the IMF on the loan lack the transparency, which was and is still an important requirement of the Egyptian people. These negotiations are taking place away from the lights. The government does not reveal details and refrains from discussing it with non-governmental bodies and political forces and parties. This casts doubt about the loan conditions, and calls to mind a painful legacy of corruption and administrative degradation, for which Egyptian people are still paying its exorbitant bill until now.

- Second: Using the loan – as it is almost announced – in bridging the budget deficit, without investing it in economic and social development purposes, contrasts with the general rules for economic cooperation on which the Fund is based, and means a continued crisis of the Egyptian economy with relayed deficits burdening future Governments.

The intervention of the IMF mission, with its purpose of aiming to arrive at an agreement with the Egyptian government to provide assistance, did not trigger an overall program to address the imbalances and increase confidence in macro-economic policies. Evidence and indicators show that most attention is focused on addressing the budget deficit without announcing a clear economic development plan within which "structural or quantitative measures" are taken, and towards which "the proposed gradual pace" is directed.

- Third: The solutions being put forward to deal with the budget deficit do not give cause for optimism, but are on the contrary raising particular concern with regard to the restructuring of energy subsidies and floating the exchange rate of the Egyptian pound, for the following reasons:

1. Egyptian society – in its current conditions – cannot possibly bear the severe adverse effects of high fuel prices on the current living standards for the vast majority of the Egyptian people.

2. The recommendation to restructure energy subsidies, without offering or proposing clear measures and mechanisms to ensure compensation of low- and middle-income people for high fuel prices, seems and remains in reality merely a recommendation for canceling fuel subsidies to reduce current government expenditures without giving adequate attention to its disastrous social repercussions. We emphasize in this regard our complete rejection of any form of removal of subsidies for energy or fuel in light of the current situation with the exception of the subsidies received by establishments and factories operating in the energy-intensive industries.
3. The claim that the present subsidies system is ineffective and unjust and that a large part does not reach those who deserve them is not sufficient, and is not a reason to repeat previous experiences which all failed in restructuring subsidies to ensure the protection of people with limited income or their compensation for higher fuel prices (Nigeria, Bolivia, and recently Jordan).
4. Floating the Egyptian pound exchange rate would launch a great inflationary wave, especially in light of the rising demand for dollars and foreign currencies to meet the purposes of transferring and smuggling funds – which last year reached unprecedented levels – and illegal commercial activities which have grown with the inaction of state controls. Salaried workers – victims of inflation among fixed- and low-income earners – can most emphatically not stand resulting additional waves of inflation!!

 Fourth: The economic reform that can be credible, efficient, and widely accepted is a reform linked to social justice. The mechanisms to achieve justice in order to ensure a minimum level of societal balance and stability is not a discovery or a hidden secret to anyone, since these mechanisms begin with restructuring wages, according to a fair and logical minimum to start with, and a maximum of no more than ten or fifteen times this minimum level.

 Fifth: Reducing the salaries of senior management and advisers in the state administration – including provisions of bonuses and allowances and privileges, which exceed in some sectors million pounds per month – and adhering to the principle of budget unity without a clutter of special funds and the independence of some public bodies with their resources. All these are important ways to reduce government expenditures more efficiently and transparently than launching an attack on workers' rights and lower-income classes and their limited share in the GNP.

However, reorganizing priorities of public spending should not lead to reduction of spending on services. We should recall what came about with a program agreed by the IMF in the early nineties to cut spending on services, in particular health and education, and the resulting practice of depriving millions of Egyptians of their right to health care as well as the collapse of the education system in Egypt.

It should also be noted that the current rates of spending on health and education in Egypt should be increased to at least three fold to become close to world standards and a humanitarian framework.

□ Sixth: As we emphasize the lack of insurance system and social security in Egypt and the urgent need to establish a real reform which includes under its umbrella millions of Egyptian marginalized people currently not enjoying minimal social protection, we do not see that the government's guidelines refer to a clearly defined program to review the direction and the growth of this system.

The insurance contributions that have accumulated and became a significant part of domestic debt rightfully belong to Egyptians who pay their insurance subscriptions and have the right to enjoy its surplus sums.

Surpluses have accumulated – despite the little interest charged – while the vast majority of those entitled to pension and insurance benefits get pensions that do not meet the minimum basic needs. However the bulk of the workforce in the private sector and the informal sectors remains outside the insurance umbrella. Meanwhile, collection of insurance contributions in many cases is becoming like collecting taxes. In non-regular employment sectors, subscriptions are being collected for hypothetical labor without real subscriptions or real beneficiaries. In the formal private sector and even in many government sectors, there are insurance premiums based on "funny wages" which, when used to calculate what the worker gets when pension is due or he is paid sick days as insurance benefits, are not enough to cover necessities.

The final outcome is that millions of Egyptians do not find enough resources for a living, or live below the poverty line.

 Seventh: Addressing the imbalance in the Egyptian tax system is overlooked as is the failure, known to all, to apply some types of recognized taxes – such as capital gains tax, and property tax, as well as the income tax system, which has been gradually amended for two years – with the purpose of raising the tax exemption limit and applying progressive taxation. That these measures are even an issue seems surprising in a state that is looking for exceptional flows to address the budget deficit!!

This laxity regarding direct taxes on capital gains and the income categories and segments of those at the top of social ladder compared to an apparent tendency to levy indirect taxes on sales and value-added and similar increases in electricity prices, and collecting cleaning fees with bills, etc., reflect a clear political bias for other than workers and low-income people.

Therefore, we stress our opposition to any new type of indirect taxes which burden the workers and low-income people, and in particular a law for a VAT, or to amend the law on the sales tax or to cancel exemptions on certain essential commodities from the tax. We demand that the tax exemption be raised to 18,000 Egyptian pounds a year, or the equivalent of $3000.

 Eighth: While we emphasize the paramount importance of creating and providing jobs that Egypt needs – according to the International Monetary Fund it is necessary to create 750,000 jobs a year – we stress our strong reservation against repeating the contents of the IMF program in the nineties of the last century in this regard, including a resumption of privatization and partnership between the public and private sectors (PPP).

The painful experience of implementing this program approved by the Fund is still present on the Egyptian land. Egyptian assets were sold for the lowest prices amid government corruption which had then reached its peak. The revenues from the sales were squandered, without the slightest impact on reform. Much of incoming capital was directed towards buying assets rather than investing in new industries or generating new business opportunities. The labor-intensive industries did not enjoy attention; instead it was directed to energy-intensive industries in order to benefit from the subsidized energy (cement, for example). A number of new owners, notably buyers of industrial plants built on large tracts of land, intentionally changed the activity or added real estate activities to their activities to end up with the liquidation of the industry and to sell real estate assets (cotton ginning for example).

As we confirm the utmost importance to invest in labor-intensive industries such as textile, clothing and food industries, we emphasize that Egyptian workers should not be and will not be a comparative advantage to attract investment by reducing wages or worsening labor conditions, but rather through a well trained skilled workforce able to respond to the requirements of the labor market. This matter should be addressed by an effective program of training and employment.

 Ninth: The focus on market liberalization in the face of what the Fund describes as "non-competitive behaviors and red tape" should not lead, despite the seriousness of monopolistic practices and government corruption, to freeing up market mechanisms without the slightest interference. These would prey on the most vulnerable, and marginalized groups in particular, while favoring a lavish consumption lifestyle, in sharp contrast to the inhumane poverty levels into which many Egyptians are pushed.

It also should be noted that economic recovery and expanding the market assume the improvement of living conditions for the millions who are now unable to deal with the market and get their basic living needs.

In addition to the previous observations, Egyptian trade unionists and workers cannot have trust in the ongoing negotiations between the Egyptian government and the International Monetary Fund about the agreement on this standby credit for the following reasons:

- During the existing political situation, executive and legislative powers are accumulated in the hands of the President in the absence of a parliament and a social contract (constitution), which regulates the relationship between the three authorities and ensures Egyptians political, civil, economic and social rights in a secured manner. In such a situation that could be considered exceptional, the Egyptian government does not have enough legitimacy to sign an agreement for which it does not bear its consequences alone since they are conveyed to other governments and possibly to other generations. This matter underlines the importance of our strong reservations against the completion of this agreement during the present situation.

- The continued lack of transparency on the part of the Egyptian government regarding the ongoing negotiations and the government program supposed to be submitted (Letter of Intent), program documents and prior procedures (measures that are agreed to be taken), all multiply our reservations against completing this agreement – particularly with the lack of independent oversight mechanisms which can monitor the performance of the government and its use of the loan – in addition to the lack of clear control mechanisms of the Fund.

- The present economic and administrative system, which is widely acknowledged to be a corrupt one, and which if reformed probably would have procured adequate resources to bridge the budget deficit, if not reformed will continue wasting resources and squandering the loan.

- The continued absence of effective mechanisms for social dialogue and social bargaining, which guarantee to the social parties the right to organize themselves and express their interests and negotiate, will cause the existing government – no matter how clever it is – to fail. This will close its path to serious reforms and balanced and appropriate economic policies that could be credible and widely accepted.

- If the dialogue and social bargaining mechanisms cannot be developed without the right of social parties to organize themselves freely and independently from the government, the orientation and practice of the new government will result in disabling these mechanisms, and close the road to possibilities of social dialogue.

- The current Egyptian government's failure to cancel legal restrictions on the right of Egyptian workers to freely organize their independent unions, reinforced by its ratification of the amendment to the current (Mubarak regime) trade union law instead of passing the trade union freedoms law, as well as punishing dozens of trade unionists by dismissal from their work and referring some of them to the court, shows a clear bias against trade union freedoms. These acts add to our strong reservations about the agreement being entered into by this government, as well as the program submitted with it, and makes its acceptance impossible.

There are a number of alternatives on which Egypt can depend to dispense with the International Monetary Fund loan and to develop local resources and revenues with a recurring nature that are much larger than the Fund’s loan. These can focus on the following:

A – To reform the subsidy system in order to remove all subsidies for the rich, tourist resorts and large local and foreign companies, which sell their products higher than international prices in the cement, fertilizers, iron, ceramics and aluminum industries, and to convert bakeries, brick kilns, transport vehicles and microbuses to work with gas. This would eliminate a large part of subsidies reaching 75 billion Egyptian pounds out of the 95.5 billion pounds spent on subsidizing petroleum products, and about 5 billion pounds on subsidizing electricity in the year 2011/2012.

B – To change the mineral wealth management and exploitation fees act, which generates almost no revenue. For example, the fee is two piasters per ton of lime or limestone, and 20 piasters per ton of granite. Those fees were established in 1956 on the grounds that the state had a monopoly on exploitation, but the low fees continued when the private sector entered later, representing a looting of public natural resources. Any new law which raises the fees for exploitation of the mineral and stone wealth to economic levels may immediately add about 25 billion pounds public revenues, according to estimates by the General Authority for Mineral Resources.

C – To redress government lending interest rates on treasury bills and bonds, and to settle accumulated old interest, so that the interest rate does not exceed two percentage points from the interest rate given to owners of deposits in the banking system. This procedure will alleviate much of the enormous accumulated internal debt payments (payments of interest on the debts reached about 133 billion pounds in the current budget).

D – To undertake a real and substantial change in the tax system towards a multi-level progressive system and to impose taxes on capital gains in the stock market and real estate trading. The renewable annual proceeds for this change to the tax system can exceed within one year the loan amount currently negotiated with the International Monetary Fund.

E – To make crucial changes to export prices of Egyptian gas to Turkey, Spain and Jordan, to be on par with international prices. Accordingly, this would change the corrupt contracts offering Egyptian gas to those countries at very low and stable prices that were concluded by a corrupt system which was not expressing the interests of the Egyptian people. This procedure has recent international precedent, in the abolition of Iraq's oil contracts concluded by the former Iraqi regime of President Saddam Hussein by the United States after the criminal occupation on the grounds that it did not represent the Iraqi people. If this change happened to gas export prices, Egypt could add nearly 15 billion pounds as additional public income annually.

F – To impose taxes on depleted resources to all Egyptian and foreign companies operating in the oil and gas sector to recover the people's rights, given that the majority of contracts of partnership in the production were concluded when oil price was about $17 a barrel in the nineties of the last century, and remains unchanged, although that price per barrel has exceeded $100. Egypt must recover its right to increase this tax as did other countries, such as Algeria.

G – To end the anarchy of appointing "advisers" and those who are over retirement age to save their allowances amounting to approximately one sixth of wages and similar expenses allocations. This will provide a huge amount of money that was to go unfairly for a limited class of senior leadership people who are often kept for reasons of favoritism. These sums can be used in the overall reform of the wage system, while easing the burden on the state budget.

H – To make serious steps towards collecting taxes from big capitalists and their companies, since there are 63 billion pounds of tax arrears due from key tax payers, and the figure reaches 126 billion pounds for tax evaders. This, if realized, will add significant revenues to the state's public budget that would dispense the state from borrowing from the Fund or others.

To reconsider export subsidies, estimated at 3 billion pounds in the last budget, given the revelations about abuse and corruption in distribution during the past years. The direct allocations should be directed towards supporting healthcare, education and reform of the wage system, or to ease the burden on the state budget to do without borrowing from abroad.

Signatures

Egypt Democratic Labor Congress

Egyptian Federation of Independent Trade Unions

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