PRIVATE PARTICIPATION IN MEDITERRANEAN INFRASTRUCTURE

Programme on Private Participation in Mediterranean Infrastructure
World Bank/European Commission

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**Telecom**

**Morocco**

According to a recently published report by Arab Advisors’ Group, Morocco’s communications market is the first market in the Arab region to undergo a "fixed to mobile substitution" phenomenon. While the voice services, fixed and mobile, still constitute the biggest share of the market, the mobile is now capturing the winning position. MédiTélécom, which gained a largest share of new mobile subscribers additions in 2002 than Maroc Télécom, seems to be securing its position as a viable operator in the country. (Mena Report, 04/02/2003, http://www.menareport.com)

**Tunisia**

Tunisia’s second GSM operator, Orascom Telecom Tunisia, owned by the Egypt-based Orascom Telecom and Kuwait’s National Mobiles Telecommunications Company (Watanya Telecom) launched its services in December 2002. Known by its brand name of Tunisiana, the newly established operator aims to attract 500,000 users by the end of this year. Recent duopoly competition in the Tunisian GSM market is considered the first major liberalization step of the Tunisian market and it is expected to propel the market to new highs and increase its size by nine folds by 2006. (Various sources)

**Lebanon**

Belgium-based firm Eurostrategies has won a three-year contract for the establishment of an independent telecommunications regulatory authority in the framework of the liberalization and de-regulation of the Lebanese telecommunications sector. The agreement is financed by a €3.5 million grant from the European Union in the framework of the Assistance for the Rehabilitation of the Lebanese Administration (ARLA) program. The project is expected to provide assistance to the Lebanese Government to (i) design the institutional set up of the authority including structures, procedures and staffing related matters; (ii) develop and implement human resources policies and training programmes as well as operating procedures and systems including for financial management; (iii) develop regulatory procedures and systems; (iv) design and implement the communication and public information strategies; and (v) advice on licensing and regulatory issues as well as on standardization and certification of telecommunication equipment. (Daily Star, 09/01/2003, http://www.dailystar.com.lb and various sources)
Transport

Lebanon

The Port of Beirut Authority expects to open in spring 2003 bids from private sector firms interested in operating its container terminal. The objective is to transform the facility’s mainly domestic capacity into a transshipment hub. The Port of Beirut, which currently handles goods destined for the domestic market, needs an operator to run the nine cranes at the terminal that were bought for US$27 million in 2002. The US-based consultant Cornell has been appointed to draw up options for bringing an operator to manage the terminal. This terminal was supposed to be up and running since the year 2000 but the terminal’s previous operators, the Dubai Port Authority and the Lebanese firm PDG, pulled out in 2001 from a management contract signed in 1998 due to a series of obstacles, without supplying the cranes. *(The Daily Star, 22/01/2003, [http://www.dailystar.lb](http://www.dailystar.lb))*

Energy

Algeria

Four international companies have tendered for the design, supply, construction and start-up of a combined-cycle type *electric power station* with a total capacity of 600-800 MW in Skikda (Eastern Algeria). The companies are Germany’s Siemens, Canada’s Snc/Lavalin, Spain’s Iberdrola, and the Franco-Italian-American consortium Sofresid-Saipem-Black & Veatch. In addition to the construction of the infrastructure, the contractor will be responsible for the exploitation and maintenance of the station. The contracting company is Skikda Power Company which will be established by Sonatrach, Sonelgaz and Algeria Energy Company. *(Arab Finance, 26/02/2003, [http://www.arabfinance.com](http://www.arabfinance.com))*

Syria

Syrian Minister of Petroleum and Mineral Resources Ibrahim Haddad announced on 11 January 2003 that five international companies had been awarded *exploration rights* at sites across the country (these are the Royal Dutch/Shell Group, US’ Ocean Energy, Canadian Stratic Energy and a US-Indian consortium including India’s State Oil & Natural Gas Corporation). China National Petroleum Corporation, an Irish and a Russian firm, also won *exploitation contracts* to raise output from current sites. *(MEED, 13/01/2002, [http://www.meed.com](http://www.meed.com))*

Bulletin

EU/Regional

The Free Trade Agreement between *Egypt, Jordan, Morocco, and Tunisia*, also known as *Agadir Agreement*, was initialled by the four countries’ Trade Ministers on 11 January 2003 in Amman. It is a follow-up to the Agadir Declaration adopted on 8 May 2001 by the same countries. The Agreement should be complemented with some technical annexes, including the tariff schedule, before it can be signed. The Agreement should then be ratified according to each participating country’s procedures. *(Euromed Synopsis no. 210, 16/01/03, [http://europa.eu.int/comm/external_relations/euromed/publication.htm](http://europa.eu.int/comm/external_relations/euromed/publication.htm))*
EIB/Regional

The European Investment Bank (EIB) lending to the 12 Mediterranean Partners reached the record figure of **€1.8 billion in 2002**, compared to €1.5 billion in 2001. Infrastructure for economic development, including energy, water and waste management was EIB’s main focus in 2002 (€1,440 million). The year 2002 was marked by the launch of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP). Under FEMIP the EIB plans to inject €8 to 10 billion in the Mediterranean Partners between 2003 and 2006. (Euromed Synopsis no. 214, 13/02/03, http://europa.eu.int/comm/external_relations/euromed/publication.htm)

EIB/Morocco

The European Investment Bank, has provided **€20 million** for schemes to upgrade the operating conditions of seven **drinking water treatment plants** in northern and central Morocco, including the Bou Regreg complex serving the cities of Rabat and Casablanca. This fourth EIB loan signed with **ONEP (Office National de l’Eau Potable)** brings the total amount advanced by the EIB to this utility to €160 million. It illustrates the importance that the EIB attaches to supporting the water sector in Morocco, and complements EIB’s operations in favour of agricultural irrigation and sanitation projects. (EIB Press Release, 16/01/03, http://www.eib.org)

WB/Jordan

The World Bank approved on January 21 2003 its new **Country Assistance Strategy** (CAS) for the Hashemite Kingdom of Jordan. The CAS includes a **US$305 million** lending package for the fiscal years 2003-2005 aimed at fighting poverty and unemployment. Designed in close consultation with the Government of Jordan, members of civil society organizations and international donors, the CAS contains a mix of lending and advisory services that will focus on **education** and **public sector reform** in particular, as well as other national development priorities. The new CAS aims at complementing the Government’s efforts to fight poverty and has four main objectives: (i) promoting human development; (ii) improving governance through public sector reform; (iii) enhancing conditions for growth led by the private sector, (iv) addressing resource conservation, exploitation and management, with a focus on water; and (v) gender inclusion in development planning and analysis. (World Bank Press Release, 5/12/02, http://www.worldbank.org/)

**A Review of Infrastructure Sector Reforms in the European Union**

by Elisabetta Capannelli and Daniel Müller-Jentsch, PPMI Programme

The European Union (EU), with its 15 member states and 380 million inhabitants is one of the world regions where infrastructure sector reforms are most advanced. Infrastructure policies have traditionally been the domain of individual EU governments, but over the past decade the European Commission (EC) has become a driving force behind the reform of telecommunications, transport and energy markets across the continent. As the ‘guardian of the European Single Market’, the EC drafts legislation (the body of EU law is referred to as the *acquis communautaire*), monitors compliance by member state governments, and investigates violations. The following sections provide an overview over the status of the reform process in infrastructure that can be of interest to the Southern Mediterranean countries which are set to create a free trade area with the EU.
**Telecommunications:** On 1 January 1998 an extensive package of EU legislation entered into force, and was the culmination of a decade-long process, which included the liberalization of data services in 1993 and of satellite services in 1994. The 1998 legislation comprised the abolition of exclusivity rights; licensing principles (transparency, non-discrimination, unlimited number of licenses); interconnection rules (interoperability, obligation to grant access to competitors at cost-related rates); guidelines for the provision of universal services; and number portability (important for switching providers and thus sector competition). The legislation also pushed member states to create independent telecom regulators and required governments to license at least four GSM operators per country. In 2001, local loop unbundling formally liberalized the last sub-sector, even though competition for local calls is only slowly gathering pace. Overall, the impact of sector reforms has been dramatic. By the year 2000, prices for many service categories and countries fell by 20 to 50 percent. Throughout the EU, the telecom sector has witnessed in recent years a wave of privatizations, restructuring of former state-owned companies, explosive traffic growth, unprecedented investments in infrastructure, cross-border consolidation, and the creation of hundreds of new companies. Despite the severe difficulties that the sector has been experiencing lately (volatility of stock markets, excessive investment costs, etc), the reform measures implemented during the 1990s have yielded very large benefits to European consumers.

**Electricity and Gas:** Triggered by a 1999 EU Directive, electricity markets across the EU single market are currently undergoing a profound transformation. The Directive obliges the 15 EU member states to gradually open the sector to competition; vertically unbundle generation, transmission, and generation; and ensure non-discriminatory network access. Even though governments were only required to open a third of the market to competition by 2003, more than two thirds of the €145 billion electricity market have already been liberalized. Following the entry into force of the Directive, prices for electricity fell across the board, while services improved considerably. Most EU member states have created independent sector regulators, to translate the general principles of the Directive into detailed regulations, ensure effective implementation, and prevent incumbents from abusing their entrenched positions. In parallel, a wave of privatizations of state-owned utilities has considerably increased private sector participation in the EU single market for electricity. Competitive pressures, private management, and the opportunities of a rapidly changing market led to a wave of restructuring and consolidation. Several cross-border institutions have been created to help the gradual integration of national markets across the continent (e.g. Council of European Energy Regulators and European Association of Transmission System Operators). Similar dynamics of EU-wide liberalization have been set in motion, albeit at a lower price, by a new EU natural gas Directive, which entered into force in August 2000.

**Air Transport:** EU countries have spent more than a decade liberalizing, privatizing, and integrating their aviation markets. Since April 1997, when the last important Directive of the Commission's Third Package of Air Transport Liberalization Measures came into force, both freight and passenger transport have been liberalized. The package included common licensing rules; legislation on free market access; a deregulation of rates and fares; and regulations that made the EU’s strict competition rules fully applicable to air transport. Policy reform is now turning to a number of remaining issues like ground handling (largely liberalized since January 1999), airport fees (a Directive has been drafted), and rules for slot allocation. In parallel to these reforms, most EU governments have privatized their flag carriers. Several key airports have also been transferred to the private sector. The policy framework of the Single Market for air transport also includes supranational institutional structures and legislation on safety and air traffic control. Thanks to these comprehensive reforms prices fell, services standards and consumer choice increased, subsidies were
eliminated, while traffic levels and total employment in the sector have risen considerably. The EC is now focusing its liberalization efforts on traffic with non-EU countries and particularly on the creation of a civil aviation area that would span most of the continent. Negotiations with the accession candidates of Central and Eastern Europe for the creation of the European Civil Aviation Area (ECAA) were concluded in mid-2001, which require the CEECs to comply with EU-internal rules. By the time the Euro-Mediterranean free-trade area is completed, the ECAA may include up to 30 countries. State ownership of airlines and key airports will largely be a phenomenon of the past, and European carriers, operating in liberalized markets with streamlined regulatory regimes, will be highly competitive.

Other Transport Modes: In the other transport modes, the process of liberalization and cross-border integration in the EU is also well advanced. The intra-European road freight market was de-regulated in the 1990s. Prices were liberalized, quotas and other barriers to entry were removed, cabotage permitted, and border controls abolished. Two of the fundamental principles of the EU Single Market – the right of establishment and the right to provide services – also apply to this sector. In maritime transport, the EU Commission relied less on sector-specific regulation but mainly used its extensive powers to enforce EU competition and state aid rules to liberalize the sector on a case-by-case basis. In addition, it has proposed a directive which would introduce general competition for port services, separate regulatory and operational functions, and significantly enhance the transparency of regulation. In the meantime, the implementation of these principles is already well advanced in most EU Member States, especially the trend towards the landlord port model of operation is pronounced. In an increasing number of key European ports, port services are privatized and opened to competition while the port authority is transformed into a regulator in charge of maintaining common infrastructure, ensuring a level playing field for competition, and coordinating the overall development of the ports in its jurisdiction. In rail transport, reforms are only now gathering pace. Most EU governments have also engaged in comprehensive restructuring programs for their national railway companies, including such measures as commercialization, staff reductions, and the separation of regulatory and operational functions.

Competition and State Aid Rules: The EU's competition laws, which outlaw the abuse of market power, price fixing, and other forms of anti-competitive behavior across the Single Market, also apply to its main infrastructure sectors. The Commission's Directorate General for Competition, in charge of monitoring compliance with these laws, has already ruled against a wide range of anti-competitive practices by both public and private infrastructure sector companies. Amongst other cases, it levied record fines on shipping lines for price fixing; it imposed strict conditions on a number of electricity and gas mergers; and it imposed restrictions on several airline alliances to safeguard competition. In order to create a level playing field between companies, the EC has also repeatedly exercised its right to impose tight conditions on government subsidies to state-owned flag carriers and other infrastructure companies.

Privatization: The EC does not have a mandate to get involved in ownership issues, such as privatization, but most of its infrastructure sector liberalization policies have indirectly accelerated the transfer of public assets to the private sector. The OECD estimates that about 40 percent of global privatization transactions between 1990 and 1999 (for total value of $850 billion) took place in Europe. Most telecom operators and national airlines have been privatized. Many EU governments have started with the sale of electricity, gas, and water companies as well as airports and ports.

As ten countries of Eastern and Central Europe and three candidates in the southern Mediterranean (Cyprus, Malta, Turkey) are adopting the acquis communautaire as a
precondition for EU accession, the same infrastructure policies outlined above are increasingly applied all across Europe. By the time the Euro-Mediterranean free-trade area is completed around 2010, the countries in the Southern Mediterranean region will face a largely liberalized, competitive, and integrated infrastructure sectors of an enlarged EU. The EU is soon to be extended to 25 countries with a population of 450 million and the need to compete and integrate with this enlarged market, coupled with the economic benefits of private sector participation, increased competition and transparent regulation, should provide sufficient incentives to the countries of the Euro-Med partnership to accelerate their own infrastructure sector reforms.

Upcoming Seminars and Training

PPI

“3rd Berlin Summer School on Private Participation in Infrastructure”
Sector focus: Transport, Water and Energy
Organizer: Berlin University of Technology
Location: Berlin, Germany
Date: October 3-12, 2003
For more information: http://wip.tu-berlin.de/berlin-summer-school

Transport

“Régulation et partenariats public-privé dans le secteur des transports”
Organizer: Ecole Nationale Ponts et Chaussées and World Bank Institute
Language: French
Location: Paris, France
Date: April 7-11, 2003
For more information: http://www.worldbank.org/wbi/regulation/courses.html#1

PSD/Regulation

“La Régulation Economique de la Participation du Secteur Privé dans les Services de l’Eau, de l’Energie et des Télécommunications”
Language: French
Organiser: World Bank Insitute
Location: Dakar, Senegal
Date: March 10-14, 2003
For more information: http://www.worldbank.org/wbi/regulation/courses.html#1

“Frontiers in Infrastructure Finance”
Language: English
Organiser: World Bank Insitute
Location: Cairo, Egypt
Date: May 19-28, 2003
For more information: http://www.worldbank.org/wbi/courses_seminars.html
Publications and Articles

Author: Eurostat  
Publication date: January 2003  
For more information: [http://europa.eu.int/comm/eurostat](http://europa.eu.int/comm/eurostat)

Author: Arab Advisors’ Group  
Publication date: January 2003  
For more information: [http://www.arabadvisors.com/latestresearch.htm](http://www.arabadvisors.com/latestresearch.htm)

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