Telecom

Algeria

Orascom Telecom Algeria (OTA) has announced to have reached 100,000 subscribers in its first three months of operations. OTA, Algeria’s first private mobile operator, has surpassed Algérie Telecom’s network of 95,000 mobile subscribers. Egypt’s Orascom Telecom has a majority share (51%) of OTA. (Reuters Business Briefings 30/05/02)

Jordan

Jordan’s new telecommunications law has entered into force. The law transfers regulatory responsibilities to the Telecommunications Regulatory Commission (TRC), and grants it the right to centrally manage the frequency spectrum and conduct license auctions. The new law stipulates the creation of a Universal Service Fund to ensure the wide provision of telecommunications services at fair cost. The new law renames the Ministry of Post and Communications as “Ministry of Information and Communications Technology”. (Jordan Times 28/05/02 http://www.jordantimes.com)

Lebanon

The Lebanese government is currently considering alternatives for selling its two GSM licenses. The two options being considered, based on the recommendations of financial adviser HSBC Investment Bank, are a straight sale or a revenue-sharing arrangement. The international tenders for the licenses are expected to be launched by September 2002. The levels of compensation due to the two current GSM operators, Libancell and France Telecom Liban, whose licenses have been cancelled following an alleged breach of contract, have still not been settled. (Various Sources)

Syria

A Syrian court has ordered a freeze on Egyptian Orascom Telecom’s (OT) assets in Syria as a result of a dispute over a US$ 49 million payment due by OT to Syriatel, the Syrian mobile operator in which it holds 25%. OT blames the litigation on previous disputes with its Syrian partner in Syriatel over the latter’s attempts at assuming management control of the company. (Various Sources)
Tunisia

After several delays, that had put the deal in danger, Egypt’s Orascom Telecom (OT) has been able to pay the first installment of US$ 227 million for the license to operate the second Tunisian GSM network it had won earlier this year. OT holds 51% in the consortium (Orascom Telecom Tunisia), that also includes several Tunisian firms and banks. (Various Sources)

Corrigendum (cfr. PPMI Newsletter-Issue n. 4 Telecom/Tunisia): The government of Cameroon has decided to re-launch the process of privatization of the incumbent telecommunications operator Camtel. The government justified its decision by stating that bid offers were unsatisfactory. (Reuters Business Briefings 30/05/02)

Energy

Jordan

The Jordanian Ministry for Energy and Mineral Resources is reviewing technical bids for the construction of the Egypt-Jordan gas pipeline. Sharjah-based Petrofac International, together with Europe’s ABB; Athens-based Consolidated Contractors International Company; and an Egyptian consortium, are the three parties that submitted their bids for the US$ 300 million Build-Own-Operate (BOO) project. The preferred bidder for the pipeline project, that will allow for future gas sales to Syria, Lebanon, and Cyprus, should be announced by the end of August. (MEED 17/05/02, http://www.meed.com)

Tunisia

Tunisia’s second Independent Power Plant (IPP) project is being planned, with UK’s BG Group acting as promoter for the project. The capacity of the plant is expected to be 500 MW. All generated electricity will be supplied to state-owned Société Tunisienne de l’Electricité et du Gaz. The IPP is scheduled to commence operations by 2006. (MEED 10/05/02, http://www.meed.com)

Water and Sanitation

Algeria

Engineering firm SNC-Lavalin has been awarded a US$ 92 million contract by the Agence Nationale de l’Eau Potable d’Alger (AGEP) to build a water supply transfer system that will divert drinking water from five area dams to Algiers and surrounding provinces. SNC Lavalin will build a 75 km steel supply main, a number of pumping stations, and a water treatment facility. (Canada Newswire 02/05/02, http://www.newswire.ca)

Transport

Malta

Forty percent of Malta International Airport has been acquired by Malta Mediterranean Link, a consortium made up of Vienna International Airport (53%), Canadian SNC-Lavalin (36%), and Malta’s Bianchi & Co (11%). Pending parliamentary approval, the consortium will be the airport’s concessionaire under a 65-year agreement. (Various Sources)
Bulletin

European Union/MEDA

The contract for the Euromed Market Regional Programme, awarded to the European Institute of Public Administration, was signed on May 23. The programme, whose main aim is to facilitate the establishment of a Euro-Mediterranean free trade area by 2010, has a budget of € 9.9 million over 3 years. Its objectives are: (i) developing an understanding of the EU single market regulatory framework, (ii) supporting the development of efficient administrations in the Mediterranean Partners and (iii) improving cooperation among these administrations. (Euromed Synopsis 30/05/02, http://europa.eu.int/comm/externalrelations/euromed/publication.htm)

The “Regional Solid Waste Management Project in Mashrak and Maghreb Countries” has been launched. The 3-year project is funded by a € 5 million MEDA grant within the Short and Medium-term Priority Environmental Action Programme (SMAP). The project focuses on technical assistance in urban solid waste management in 8 Mediterranean Partners (Algeria, Egypt, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia), and is managed by the World Bank. (Euromed Synopsis 30/05/02, http://europa.eu.int/comm/environment/smap/home.htm)

IDB/Tunisia

The Islamic Development Bank has pledged a total of around US$ 211 million to finance projects in Tunisia for water, energy, human resources, and forest protection, during the country’s 10th Development Plan (2002-2006). (Réalités 23/05/02 http://www.tunisieinfo.com/indexrealites.html)

IDB/Lebanon

The Lebanese Council for Development and Reconstruction has issued prequalification documents for the construction of a wastewater network project in the West Bekaa region. The project involves the construction of sewerage pipelines, pumping stations, and wastewater treatment plants, and is funded by the Islamic Development Bank. (MEED 07/06/02, http://www.meed.com)

Reforming the Egyptian Airport Sector

The Egyptian airport sector has undergone major changes during the last few years. High demand pressures have created an urgent need for upgrading airport services country-wide, expanding existing airports, and opening new ones. To permit this expansion, Egypt has sought to attract private sector participation into its airport sector; and in order to encourage private investment, several reforms, particularly in the regulatory and institutional environment, have been initiated.

The airport sector in Egypt consists of 18 civil aviation airports, serving almost 8 million international traffic passengers and 4 million domestic passengers\(^1\). The number of passengers grew by about 4% in 2000-2001 and was projected at 5% for the period 2002-2004\(^2\). During 1996-8, 58% of this traffic went to Cairo Airport, 12% to Hurghada

\(^1\) Egyptian Civil Aviation Authority, 2000, Statistics on ECAA Airports, Cairo, Egypt.

\(^2\) This was before the September 11 events.
Airport, 11% to Luxor Airport, 8% to Sharm El-Sheikh Airport, 6% to Aswan Airport, with the remaining 5% dispersed among the country’s other 12 airports\(^3\). These major airports were already saturated by 2001. Cairo Airport, for example, received 2.3 million passengers over and above its full capacity in 2000; traffic growth at Hurghada Airport reached its peak in 1997 with 12 airplanes per hour; Alexandria, Luxor, and Aswan airports reached their respective capacity limits in 1997; Sharm El-Sheikh Airport was also saturated by 2001\(^4\). In the aftermath of September 11, statistics from the Egyptian Aviation Holding Company show a drop in the number of flights by 36% for Aswan Airport, 19% for Luxor Airport, 14% for Sharm El-Sheikh Airport, and 12% for Hurghada Airport; with the drop most pronounced in October and November 2001. However, the same statistics show that traffic started to pick up in December 2001. It is thus expected that the mismatch between supply and demand seen in the country’s airports, will persist\(^5\).

The Airport Build-Operate-Transfer (BOT) Law (Law 3 of 1997) represents the main legal foundation for private sector participation in the airport sector in Egypt. This law allows private participation in airport activities without allowing full private ownership rights. It also allows private investors (domestic or foreign) to build and operate commercial airports through concessions for periods up to 99 years. The law also states the responsibilities of the Egyptian Civil Aviation Authority (ECAA) in concession procedures. The Egyptian government launched a new strategy for the airport sector in 2000 with the objective of liberalizing the sector and modernizing its regulatory framework. The policy aimed to promote the efficient use of resources to maximize sector revenues and to raise non-governmental funds to finance airports’ infrastructure and expansion.

The main regulatory institution in the Egyptian airport sector is the ECAA, established in 1971. The ECAA is financially dependent on the Ministry of Finance, and is affiliated to the Ministry of Civil Aviation\(^6\). ECAA is in the process of transformation from a service authority to an economic entity\(^7\). This will entail that the management and regulatory roles of ECAA will be split; with management delegated to two holding companies, one for airports and one for air navigation. ECAA will, however, continue to be responsible for managing all non-privatized airports in Egypt (through the Egyptian Aviation Holding Company). Presidential Decrees 71 and 72 of 2001 established the Egyptian Airport Company as a holding company that owns and manages all Egyptian airports, except for Cairo Airport\(^8\). ECAA will continue to be responsible for setting, controlling, and revising civil aviation fees and charges; in addition to air traffic management, air safety, and civil aviation security in all airports (including privatized airports). ECAA is also granted the authority to negotiate with concessionaires and monitor compliance with the terms of the concession contracts.

The regulatory environment in the airport sector in Egypt suffers from several shortcomings. One is the right of the related holding companies to own assets, which introduces ambiguity and potential conflicts with the private party. Another is the scope of ECAA’s functions, which include both operational and regulatory activities, contrary to best practice. As indicated above, ECAA is neither financially nor institutionally independent. The independence of the regulator is therefore not guaranteed.

\(^3\) Ministry of Transportation, 2000, ECAA Plan for Developing and Modernizing Egyptian Airports, Cairo, Egypt.
\(^4\) MEED (http://www.meed.com) and Ministry of Transportation, 2000, ECAA Plan for Developing and Modernizing Egyptian Airports, Cairo, Egypt.
\(^6\) A dedicated Ministry for Civil Aviation was created in March 2002. Before then ECAA was under the Ministry of Transportation.
\(^7\) Pursuant to Prime Ministerial Decree n. 1048 of 2000.
\(^8\) Cairo International Airport has specific economic regulations and is run by the Cairo Airport Authority.
The airport sector’s legal framework is also characterized by the absence of a competition law. A competition law could complement the sector’s regulation by defining anti-competitive practices in several sectors, and more clearly define the airport sector’s regulatory environment. Moreover, Law 3 of 1997 does not allow full private ownership rights in privatized airports. This introduces difficulties in implementing forms of private sector participation other than Build-Operate-Transfer contracts (BOT). Two more elements that are hindering private participation in airports in Egypt are the absence of clear pricing rules, and the need for establishing rules and regulations to be used by ECAA for economic regulation.

The regulatory environment of Egypt’s airport sector has caused private sector airport projects to be concessioned at high risk premiums. This has meant that only risk-taking entrepreneurs have been willing to invest in airport projects in the country. This translates into higher costs for the government and ultimately the consumers. Through further reforming the sector’s regulatory structure, the Egyptian government can expect to concession airport projects at more favourable terms. However, this would require a shift in the government’s focus on seeking immediate proceeds from its privatization deals, and the introduction of a policy that would seek private sector participation in the country’s airports, as a mean to enhance efficiency and competition in the sector.

The trend of private sector participation (PSP) in airport projects is not unique to Egypt. It has constituted a widespread phenomenon in developing countries in the last years, as emphasized in the table below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of projects</th>
<th>Amount of investment (US$ 000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1991</td>
<td>2</td>
<td>40,4</td>
</tr>
<tr>
<td>1992</td>
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</tr>
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<td>1993</td>
<td>3</td>
<td>155</td>
</tr>
<tr>
<td>1994</td>
<td>4</td>
<td>1,498</td>
</tr>
<tr>
<td>1995</td>
<td>4</td>
<td>1,211.2</td>
</tr>
<tr>
<td>1996</td>
<td>9</td>
<td>748.8</td>
</tr>
<tr>
<td>1997</td>
<td>6</td>
<td>1,401.2</td>
</tr>
<tr>
<td>1998</td>
<td>13</td>
<td>10,367</td>
</tr>
<tr>
<td>1999</td>
<td>9</td>
<td>3,014.2</td>
</tr>
<tr>
<td>2000</td>
<td>18</td>
<td>4,220</td>
</tr>
</tbody>
</table>

Source: World Bank PPI Database, 2002

Private participation in the airport sector in Egypt has become synonymous with BOT contracting. The reliance on BOT contracts can also be explained by the large investments required by the airport sector, making management contracts generally unfeasible in Egypt. Private sector contracts for the construction of new airport facilities have already been signed for Alamein, Farafra, Bahriya, and for a new terminal at Sharm El-Sheikh9. The first completed airport project - the first airport to be privately built on BOT terms in Egypt – was the Marsa Alam International Airport project in 1997, located south of Hurghada on the Red Sea. The project is described in the following box:

Marsa Alam Airport: The Pioneer BOT Experience

Reforms in the regulatory environment of the civil aviation sector in Egypt paved the way for the country’s first private airport built under a 40-year BOT concession contract, Marsa Alam International Airport (MAIA). MAIA is the first privately owned and operated airport in Egypt, and also the first airport project to be fully executed as a BOT.

The contract was awarded in 1997 to EMAK Marsa Alam for Management and Operation of Airports, a subsidiary of the Kuwait-based Mohamed Abdulmohsin Al-Kharafi Group (MAK). The initial investment provided by MAK was US$ 50 million. The airport was designed by Netherlands Airport Consultants (NACO). MAIA commenced operations in November 2001. In 2001, EMAK Marsa Alam and the Egyptian Aviation Services Company signed an agreement for the establishment of a new ground and passenger handling services company, Egyptian Marsa Alam Aviation Services Company, to operate at MAIA.

The company is half-owned by subsidiaries of MAK and half-owned by the Egyptian Aviation Services Company. MAIA is managed by Aéroports de Paris. The multinational firm CALTEX has been contracted as the fuel provider, making MAIA the only airport besides Cairo International Airport to employ a multinational fuel provider.

The handling capacity of MAIA is currently 600 passengers per hour and 4-6 aircrafts per day and it is expected to rise to 2,500 passengers per hour and 26 aircrafts per day during the project’s second phase. MAIA is currently receiving 15 flights per week.11 In its first two months of operation, the total number of passengers arriving to and departing from MAIA was 2,239.12 The project’s investors foresee steady growth in the number of aircrafts landing in the airport per day, from 2 by the end of 2002, to 4 by 2004, to 9 by 2010, and up to 40 by the end of the concession period13. MAIA’s runway can handle Boeing 767 jets. The area of the airport’s terminal building is 5000 m², upgradeable to 20,000 m². The terminal has a modular design that can eventually accommodate up to 4 million passengers a year.

While PSP in the airport sector has substantially increased in Egypt (through the use of BOTs), international best practice suggests that comprehensive regulatory and institutional reform is called for. The Egyptian Civil Aviation Authority should be granted full independence. The airport sector’s regulations should be further modernized to allow for other forms of private sector participation, besides BOTs. Only this will allow the Egyptian government to attract private sector investments to satisfy increasing demand, so that the country could benefit from the full potential of its airport sector.

This article is a summary of “Tohamy, Sahar, and Nihal El-Megherbel, Private Participation in Airport Activity in Egypt, Working Paper n. 65, 2001, Egyptian Center for Economic Studies (ECES)”. The full paper is available by accessing the ECES website at http://www.eces.org.eg. The paper has been summarized, and Marsa Alam case study added, by Sherine Al- Shallah, Connexus Consulting and PPMI.

10 For more information, you can refer to the Marsa Alam International Airport homepage: http://www.marsa-alam-airport.com
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