

Competition, Competition Policy and Economic Efficiency in the MENA Region: The Case of Egypt

By
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Executive Summary

With most developing countries experiencing a transitional state to market economies, the need for a competition policy is indispensable. The breaking up of state monopolies and the privatization waves require a complementary institutional infrastructure that is able to ensure a healthy competitive environment. The case of Egypt reflects the importance of studying competition issues within the worldwide context. Starting the mid 1990s with the privatization process converting a large number of state monopolies to private monopolies, where the foundations for competition policy were not prevalent, the issue started to gain larger attention. Debates in the media, among academics, and in the governmental organizations as well as in the business community dealt with issues of competition law and policy and how to handle them.

The new cabinet that has been appointed in July 2004 has been trying to tackle issues related to improving the business environment and inducing more competition in the market where a new ministry for investment was established, which has a main goal of accelerating the privatization process. The Ministry of Finance reduced the tariff rates from 14.6% weighted average to 9% weighted average and reduced the tariff bands from 23 to 6. Several measures are being undertaken to lessen the red tape measures that hinder the flow of investments, and finally there is a huge tax reform project being prepared aiming at lowering tax rates and broadening the tax base. All such efforts are likely to improve the competition policy in Egypt. Trade facilitation measures (including customs administration, port facilities, etc.) still remain a major obstacle that needs to be addressed. Moreover, there are a number of regulatory measures that impede competition and are not tackled by competition law but rather related to trade facilitation: Examples include the technical standards which are predominantly related to food products, engineering goods, and consumer products. All such issues, besides others revealed in the study affect negatively the prevalence of efficient competition policy in Egypt.

The business community in Egypt is divided into various factions with conflicting interests. However, as identified by some observers such greater involvement of businessmen in the decision-making process has not precluded the state from acting unilaterally at its discretion, sometimes against business interest in pursuit of its own goals. Other commentators have argued that the lax consideration of enacting a competition law in Egypt was because of the pressure coming from the private sector which feared the enacting of such law for several reasons, on the top come lack of official technical capacity and the possible intrusion from the media

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and have no significant role in policy advocacy and they lack collective action initiatives.

Hence, it can be safely argued that the three main stakeholders (government, industrialists, and consumers) in enacting an efficient competition policy lack confidence and trust in each other, which hinders the fast enacting of the law.

The present study focuses mainly on local aspects of competition. This does not mean that international dimensions are neglected. They are considered as a leeway to increasing the room of competition from abroad. The study also considers the negative aspects that may be practiced in local markets (firms or consumers) due to collusion or any other anti-competitive actions. Nevertheless, doing that is confined to practices from within the local market.

The study consists of four main parts. Part I reviews the literature for Egypt on competition behavior and regulations. In part II, the study portrays the main features of Egypt's industries pertaining to competition and link that with market behavior and micro aspects of efficiency. Data available enabled us to undertake numerical analysis of competition aspects in the Egyptian manufacturing sector throughout the 1980s and almost the whole 1990s. The study continues to explore the issue through soft data collected via interviews with practitioners in seven sectors, namely textiles and ready made garments, beverages, home appliances, cement, steel, cars assembling, and pharmaceuticals, that are characterized by having high ratios of concentration which is undertaken in Part III. Finally, the study undertakes an analysis of the recently promulgated competition law in Part IV.

The literature review – in part I- on the relevant studies related to competition law and competition policy, reaches the conclusion that the literature on competition law and policy in Egypt is scarce. Some studies have tackled the issue of competition policy and competition law in general whereas few studies have focused on specific sectors. Results of the studies were controversial. One of the major themes that arise from the studies reviewed is that competition law is not enough to ensure the prevalence of competitive environment in the Egyptian markets. An overall competition policy is needed and a clear commitment from the government to preserve the independence of the Competition Authority is a must for the success of the competition law.

In part II, the study explores the main features of Egyptian industry that are related to the concept of competition. Egyptian industry while having a relatively wide number of activities, is characterized by a noticeable degree of specialization in very few industries, mostly related to natural resources (mining or agriculture) or to availability of low-skilled labor.

Most of the production is produced by large firms, indicating high degree of concentration for both employment and production. While the degree of concentration shows -in many industrial sectors- some reductions, we can not depict a considerable declining trend. One can say that both specialization and concentration are well established characteristics of the Egyptian industry. When investigating the relation between specialization in production and the structure of establishments, i.e. concentration; we could not find a clear relation. Sectors with high share in

generating industrial production, may or may not be characterized with high level of concentration. For example, food sector ranks second in generating production while having a few number of establishments. The first ranked sector in the structure of generating production, petroleum products, has the fifth rank in number of establishments.

The study finds that the structures of the industrial markets pave the way for practicing anti-competitive behavior. However, due to data unavailability we could not link the mark-up ratios with other features of the industry that configure the abuse of dominant position for large firms. There are no clear patterns of relationship between mark-up ratios with capital intensity or number of establishments. It would have been useful if we could plot the mark-up ratios with any of the ratios that describe the high degree of concentration in the industry instead of the number of establishments because the latter does not describe the concentration or the unbalanced size phenomenon of the market, but we could not produce these figures on the 3-digit classification due to data limitations.

However the only variable that could be linked to the mark-up ratios is the degree of satisfying the local consumption from local sources. The higher the level of imports, the less are the mark-up ratios. This indicates that when the local market demand is satisfied mainly from local production, the mark-up ratios would be higher.

We found that because studying market behavior and market power is something very new to the literature on Egyptian industry, the current study highlighted many voids in the field that are crucial to study competition such as turn over ratios, rent seeking behavior allowed by efficiency patterns of some firms, segmentation in the market with relation to pricing methods, etc....

The mark-up ratios simulate the relationship between price and marginal cost average over all firm sizes for each industrial activity. Hence, they cannot explain market power in each market relative to others. However, they are very useful device for comparison in the same sector across time.

Part III of the study focuses on identifying three related measures of competition (business to business), (business to consumers), and (consumers to business). The study explores the status of competition in seven leading industries; some of which constitute traditional industries; such as textiles, beverages. Others are considered relatively new ones; especially cars assembling. The market characteristics, especially those related to concentration, of each industry was analyzed followed by investigating the pattern of industrial relationships in these industries that mostly affect competition. The degree of government's intervention and its impact on such industrial relationships was also researched. Finally an impact assessment of market characteristics on competition was undertaken.

The study of the seven selected industries shows that market concentration by itself does not lead to lack of competition. Many factors determine the impact of concentration on competition; such as the share of imported component, the relation with multinationals, the strategic nature of the products, and the degree of market maturity (which determines the potentiality of collusion). Another factor that showed that it needs to be studied carefully is the skewness of the market.

The impact of the three patterns of relations introduced above (b2b, b2c, c2b) differs from one industry to another according to the market conditions of each industry. These market conditions include the number and position of firms, barriers to entry, government intervention, pricing techniques, and percentage of imported inputs. For example, the producers viewed the predatory pricing and quantity forcing practiced by the supplier in the beverages industry, home appliances industry, and car industry as positive aspects because they guarantee stable long-term relationships. All these features have led to the anti-competitive behavior of these sectors which included predatory pricing, quantity forcing, exclusive supply, collusions, barriers to entry related either to the market or the product, and government intervention.

The last part of the study (part IV) is devoted to analysis of the Egyptian Competition Law. The title of the Competition Law in Egypt is “Law of Protecting Competition and Preventing Anticompetitive Practices”. The law had other titles before which did not differ substantially from the aforementioned title, with the exception of one draft (No. 15) which added the phrase “Consumers’ Protection”. The title of the law is in line with the existing titles of competition and anti-trust laws prevailing around the world. What is interesting about the Egyptian title is that it couples between protecting competition and the struggle against monopoly. The majority of the laws either adopt the first half of the title, that is Safeguarding or Protection of Competition, or something alike such as the Prohibition of Unfair and Restrictive Market Practices or they adopt the second half that is Antimonopoly or Counteracting Monopolistic Practices.

Dominant position is defined as controlling 25% (down from 35% in the draft submitted by the government to the Parliament) of the relevant market. The per se rule is not complemented by any other criteria to explain dominance. As it is the case of many other countries, which complement it by a number of other criteria that assure the presence of effective dominance; such as the capacity to affect prices or to overlook competitors behavior- in other words a mixture of per se and rule of reason approaches is adopted. The Egyptian law adds to the 25% threshold, the ability to influence the prices or the amount of products available in the market without the competitors having the same ability.

Examples of illegal practices include the refusal to supply or purchase, which negatively affects prices, to be perceived as abuse of dominant position, tie –in arrangements which make the supply or purchase of a certain good dependant on the purchase or supply of another good. In this respect, the Egyptian law is in line with the UNCTAD model law of competition

The relevant market has been clearly defined from the product and geographical perspectives. The identification of the product market is based on the availability of the similar product or its close substitutes from the point of view of the consumer. The executive decree, which is not published yet, that determines which criterion (the reasonable interchangeability of use or cross elasticity) will identify the test used for identifying the relevant product market. The relevant geographic market takes in consideration the possibility of an extended market depending on the differences of competition status in each market. The law did not identify specific criteria other than the general competition status for determining the scope of the market. For example,

it did not include aspects of price disadvantages arising from transportation costs, degree of inconvenience in obtaining goods and services, choices available to consumers, or the functional level at which the enterprise operate. At this stage it cannot be predicted whether such aspects will be included in the executive decree or not. Nevertheless, it should be pointed out that if such specific issues are not mentioned it might give room to manipulating the definition of the relevant

Regarding the Competition Authority, there has been no wording that implies the independency of the Competition Authority (with the exception of its budget) in the Egyptian law. However it follows the Prime Minister as the concerned minister in charge. Penalties under the law have been confined to financial penalties with no imprisonment.

Finally, the law provided clear exemptions for public utilities and private businesses that result in more public interest benefit than their costs of anticompetitive behavior based upon a discretionary power allowed for the Prime Minister which is to be approved by the Competition Authority.

In general, the study provides an overview of the competition status in the Egyptian economy. It dealt with the issue from different perspectives including the actual play ground of firms in the market, the institutional infrastructure embedded in the law, and the analysis of relevant data. The conclusions reached pointed out that there is a move towards anti-competitive behavior in the Egyptian economy as a result of several institutional impediments, wrong sequencing of policies adopted and inefficient government intervention. The study pointed out that time horizon of capital turnover, as revealed by interviews, plays an important role in determining mark-up ratios, an issue that cannot be revealed by data. Hence, the interpretation of mark-up ratios should be dealt with cautiously to ensure proper interpretation of results. The main policy implications include a better undertaking of the grass roots of the anti-competitive behavior which cannot be any more cured by the trade liberalization or simply enacting a competition law. The issue was found to be deeper. What is needed is a better data set on a more disaggregated level that allows different stakeholders to identify the anticompetitive behavior. The dataset should not be solely controlled by the private businesses or any other stakeholder to avoid asymmetric information.

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Introduction:

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The new cabinet has been trying to tackle issues related to improving the business environment and inducing more competition in the market where a new ministry for investment was established, which has a main goal of accelerating the privatization process. The Ministry of Finance reduced the tariff rates from 14.6% weighted average to 9% weighted average and reduced the tariff bands from 23 to 6. Several measures are being undertaken to lessen the red tape measures that hinder the flow of investments, and finally there is a huge tax reform project being prepared aiming at lowering tax rates and broadening the tax base. All such efforts are likely to improve the competition policy in Egypt. Trade facilitation measures (including customs administration, port facilities, etc.) still remain a major obstacle that needs to be addressed.

However, there are a number of regulatory measures that impede competition and are not tackled by competition law but rather related to trade facilitation: Examples include the technical standards which are predominantly related to food products, engineering goods, and consumer products. All such issues, besides others revealed in the study affect negatively the prevalence of efficient competition policy in Egypt.

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The present study focuses mainly on local aspects of competition. This does not mean that international dimensions are neglected. They are considered as a leeway to increasing the room of competition from abroad. However the study also considers as much it is possible, the negative aspects that may be practiced on local markets (firms or consumers) due to collusion or any other anti competitive actions. Nevertheless, doing that is confined to practices from within the local market.

This study is part of a larger project comprising four countries, namely Egypt, Jordan, Tunisia and Morocco to investigate the status of competition in those countries. We include different dimensions of competition policy in studying the status of competition where we analyze the data related to concentration, markup, etc which are the indicators generally used in the literature to indicate the degree of competition prevailing in different markets. Moreover, we undertake a number of interviews in seven sectors, which were chosen specifically as sectors that enjoy relatively high degree of concentration. We complement the analysis by analyzing the different provisions of the competition law while taking in consideration the UNCTAD competition law as our benchmark.

The study is divided into four main parts. In Part I we undertake a literature review on different studies that have dealt with competition in Egypt. In general, the literature review showed that studies that have tackled the issue of competition are relatively limited. There are two types of studies, the first type is the one that deals with the issue of competition, whether law or policy, in general, and the other type is the one that have dealt with the issue on sectoral level. Moreover, the studies reviewed were all undertaken in the second half of the 1990s implying that the issue was relatively ignored by analysts before mid 1990s. In this regard the study represents an important contribution, first by undertaking the first literature review on this important issue, and secondly by updating the analysts and policy makers on the competition status in the Egyptian economy. There is no concrete result related to competition that the literature review pointed out. In fact, the literature review arrived at mixed results whether regarding the reasons behind the delay of enacting competition law or in dealing with the issue of competition on sectoral level.

In Part II we move to data analysis based mainly on the methodology used for the whole project. We estimate mark-up ratios, and technological progress. We depend on the UNIDO database where analysis for the period of the 1980s and 1990s up to 1995 is undertaken. We study the relationship between different variables related to competition and efficiency using two levels of disaggregating (ISIC 2 digits and 3

digits). We investigate the impact of important variables as trade liberalization by introducing some proxies such as by import penetration on the mark-up ratios.

In Part III, and to overcome the deficiency of data, we complement our analysis by undertaking intensive interviews, based on a questionnaire designed for the whole project, in seven sectors. The seven sectors, namely textiles and ready made garments, cement, steel, car assembling, beverages, home appliances, and pharmaceuticals, are chosen based on our belief that there is relatively high degree of concentration in such sectors. It is worth noting that the interviews do not correspond to the time horizon of the analysis undertaken in Part II. It provides a profile of the status of competition that has been prevailing in the period 2003-2004.

The mark-up ratios, despite used as a proxy of competition in different studies, should be dealt with cautiously in the Egyptian context. The fact that the time horizon of the capital turnover differs significantly from one sector to another, as emphasized by the interviews can result in different estimates when taken in consideration. However, we did not deal with such issue due to data limitations, however it is an important aspect that needs to be highlighted in the analysis.

Finally, in Part IV we analyze the different provisions of the competition law that was adopted in 2005. We benchmark our analysis using the UNCTAD Competition Model Law while emphasizing several characteristics of the Egyptian economy and the relevance of the law provisions to such characteristics. We conclude the study by summarizing the main findings.

Part I: Literature Review

The subjects of competition law and competition policy in Egypt are relatively understudied. There are limited number of studies that have dealt with such issues. Moreover, and according to the best of our knowledge very few research projects dealing with such issues are currently undertaken. In this section, we provide an overview of the existing literature and other research projects in the pipeline.

The first study that tackled the issue of competition law appeared in 1997 in a book that dealt with the Egyptian European Partnership Agreement³. The study included in this book dealt with competition law and policy as major issues that Egypt has to, seriously, consider when joining the free trade area with the European Union. The study emphasized that are some provisions in the criminal law that deal with anti-competitive behavior and such provisions and even cases date back to the early twentieth century. The study pinpointed the importance of Egypt adopting a competition law along the lines of the related Articles in the Treaty of Rome. Moreover, the study identified some reasons that might act against the adoption of a competition law in Egypt and especially the large size of the public sector, and the reluctance of some private sector dominant firms in initiating such law as it might act against their interest. In 2001, two studies raised the issue of competition law and competition policy⁴. They reviewed the different arguments for and against adopting a competition law in general with specific emphasis on Egypt. They identified the results that can happen if a competition law is enforced, however lacks good implementation. Among such results are the continued government interference in the name of protecting competition, abuse of the law by some dominant private firms, weak knowledge of the different aspects of competition among the staff of the competition authority that will be responsible for implementing the law, and restricted coverage of the law for the firms in the formal sector, while leaving those in the informal sector without being covered by the law. The authors argued as well what type of competition law will be relevant for Egypt and whether it should be a detailed rule of reason type law or a per se rule law. They concluded that a competition law is a necessary, but not a sufficient condition for achieving a healthy and effective competition policy in Egypt. The two studies identified the necessary pillars needed to

³ Moheildin, Mahmoud (1997), "On Competition Law: An Egyptian Perspective", in Samiha Fawzy (editor) "Egypt-EU Partnership Agreement", Cairo, Freidrich Ebert.

⁴ Ali El Dean, Bahaa and Mahmoud Mohieldin (2001), "On the Formulation and Enforcement of Competition Law in Emerging Economies: The case of Egypt", ECES Working paper o. 60, Cairo: ECES

See also Nassar, Heba (2001), "Competition Policy and Law in Egypt" report presented at the ESCWA in "Expert Group Meeting on Competition Laws and Policies: Identification of Common Groups in the ESCWA Region" published in 2002.

ensure an effective competition policy, among which is the less involvement of the government in the economic activity, and the independency of the Competition Authority. In the same year, another study concentrated on the design of the competition law after emphasizing that Egypt is in great need of a competition law due to the globalization including the commitments that WTO requires and the different regional trade agreements that Egypt is a member of⁵. Moreover, the study identified that the degree of concentration in the different industries is increasing which put pressure on the Government of Egypt (GOE) to issue such law. The paper argued that the design of the law is still not appropriate in dealing with the characteristics of the Egyptian economy and included a number of recommendations to be taken in consideration when drafting the law. In 2002, a study tackled the issues of competition law and competition policy in Egypt⁶. The study was skeptic arguing that adoption of competition law will not create a competitive environment in Egypt as long as the other pillars of competition policy are not enacted. It identified the main reasons that might have been behind the adoption of the law in Egypt using a new institutional economics approach. The study attributed the delay of enacting the law to absence of willingness among the dominant players in the private sector who believe that the law will affect negatively their interests. The increasing role played by the private sector since the inception of the Economic Reform and Structural Adjustment Program and the ability to affect the policy makers has been the main reason behind the delay of enacting such law. The study concluded by stating that a competition law given the prevailing existing conditions of the Egyptian economy will not have fruitful effects on the status of competition in the Egyptian market. It identified a prescriptive point of view on what model of law Egypt should adopt in case it has to due to its joining the Egyptian European Partnership Agreement where it stated that the law should be simple, progressive and of a per se type concentrating mainly on horizontal restraints while leaving vertical restraints to be introduced later. A recent study by Damien Geradin (2004) dealt with the issue of competition laws in Southern Mediterranean countries in the context of their Partnership Agreements with the EU. The Geradin study portrayed the status of competition in Southern Mediterranean countries, including Egypt, and recommended a number of steps to be undertaken to ensure effective and proper implementation of competition law in Southern Mediterranean countries in line with EU norms⁷.

A number of sectoral studies have dealt with the issue of competition. For example, a study in 2000 dealt with the status of competition in the steel industry⁸. The study reviewed the status of the steel industry in Egypt while tracing the development of the industry worldwide. It reached the conclusion that there is an increasing concentration happening in this industry, however this does not necessarily imply negative

⁵ Abdel Latif, Lobna (2002), "Competition Law and Globalization in the Egyptian Economy", Conference on Role of State Organized by Centre for Developing Countries, Centre for Public Administration, Centre for Economic and Financial Studies.

⁶ Ghoneim, Ahmed F. (2002), "Competition Policy or Competition Law: What Does Egypt Really Need", *Boletín Latinoamericano de Competencia*, No. 17, pp. 46-58. First presented at the ERF 9th Annual Conference held in Sharja, UAE, 26-28 October 2002.

⁷ Geradin, Damien (2004), "Competition Law and Regional Economic Integration: An Analysis of the Southern Mediterranean Countries" World Bank Working Paper No. 35 jointly financed by the European Commission and the World Bank

⁸ Abdel Latif, Lobna (April 2000), "Mergers, Acquisitions, and Collusions in the Egyptian Steel Industry", Centre for Developing Countries.

consequences on the status of competition in this specific market due to several reasons among which is the contestability of the market which enjoys free entry/exist conditions and the increasing number of new entrants to the market. The study emphasized that a competition law will help regulate the market as it will counteract the conventional wisdom that every dominant position implies undertaking anti-competitive behavior. On the contrary, the study emphasized that the law can help the efficient firms in this industry to enjoy economies of scale while ensuring that no anti-competitive behavior prevails. Similar sectoral studies have been undertaken in the field of financial sector. The financial sector has been among the most sectors studied with regards to competition as it enjoys a high degree of concentration with four dominant public banks that the government has failed to privatize since the mid 1990s. Most of the studies showed that there is a high degree of concentration in this sector, that competition is still unfair due to such high concentration, and that regulatory reforms need to be undertaken to ensure an effective competitive environment⁹. A study concentrating on merging of banks showed that the mergers and acquisitions in the field of banking in Egypt do not have negative impact on competition as long as there is strong and efficient regulatory supervision¹⁰. Contrary to the results obtained in the aforementioned studies, a study on the audiovisual sector showed that the absence of competition law in Egypt has resulted in the prevalence of anti-competitive behavior in the Film Industry¹¹.

According to the knowledge of the researchers, there is only one ongoing project on the issue of competition and competition policy that compares Egypt with six countries worldwide. The project is financed by IDRC¹² and tackles different issues of competition ranging from assessing the policies that are pro or anti competition in the selected countries, on the macro, industry and firm levels to other issues related to the quantitative measures of competition. This project is still ongoing and expected to be finalized in 2005.

To summarize, the literature on competition law and policy in Egypt is scarce. One of the major themes that arise from the studies reviewed is that competition law is not enough to ensure the prevalence of competitive environment in the Egyptian markets. An overall competition policy is needed and a clear commitment from the government

⁹ See for example, Roe, Alan (1998), "The Egyptian Banking System: Liberalization, Competition and Privatization", ECES Working Paper No. 28, Cairo: Egyptian Center for Economic Studies. See also, Mohieldin, Mahmoud (2000), "On Bank Market Structure and Competition in Egypt" paper presented at the Conference of Financial Innovation in Egypt. Caprio Gerard and Robert Cull (2000), "Bank Privatization and Regulation for Egypt" ECES Distinguished Lectures Series No. 15, Cairo: Egyptian Center for Economic Studies. Bahaa El Din, Ziad and Mahmoud Mohieldin (1998), "On Prudential Regulation in Egypt" in Mohamed El Erian and Mahmoud Mohieldin (eds) *Financial Development in Emerging Markets: The Egyptian Experience*, Cairo: Egyptian Center for Economic Studies

¹⁰ Hashad, Nabil (2003), "Mergers and Acquisitions of Banks in Egypt: Opportunities and Threats", ECES Working Paper No. 79, Cairo: Egyptian Center for Economic Studies

¹¹ Ghoneim, Ahmed F. (2005), "The Audio-visual Sector in Egypt", in Guerrieri, Paolo, P. Lelio Iapadre, and Georg Koopman, *Cultural Diversity and International Economic Integration: The Global Governance of the Audio-Visual Sector*, Edward Elgar.

¹² The title of the research project is "Promoting Competitive Markets in Developing Countries" and the team leader is Simon Evenett whereas the researcher undertaking the case study of Egypt is Ahmed Ghoneim.

to preserve the independence of the Competition Authority is a must for the success of the competition law.

Part II: Main Features of Egypt's Industry pertaining to competition

This part of the study is concerned with the relationship between market characteristics and competition. It is divided into three sections; each studies the topic from the point of view of a different level of the market. Section one is devoted to study main market features with relevance to competition. Section two focuses on market relationships and its potential impact on competition. In section three we undertake the analysis down to the micro level and study the likely impact on firm efficiency.

1- Specialization and Concentration

Industry in Egypt generated about 19% of GDP as of 2003. While the industrial base is relatively diversified, it is characterized by high dependence on natural resources and labor-intensive activities. As table (1) shows, more than half of the industry production is generated by two industrial sectors: Chemical products (35) and Food group (31). Both are resource-based industries. Adding textiles group, which contains activities that either resource-based (textiles 321) or labor intensive (wearing apparel 322) and engineering industries (labor intensive), we observe that almost 80% of the industrial production in Egypt is concentrated in four industrial groups (on ISIC 2 digits out of total ISIC 9 digits).

Table (1): Industrial Production Structure in Egypt

Code	Definition	Values (in million US\$)			Shares (%)		
		Average (81-89)	Average (90-94)	Average (95-98)	Average (81-89)	Average (90-94)	Average (95-98)
31	Food, Beverages & tobacco	5770	4365	5589	26.5	23.4	22.2
32	Textile, garments & leather	3776	2691	3198	17.8	14.5	12.7
33	Wood & furniture	241	127	201	1.1	0.7	0.8
34	Paper & products, printing & publication	858	641	939	4.0	3.5	3.7
35	Chemical & products, petroleum, coal, rubber & plastics	4123	5388	7639	18.7	29.1	30.4
36	Mining products, non-metal products, except petroleum & coal	1327	1329	1866	5.8	7.1	7.4
37	Basic metal products	2063	1507	1986	9.3	8.1	7.9
38	Metal products, machinery & equipment	3496	2526	3699	16.5	13.6	14.7
39	Other manufacture	44	32	31	0.2	0.2	0.1
3	Total	21699	18606	25149	100.0	100.0	100.0

Source: Calculated by the Authors based on UNIDO Industrial Statistics Database, 2002

It is interesting to note that these four groups also absorb almost 80% of the labor force employed in industry as a whole as shown in Table 2.

Table (2): Number and Share of Employees in Different Industrial Sectors

Code	Definition	Values (in thousands US\$)			Shares (%)		
		Average (81-89)	Average (90-94)	Average (95-98)	Average (81-89)	Average (90-94)	Average (95-98)
31	Food, Beverages & tobacco	191	236	223	20.2	21.6	19.7
32	Textile, garments & leather	305	312	342	32.4	28.6	30.3
33	Wood & furniture	14	15	21	1.5	1.4	1.8
34	Paper & products, printing & publication	36	39	40	3.8	3.6	3.5
35	Chemical & products, petroleum, coal, rubber & plastics	126	150	160	13.4	13.7	14.1
36	Mining products, non-metal products, except petroleum & coal	63	79	91	6.7	7.3	8.0
37	Basic metal products	69	70	71	7.3	6.4	6.3
38	Metal products, machinery & equipment	139	188	180	14.6	17.2	15.9
39	Other manufacture	1	2	3	0.1	0.2	0.3
3	Total	944	1092	1130	100.0	100.0	100.0

Source: Calculated by the Authors based on UNIDO Industrial Statistics Database, 2002

However, the degree of specialization is higher, when using a further disaggregated level, than it appears from the analysis on the 2-digit level of the industrial classification. Table (3) reveals that the industry in Egypt is almost specialized in two main activities: food products (311) and petroleum refineries (353); with a share reaching almost 35% for both of them when added together. Otherwise, there is an even distribution among other activities.

Table (3): Sectoral Production Structure Percentage of Total Industrial Production

Code	Definition	Average (80s)	Average (1990-1994)	Average (1995-1998)
311	Food products	19.1	19.5	19.4
313	Beverages	2.3	1.3	1.1
314	Tobacco	5.1	2.5	1.8
321	Textiles	16.2	12.6	9.7
322	Wearing apparel, except footwear	0.8	1.3	2.6
323	Leather products	0.3	0.2	0.2
324	Footwear, except rubber or plastic	0.5	0.3	0.2
331	Wood products, except furniture	0.5	0.3	0.3
332	Furniture, except metal	0.5	0.3	0.5
341	Paper and products	2.0	2.0	2.1
342	Printing and publishing	2.1	1.4	1.6
351	Industrial chemicals	4.3	4.5	4.0
352	Other chemicals	7.5	6.6	7.7
353	Petroleum refineries	2.1	15.4	15.4
354	Misc. petroleum and coal products	2.1	0.6	1.0
355	Rubber products	0.7	0.3	0.7

356	Plastic products	2.1	1.6	1.5
361	Pottery, china, earthenware	0.5	0.5	0.3
362	Glass and products	0.7	0.6	0.7
369	Other non-metallic mineral products	4.7	6.0	6.4
371	Iron and steel	4.8	5.4	5.4
372	Non-ferrous metals	4.5	2.8	2.5
381	Fabricated metal products	3.6	3.3	2.8
382	Machinery, except electrical	3.4	2.9	3.9
383	Machinery, electric	4.5	3.5	3.8
384	Transport equipment	4.6	3.5	4.0
385	Professional & scientific equipment	0.4	0.3	0.2
390	Other manufactured products	0.2	0.2	0.1
300	Total Manufacturing	100.0	100.0	100.0

Source: Calculated by the Authors based on UNIDO Industrial Statistics Database, 2002

Moreover, using GINI coefficient to measure the trend of specialization in the different industrial groups, we find that that concentration has been increasing in the majority of the industrial sectors. Figures based on table (4) display- that there is a tendency for more specialization which is increasing over time (see Figure 1.). For most industrial groups, the value of GINI coefficients is increasing rising for example from 0.45 in food, beverages, and tobacco to 0.55 and from a low 0.06 in the wood and furniture to 0.2 over the time period 1981-1998. The index is declining in just two industries: textiles and engineering. However, for the total of the industrial sectors concentration is decreasing.

Table (4) GINI Coefficient for Specialization in Industrial Activities

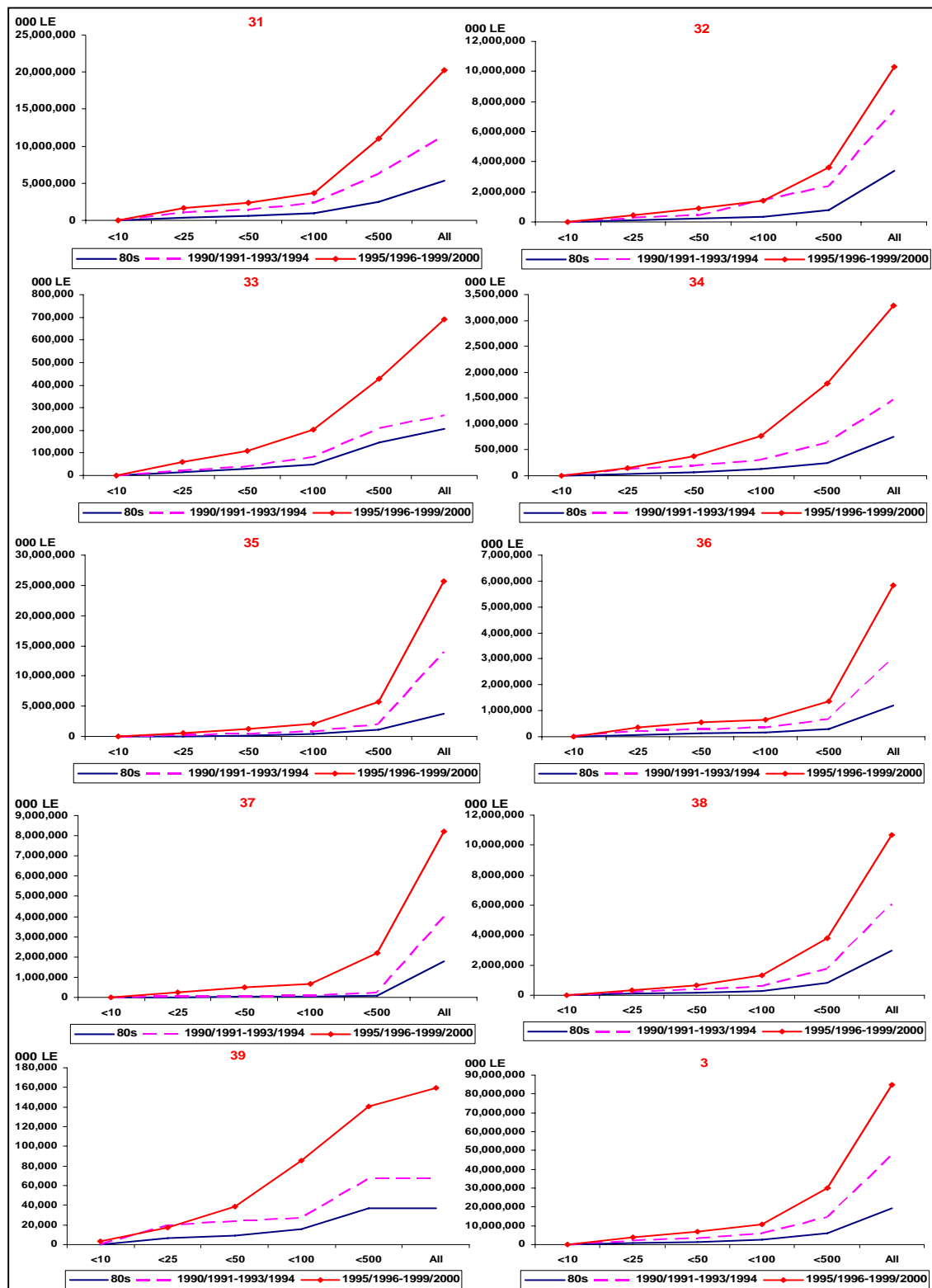
Code	Definition	1981	1985	1990	1995	1998
31	Food, Beverages & tobacco	0.45	0.31	0.48	0.44	0.55
32	Textile, garments & leather	0.69	0.70	0.68	0.57	0.60
33	Wood & furniture	0.06	0.06	0.06	0.11	0.20
34	Paper & products, printing & publication	0.25	0.07	0.03	0.27	0.13
35	Chemical & products, petroleum, coal, rubber & plastics	0.40	0.45	0.31	0.27	0.46
36	Mining products, non-metal products, except petroleum & coal	0.49	0.52	0.41	0.54	0.56
37	Basic metal products	0.20	0.24	0.14	0.03	0.25
38	Metal products, machinery & equipment	0.13	0.12	0.07	0.32	0.09

Source: Calculated by the Authors based on UNIDO Industrial Statistics Database, 2002

We can affirm that the high degree of specialization in few industrial activities is accompanied by the characteristic of being produced by a relatively small number of large (more than 500 employees) and medium-large firms (100-500 employees).

Figure (1) displays production by activity and firm size in a cumulative manner. It is obvious that larger firms dominate the market

Fig. (1): Cumulative Curves of Production by Activity and Firm Size



- 31: Food, beverages & tobacco
- 32: Textile, garments & leather
- 33: Wood & furniture
- 34: Paper & products, printing & publication
- 35: Chemical & products, petroleum, coal, rubber & plastics

Nevertheless, it is an attention-grabbling phenomenon that the large-size lost part of its market shares in many of the industrial activities for the medium-large as of the second half of the 90s as revealed in Table 5 which is evident in the food sector where the share of medium size enterprises rose from 27.% in the 1980s to 36% in the period 1994/95-1999/2000 whereas the percentage has declined in the case of large-size enterprises from 54.8% to 46% over the same period.

Table (5): Share of Different Firm Size in Production (%)

Averages	ISIC	<10	10-	25-	50-	100-	500-	Total
80s	31	0.0	6.4	3.5	7.9	27.5	54.8	100.0
	32	0.0	3.2	3.1	3.8	13.5	76.3	100.0
	33	0.0	7.6	6.6	10.3	45.9	29.5	100.0
	34	0.0	6.2	4.2	7.3	16.1	66.3	100.0
	35	0.0	1.3	4.5	4.9	18.5	70.7	100.0
	36	0.0	7.4	6.3	3.7	11.0	71.6	100.0
	37	0.0	0.7	1.0	1.1	2.4	94.9	100.0
	38	0.1	2.6	3.0	3.4	16.6	74.3	100.0
	39	0.0	18.6	5.8	16.2	59.4	0.0	100.0
	3	0.0	3.8	3.5	5.0	18.1	69.6	100.0
1990/1991-1993/1994	31	0.2	8.5	2.8	8.6	34.9	45.0	100.0
	32	0.1	3.3	2.0	10.8	12.0	71.9	100.0
	33	0.5	6.4	8.0	16.7	47.5	20.8	100.0
	34	0.0	7.7	3.7	7.3	18.8	62.5	100.0
	35	0.1	2.2	1.1	2.8	9.3	84.5	100.0
	36	0.6	6.2	2.2	2.7	9.9	78.5	100.0
	37	0.0	0.9	0.5	0.6	3.4	94.6	100.0
	38	0.1	3.0	3.2	3.0	17.9	72.9	100.0
	39	0.1	21.9	5.0	4.3	68.7	0.1	100.0
	3	0.1	4.4	2.1	5.7	17.0	70.7	100.0
1995/1996-1999/2000	31	0.1	8.4	3.4	6.3	35.8	46.0	100.0
	32	0.1	4.4	4.1	5.0	21.8	64.6	100.0
	33	0.0	9.2	7.3	14.0	34.1	35.4	100.0
	34	0.0	4.5	6.6	11.9	31.0	46.0	100.0
	35	0.0	2.0	3.1	2.8	14.5	77.6	100.0
	36	0.0	6.3	3.1	1.7	12.3	76.5	100.0
	37	0.0	3.1	2.7	2.0	17.4	74.8	100.0
	38	0.0	3.1	2.9	6.6	23.0	64.5	100.0
	39	0.5	11.7	15.8	21.5	44.6	6.0	100.0
	3	0.0	4.5	3.4	4.7	22.5	64.8	100.0

Source: Calculated by the Authors based on UNIDO Industrial Statistics Database, 2002

It was shown in some previous studies that ERSAP that was applied at the outset of the 90s presented a major challenge to small and medium sized firms (SMEs) in the Egyptian industry due to currency correction and increase in prices of imported intermediates as well increase in the cost of finance and its availability. Many of them had to downsize their production or even to shut down (see table 6 for the growth of number of firms by size). This reflected itself in increasing the market share of the large firms. However, by the second half of the 90s SMEs were able to adapt to changes in the economic conditions. Also the reform had a slower pace than the preceding era. Therefore, SMEs were able again to restore their activity and claim more market share when compared to the larger firms category.

Table (6): Establishments (Growth Rates %)

	Code	<10	10-	25-	50-	100-	500-	Total
Average (80s)	31	7.9	9.2	0.0	4.7	6.0	5.1	7.1
	32	..	7.4	1.6	6.4	4.2	4.7	5.1
	33	..	8.4	2.8	-0.8	10.0	5.4	6.0
	34	..	0.1	7.9	13.1	13.6	5.4	3.7
	35	..	19.5	13.6	7.4	7.3	4.3	10.8
	36	-58.3	0.2	-10.6	5.6	4.3	7.5	-4.4
	37	..	10.7	9.5	18.7	36.4	3.2	9.5
	38	-69.8	8.2	7.2	16.9	15.7	5.5	8.9
	39	..	12.3	-8.4	40.6	20.3	0.0	8.3
	3	-21.4	7.3	-0.9	6.1	7.2	4.4	5.5
Average (1990/1991-1993/1994)	31	153.2	-19.5	-21.9	-4.5	-8.0	-6.4	-19.5
	32	-52.8	-25.1	-25.9	-18.1	-16.0	-4.8	-22.3
	33	-25.0	-22.9	-17.0	-7.4	-19.5	-41.7	-19.7
	34	..	-19.8	-26.5	-25.5	-14.6	-15.8	-21.2
	35	-88.9	-25.0	-27.1	-13.4	-14.9	-4.1	-19.7
	36	-56.7	-15.4	-13.8	-34.2	-15.4	-6.6	-16.9
	37	-50.0	-22.1	-4.6	16.7	-18.4	-1.2	-20.8
	38	35.4	-26.2	-19.0	-17.6	-6.3	-6.1	-18.1
	39	..	-18.9	19.4	-22.2	20.0	0.0	-20.8
	3	-39.8	-21.3	-22.7	-20.8	-12.0	-6.2	-19.9
Average (1995/1996-1999/2000)	31	32.9	2.5	19.7	4.1	0.0	-3.4	3.3
	32	-42.9	-3.3	1.7	-2.4	-3.4	1.6	-2.2
	33	-66.7	3.3	1.1	0.1	-6.1	-13.4	0.9
	34	..	-1.1	12.9	-6.7	8.7	5.3	1.9
	35	..	7.3	3.2	-6.8	7.7	-0.6	3.5
	36	80.0	-4.8	14.4	104.1	-10.6	8.1	-0.8
	37	8.3	3.0	-7.2	-9.9	-0.4	3.7	-0.4
	38	..	5.3	1.6	6.9	3.7	4.5	4.6
	39	..	-11.1	21.3	38.1	54.2	0.0	-0.7
	3	50.5	1.1	5.7	1.1	0.0	1.1	1.5

Source: Calculated by the Author from CAPMAS industrial Statistics Bulletins, different issues.

Another factor that supports the decline in shares of large firms' category is the privatization program. Table (7) shows the numbers and values of companies and productive units privatized during the period 1994-2004 according to privatization methods.

Table (7): Number and Values of Companies and Productive Units Privatized (1994-2004)

Million of Egyptian Pounds							Total Number of Companies and value of sale in parenthesis
Privatization Technique	1994- 1999	2000	2001	2002	2003	2004	
Complete or Majority Sale through Stock Offering	37 (5,105)	0 (542)	1 (41)	0 (663)	0 (0)	0 (0)	38 (6,351)
Sale to major investor	15 (2,666)	12 (3,819)	2 (178)	0 (58)	0 (0)	6 (544)	35 (7,265)
Sales to employees	27 (884)	3 (50)	0 (0)	1 (61)	0 (0)	2 (0)	33 (995)
40% Sale through stock offering	10 (719)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	10 (719)
Companies sold less than 50% (stock market)	6 (1,069)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	6 (1,069)
Liquidation	21	9	2	0	1	0	33
Sale/lease of factories and production units	16 (205)	16 (382)	4 (126)	3 (109)	7 (35)	12 (148)	58 (1,005)
Total	132 (10,648)	40 (4,793)	9 (345)	4 (891)	8 (35)	20 (692)	213 (17,404)

Source: Ministry of Finance (2005), Egyptian Economic Monitor, Volume 1, No. 3, March

As it appears from table (7), almost 40% of privatization in Egypt was undertaken through the sales to anchor investor method. The majority of sales led to downsizing the size or the market power of the privatized companies due to leasing or selling parts of them or distributing the voting power on a higher number of shareholders.

This change in market shares reflected itself in the GINI coefficient. For most sectors the coefficient of the second half of the 90s is less than that of the first half of the 90s or at least less than its value of the 80s, as shown in table (8). However, the dominance of large firms is still apparent in the majority of sectors.

Table (8): GINI: Production (Size)

Code	Definition	Average (80s)	Average (1990/1991- 1993/1994)	Average (1995/1996- 1999/2000)
31	Food, Beverages & tobacco	0.57	0.51	0.52
32	Textile, garments & leather	0.69	0.66	0.63
33	Wood & furniture	0.44	0.39	0.43
34	Paper & products, printing & publication	0.61	0.58	0.52
35	Chemical & products, petroleum, coal, rubber & plastics	0.68	0.74	0.71
36	Mining products, non-metal products, except petroleum & coal	0.61	0.67	0.66
37	Basic metal products	0.80	0.80	0.69
38	Metal products, machinery & equipment	0.69	0.68	0.64
39	Other manufacture	0.22	0.23	0.22
3	Total	0.65	0.66	0.63

Source: Calculated by the Authors based on UNIDO Industrial Statistics Database, 2002

Another phenomenon that deserves attention is the continuous reduction in GINI coefficient for employment (table 9). This indicates that employment is being more equally distributed among different sizes of firms. Comparison between figures of table (8) and table (9) shows that, for each reduction in the level of concentration of production (measured by GINI coefficient) there is almost a higher reduction in the level of concentration of employment. Sometimes the reduction in GINI for employment is not matched by a similar movement in GINI for production. This implies that while smaller firms are acquiring higher shares of employment, they are producing less share in total production. Hence, larger firms in some industries, such as non-metal products (36) and chemical products (35) are producing more with relatively less employment- indicating adoption of more capital-intensive techniques for these industries.

Table (9): GINI: Employment (Size)

Code	Definition	Average (80s)	Average (1990/1991- 1993/1994)	Average (1995/1996- 1999/2000)
31	Food, Beverages & tobacco	0.44	0.43	0.36
32	Textile, garments & leather	0.73	0.71	0.65
33	Wood & furniture	0.46	0.36	0.31
34	Paper & products, printing & publication	0.65	0.62	0.55
35	Chemical & products, petroleum, coal, rubber & plastics	0.75	0.70	0.65
36	Mining products, non-metal products, except petroleum & coal	0.55	0.62	0.51
37	Basic metal products	0.80	0.79	0.66
38	Metal products, machinery & equipment	0.70	0.69	0.65
39	Other manufacture	0.25	0.27	0.09
3	Total	0.65	0.63	0.57

Source: Calculated by the Authors based on UNIDO Industrial Statistics Database, 2002

Another implication is that production per employee - on average- is higher in large firms category than other firm sizes categories. Each increase by one percentage point of labor in large firms results in more than one percentage point of production.

This can be taken as an indicator for higher productivity per worker in large firms than that of other sizes. This phenomenon (see table 10.) was depicted in other studies (see for example Abdellatif 2005¹³).

Table (10): Productivity (000 LE)

Year	Activity	Small	Medium	Large	Total
90/91	Food, Beverages & tobacco	28.7	59.3	48.1	37.2
	Textile, garments & leather	20.7	33.2	40.0	34.9
	Wood & furniture	14.9	16.6	34.2	25.6
	Paper & products, printing & publication	49.6	41.6	39.4	41.7
	Chemical & products, petroleum, coal, rubber & plastics	46.0	61.3	92.0	77.8
	Mining products, non-metal products, except petroleum & coal	26.7	31.7	37.8	33.0
	Basic metal products	32.6	35.0	206.1	152.5
	Metal products, machinery & equipment	38.5	39.5	55.8	49.2
	Other manufacture	53.7	13.0	49.9	45.9
	Total	29.6	43.1	54.7	44.6
95/96	Food, Beverages & tobacco	37.8	44.6	103.3	70.5
	Textile, garments & leather	21.1	23.2	54.5	44.0
	Wood & furniture	12.9	34.0	61.0	32.1
	Paper & products, printing & publication	37.6	201.4	119.5	114.4
	Chemical & products, petroleum, coal, rubber & plastics	58.4	53.9	176.8	115.4
	Mining products, non-metal products, except petroleum & coal	19.0	33.7	68.4	51.9
	Basic metal products	8.8	47.5	313.7	155.6
	Metal products, machinery & equipment	54.9	69.9	102.0	89.6
	Other manufacture	18.2	43.9	26.1	23.0
	Total	32.7	54.6	94.0	71.9
1999	Food, Beverages & tobacco	39.3	174.6	157.4	107.7
	Textile, garments & leather	35.9	38.5	47.6	44.9
	Wood & furniture	25.6	57.6	55.0	45.2
	Paper & products, printing & publication	96.1	150.1	135.8	129.3
	Chemical & products, petroleum, coal, rubber & plastics	161.0	115.5	166.7	161.4
	Mining products, non-metal products, except petroleum & coal	45.8	29.5	93.9	75.0
	Basic metal products	41.8	70.7	343.5	253.1
	Metal products, machinery & equipment	88.9	113.1	140.0	130.7
	Other manufacture	44.1	440.1	52.0	88.7
	Total	52.9	99.5	118.9	100.3

Source: Abdellatif 2005¹⁴, based on UNIDO Industrial Statistics Database, 2002

To sum up, the Egyptian industry while has had a relatively wide number of activities, is characterized by a noticeable degree of specialization in very few industries, mostly related to natural resources (mining or agriculture) or to availability of low-skilled labor. Most of the production is produced by large firms, indicating high degree of concentration for both employment and production. While the degree of concentration

¹³ Abdellatif Lobna, SMEs Adjusting to Trade Liberalization- Impact on Employment, ILO, 2005.

¹⁴ Ibid.

shows -in many industrial sectors- some reductions, we cannot depict a considerable declining trend. One can say that both specialization and concentration are well established characteristics of the Egyptian industry.

2- Competition

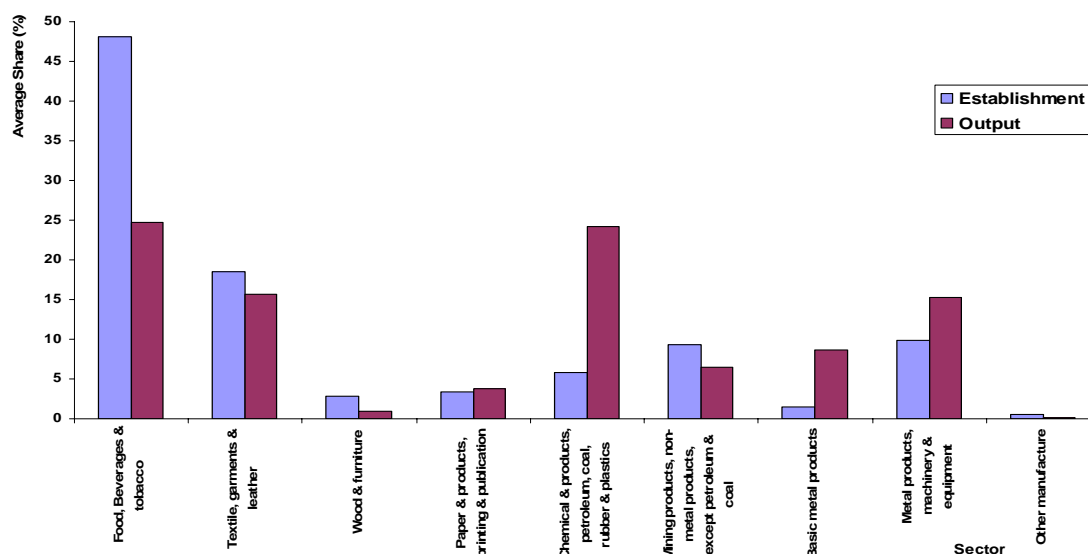
It is interesting to investigate the relationship between specialization and competition. Table (11) shows number of establishment working in industry over the period 1981-1998. As it appears from the three averages depicted in the table for the time intervals (81-89), (90-94), (95-98) numbers of firms in all industrial sectors have grown steadily over time with a total of more than 3200 firms over the period 1981-1998. Figure (2) displays the structure of specialization as well as that of establishments for each industrial sector.

Table (11): Number of Establishments

Code	Definition	Values (number)			Shares (%)		
		Average (81-89)	Average (90-94)	Average (95-98)	Average (81-89)	Average (90-94)	Average (95-98)
31	Food, Beverages & tobacco	2887	4160	4522	47.0	50.0	48.3
32	Textile, garments & leather	1154	1472	1741	18.8	17.7	18.6
33	Wood & furniture	177	228	292	2.9	2.7	3.1
34	Paper & products, printing & publication	215	257	293	3.5	3.1	3.1
35	Chemical & products, petroleum, coal, rubber & plastics	339	518	598	5.5	6.2	6.4
36	Mining products, non-metal products, except petroleum & coal	622	667	791	10.5	8.0	8.4
37	Basic metal products	93	129	148	1.5	1.5	1.6
38	Metal products, machinery & equipment	608	848	906	9.9	10.2	9.7
39	Other manufacture	25	42	60	0.4	0.5	0.6
3	Total	6121	8321	9352	100.0	100.0	100.0

Source: Calculated by the Authors based on UNIDO Industrial Statistics Database, 2002

Fig.(2): Average Shares of Production and Establishments (average 1981-1998)



Source, drawn based on calculation of tables (1, 11).

As it could be seen from the figure, there is no relationship between specialization in production and the structure of establishments. A sector may be characterized by a high share in production, however has few number of establishments. For example, food sector ranks second in generating production which is produced by around half of all firms working in the sector. The first ranked sector in the structure of generating production, petroleum products, has the fifth rank in number of establishments.

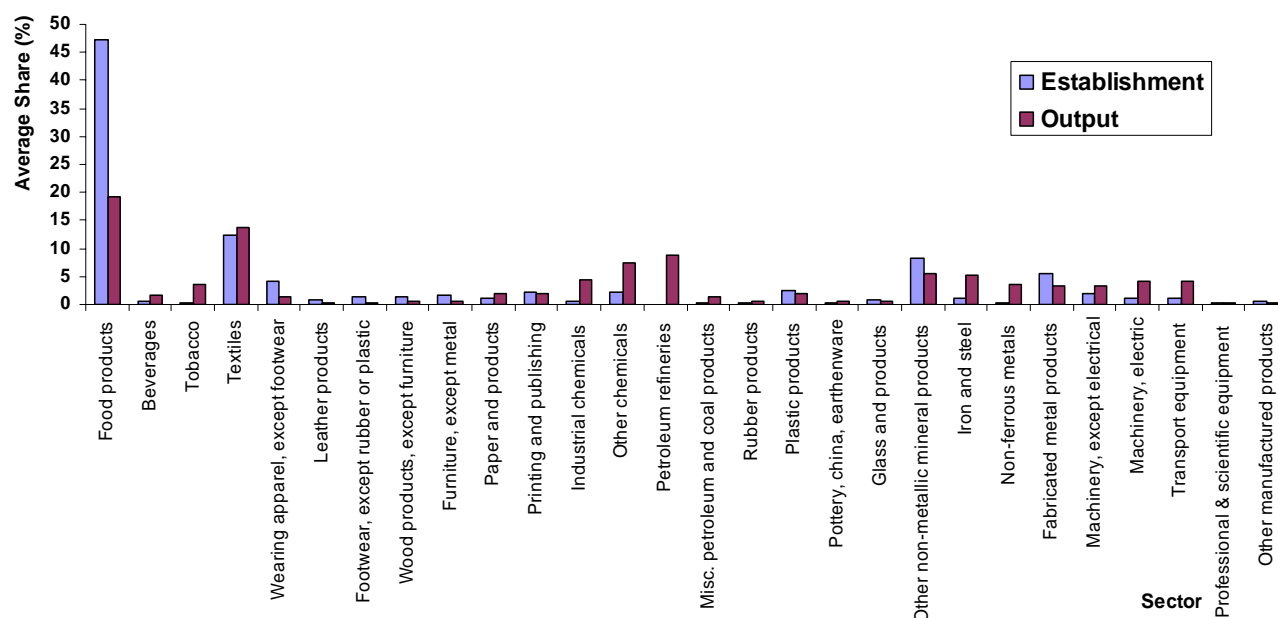
The same conclusion could be drawn from 3-digit data shown in Fig. 3. Wearing apparel, as an example for high specialization, has a very large number of establishments working in the sector. This implies that the average size of firms in that activity is small. Contrary to that, the share of petroleum products in establishments is just 0.2%; much lower than its share in production, indicating very large firm-size; i.e. the share of each establishment in the sector in generating production is large.

Table (12)- Establishment Structure (%)

Code	Definition	Average (80s)	Average (1990-1994)	Average (1995-1998)
311	Food products	45.8	49.2	47.8
313	Beverages	0.8	0.5	0.3
314	Tobacco	0.4	0.4	0.2
321	Textiles	13.5	11.1	10.8
322	Wearing apparel, except footwear	3.2	4.6	5.6
323	Leather products	0.8	0.7	0.9
324	Footwear, except rubber or plastic	1.4	1.2	1.4
331	Wood products, except furniture	1.5	1.3	1.2
332	Furniture, except metal	1.4	1.4	1.9
341	Paper and products	1.1	1.2	1.2
342	Printing and publishing	2.4	1.9	1.9
351	Industrial chemicals	0.7	0.7	0.7
352	Other chemicals	2.1	2.2	2.3
353	Petroleum refineries	0.1	0.1	0.2
354	Misc. petroleum and coal products	0.2	0.2	0.1
355	Rubber products	0.3	0.3	0.6
356	Plastic products	2.1	2.8	2.5
361	Pottery, china, earthenware	0.2	0.2	0.2
362	Glass and products	1.0	0.8	0.8
369	Other non-metallic mineral products	9.2	7.0	7.5
371	Iron and steel	1.2	1.2	1.2
372	Non-ferrous metals	0.3	0.3	0.4
381	Fabricated metal products	5.9	5.2	5.1
382	Machinery, except electrical	1.8	1.9	2.0
383	Machinery, electric	1.0	1.3	1.3
384	Transport equipment	1.0	1.6	1.0
385	Professional & scientific equipment	0.2	0.2	0.3
390	Other manufactured products	0.4	0.5	0.6
300	Total Manufacturing	100.0	100.0	100.0

Source: Calculated by the Authors based on UNIDO Industrial Statistics Database, 2002

Fig(3)- Structure of Production vs. Structure of Establishments (average 81-98)



Source: Based on calculations of tables (3,12)

The question that these examples pose is: do activities with more number of firms experience more competitive markets than others? Or it depends on the share of the large firms, i.e. when the activity is dominated by large firms that are producing a relatively high share of the total industrial production, then can we deduce that the link between concentration and specialization leads to lack of competition?

To answer these questions, we first should identify activities featured with large firms, then producing a measure to gauge their market power.

Table (13) shows the structure of establishments for each firm-size over the whole set of industrial sectors. Unfortunately, there is no dataset on the 3 digit level industrial classification that allow us to answer our question.

Table (13): Establishment (Structure %)

	Code	<10	10-	25-	50-	100-	500-	Total
Average (80s)	31	56.4	56.2	34.6	34.5	37.5	25.0	47.3
	32	1.8	17.6	20.8	24.9	21.6	19.7	19.1
	33	1.2	2.7	2.4	4.3	4.4	1.6	2.9
	34	0.0	3.1	3.9	4.6	3.3	5.3	3.4
	35	2.5	3.3	6.7	9.5	9.9	15.8	5.6
	36	11.7	7.9	17.9	8.4	7.1	7.5	9.7
	37	0.0	1.2	1.9	1.4	1.4	5.0	1.5
	38	26.5	7.7	11.4	11.7	14.3	20.1	10.0
	39	0.0	0.4	0.4	0.6	0.6	0.0	0.4

	Code	<10	10-	25-	50-	100-	500-	Total
	3	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average (1990/1991-1993/1994)	31	55.0	64.7	37.1	32.2	38.3	24.0	49.6
	32	4.6	12.0	17.2	25.4	17.8	21.3	16.4
	33	5.9	1.8	3.7	4.8	3.5	0.7	2.7
	34	0.3	2.0	3.9	4.1	3.3	3.9	2.7
	35	1.9	2.7	7.8	10.8	8.5	16.5	6.4
	36	11.5	7.3	12.0	5.3	6.4	7.4	7.3
	37	2.1	1.2	1.4	1.4	1.4	4.7	1.6
	38	18.5	7.7	16.5	15.7	20.3	21.5	12.7
	39	0.1	0.5	0.5	0.3	0.5	0.1	0.4
	3	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average (1995/1996-1999/2000)	31	48.6	61.0	24.9	23.6	28.6	21.8	48.7
	32	10.5	15.2	23.5	26.0	24.9	24.8	18.4
	33	3.2	2.8	3.4	5.5	3.8	1.5	3.1
	34	0.5	2.3	5.1	5.3	4.8	5.1	3.2
	35	1.9	3.5	8.9	13.6	14.1	15.3	6.4
	36	19.4	6.6	19.0	8.2	4.9	8.2	8.4
	37	10.0	4.7	6.4	6.1	6.3	7.4	5.3
	38	5.2	3.4	8.0	11.0	12.1	15.9	5.9
	39	0.7	0.6	0.9	0.7	0.5	0.1	0.6
	3	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Calculated by the Author from CAPMAS industrial Statistics Bulletins, different issues.

The table shows that different firm sizes have their highest concentration in those sectors that ranked high in the structure of production except petroleum products, where only large firms have high level of concentration. This indicates that aside from petroleum products, specialization patterns in the Egyptian industry is the outcome of having relatively large number of firms working in these activities- as opposed to petroleum whose high rank in the structure of production is due to the dominance of large firms.

However, tracing figures of table (14), which display the structure of establishments but distributed over each industrial sector according to firm size, indicates an important feature of Egypt's industry. Two observations could be deducted. Firstly, while the structure of production is concentrated in larger firms (100-500 & 500<), that of establishments is concentrated in smaller ones. For example, food sector which generates the highest value of industrial production is characterized by the dominance of smaller firms (recalling that its production is concentrated in large firms (almost 50%) as figures of table (5) above show). That is to say the market of industrial sectors in Egypt is not only dominated by few number of establishments but also is characterized by being an unbalanced one. The market is almost distributed evenly among medium-large and large firms. While the market is tilted to large firms, the medium- large can affect the market in terms of product availability and hence prices. This may constitute a cap on prices put by large firms if they try to make use of their market position. However, in the case of collusion among large firms, it is doubtful that medium-large firms can stand any race of prices to the bottom.

Table (14)- Establishment Structure (%)

Averages	ISIC	<10	10-	25-	50-	100-	500-	Total
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80s	31	0.4	70.6	12.3	6.1	7.9	2.7	100.0
	32	0.0	54.4	18.1	11.0	11.3	5.2	100.0
	33	0.1	55.0	14.2	12.7	15.3	2.7	100.0
	34	0.0	52.6	18.5	11.3	9.8	7.8	100.0
	35	0.2	34.5	19.3	14.2	17.6	14.2	100.0
	36	0.4	49.3	30.7	7.5	7.9	4.2	100.0
	37	0.0	46.9	20.1	7.9	8.7	16.5	100.0
	38	1.3	45.8	18.9	9.7	14.2	10.1	100.0
	39	0.0	58.9	13.2	12.8	15.1	0.0	100.0
	3	0.4	59.4	16.8	8.4	10.0	5.0	100.0
1990/1991-1993/1994	31	1.6	63.1	9.3	7.6	13.9	4.6	100.0
	32	0.2	42.6	12.4	14.2	17.1	13.4	100.0
	33	3.2	42.7	16.3	16.0	19.9	1.9	100.0
	34	0.2	39.0	16.2	13.0	17.6	14.0	100.0
	35	0.5	29.2	15.6	13.1	18.6	23.0	100.0
	36	3.0	46.6	19.6	5.1	15.0	10.6	100.0
	37	1.7	41.4	11.3	5.8	13.1	26.7	100.0
	38	1.5	32.2	16.8	11.3	24.5	13.6	100.0
	39	0.7	55.4	13.3	4.2	25.7	0.7	100.0
	3	1.4	51.2	12.4	9.5	16.3	9.2	100.0
1995/1996-1999/2000	31	0.4	81.9	6.8	3.5	5.5	1.9	100.0
	32	0.2	54.1	17.1	10.1	12.6	5.8	100.0
	33	0.5	58.5	14.8	12.8	11.5	1.9	100.0
	34	0.1	46.1	21.1	11.9	14.0	6.8	100.0
	35	0.1	35.4	18.5	15.3	20.5	10.2	100.0
	36	0.9	51.8	30.4	7.1	5.6	4.2	100.0
	37	0.6	56.5	15.6	8.3	10.8	8.3	100.0
	38	0.3	35.3	17.3	14.0	20.4	12.7	100.0
	39	0.4	64.2	18.6	8.1	7.9	0.8	100.0
	3	0.4	65.4	13.3	7.2	9.3	4.3	100.0

Source: Calculated by the Author from CAPMAS industrial Statistics Bulletins, different issues.

Secondly, the share of large firms in total number of establishments for any industrial activity declined in the second half of the 90's, indicating higher growth rates of other sizes. This highlights the fact of difficulty in entering the market as a large firm. The large amount of finance needed for the start-up of the business presents a crucial constraint and attributes to the phenomenon of unbalancing the market.

To sum up, the structures of the markets of the industrial sectors is conducive for practicing anti-competitive behavior. However, matters are not that simple. We have explored just the supply side in a closed context. To factor the pattern of satisfying the domestic consumption into our analysis, we have to explore some indicators related to demand gap and trade barriers.

For example, Egypt has been characterized by having relatively high tariff rates, which have been recently reduced to reach an average weighted tariff rate of 9% down from 14%. The non weighted average rate has been higher due to the presence of tariff peaks. Moreover, several non tariff barriers used to prevail for a long period ranging from cumbersome customs procedures to non-transparent inspection methods, etc. Such environment has created an anti-export bias and protected the Egyptian local

producers in different fields from foreign competition. The situation started to change recently by the lowering tariff rates as mentioned above, embankment on several measures to dismantle non tariff barriers and enhance trade facilitation, and finally by the entering into force of several regional trade agreements (RTAs) that Egypt has signed starting the mid 1990s. Such RTAs include among others the EU-Partnership Agreement and the Pan Arab Free Trade Area (PAFTA). This implies two major effects on the demand side. First, the market will experience more competition from imported goods whether as a result of the lower MFN tariff rate or due to the enactment of several RTAs. Second, the market for the Egyptian produced goods will expand which is likely to increase economies of scale and reduce the anti-export bias that used to prevail.

Table (15) shows the ratio of import penetration measured by the ratio of imports to apparent consumption. The ratios in all sectors except textiles are relatively high. Given the long history of industry in Egypt and the absence of the applications of global factory phenomenon, one does not expect higher import ratios than those appeared in the table.

Table (15): Exposure to International Competition (Import Penetration Ratio)

Code	Definition	Import Penetration (ratio)		
		Average (81-89)	Average (90-94)	Average (95-98)
31	Food, Beverages & tobacco	0.24	0.24	0.25
32	Textile, garments & leather	0.05	0.10	0.10
33	Wood & furniture	0.65	0.76	0.78
34	Paper & products, printing & publication	0.23	0.36	0.36
35	Chemical & products, petroleum, coal, rubber & plastics	0.29	0.24	0.26
36	Mining products, non-metal products, except petroleum & coal	0.26	0.08	0.13
37	Basic metal products	0.26	0.33	0.39
38	Metal products, machinery & equipment	0.46	0.53	0.53
39	Other manufacture	0.42	0.61	0.78
3	Total	0.30	0.30	0.33

Source: Calculated by the Authors based on UNIDO Industrial Statistics Database, 2002

However, attributed to relatively high import tariff for the periods presented in our tables, it is expected that the domestic market may have a rental benefit due to artificially high price of imports. That is to say that mark-up ratios may be higher. To test this hypothesis we measure the mark-up ratio according to the methodology used in the research project. Results are presented in table (16).

Table (16): Mark-up ratios

Code	Definition	γ	μ
311	Food products	0.42	1.73
313	Beverages	0.15	1.18
314	Tobacco	0.43	1.74
321	Textiles	0.17	1.20

322	Wearing apparel, except footwear	0.12	1.13
323	Leather products	0.30	1.43
324	Footwear, except rubber or plastic	0.50	2.01
331	Wood products, except furniture	0.49	1.95
332	Furniture, except metal	0.37	1.59
341	Paper and products	0.32	1.47
342	Printing and publishing	0.14	1.16
351	Industrial chemicals	0.21	1.27
352	Other chemicals	0.28	1.39
353	Petroleum refineries	0.59	2.47
354	Misc. petroleum and coal products	0.03	1.04
355	Rubber products	-0.07	0.94
356	Plastic products	0.09	1.10
361	Pottery, china, earthenware	0.19	1.23
362	Glass and products	0.19	1.24
369	Other non-metallic mineral products	0.37	1.60
371	Iron and steel	0.32	1.48
372	Non-ferrous metals	0.54	2.19
381	Fabricated metal products	0.38	1.61
382	Machinery, except electrical	0.49	1.96
383	Machinery, electric	0.22	1.28
384	Transport equipment	0.17	1.20
385	Professional & scientific equipment	0.13	1.14
390	Other manufactured products	0.21	1.27

Source: Calculated by the Authors based on UNIDO Industrial Statistics Database, 2002

As it is apparent from the table the values of the mark-up ratios is distributed over a wide range with minimum of 0.94 in rubber products, and a maximum of 2.47 in petroleum refineries and a mean of 1.46.

The distribution is tilted to the lower portion of the distribution. Table (17) shows some statistical analysis for the ratios of mark-up ratios pointing out that the lowest mark-up ratios have the highest frequency and which constitute around 50% of the industrial structure in Egypt.

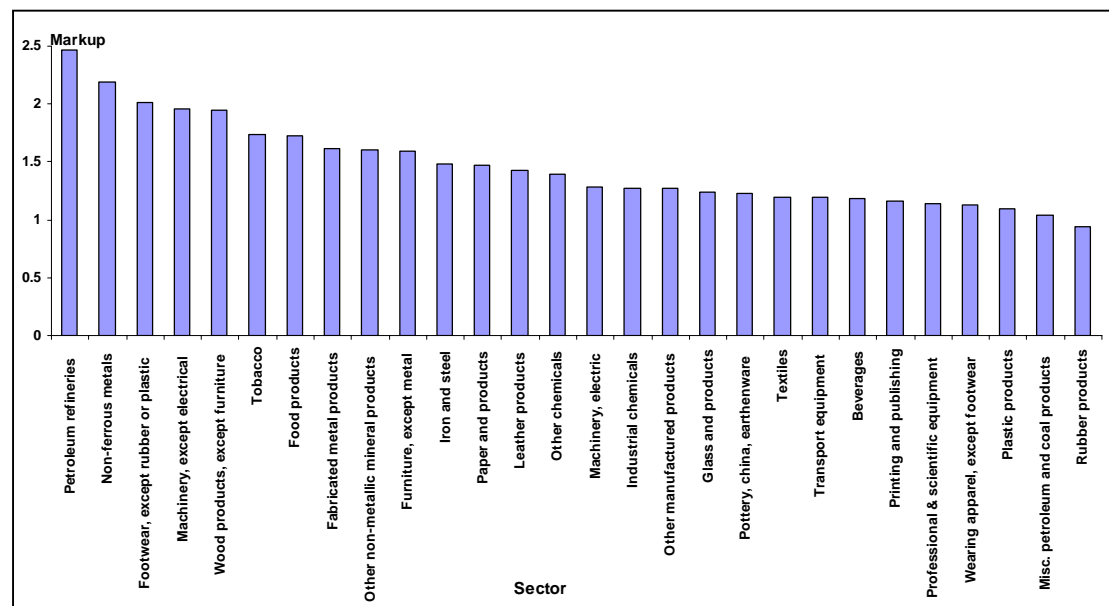
Table (17): Distribution of Mark-up Ratios

Quarter	Range	Frequency (number)	Structure (%)
First	0.94 – 1.32	14	50.0
Second	1.33 – 1.71	7	25.0
Third	1.72 – 2.09	5	17.9
Fourth	2.10 – 2.47	2	7.1
Total	0.94 – 2.47	28	100.0

Source: Calculated by the Authors based on UNIDO Industrial Statistics Database, 2002

Fig. (4) ranked the activities according to their mark-up ratios. The sectors with land resource base ranked the first. However, we cannot distinguish a pattern related to the other groups of industry.

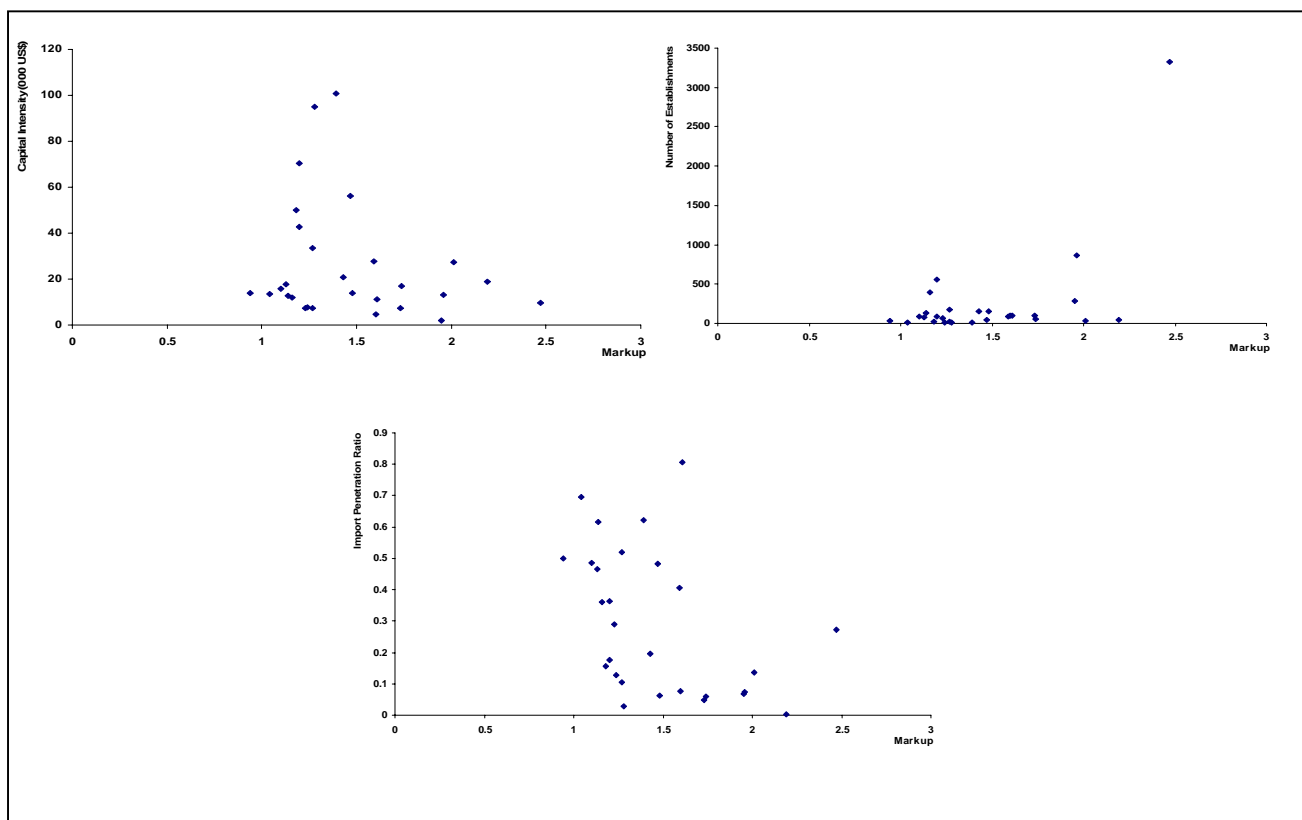
Fig. (4) Rank of Activities According to Mark-up Ratios



Source: Drawn by the Authors based on UNIDO Industrial Statistics Database, 2002

Trying to explore more about the determinants of the mark-up ratios, fig (5) plots these ratios against many variables that present some of the features of the industry that we mentioned earlier, such as import penetration, number of establishments, and capital intensity.

Fig. (5): Relationship between Mark-up Ratios and Some Variables



As it is clear from the figure, there are no clear patterns of relationships with capital intensity or the number of establishments. It would have been useful if we were able to plot the mark-up ratios with any of the ratios that describe the high degree of concentration in the industry instead of the number of establishments because the latter does not describe the concentration or the unbalanced size phenomenon of the market, but we could not produce these figures on the 3-digit classification due to unavailability of data.

However the only variable that could be linked to the mark-up ratios is the degree of satisfying the local consumption from local sources. As fig. (5) shows the higher the imports the less the mark-up ratio. This indicates that when the local market demand is satisfied mainly by local production, the mark-up ratios would be higher. Does this attribute to power of local firms to close the market for their own benefit by lobbying for administrative or any other kind of barriers? Actually we have no evidence to answer this question.

Another relevant question about the mark-up ratios is whether they highlight the high debt ratio of local firms? As it was seen from fig.(5) relatively high intensity of local production in terms of capital alone does not interpret the values and rank of mark-up ratios. However if one considers the high cost of finance in Egypt and that firms-large one- passed through a period of easing the terms of borrowing which led to high leverage ratios, we can understand the high burden of finance and the importance of considering the overhead costs (which includes mainly the cost of finance fixed assets in addition to the cost of top management and quality control, advertising, technology, and transfers systems) and to factor them into our analysis. But does this indicate that to be able to pay back for their debt, local firms have to charge their consumer high mark-up over the marginal cost of the production?

It was shown previously¹⁵ (Abdellatif 2003) that activities in Egypt maintain higher capital intensity than many other comparable countries due to many reasons; on the top ranks the rigidity of labor policy, easy terms for lending to large firms- especially in the 80s- and also the appreciation of the exchange rate. Therefore, the capital intensity generally in Egypt's industry is relatively high and leverage ratios are also high. The latter is high for just large firms. Therefore, we can not establish a link between figures of capital intensity, which are calculated on average for each activity and the mark up ratios, due to our inability to single out the characteristics of the large firms from others because data does not allow us to do that.

Previous studies showed that attributed to the large scale of operations, large firms have the opportunity to be more efficient than smaller ones¹⁶ (Abdellatif 2003, 2005). Large firms can save in the cost of procurement and managerial cost per unit of production. Also they have better marketing methods and more opportunities for sustainable sales. However, they have more financial burdens. Therefore, being more efficient in terms of operations enables them to incur less cost per unit of production than small firms. This indicates that large firms can sell cheaper than small firms if we

¹⁵ Abdellatif Lobna, Pro Poor economic policies, CEFRS, Feps, Cairo, 2003.

¹⁶ Ibid.

confine ourselves to marginal cost. However overhead costs are expected to be much higher in the case of large firms in contrast to small firms. That is to say each firms' size category has its own package of cost which due to data aggregates, we can not disentangle and measure their very impact on the mark up and the market behavior.

Another issue is the number of times that the unit of fixed asset turn-over during the operational year. This number is very high in some industries such as wearing apparel and steel rebars. It is lower than some engineering products. The higher this number of turn avers, the higher the gross profit and also the mark up despite the value of the mark up over the one does not represent anymore market power but the feature of shorter cycle of production of some industries. Again we can not factor the length of the production cycle into our analysis because this point was not considered before in the literature of economics of different industries that was done for Egypt.

In conclusion, studying market behavior and market power is something very new to the literature on the Egyptian industry. This current study highlighted many voids in this field. The mark-up ratios simulate the relationship between price and marginal cost average over all firm sizes for each industrial activity. Hence, they cannot explain market power in each market relative to others. However, it is a very useful devise for comparing for the same market over time.

3- *Market Power and Efficiency*

In the current section we try to explore the relationship between the mark-up ratios and efficiency. Table (18) presents total factor productivity (TFP) and technical progress. As evident from the table there is no clear pattern that can be observed where some sectors had a positive technical progress and others had negative ones. The range of technical progress started from a negative of -0.11 in tobacco and wood products, except furniture to a high 0.1 in china and pottery.

Table (18): Solow Residual (TFP) and Technical Progress (1981-1995)

Code	Definition	TFP	Technical Progress
311	Food products	0.03	-0.05
313	Beverages	0.06	0.03
314	Tobacco	0.06	-0.11
321	Textiles	0.02	0.01
322	Wearing apparel, except footwear	0.05	0.03
323	Leather products	0.00	0.00
324	Footwear, except rubber or plastic	-0.01	0.05
331	Wood products, except furniture	0.08	-0.11
332	Furniture, except metal	0.06	-0.05
341	Paper and products	0.02	-0.02
342	Printing and publishing	0.00	0.00
351	Industrial chemicals	0.04	0.02
352	Other chemicals	0.04	-0.01
353	Petroleum refineries	0.19	-0.10
354	Misc. petroleum and coal products	0.01	0.01
355	Rubber products	0.04	0.05
356	Plastic products	0.04	0.03

361	Pottery, china, earthenware	0.17	0.10
362	Glass and products	0.07	0.04
369	Other non-metallic mineral products	0.06	0.00
371	Iron and steel	0.04	-0.02
372	Non-ferrous metals	0.06	-0.09
381	Fabricated metal products	0.07	-0.02
382	Machinery, except electrical	0.07	-0.12
383	Machinery, electric	0.05	0.01
384	Transport equipment	0.01	0.00
385	Professional & scientific equipment	0.10	0.08
390	Other manufactured products	0.09	-0.02

Source: Authors' Calculations

As the table shows, if mark-up ratios are not counted for, TFP would be artificially higher. In many cases the high TFP growth turns negative after accounting for mark up. A highly significant and negative correlation was found between TFP adjusted and the mark-up ratios (-0.73), indicating that the higher the mark-up ratios the less the TFP growth. However, one cannot conclude that activities with higher mark-up ratios have less TFP growth. That is to say our calculations do not support the argument that the higher mark-up ratios imply less efficiency.

Also we could not find any significant correlation between the adjusted TFP (technical efficiency) and proxies for the characteristics of industrial activities such as capital intensity, import penetration ratio, export ratio and the number of establishments. Table (19) displays the correlation results. As it appears they all maintain negative signs.

Table (19): Correlation between adjusted TFP (Technical Progress) and Some Industrial Variables

Capital intensity	Import penetration	Export ratio	No. of establishments
-0.22	-0.28	-0.25	-0.11

Source: Authors' Calculations

Part III: The Status of Competition in the Egyptian Industry

The terms business to business and business to consumers are the large umbrella that under which falls both vertical and horizontal restraints. However, horizontal and vertical arrangements, i.e. business relations, should not be condemned without regard to their competitive nature. The term *business to business* (b2b) is usually used to refer to the vertical relations (some of them act as restraints). It refers to the agreements between firms at different level of the production or distribution chain. Vertical restraints include territorial restraints, exclusive dealing, tying arrangements, predatory pricing, and quantity forcing. Concerns regarding vertical restraints stem from the perception that anti-competitive effects might flow from restrictions imposed on firms in the down stream or the upstream value chain. On the other hand, the term *business to consumer* (b2c) refers to the horizontal relations between competitors at the same level of the value chain. Sometimes these relations comprise restraints that

the market might suffer from. A restraint is said to be of a horizontal nature if it is imposed on sales or distribution, or prices due to monopolistic behavior, unfair competition or collusion. It may lead to competition problems where it causes negative market effects with respect to prices, supply, innovation, or the variety and quality of products.

The status of market conditions in developing countries introduces a new concept relevant to competition, which we may call *consumer to business* (c2b) relation. This relation reflects the restraints that the consumers might impose on a certain industry to keep the prices of their products at certain levels (something very similar to what is known in the literature as predatory pricing). Moreover, consumers may exert pressure on producers to produce the quantity that satisfy their needs (quantity forcing). The low-income levels in developing countries accompanied by the paternal societal role of the government through its former public sector make the consumers very sensitive to any increase in prices even if it justified on industrial or market forces basis. Sometimes the prices that consumers call for do not really reflect the structure of cost which the producers are facing. In many cases, the increase in prices is due to external factors that are beyond the control of the producers themselves. These external factors include lack of finance, unavailability of foreign currency (taking into consideration the imported component), and international price increases. The producers start to face idle capacity, hence lowering the quantity provided in the domestic market and/or increasing prices. These problems used to face the public sector before but the government was able to absorb their negative effects via its social policies and channels of subsidies provided through the state budget. However, this is not the case with the private sector; where these negative impacts are partially or wholly shifted to the consumer. As a leeway, many produces in some strategic markets resort to exports to avoid the negative influence practiced by consumers, mainly through the negative impact of media on prices. This, of course, would limit supply allocated to the local market and consumers feel shortage of supply despite the existence of local capacities to produce, and start to accuse firms again of unfair competition practices or monopolistic behavior.

The present study explores the status of competition in seven leading industries; some of which constitute the traditional industries; such as textiles and ready-made garments, and beverages. Others are new ones; especially cars assembling. We divide our study into two sections. After this introduction, in section one, we explore market characteristics as related to the degree of concentration in these industries and the tools of competition. Also in the first section, we investigate the pattern of industrial relation in these industries that mostly affect competition. Also we explore patterns of government intervention in markets and their impact on competition. Section two is an impact assessment of market characteristics on competition. In addition, we discuss some of the findings and generalize them to the industry at large.

I : Status of Competition and Government Interventions:

The seven industries under study were selected because of being known as concentrated industries. Being so they serve the purpose of answering many questions related to the link between concentration, market relations and competition. Table 20 depicts the main characteristics of such industries.

Table 20: Characteristics of the Industries:

- one or two firms → extra high concentration
- 3-9 firms → very High concentration
- above 10 firms (till 20) → high concentration

Source: The authors based on the surveys

As table 20 shows the number of firms in any of the selected industries is limited and the degree of concentration is high on average. In the following, we explore some salient features of each of the seven industries with focus on classifying patterns of restraints faced by each of these industries attributed to any of the markets relations

Industry	Degree of Market Concentration	Tools of Competition	Patterns of Relations
Beverages	Very High concentration	Quality, Price, Brand names	Business to Consumer.
Textiles	Very High concentration	Price, Quality	Business to business and consumer to business
Home appliances	High concentration	Price, Quality, Brand names	Business to business and business to consumer.
Pharmaceutical	High concentration	Price, Quality	Business to business and consumer to business
Steel (rebars production)	High concentration	Price only	consumer to business
Cement	High concentration	Price only	Consumer to business.
Cars Assembling	High concentration	Price, quality, brand names	Business to business

(b2b or b2c or c2b relations).

The Beverages Industry:

Table 19: Competition Related Issues of the Seven Industries

The three main products of this industry are fresh juice, mineral water, and non-alcoholic beverages. The industry is highly concentrated in the fresh juice and non-alcoholic beverages fields with two to three firms dominating 75% of the market. Moreover, there is the milk products field where the degree of concentration is very high and higher than the case of mineral water, which is considered to be relatively the least concentrated. Quality can be regarded as the main tool of competition as well as the brand names. Accordingly, the characteristics of this industry formulated two patterns of relation, which are business to business, and business to consumer. The major vertical restraint that exist in the non-alcoholic and alcoholic beverages fields are the exclusive supply and predatory pricing of some intermediate products mainly cola. However, the vertical restraints previously mentioned were viewed by the firms to have positive effect on the industry because it guarantees stable long-term relations. Therefore, the b2b relation did not create a vertical restraint in the market. The other fields of the industry, namely juices, milk products, and mineral water do not suffer from any kind of vertical restraints. The kind of restraint that has been mentioned in this industry happens on the horizontal level where the distribution outlets play a major bottleneck and there has been several informal ways to deal with such restraints that have recently taking the shape of formal agreements (between producers and distributors) to ensure transparency and fair competition among producers.

Textiles and Ready-made Garments Industry:

The industry at large is divided into several sub sectors; each of them has its own characteristics. The industry comprises yarn, spinning and weaving, fibers, fabrics, and ready-made garments. In the current study, we focus on fabrics (dyed or printed) industry. Fabrics production is highly concentrated among few firms, 70% of them are public firms. However, many other sub-sectors in the textiles industry at large are characterized with recognized degree of competition. For example, spinning and weaving is highly concentrated. The same applies to dying and printing. The main tools of competition in fabrics are price and quality.

While cotton cultivation is shared by many growers and is not, by all means, concentrated, government intervention augments the price of cotton to weavers. Government intervenes in pricing crude cotton. It provides growers with higher prices than those that clear freely the market. The government does that in a trial to encourage growers to continue find cotton cultivation profitable. This sort of incentive is not paid directly by the government; yet, the other producers in the down stream industries that use cotton as an input are the ones that pay this subsidy bill, despite the fact that some of them are public entities- specially producers of spinning and weaving fabrics. However, none of them has a governmental nature. (See table 21 for different patterns of distorting government intervention).

Despite the absence of vertical restraints, the rest of the value chain series in the down stream industries is affected negatively as if there is collusion among growers to enforce specific price (predatory pricing).

It is interesting to note that while the ready-made garments do not seem to suffer high concentration ratios because of the existence of numerous producers, the high number of workers that are employed by this sub-sector exerts pressures on the government to protect this sub-sector through customs in the form of high tariff that constituted walls

for some periods and practiced a negative impact on imports of ready-made garment. This sort of government intervention is accompanied by almost zero tariff rates on intermediates for ready-made garments, which means that local producers enjoy an extra high effective protection. Prices of ready-made garment are augmented and profits margins are high. In this case, despite the absence of concentration, the collective action of producers (not collusion) practiced restraints on the market as if there were horizontal restraints, with the usual negative impact on consumers.

Table 21: Government Intervention in the Different Industries:

	Stage of government intervention	Type of government intervention	Impact of government intervention
Beverages	Non	Non	Non
Textiles	b2b & b2c	Cotton subsidies Prohibitive tariff on final goods (high effective rates of protection)	Negative Negative
Home appliances	Non	Non	Non
Pharmaceuticals	c2b	Setting the selling prices	Negative
Steel	b2b, C2b	Anti dumping duties Opening the market for imports of the final product	Not defined Not defined
Cement	Non	Non	Non
Cars Assembling	b2c	Tariff exemptions on inputs Prohibitive tariff on final goods	Negative

Source: The authors based on the surveys

The Cement Industry:

Although there are 12 firms in the industry, three firms account for about 70% of total production. Industry suffers from over capacity that was about to trigger price war and dominant losses to all firms. Firms resorted to the strategy of lowering prices below even costs to attain market shares or to keep them sometimes. If firms were to continue in this strategy, it would have ended that many firms had to leave the market and the degree of concentration would shift to extra high, which is not basically a better situation for the market. Firms agreed on a pricing methodology based on cost plus an agreed upon profit margin. This does not mean that prices are not any more a tool for competition or one price would prevail in the market. Actually, there are many prices, but all of them cluster around a mean. The larger the firm the lower the price it offers due to its better usage of economies of scale that characterize cement industry. This horizontal agreement, despite the fact that it saved the market from collapsing, is considered as a cartel practice. However, it has no major negative impact on the market or at least its positive impact outweighed the negative one. Also, this b2c cannot be considered as a collusive practice in the fully economic sense because it does not include assigning market shares for each producer or predatory pricing or even supply restraint.

However, this b2c practice in such a strategic industry created tension in the market. Consumers prefer the situation where producers are in a price war. It is expected that they will not anticipate or asses the final negative impact of that on markets.

Consumer dissatisfaction by horizontal agreement is reflected in the media pressure on government to intervene in the market and impose price caps. Producers find in exporting a leeway to relieve the tension on them. This situation decreases the supply available to the local market. Consequently, consumers feel that horizontal agreements among producers is not only comprise predatory prices but also supply control. The true loop is not fully felt by consumers; which is expected. Such loopholes may let the market appear as if it suffers from some anti competitive virtual situation. From the figure, we can see how pure market characteristics, that is not related directly to concentration or to b2b or/and b2c relations, may end up with c2b restraint which lead to b2c restraint. Taking net impacts, therefore, would provide wrong analysis for anti competitive behavior and would lead to wrong treatment for the situation. For example in the cement case, dealing with the situation according to the final net impact as if it is a case of collusion and refrain to supply would harm the industry and cause massive closure and shut down of firms. Government should try to educate the market in a way to improve the c2b relations.

The Steel Industry (Rebars Production):

This industry can be classified as high concentrated because there are about 20 producers in the market. However, when it comes to market shares, the industry is classified as highly concentrated because the market share of the big two of these producers is 2/3 of the whole market. Also there is a stock sharing relation between them, as one of them owns almost one-third of the other. This relation created a strategic alliance between them. They act explicitly as one company. They have one procurement plan, one production plan and one marketing plan. They share information and conduct technology upgrading together. However, they have separate financial portfolios. Such relations are not ordinary in the business environment in Egypt. Neither producers, nor consumers are accustomed to such behavior.

Literally speaking, the two companies have both vertical relation and horizontal relation. For some time these relations were not of interest to anyone. However due to the complexity of the structure of the rebars market in Egypt, these relations are now seen from both the side of producers and also consumers as anti-competitive, yet for different reasons. It is claimed that these relations create abuse of market power and restraining competition.

Only one of the two big companies producing rebars is an integrated mill (starting from the ore and comprising the whole three stages for producing rebars). The other one is a mini mill (comprises two stages and starts from the intermediate input pellet). All other producers in the market are just rollers (use the semi-finished product-billet-to produce rebars). This signifies the inconsistent structure of the market. The integrated mill normally does not supply the market with any semi-finished products (the practice as all international integrated mills do). However, because all rollers are constrained with the shortage of foreign currencies, they claim that any surplus of semi-finished product over the direct needs of operations of the integrated mill should be channeled into the market and not to the other big firm that has a strategic alliance and a stock share in this integrated mill. So despite the fact that the supply of semi finished product is available from other firms that produce this intermediate input and do not involve in producing rebars, the vertical relation through the supply of billet between the two big firms let other firms to claim the existence anti-competitive

behavior. The integration of operations in the integrated mill makes it able for her to produce this intermediate input with the lowest cost in the market. Despite that, she is not in a position to sell it directly in the market, other rollers claim that it is their right to have this intermediate product and the vertical supply relation between the two big firms present exclusive supply agreement, and hence is a vertical restraint on competition. As billet constitutes almost 70% of the cost of this industry, being basically an imported component in a financially constraint market, the b2b relation between the two big companies, though legal, is not accepted for other producers (table 22).

Moreover, the existence of one marketing plan for the two big companies creates actually a dominant position, which by itself is not acceptable to other producers or to consumers. Other producer feel that this strategic alliance may harm them and drive them out of the market any time in the case the alliance decide to under price. Also the inconsistent nature of the producers creates conflicts. For example, the dumped billet from CIC countries avail inputs for rollers cheaply and make them able to offer lower prices. They are now more competitive not because of more efficient operations but because of unfair practice in the international trade. However, for the integrated or semi integrated mill this dumped prices constitute unfair domestic competition. Lower prices of rollers are artificially low. They are able to compete and have more market share due to factors not related to productivity of better operations. The government responded to dumped billet prices by imposing anti dumping duties harms the rollers, and led them to claim that the government itself is colluding with the two big companies. From the point of view of the rollers, government intervention had a negative impact on them and did not enable them to enlarge their market share. Therefore, according to them it is an act that harmed competition in the domestic market. Recently, the government decided to abolish such antidumping duties, based on a justification of public interest preservness.

Another interesting characteristic about steel market is the fact that rebars are commodity. This means that components and cost structure is almost the same across firms. Any increase in the inputs components (internationally the price of any of the three inputs: ore, pellet, billet go together) would increase the cost of production and prices for all producers. For consumers this general increase is attributed to collusion among producers and cartel behavior, especially that the increase in input prices usually lead to both price increase of the final product and also decreases in its supply. While some other countries (Vietnam for example) responded to this international problem of increase in inputs' prices of rebars by supporting the producers through different channels especially those related to finance, in Egypt due to c2b pressures the government responded as if there was a collusion in the market and lowered tariff rates on the final product (rebars). This act in fact did not increase competition as it is expected by more opening the market for international competition. The increase of inputs prices was an international phenomenon that applied to all firms, so their competitive status did not changed after the opening. That is to say, that government intervention through tariff reduction was a political act with no impact on the status of competition in the local market.

Table 22: The Impact of the Different Patterns of Relations on the Industries:

Pattern of relation Industry	Business to Business		Business to consumer	Consumer to Business
	Supplier to producer	Producer to distributor		
Beverages	Positive	Positive	Not applicable	Not applicable
Textiles	Negative	Negative	Not applicable	Not applicable
Home appliances	Positive	Positive	Negative	Not applicable
Pharmaceuticals	Negative	Negative	Not applicable	Negative
Steel(rebars production)	Not applicable	Not applicable	Not applicable	Negative
Cement	Not applicable	Not applicable	Positive	Negative
Cars Assembling	Positive	Positive	Not applicable	Not applicable

Source: The authors based on the surveys

The Pharmaceuticals Industry:

There is a high degree of concentration in this industry due to the multinationals high market shares. The local production is concentrated on end use products for final consumption. The industry imports nearly 90% of its raw material and intermediate inputs. In spite of this high concentration ratio, no horizontal restraints were created (b2c relation) because of the control of prices by the government.

However, the industry seems to suffer some vertical restraints (b2b relation). The multinationals are driven by the policy formulated at their headquarters where they have to buy inputs- for subsidiary components- from specific suppliers as identified by their mother firms. Other firms (domestic and joint venture) suffer as well from b2b restraints where they are asked by the government to sell according to a certain price and hence they exert pressure on their suppliers to sell them their inputs at a certain price. This affects negatively the quality of the products as cheap substitutes are replaced for expensive ones and the quality issue is kept aside.

The c2b relation gets in the equation in a certain economic context. If the prices of the inputs rise for any reason, the firms start to develop new products using a new cost formula to manipulate the government's regulations or they might stop producing certain products. In this case, consumers start to exert pressures on the firms to provide a certain quantity of the demanded products (quantity forcing) with reasonable prices (something like predatory pricing) and quality issue is forgotten.

The pharmaceutical industry is an example where the government intervention has a negative economic impact on the performance of the industry in general. Moreover, such intervention created all kinds of rent seeking behavior.

The status of competition (on horizontal level) is described to be unfair where the financial resources of multinationals allow them to reach the distributors' outlets (mainly physicians) easily and the marketing techniques they use create an unfair level playing field between their products and those produced by their public sector and joint venture competitors. Such kind of behavior initiated by government intervention and incorrect system for pharmaceutical pricing created a segmented market where one is relatively free in deciding prices and cares more about quality, whereas the other is heavily controlled by the government and quality issue is not taken in consideration.

Home Appliances Industry:

While most of the so called domestic products of this industry are assembled from parts and components that are directly imported, most of the industry does not suffer from vertical restraint. This is because that local firms import the parts but they do not produce under the brand names of international companies. They produce mainly through local brands. This fact relieved the market from vertical restraints that always appear in the markets of assembling industries. This does not negate that minor portion of the market that suffers from this restraint due to production under international brands. Being a market with small number of producers has not affected badly competition. One reason is attributed to the fact that the business is highly a family one, and has not reached a high level of maturity yet.

The home appliance industry has turned out to be an assembling industry with the wave of open door policy, which witnessed the establishment of many private firms that started their activity by assembling basically through creating local brands. However, these firms have transformed to semi producers, by time in grown up industry that was able to create a number of feeding industries domestically. There remains important parts of every product that is imported, but in general, the industry was transformed from an assembling industry to a value added industry simulating the traditional history of this industry that started by the 50's as a public activity. Despite the industry started as an assembling one, it is difficult to extend the car analysis- see below- to it, which is attributed to the small nature of the industry.

Car Assembling Industry:

There are 17 private vehicle factories located in Egypt. According to the number of factories, the industry can be classified as semi high concentrated, but when it comes to the market shares, the industry is highly concentrated due to the multinationals high market shares. The b2b relation perceived in this industry includes tying arrangements and exclusive dealing. The multinationals are driven by the policy formulated at their headquarters where they have to buy inputs- for subsidiary parts such as radios, air conditions- from specific suppliers as identified by their mother firms.

Second, agreements that restrict supply to specific markets (market segmentation), mainly the local one, constitute major horizontal restraint. They deprive local producers from competition with other producers (dealing with the same multinationals) in other foreign markets.

As viewed by car dealers these arrangements have a positive effect when their benefits are weighted against their costs. Car assembling industry enjoys very high rate of effective protection. While tariff rates on the final product is extra high, the rates on parts are lower than their nominal rates in the tariff structure, due to the existence of article (6) - a very famous article in the tariff law. According to the provision of this article, the assembler enjoys actual lowers rates of tariff on imported parts upon his usage of at least 40% local component. This provision decreased the actual rates of tariffs on imported component and attributed to the increase in the effective rates of protection on car assembled locally. This fact by itself created a distorted market that harms competition in the domestic market. This act from

government deters the upgrading of the car industry and encourages lowering the increasing of prices.

II- Main Findings:

The study of the seven selected industries shows that market concentration by itself does not lead to lack of competition. Many factors determine the impact of concentration on competition; such as the share of imported component, the relation with multinationals, the strategic nature of the products, and the degree of market maturity (which determines the potentiality of collusion). Another factor that showed that it needs to be studied carefully is the skewness of the market. In the following, we focus on those factors.

Barriers to Entry:

Barriers to entry include:

Barriers to entry related to the market: the seven industries face high barriers to entry however; the nature of these barriers differs from one industry to another according to the characteristics of the industry.

Barriers to entry related to the product: the most distinguished of these barriers is the tariff rate. Both textiles and car industries face high tariff rates on the imports of the final product.

Other barriers included the inability to enjoy fully the economies of scale, lack of know how, and government bureaucracy.

The high barriers to entry explain the high concentration ratios in the Egyptian manufacturing sector.

The Relations with Multinationals:

The main source of effect in the relation with multinationals is brand names. When brand names are decided upon by the multinationals, they are driven by the policy formulated at their headquarters where they have to buy specific inputs- for subsidiary parts from certain suppliers as identified by their mother firms. This might cause a distortion in the pricing mechanisms. In addition, multinationals in many cases restrict the domestic firms from selling abroad, an issue that negatively affects the enjoyment of economies of scale.

Skewness:

Steel and cement markets are example of concentration; but its degree is not very high. However, few firms are dominating the market. The de facto situation is that concentration is extra high because the market is skewed to two or three firms. Table (23) shows the skewness of the markets. It means that concentration is not just a matter of the number of firms existing in the market, but what counts more importantly is relevance of the shares these firms acquire which is highly important.

Government Intervention:

Another factor that deserves attention is the role of the government. Most likely government intervention targets protection for either consumers or producers. The stage and degree of intervention are diversified. In all cases, it distorts the status of competition in the market. It seems that assessing the impact of government intervention on the status of competition has not taken yet enough attention from

policy makers. It is one of the proposed tasks for the competition authority when it is established.

The striking fact about the role of the government in Egypt is that it created new patterns for pressurizing the market, which is not fully figured by literature. The inability of the government to make a successful transition to market economy, led the government to respond to consumers pressures which in many cases resulted in negative effects on competition, though it could have solved a short-term problem, whose roots were not tackled by such government intervention.

Table 23: The Skewness of the Markets:

Concentration Industry	Extra high concentration	Very High concentration	High concentration
Beverages		Not skewed	
Textiles		Not skewed	
Home appliances			Not Skewed
Pharmaceuticals			Not Skewed
Steel (producing rebars)		←	Skewed
Cement		←	Skewed
Cars			Not Skewed

Source: The authors based on the surveys

Patterns of Relations:

The impact of the three patterns of relations introduced above (b2b, b2c, c2b) differs from one industry to another according to the market conditions of each industry. These market conditions include the number and position of firms, barriers to entry, government intervention, pricing techniques, and percentage of imported inputs. For example, the producers viewed the predatory pricing and quantity forcing practiced by the supplier in the beverages industry, home appliances industry, and car industry as positive aspects because they guarantee stable long-term relations.

All these features have anticipated to the anti competitive behavior of the sectors handled. The symptoms of this behavior are clarified in table 24.

Table 24: Symptoms of Anti-Competitive Behavior

	Predatory pricing	Quantity forcing	Exclusive supply	Collusions	Barriers to entry related to	Barriers to entry related to	Government intervention
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					the product	the market	n
Beverages	*↓	*↓				*	
Textiles	*↓	*			*	*	*
Home appliances			*			*	
Pharmaceuticals			*			*	*
Steel (producing rebars)	*↑	*↑				*	*
Cement	*↑	*↑		*		*	*
Cars					*	*	*

Source: The authors based on the surveys

- ↑: Business to Business
- ↓: Consumer to Business

Part IV: An Overview of the Egyptian Competition Policy and Law

In this part, we present an overview of the competition policy in Egypt and provide an analytical review of the Egyptian competition law. In doing this, we will draw on the UNCTAD's Model Law on Competition, 2003, as well as the international experience of transition economies in particular, Eastern European countries.

Competition Policy in Egypt:

With most developing countries experiencing a transitional state to market economies, the need for a competition policy is indispensable. The breaking up of state monopolies and the privatization waves require a complementary institutional infrastructure that is able to ensure a healthy competitive environment (see for example, World Bank, 2001). The diagnosis of a typical economy in transition identifies clearly the need for a competition policy. In many cases, the lack of the required competitive environment is a result of the government policies that prevent markets from being contestable (free exist and entry), impose different restrictions that preserves monopolistic situations, etc (see for example, World Bank, 2001; World Bank and OECD, 1998). But a crucial aspect of embarking on adopting a competition policy is identifying its functions and its design. Here the complexity of the issue starts to arise. In many cases, the governments of developing countries are not clear of the functions of the competition policy they are willing to adopt. In most cases, the functions are spelled out explicitly in their competition laws identifying efficiency enhancement, or public interest, and/or other objectives as the main objective. The designs of competition laws (and not competition policies) are put in line with the identified objective. But competition policy is a much wider and deeper concept than competition law. According to Khemani and Dutz (1995), "Competition policy ... is defined in the broad sense as consisting of two parts—one which is commonly referred to as antitrust or competition law and the other, which compromises micro industrial policies such as tariff and non-tariff policies, foreign direct investment, unnecessary government intervention in the market place and economic regulation designed to prevent anti competitive business practices by firms. Both parts of the policy impact on economic agents in the market place"¹⁷. The main

¹⁷ Another definition following Hoekman and Holmes, 1999: National competition *law* can be defined as the set of rules and disciplines maintained by governments relating either to agreements between firms that restrict competition or to the abuse of a dominant position (including attempts to create a dominant position through merger). Competition *policy* has a much broader domain. It comprises the set of measures and instruments used by governments that determine the "conditions of competition"

problem with developing countries is that they mix both together. The situation ends up by the failure of their competition laws to implement their objectives of competition policies.

Egypt has embarked on a comprehensive economic structural reform program since 1991. Commonly referred to as the Economic Reform and Structural Adjustment (ERSAP) program that has been implemented in collaboration with the World Bank and IMF, the reform program tackled a wide range of issues related to policy and institutional reform. The main objective of the program was to transform the economy into a market economy and cure the major imbalances that the economy faced in the 1970s and the 1980s. The reform program has been appraised by the international institutions in correcting a number of major imbalances in the Egyptian economy (IMF, 1998). However, the sustainability of reform remained skeptical. Moreover, insurance of a full competitive business friendly environment was never achieved which has been on the tope of the agenda of the new cabinet which was appointed in July 2004.

The privatization program in Egypt has suffered lately from a number of delays. Moreover, a number of the privatized companies remain “semi privatized” where the government still owns the lion’s share in their capital. The size of the state owned enterprises remain large by developing countries’ norms (World Bank, 1995). The tariff and non tariff barriers remain substantial. The inflows of FDI remain constrained by various bureaucratic and red tape measures. The labor market lacks the competitive institutional pillars that ensure full flexibility. Box 1. identifies the lack of competition in some key service sectors. The new cabinet has been trying to tackle such issues where a new ministry for investment was established, which has a main goal of accelerating the privatization process (19 firms have been privatized between July 2004 and January 2005 and more than 70 firms are prepared for privatization). The Ministry of Finance reduced the tariff rates from 14.6% weighted average to 9% weighted average and reduced the tariff bands from 23 to 6. Several measures are being undertaken to lessen the red tape measures that hinder the flow of investments, and finally there is a huge tax reform project being prepared aiming at lowering tax rates and broadening the tax base. All such efforts are likely to improve the competition policy in Egypt. Trade facilitation measures (including customs administration, port facilities, etc.) still remain as a major obstacle that needs to be addressed (see Box 1.).

Box. 1.

In Egypt the lack of competition in services that facilitate trade reduces the gains from the liberalization of merchandise trade. Only Egyptian nationals are allowed to engage

that reign on their markets. Antitrust or competition law is a component of competition policy. Other components can include actions to privatize state-owned enterprises, deregulate activities, cut firm-specific subsidy programs, and reduce the extent of policies that discriminate against foreign products or producers. Often the competition policy stance of a government may be determined in part by the international treaties it is a party to, including e.g., regional integration agreements. A key distinction between competition law and competition policy is that the latter pertains to both private and government actions, whereas antitrust rules pertain to the behavior of private entities (firms). (Hoekman and Holmes, 1999)

in the business of importing, which clearly reduces competition in distribution and competition in domestic markets. Also, the lack of competition in the provision of port services in Egypt, which are provided by public companies, has resulted in handling and storage fees 30% higher than in neighboring countries, which have broadly similar quality of services. There is also no competition in maritime shipping in Egypt which is monopolized by a state owned firm. According to a 1994 survey, the cost of shipment and handling in Egypt of a standard container was 20 to 30% higher than in the nearby countries of Jordan, Syria and Turkey (World Bank, 2001, p. 145).

Moreover, there are a number of regulatory measures that impede competition and are not tackled by competition law but rather related to trade facilitation: Examples include the technical standards which are predominantly related to food products, engineering goods, and consumer products. The majority of those national standards have no equivalence to international standards. For instance according to the latest WTO Trade Policy Review Report, there were around 1,000 standards in Egypt, of which only 25 to 30% are in conformity with international standards (WTO, 1999). Other measures include quality control measures where for example Egypt raised the number of imported products subject to quality control measures from 69 in 1992 to 182 in 1998. While such measures are necessary to ensure minimum health and safety standards, they may have been applied in a discriminatory fashion depending upon the use of the imported items (Zarrouk, 1999, p. 4). Other examples include the cumbersome administrative customs procedures where the average customs clearance transaction in Egypt requires 25-30 stages and takes from one day to several weeks (Zarrouk, 1999, p. 4).

It is clear that the government is rather pushed to enact a fully comprehensive competition policy which arises from the international institutions' pressures. The lax willingness of the government to embark on an effective trade policy (see El-Mikawy and Ghoneim, 2002) raised the question of what are the objectives behind having a protectionist trade policy and whether the government uses trade policy as a tool to redistribute income or to shield its state owned enterprises (SOEs) from foreign competition or whether other vested interests were able to convince the government of its lax trade liberalization. Even after the latest changes including the unilateral tariff reductions of 2004 the effective rate of protection that used to prevail was maintained at high levels. Hence, the incentive of the government to enact a comprehensive competition policy is absent even though, willingness to enact a competition law has been raised since 1995 where the first draft was ready and have pending for approval by the Parliament since 1997. This situation has started to change lately when the absence of competition policy and law started to affect negatively some public firms (e.g. the case of cement industry). The voices calling for an efficient enacting of a competition policy started to rise which became evident in the initiatives of the new cabinet appointed in July 2004. The cabinet undertook several measures to enhance the competition policy, including abolishment of antidumping duties, lowering tariffs, enhancing trade facilitation etc. However, the roots of anticompetitive behavior became so strong that even with such measures the anticompetitive behavior continues to prevail.

The business community in Egypt is divided into various factions with conflicting interests. They are mainly divided into industrialists and importers. While the former

would like to see some kind of special tariff protection for domestic industries, importers and agents of foreign manufactures wish to do away with all such privileges. The matter is further complicated by the fact that domestic manufacturers wish to exclude from such protection imported inputs needed for their operations— an exemption which is of course strongly opposed by domestic producers of such imports (Zaki, 1999, p. 132). The resolution of such conflicts requires collective action, which entails sacrifices on the part of certain groups and individuals. But there is no incentive for the members of the business community to change the status quo. The free rider problem inhibits the cohesion of capitalist, even when facing potential threats to their class from other social forces. (Zaki, 1999, p. 132). The greater involvement of the industrialists (versus importers) in the decision making process (37 businessmen are now members of the Parliament) shows that the government has started to take in consideration their interests. However, as identified by some observers such greater involvement of businessmen in the decision-making process has not precluded the state from acting unilaterally at its discretion, sometimes against business interest in pursuit of its own goals (Zaki, 1999, p. 136). Other commentators have argued that the lax consideration of enacting a competition law in Egypt was because of the pressure coming from the private sector which feared the enacting of such law for several reasons (Ali El Dean and Moheildean, 2001)¹⁸. In other words, the absence of effective collective action that calls for a comprehensive competition policy complemented by the lack a clear transparent framework for lawmaking in Egypt was translated in the absence of incentives on interested parties in calling for a full comprehensive effective competition policy.

Consumers in Egypt can be described to have no role in enacting competition policy. There is no law for consumer protection, consumer protection NGOs are weak and have no significant role in policy advocacy and they lack collective action initiatives.

Hence, it can be safely argued that the three main stakeholders (government, industrialists, and consumers) in enacting an efficient competition policy lack the incentives to create such a policy, which as argued above started to change lately. The role of the affected groups from the lack of competition has been strengthened lately, however they are not strong enough and myopic in believing that a competition law can cure their ills.

This leads us to the conclusion that adoption of a competition law in Egypt with such a weak policy and institutional infrastructure, absence of incentives among major stakeholders, and weak collective actions among potential gainers from the adoption of such law is likely to result in a failure of enacting the law when enacted. In addition to such specific characteristics of the Egyptian economy, we add the common features

¹⁸ According to Ali El Dean and Moheildean, 2001, p. 27: “The issuance of a competition law has been facing some resistance, this time not from the state but from the private sector, that has various concerns regarding this law, such as:

1. Fear of government intervention in a new form under the notion of protection of competition.
2. Possible abuse of the law by particular firms, that may use it, unjustifiably to charge competitors with unfair trade practices.
3. The law will cover only registered firms, leaving informal activities and smuggling intact.
4. Those that will be responsible for implementing the law may not have sufficient knowledge of the idiosyncrasies and peculiarities of particular segments of the market.
5. Just implementation of the law may be hindered by corruption and profiteering”

among developing countries which include the lack of human capacity and physical infrastructure required for a successful implementation of such law. It should be emphasized that even international institutions have backed up this argument. For example, in the World Bank Development Report 2001 it has been asserted that “In resource-constrained countries governments may benefit from focusing on removing barriers to entry and exist in markets and opening the economy to international competition before turning their attention to building competition laws and agencies” (World Bank, 2001, p. 135) or as it has been put by OECD “Competition policy instruments are blunt not refined surgical instruments and have to be handled with care. For countries without experience in this field, a rules-based approach to competition would be appropriate and there should be the fullest interplay for market forces and mobility of resources, deregulation and lowering of barriers to entry as instruments for promoting competition rather than law itself” (OECD, 1994, p. 14). The main fact that has to be emphasized is that for a competition policy to be effective there is need for than just simply enacting a competition law. There is a need for effective enforcement, a well thought out agenda in terms of the relationship between competition policy and other government policies and finally cooperation of the business community in the development of policies and institutions to implement them (See OECD, 1994). All such factors seem to be not well represented in the Egyptian economy when it comes to the issue of competition policy. The new cabinet has been trying to tackle a number of such issues, however in many cases such as lowering tariff rates and abolishment of antidumping measures did not result in positive outcomes. The main reason was that the issue of sequencing of policies enacted were left out which implied that anticompetitive actions (e.g. cartel or abuse of dominant position) were entrenched to an extent that a liberal trade policy was not able to cure it as the private sector was able to create vertical and/or horizontal restraints, or still some institutional barriers remain that impeded the establishment of a healthy competition policy.

Competition Law in Egypt:

The issue of competition is not new in the Egyptian legislation; the Criminal Law contains articles that deal with monopoly and anti-competitive behavior. For example, articles 345 and 346 are embedded in the Egyptian legislation for more than a century now. In addition, the trials to draft a separate competition law started about ten years ago, and many revisions were presented: more than 18 drafts. This reflects the difficulties and hurdles the Government of Egypt confronts when dealing with competition issues. On the one hand, there is the fear that a stringent competition provision might harmfully affect the business community and development at large. Due to the fact that most- if not all- Egyptian enterprises are still smaller than the appropriate size that enables them to withstand international competition. The government has worries of the negative prospects on investment from enforcing a competition provision without having an efficiently able administering unit (competition authority). On the other hand, the community has doubtful apprehensions and dreads about the lead of the private sector to the production process in Egypt. Consumers claim that most private practices carry monopolistic behavior and abuse of market power. Some even go to the extent of accusing the government of backing or overlooking many monopolistic practices. Therefore, when reviewing the competition law it must be kept in mind the need to set balance among all those parties, as it will clarify in many cases some ambiguities about this law. One

of them for example, is the lengthy process it is to take until the law passes from the government to the parliament.

In reviewing the law, we will first present an overview of the law, followed by an analytical review. In doing this we will focus on the capacity of the law to perform well its functions. Throughout the analysis, we provide a critical reading to answer the common major questions related to these categories of laws mainly:

- a. Does the law distinguish between horizontal and vertical agreements?
- b. Does the law treat cartel arrangements as *per se* illegal?
- c. Does the law restrict vertical agreements by firms lacking market power?
- d. Do the provisions restricting the behavior of "dominant" firms make it too easy for a firm to be labeled dominant?
- e. Does the law protect potential entrants from exclusionary behavior by incumbent firms?
- f. Is it illegal to harm or "take advantage of" a competitor?
- g. Does the law seek to control the prices charged by dominant firms?
- h. What, if any, are the requirements for the prior notification of combinations of enterprises?
- i. What are the time restrictions on agency analysis of proposals for combinations, and what are the consequences of agency inaction?
- j. What are the criteria by which proposals for combinations are judged?

I- Overview of the Egyptian Competition Law:

- Article 1: States the objective of the law: that is to assure and guarantee the freedom of conducting business for every one (whether a natural entity or a company being private or an economic authority¹⁹, etc....) as long as such activity does not harm competition.
- Article 2: Provides the underpinning definitions
- Article 3: Identifies what is meant by a market regarding the two dimensions of the physical aspect of the product and the geographic boundaries.
- Article 4: Defines what is meant by controlling the market (controlling more than 25% of the market and being able to affect prices or production without having the same power for other players in the market).
- Article 5: Extends the coverage of the law to undertakings that affect competition in Egypt, even if from non-residents.
- Articles 6 and 7: Prohibits anti-competitive agreements; both horizontal and vertical.
- Article 8: Prohibits abuses of dominant position

¹⁹ These are public companies that have special laws that allow them to run their business on economic bases. They are about 66 companies, each is almost either the sole provider or at least dominant in the service it provides. This inclusion is a positive aspect in itself specially that we if we know that the government or governmental controlled agencies and entities (including the public and public enterprise sectors constitute about 37% of GDP, which is a high percentage by the developing countries standards as well as world standards. An explicit exception was made for the governmental or governmental controlled strategic enterprises that work in the fields of water supply, electric generation, sewage, roads, natural gas, and oil and for the firms and activities regulated by a separate independent law (e.g. the telecommunication sector, and the banking sector). This is in contrast to the case mentioned in the UNCTAD model law which provided a number of exceptions that were general in their nature as State activities or local governments' activities. Such footnote is according to the explanation of the authors and did not appear in the version of the law considered.

- Article 9: Identifies that the law does not apply to governmental public utilities in all activities and private firms that undertake anti-competitive behavior but on the other hand provide public interest activities as stated by the executive decree.
- Article 10: Allows exceptions to be made by Prime Minister regarding pricing of some basic goods and services for a certain period of time after consulting the authority
- Articles 11-21: Provides procedures of work of the competition office and its structure as well as its financial and legal status.
- Articles 22-25: Provides penalties for the violation of the law as well as for employees of the authority if violated the work ethics.

II- Functions Covered by the Competition Law:

Competition laws traditionally perform two main functions: 1) the struggle against the unfair practices of competitors (or in a more generic sense: dealers in the value chain) and, 2) the elimination of the restrictions of competition; which incorporates: i) antitrust provision (prohibition of agreements restricting competition) attributed to the abuse of dominant position, ii) interlocking of undertakings.

These functions are reflected in the objectives of the law- as they appear in its title, the inaugural article, the scope of performance as codified in the provisions of the law, and the procedural protocol of applying the law.

i) Objectives:

a) Title of the Law:

The title of the Competition Law in Egypt is “Law of Protecting Competition and Preventing Anti-competitive Practices”. The law had other titles before which did not differ substantially from the aforementioned title, with the exception of one draft (No. 15) which added the phrase “Consumers’ Protection”. This is because the government believed it could encompass both aspects of competition and consumer protection²⁰ in the law. However, the idea was dropped out and the shift toward two separate laws was foreseen as the proper idea. The draft of a separate law for consumer protection is not promulgated yet. Consequently, all the provisions that were concerned with the consumer protection aspect were dropped out in the latest version of the competition law.

The title of the law is in line with the existing titles of competition and anti trust laws available around the world. What is interesting about the Egyptian title is that it couples between protecting competition and the struggle against monopoly. The majority of the laws either adopt the first half of the title, that is Safeguarding or Protection of Competition, or something alike such as the Prohibition of Unfair and Restrictive Market Practices or they adopt the second half that is Antimonopoly or

²⁰ It differs from countries to others. Some have them separately and others have them together as Australia, Hungary, Poland, and France. Or in some cases the laws are separate but their application is within the hands of the same Administering Authority.

Counteracting Monopolistic Practices. The countries that adopt a title related to Antimonopoly Law are those that stick to rules of reasons and are highly interested in attacking restricted practices. Those who apply both per se and rules of reasons with interest in both unfair and restricted practices- dub their competition act with the expression of protecting competition. In the case of Egypt, apparently, it is sufficient to follow the latter manner. However, to give popularity to the law and highlight the government's actions in preventing monopolistic practices, and to deny any claims that it supports private business practices at the concern of the populace, the Egyptian heading of the competition act stresses this point; despite being incorporated in it by definition.

b) Inaugural Article:

Worldwide, the inaugural statements of competition laws fall in one or more of three tiers pertaining to social and economic prosperity. Some laws link their work directly to the goals of development such as growth, or community welfare. Others go to a lower tier and link themselves to the objectives of economic policy; hence, their role in bolstering the goals of economic policy can be easily justified. Some of these objectives are promoting international trade, supporting economic integration, fostering market mechanisms and economic freedom, etc.... Some laws go into the third tier of targets of economic policy, which aim at promoting micro targets such as efficiency and better resource allocation.

The objective of the Egyptian law belongs to the second tier as its first article explicitly states the assurance of economic freedom. Article 1 emphasizes that the right to undertake economic activity is preserved for all as long as it does not lead to restraining, preventing, or negatively affecting the status of competition. The philosophy behind the law is to regulate market deficiencies that may typify free economies, in order to affirm the economics of a free market.

ii) Scope of Performance:

a) Prohibition of Unfair Competition:

The law contains the conventional prohibited list of practices and agreements contained in most of the competition laws in article 6. This includes: manipulation of prices, restraints on production, or sales, intentional over supply which affect prices, prevention of any person from supply, concentrated refusals to supply and/or purchase, market or consumer allocations, affecting bidding processes as collective tendering (its components are not provided in the law as identified in the footnote). However, they might be included in the executive decree²¹, and complete or partial stop of production, and/or distribution, and/or marketing without justified reasoning.

²¹ May take different forms: agreements to submit identical bids, agreements as to who shall submit the lowest bid, agreements for submission of cover bids (voluntary inflated bids), agreements not to bid against each other, agreements on common norms to calculate prices or terms of bids, agreements to squeeze out outside bidders, agreements designating bid winners in advance on a rotational basis or on a geographical or customer basis.

While, the Model Law of UNCTAD uses the word “competitors” when referring to the dealers on the list of prohibited practices; which highlights its stress on horizontal agreements, it could be understood from the provision in Egypt’s law that the list of prohibited practices incorporates both horizontal and vertical agreements. However, the law does not explicitly specify whether such types of illegal activities are confined only to horizontal or to both horizontal and vertical agreements. Countries in transition, such as Romania, Czech Republic, Slovak, and Hungary originally had almost a similar provision as that of Egypt- in their first versions of competition laws, with no clear distinction between horizontal and vertical agreements²². However, with their compliance to the EU regime of competition, they had to amend their laws in pursuant of their accession to the EU. Explicit statements for horizontal as well as vertical agreements were added. Egypt’s law does not follow the Model Law in this respect.

However, the practice in Egypt may deem it necessary to explicitly specify the coverage of the law for both horizontal and vertical agreements. Or it may be further illustrated in the executive decree; which is supposed to be released one month after the ratification of the law by the Parliament (however, it is still not released despite that more than a month elapsed since the parliament ratified the law).

The Egyptian competition law views the stopping or restraining of development of a product as illegal practices. It is uncommon for such a prohibition to appear in the section on unfair practices. It is rather a typical provision of restricted practices, as the case in the Slovak’s Act on” Protection of Economic Competition”.

Articles 9 & 10 state the conditions under which article 6 on unfair practices and agreements does not apply, which is not in line with most other similar laws as it exempts all governmental public utilities from the law, private firms upon discretionary decision of the government, and fixing of prices by the Cabinet for “basic” goods. For instance, if the accused firm leads to public benefit - it does not fall under the application of article 6. It is left to the executive decree to clarify such public benefits. The majority of laws incorporate some examples as an illustrative list to advice on this direction, but not as the case of Egypt where the law was highly agile and flexible. The competition authority may issue a general decree in some special cases, as in the Czech’s law, which is equivalent to block exemptions under the EU regime. In the case of Egypt, it is not clear in the context of the law itself how the procedure of exemption will work. Most likely, the executive decree will further elaborate on this provision.

For provisions under article 6, the law does not organize exemptions pertaining to de minimis cases. Many laws incorporate such exemptions for firms with small market shares (up to 10% in most laws of Eastern European countries)²³. Some analysts justify that in the case of developing countries, the unavailability of data at the micro level may make it impossible to apply the shares in the de minimis provision.

²² The Russian competition law does not specify explicitly horizontal and vertical agreements. Yet, its article 6.1 comprises agreements between competitors as well those between two or more deals in the chain of value of production a product.

²³ In the US the jurisprudence takes a hard line against inclusion of non competition issues as part of an antitrust analysis. In the EU, it is up to member States to decide the manner in which any de minimis rule should be applied.

b) Restrictive Practices And Abuse of Dominant Position:

Dominant position is defined as controlling 25% (down from 35% in the draft submitted by the government to the Parliament) of the relevant market. This percentage has been raised starting the draft No. 15, as it was 30% before and the lowered during discussion of the law in the Parliament to 25%. The decrease of the share is *not* consistent with the amendments of that provision which happened in the competition laws of Poland, Slovak, and the Czech Republic. These countries started with a ratio of 30% and amended it to 40%, recently. The per se rule is not complemented by any other criteria to explain dominance. As it is the case of many other countries, which complement it by a number of other criteria that assure the presence of effective dominance; such as the capacity to affect prices or to overlook competitors behavior- in other words a mixture of per se and rule of reason approaches²⁴ is adopted (e.g. Germany, Estonia), the Egyptian law adds to the 25% threshold, the ability to influence the prices or the amount of products available in the market without the competitors having the same ability.

This point constitutes a disadvantage of the law, because the absence of this treatment in some laws of transition countries diluted the issue of illegality and introduced uncertainty and ambiguity into the application of those laws. In the Egyptian case, types of practices mentioned in article 8 are clearly illegal. Therefore, the element of clarity of the law in this respect is preserved, however was diluted by adding the ability to affect prices or production without the competitors having the same ability.

Examples of illegal practices are the refusal to supply or purchase, which negatively affects prices, to be perceived as abuse of dominant position, tie –in arrangements which make the supply or purchase of a certain good dependant on the purchase or supply of another good. In this respect, the Egyptian law is in line with the UNCTAD model law of competition

The relevant market has been clearly identified from the product perspective and the geographical perspective. The identification of the product market is based on the availability of the similar product or its close substitutes from the point of view of the consumer. The executive decree, which is not published yet, that will determine which criterion (the reasonable interchangeability of use or cross elasticity) will identify the test used for identifying the relevant product market. The relevant geographic market takes in consideration the possibility of an extended market depending on the differences of competition status in each market. The law did not identify specific criteria other than the general competition status for determining the scope of the market. For example, it did not include aspects of price disadvantages arising from transportation costs, degree of inconvenience in obtaining goods and services, choices available to consumers, or the functional level at which the enterprise operate. At this stage it cannot be predicted whether such aspects will be included in the executive decree or not. However, it should be pointed out that if such specific issues are not mentioned it might give room to manipulating the definition of

²⁴ In the US, the Supreme Court limited the per se prohibition against resale price maintenance to minimum resale maintenance providing a maximum resale price maintenance to be reviewed under a rule of reason analysis because it may lead to lower prices.

the relevant geographic market. However Egypt will not be an exception as some countries do not include such aspects in their laws including Chile for example. However, by stating a 25% as a threshold for dominance, the law implicitly induces that the relevant market is within the territory of Egypt and is not extended to other markets of countries having free trade areas (FTAs) with Egypt. Countries of Eastern Europe have two ratios for dominance in their counterpart competition laws (40% for the local market and about 5% for the regional market). Apparently, this makes their laws in line with that of the EU regime of competition. The cost of transportation may oblige the local market to be the relevant one for the application of the competition law in Egypt. Yet, explicitly stating another ratio that takes into consideration the international commitments of Egypt would not only reflect a futuristic vision for the law, but would have the merit of facilitating the work of the competition office in attacking foreign undertakings that may deem detrimental for fair competition in the local market.

c) Interlocking of Undertakings:

The law does not ask enterprises that desire to own assets or ownership rights, or use rights or shares, or establish federations, or undertake mergers or acquisitions in a manner that lead to dominant position or market control are requested to notify the Competition Authority, although such provision was present in the former drafts of the law. This means that interlocking undertakings which can shape a dominant position in the relevant market, are not subject to pre-notification. Some claimers see that it would have been better if notification was automatic without identifying whether it leads to dominant position or market control. Given the absence of data, the absence of such provision avoids uncertainty which could have prevailed about legality of undertakings.

iii) Management of the Law:

a) The Competition Authority:

There is no wording that implies the independency of the Competition Authority (with the exception of its budget) in the Egyptian law, it follows the concerned Minister²⁵. Its activities include all the conventional activities of a Competition Authority ranging from receiving appeals to investigation, to database establishment, etc. It includes as well a modern or rather non-traditional role in policy advocacy and public awareness. The Board meets on a regular basis (once per month), and whenever needed. It is compromised of 15 members; the head of the Competition Authority, a deputy who must be a judge, four representatives of the concerned ministries (while they are not specified yet, it is expected that they would be the ministers of supply and domestic trade, foreign trade and industry, investment, and justice), three experts, and six representatives of the General Federation of Commercial Chambers, Federation of Egyptian Industries, Federation of Banks, the General Federation of Consumer Protection, the General Federation of Egyptian NGOs, and the General Federation of Egyptian Labor. However, two problems arise; the inclusion of a representative from

²⁵ The concerned minister is the Prime Minister in the law. The law in earlier drafts lied in the competence of both the Ministry of Supply and Domestic Trade and the Ministry of Foreign Trade and Industry.

the Federation of Banks, which is not understandable, and not identifying the concerned ministries as they should be set in the law and not the executive statutes. There is a provision that adds the possibility of inviting an expert when dealing with a special case, who is not a member of the Board, and the Board sees his presence to be important, however, his vote is not counted.

In addition to the Board, there is a full body whose members do not follow the governmental wage scale but rather have a special financial treatment. This is an important aspect to avoid corruption especially if we take in consideration the low governmental wage level prevailing in Egypt, which if applied on the workers in this body can either lead to lack of incentives to work efficiently and honestly, or open the door for corruption.

The rights and obligations of the authority's staff are explicitly defined in the law. The law controlled the staff in terms of not releasing any kind of information related to the cases handled by the authority or any other related data. Moreover, the law did not provide the authority staff with any right to incentives (e.g. additional salaries or wages) to be obtained in case of extra work or more cases identified by the authority. This is mainly to avoid any kind of corruption, while on the other hand the law emphasized that the staff will be on a different salary scheme and payroll from that of the government officials which as discussed above is considered low. In terms of rights, the law gives the authority staff access to all the firms' data and documents they need. The exact type of data and documents are expected to appear in the executive statutes. The law confirms the confidentiality of the information obtained from enterprises and emphasizes that the Authority and its staff have no right to release such information for any agency or use it for any other purpose. This is in line with the world wide practice, however, the sanctions imposed on the staff in case of releasing information is confined to fines and do not extend to imprisonment. In principle, the law does not resort to more than financial fines as penalties. International experience shows that this approach benefits the early stage of the application of the law, until the rules and regulations that it incorporates mingle with the basic fabrics of the community culture. Then the stringency of the penalty is the next step in the closest amendment.

The law gave the right to any person and the NGOs concerned with consumers' protection the right to complain to the authority about any anti-competitive behavior. The exact procedures and requirements for such complaint are expected to appear in the executive decree. The law did not give the right to the affected enterprises to appeal against its decisions. In earlier drafts, the right to appeal was allowed to be undertaken in front of the administrative court, like the case of many other countries including for example Gabon, Lithuania, Colombia, Venezuela, and Zambia. Other countries have chosen other courts as judicial courts or specialized courts. This is a pitfall in the law.

As regards to the relationship between the competition authority and the regulatory bodies in the economy, there is no unique model for such a relationship worldwide, but in many OECD and developing countries the Authority plays an active role in the functioning of the regulatory bodies. In the Egyptian law there has been no mentioning of such kind of relationships. One justification lies on the fact that all activities that have regulators are not subject to the law. However, it would have been

better to incorporate a provision that links the competition authority with other bodies such as the Supreme Council of Tariffs, Privatization Office (which was the case in earlier drafts); which is the case in many countries in transition. This would have provided the competition authority with a suitable vision about the prospects of future dominant positions.

b) Sanctions, Relief, and Actions for Damages:

Violations of the law in the Egyptian law include undertaking anti-competitive behaviors expressed above or the failure to comply with the authority's decision. The violations did not extend to failure to supply information (data and documents) required by the enterprises within a period of time or providing false or misleading information. This might negatively affect the enforcement of the law, as there is no provision to impose clear penalties to stop any data or information manipulation from the side of enterprises. Moreover, a specific provision that encourages enterprises to cooperate in data and information issues would have had the merit of support building information systems and a data bank for the competition authority, which are crucial in supporting its functions.

Sanctions in the Egyptian law are confined to fines, interim orders of activity, ceasing and permanent injunctions of products but not stopping the enterprise activity. The sanctions do not include imprisonment, divestiture, rescission, restitution to injured consumers, or permanent injunctions for activity. Although a provision in article 20 comprises the phrase "violator (to articles 6, 7, 8) would be requested to adjust its position", the statement is too loose to specifically define what is meant by that and what are those actions that deem it necessary to do that adjustment. Would division or control prices be among them?

Limiting penalties to financial fines, is not in line with the worldwide trend, which leans more towards imposing imprisonment at least to certain illegal activities to ensure the active enforcement of the law. By analogy, the same justification, for limiting penalties to fines imposed on employees of the competition authority- in case of any illegal handling with confidential information- may apply here.

However, fines are not defined, in line with the international practice, in terms of a certain percentage of the turnover (like the case of the European Union), or income (like the Ukraine). The law does not vary the fines according to the type of infringement. This might be left to be dealt with in the executive decree; however, it would have been better to identify them in the law itself. It is rather set between a minimum and a maximum that the law has identified. The power to impose the fine is vested in the hands of the concerned Minister based on the application of the Authority. The law allows the concerned minister to solve the problem without reaching the court if the violator adopts the required change in his illegal practice and pays the necessary fine. Again, this provision adds to the discretionary power of the concerned minister and attaches a large degree of vagueness to the law.

c) The Leniency System (Amnesty) and Cooperation with Other Competition Authorities:

This provision has not been mentioned in the law by any means, despite proving to be extremely efficient in breaking up cartels and collusions, or even the possibility of preventing the creation of new ones in the European Union and the United States.

Regarding the cooperation with other competition authorities, the law did not state that there will be any kind of cooperation. It would have been better if some type of cooperation (positive or negative comity) was stated in the law and its executive decree.

Part V: Main Findings and Conclusion

The present study presented an investigation on the status of competition policy in Egypt. In doing this, it tackled both the practice and the legal framework. The study was split into main four parts. Part one reviewed the literature for Egypt on competition behavior and regulations. In part two, the study portrayed the main features of Egypt's industries pertaining to competition and link that with market behavior and micro aspects of efficiency. Data available enables the numerical study of that substance through the 80s and almost the whole 90s. The study continued to explore the issue through soft data collected from interviews with leaders of some industrial activity that operate in industries with high ratios of concentration which was undertaken in Part III. Finally, the study undertook an analysis of the recently promulgated competition law in Part IV.

The literature review – in part I- on the relevant studies related to competition law and competition policy, reached the conclusion that the literature on competition law and policy in Egypt is scarce. Some studies have tackled the issue of competition policy and competition law in general whereas few studies have focused on specific sectors. Results of the studies were controversial. One of the major themes that arise from the studies reviewed is that competition law is not enough to ensure the prevalence of competitive environment in the Egyptian markets. An overall competition policy is needed and a clear commitment from the government to preserve the independence of the Competition Authority is a must for the success of the competition law.

In part II, the study explored the main features of Egypt's industry that are related to the concept of competition. Egypt's industry while has a relatively wide number of industrial activities, it is characterized with a noticeable degree of specialization in very few industries, mostly related to natural resources (mining or agriculture) or to availability of low-skilled labor.

Most of the production is produced by large firms, indicating high degree of concentration for both employment and production. While the degree of concentration shows -in many industrial sectors- some reductions, we can not depict a considerable declining trend. One can say that both specialization and concentration are well established characteristics of Egypt's industry. When investigating the relation between specialization in production and the structure of establishments, we could not find a clear relation. A sector may be characterized by a high share in production synchronized with few number of establishments. For example, food sector ranks

second in generating production and relatively few number of establishments. The first ranked sector in the structure of generating production, petroleum products, has the fifth rank in number of establishments.

The study found that the structures of the industrial markets pave the way for practicing anti-competitive behavior. The total factor productivity (TFP) has a significant negative relationship with mark-up ratios and hence changes significantly when it is adjusted (i.e. when technical progress is considered where mark-up ratios are deducted). However, this does not necessarily imply that there activities with higher TFP have lower mark-up ratios. The relationship between the adjusted total factor productivity (technical progress) and the number of establishments, import penetration and export ratios was negative and significant.

We found that because studying market behavior and market power is something very new to the literature on Egyptian industry, the current study highlighted many voids in the field that are crucial to study competition such as turn over ratios, rent seeking behavior allowed by efficiency patterns of some firms, segmentation in the market with relation to pricing methods, etc....

The mark-up ratios simulate the relation between price and marginal cost average over all firm sizes for each industrial activity. Hence, they cannot explain market power in each market relative to others. However, it is a very useful devise for comparison in the same sector across time.

Part III of the study focused on identifying three related measures of competition (business to business), (business to consumers), and (consumers to business). The study explores the status of competition in seven leading industries; some of which constitute the traditional industries; such as textiles, beverages. Others are new ones; especially cars assembling. The market characterizes, especially those related to concentration, of each industry was investigated followed by investigating the pattern of industrial relations in these industries that mostly affect competition. The degree of government's intervention and its impact on such industrial relations was also researched. Finally an impact assessment of market characteristics on competition was undertaken.

The study of the seven selected industries shows that market concentration by itself does not lead to lack of competition. Many factors determine the impact of concentration on competition; such as the share of imported component, the relation with multinationals, the strategic nature of the products, and the degree of market maturity (which determines the potentiality of collusion). Another factor that showed that it needs to be studied carefully is the skewness of the market.

The impact of the three patterns of relations introduced above (b2b, b2c, c2b) differs from one industry to another according to the market conditions of each industry. These market conditions include the number and position of firms, barriers to entry, government intervention, pricing techniques, and percentage of imported inputs. For example, the producers as positive aspects viewed the predatory pricing and quantity forcing practiced by the supplier in the beverages industry, home appliances industry, and car industry because they guarantee stable long-term relations. All these features

have anticipated to the anti competitive behavior of these sectors which included predatory pricing, quantity forcing, exclusive supply, collusions, barriers to entry related either to the market or the product ,and government intervention.

The last part of the study was devoted to analysis of the Egyptian Competition Policy and Law. In general, the study showed that there are several pillars of competition policy that have not been well tackled until very recently. Issues of high taxation, cumbersome procedures, red tape measures, high tariff rates, etc. contributed negatively to the prevailing of a healthy competition policy in Egypt.

Regarding the law, the study discussed in details its different provisions and pointed out the major loopholes associated with the law. Moreover, it has signaled the main challenges of implementing such law.

In general, the study provided a comprehensive overview of the competition status in the Egyptian economy. It dealt with the issue from different perspectives including the actual play ground of firms in the market, the institutional infrastructure embedded in the law, and the analysis of relevant data. The conclusions reached pointed out that there is a move towards anti-competitive behavior in the Egyptian economy as a result of several institutional impediments, wrong sequencing of policies adopted and inefficient government intervention. The study pointed out that time horizon of capital turnover, as revealed by interviews, plays an important role in determining markup, an issue that cannot be revealed by data. Hence, the interpretation of mark up ratios should be dealt with cautiously to ensure proper interpretation of results. The main policy implications include a better undertaking of the grass roots of the anti-competitive behavior which cannot be any more cured by the trade liberalization or simply enacting a competition law. The issue was found to be deeper. What is needed is a better data set on a more disaggregated level that allows different stakeholders to identify the anti-competitive behavior. The dataset should not be solely controlled by the private businesses or any other stakeholder to avoid asymmetric information.

In conclusion, the markets of industry in Egypt have held many features that raise questions and skeptics about the status of competition. Unfortunately, we could not present a comprehensive analysis. We had measures that gauge competitive behavior and environment, produced by hard data for the period 1981-1995, and others based on soft data for the most recent years (2000-2005).

The study highlighted that the area of competition studies still has many voids because of the newness of the topic. However, the upcoming competition authority under the newly promulgated law, would pave the way for more conducive environment for such studies. The process itself of the regular investigation on markets would release and avail more data for analytical studies.

