

## **DIRECTOR'S LETTER**

Nearly three years after Egypt ratified the competition law, promoting a competition culture and tackling anti-competitive behavior remain priorities in the national trade agenda. Confronted with these dynamic challenges and in response to the private sector's widely expressed desire to acquire a deeper understanding of the interface between competition and privatization in the reform process, the Trade-Related Assistance Center (TRAC) at the American Chamber of Commerce dedicated its second annual conference to "Competition and Privatization in Egypt." In this conference, a number of internationally renowned competition experts discussed topics such as privatization and economic reforms, options for improving efficiency in public utilities sectors, and the relations between competition/privatization authorities and sector regulators. Participants explored the sometimes competitive relationships between these entities and stressed the need for cooperation and eliminating overlap.

A recurring theme throughout the conference was the importance of maintaining close linkages between the competition and privatization authorities to ensure that privatization does not lead to the replacement of public monopolies by private sector monopolies. In this connection, it was repeatedly emphasized how vital competition law was to the interests of the consumer because it safeguarded those market dynamics that brought consumers higher quality goods and services at the lowest possible prices. However, speakers also cautioned against an absolutist approach to implementing competition policy because of the risks of *de-industrialization* or loss of economies of scale. Developing countries such as Egypt must strike an appropriate balance between sustaining strong local industries, attracting productive and technologically innovative local and foreign investment, and a rational application of the competition law in order to protect the market from abusive and monopolistic practices.

Egypt is currently experiencing a strong growth phase driven by the private sector. Applying competition law will boost this process. Competition law is not about triggering price wars or in anyway undermining the profitability of the private sector, but rather about generating a vibrant economic environment that promotes the welfare and increases the standards of living of the Egyptian people. It is also important to bear in mind that competition law is not so much averse to monopolies or market dominance as it is in favor of preventing dominant firms from engaging in bad business practices. Above all, pressing forward in the fostering of a culture of competition and privatization is the key to stimulating the continued of the Egyptian economy and enhancing its international competitiveness.

Ambassador Magda Shahin  
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## EXECUTIVE SUMMARY

Since the ratification of the competition law in 2005 and the establishment of the competition authority in 2006, competition law and policy have increasingly intrigued and perplexed the private sector. TRAC has seen it as its responsibility to help private sector come to grips with this relatively new phenomenon and has, therefore, devoted its efforts over the past two years to raising the business community's awareness of the various issues involved. TRAC's most recent activity towards this end was this year's conference, held on January 28<sup>th</sup>, 2008, on the "Relationship between Privatization and Competition."

Following a brief overview of relevant terms and concepts, the conference discussed the privatization of the banking sector in Egypt, the consequent increase in competition among banks (both local and foreign) and monitoring role of a strong sector regulator (the Central Bank) in close cooperation with the competition authority. It dwelt, in particular, on the Egyptian banking sector's experience, to date, in privatization and competition with an eye to identifying the challenges and pitfalls in the transition from a public sector to a private sector culture and in the actual reform of the concrete banking infrastructure. Among the points it attempted to underscore and elucidate are why privatization in this sector had to extend beyond management, the question of over-banking and under-branching, and the need to retain some public sector banks for the performance of 'universal services.' The case of the Bank of Alexandria served to illustrate how privatization was first necessary to upgrade the efficiency of the bank before it could enter into any competition. Simultaneously, it was demonstrated that privatization could not proceed without effective competition policy. Without sector regulators in place to curb abusive and monopolistic practices there is too great a risk of private monopolies supplanting public monopolies.

The conference's second major theme was the modernizing and upgrading of public utilities. Also known as the natural monopolies, they include water, electricity, gas, transport and telecommunications services, and, collectively,

they form a more complicated subject. These sectors are unlikely to be privatized in the foreseeable future. Yet, as government monopolies, they remain immune to competition; indeed, they are exempted by law from all competition rules and regulations.

Nevertheless, with the assistance of several highly competent experts, the conference proved a venue for the first extensive discussion in Egypt on the sensitive issue of introducing competition into the public utility sectors. Discussion proceeded from the crucial question as to how to make the public utilities sector more efficient and accountable to the Egyptian consumer. It was found that, in addition to the need to educate the consumer and spread the culture competition, there was considerable scope and, indeed, a need for immediate interim solutions. Experts focused in detail on the pros and cons of vertical separation, entry of potential competitors, privatization of management, public-private partnerships, and the role of the sector regulators and their relationship with the competition authority.

The conference concluded with strategic recommendations to both the business community and the government on how to maximize the performance of public utilities. Speakers stressed that while public utilities may not be subjected to competition law they are legally bound to meet certain conditions regarding the quality and efficiency of their service. Holding these sectors to these responsibilities requires a sustained drive to promote a culture of competition and closer coordination between the competition authority and sector regulators. Lastly, speakers recommended that Egypt draw on the experiences of other developing countries in order to generate new solutions, such as innovative forms of public-private partnerships, to improve the efficiency and cost-effectiveness of the natural monopolies.

## **INTRODUCTION**

The Conference on "Competition and Privatization in Egypt," held on January 28<sup>th</sup> by TRAC/AmCham in cooperation with the Egyptian Competition Authority (ECA) and the U.S. Department of Commerce's Commercial Law Development Program (CLDP), focused on two primary sectors in Egypt:

- the banking sector
- the public utility sector

It is clear why these two sectors occupied central stage in the conference. Honing in on the interface between privatization and competition in the most recently privatized sector in Egypt is both timely and instructive. It demonstrates how privatization could work successfully to enable a vital sector of the economy become more competitive and to perform better. It also illustrates the crucial role played by a central regulator, in this case the Central Bank, in safeguarding a healthy competitive environment, a role that, in turn, throws into relief the critical relationship between the regulating agency (the Central Bank) and the competition authority.

The public utility sectors present a strong contrast. These vital sectors are difficult to envision being privatized in the near future and remain exempt from competition rules and regulations. At the same time, there is a desperate need to explore ways to improve their performance so that they can better meet their obligations to the Egyptian consumer. The efficient functioning of these sectors assumes a broader importance in the context of the economic reform program and the need for all its sectors, individually and collectively, to become more competitive nationally, regionally and internationally. It was felt that the conference could come up with some very useful recommendations on this highly sensitive concern, which touches upon the core of a welfare state and its social obligations. Because public utility infrastructure services remain a virgin area untouched by privatization efforts in Egypt, it was felt useful to consider the experiences of other countries in this domain. Naturally, their applicability to Egypt depends on their ability to serve the major aim, which was the focus of the second part of the

conference, namely to improve the quality of public utilities services at reasonable prices for the consumer.

Before proceeding to the main topics, it is worthwhile to clarify some of the main terms and concepts that would be used throughout the conference, as follows:

### **COMPETITION**

Competition Law and Policy in Egypt is a relatively recent phenomenon, only dating back to 2005. The Egyptian Competition Authority (ECA) itself was established one year later in 2006. The 'Law on Protection of Competition and Prohibition of Monopolistic Practices' was issued as Law No. 3/2005. Its first article stipulates that economic activities should be undertaken in a manner that does not prevent, restrict or harm the freedom of competition. It should be borne in mind that the aim of competition law is not to prevent monopoly but to prevent monopolistic practices. The provisions of the law do not apply to public utilities managed by the State (Article 9).

### **ABUSE OF DOMINANCE**

Identifying "abuse of dominance" is not as simple as it might first appear. It is not always clear-cut whether a company is engaged in proscribed actions aimed at establishing or maintaining a dominant position, and many cases fall into a gray area. Article 8 of the Egyptian Competition Law identifies certain practices as unlawful. Such explicitness is potentially advantageous because it creates a degree of certainty.

According to Bill Kovacic, Commissioner at the Federal Trade Commission, three criteria must be met in order for abuse of dominance to exist. First, there must be substantial market power, i.e. the ability to raise prices well above the competitive level for a substantial period of time without enduring

a significant loss of sales. The threshold is calculated on the basis of an examination of shares in the relevant market. Even so, the figure varies enormously from one jurisdiction to another. Whereas the Egyptian Competition Act threshold starts at 25% market share, in other jurisdictions, such as the U.S., a market share under 65% is not a sufficient basis for a presumption of substantial market power. Secondly, the dominant firm must exhibit some sort of bad behavior. Most jurisdictions, including Egypt, believe that even when a dominant firm's market share is significant, if it is relatively easy for competitors to enter the market then there is no need to worry about abuse of power. The problems begin when behavior exhibits intent to obstruct or protract the entry of rivals. Thirdly, in the case of abuse, the authorities must decide how to act to address this instance of abuse. Kovacic noted that answering this issue is often treated as an afterthought; competition authorities tend to spend most of their time and energy determining if firms with large market power are actually behaving in a negative way.

## **PRIVATIZATION**

Generally, privatization refers to the process of selling publicly owned firms to private entities. Russell Pittman referred to privatization as not only a politically charged word but also a slightly misleading one, since it can mean different things to different people. Often people's fear of privatization stems from their fear of loss of control or ownership. Yet, complete transfer of control or ownership need not necessarily arise. Indeed, much of the research and experience have shown that there are benefits from intermediate stages – various forms of public-private partnerships, private sector participation, ways of injecting private capital into a public system – without necessarily handing over ownership. Brusick, consultant and former head of the competition department in UNCTAD, similarly held that privatization is not a simple, straightforward solution for state enterprises and even less so for public utilities. If the stock-market price of the privatized

firm increases, opponents will criticize the squandering of the “jewels of the crown”. If the share price falls, buyers will protest having been “ripped off” by the state. In general, unions and representatives of the employees will oppose privatization, for fear of restructuring and layoffs. They will also protest more difficult employment conditions and reductions in pay and compensations. Opposition may also arise against foreign takeovers of state-owned enterprises, a reaction that occurs most often when a takeover is perceived to affect a key national interest, the national economic infrastructure or national security, as is the case with banks, insurance and other services. Like the sale of the “jewels in the crown,” the notion of selling-off “national champions” to foreigners raises patriotic hackles.

#### **RELATIONS BETWEEN COMPETITION AND PRIVATIZATION**

Competition and privatization should not be perceived as ends in themselves but rather as ways to promote greater efficiency and higher quality products at more favorable prices to the consumer. Professor Gamze Öz of the Faculty of Economic Sciences, the Middle East Technical University, Turkey, observed that competition advocacy and the approval of competition law became necessary adjuncts to the privatization process in Turkey. She therefore felt it important to share Turkey’s experiences, both the good and the bad, in this realm. In her view, whereas privatization is a political choice, the introduction of competition law into the process is not. Rather, it is an indispensable prerequisite since privatization, alone, is not a passport to a competitive world.

#### **PUBLIC UTILITIES AS NATURAL MONOPOLIES**

Public utilities, also known as “Network Industries,” are regarded as “natural monopolies”. These were identified by the speakers as water, electricity, gas, transport and telecommunications. Philippe Brusick explained that these industries depend heavily on a distribution network, such as

railway lines, electricity cables, water and gas pipes, and telephone lines. Since it would make little sense to have two or more rail or telephone networks competing with each other in a country, it is generally accepted that there has to be a single "network," which makes it a "Natural Monopoly." Additionally, all these industries require large sunk investments, depend on economies of scale and are subject to the state requirement that they perform in all parts of the country, wealthy cities as well as remote areas, at the same price, a requirement usually referred to by the term "Universal Service". Hassan Qaqaya, acting head of the competition department in UNCTAD, noted that a salient feature of natural monopolies is that economic theory dictates that only one enterprise can operate efficiently in the sector. As a result, in most countries, developed and developing alike, these "natural monopolies" have been traditionally state-owned. But there are other sectors that have also been traditionally owned or, at least, strictly regulated by the state. Such industries include airlines and airports, shipping lines and ports, radio and TV, city transport, post office, banks and insurance, as well as tobacco, matches and alcohol. The motives vary in each case, and range from national security, defense and other precautionary concerns to the need to supplement the national revenues, as in case of matches and tobacco.

## **SECTION 1**

### **I- COMPETITION AND PRIVATIZATION IN THE BANKING SECTOR IN EGYPT**

Discussion on the conference's first focal area was introduced by two distinguished speakers: Mr. Mahmoud Abdel Latif, Chairman of the Bank of Alexandria, and Dr. Khaled Attia, Executive Director of the Egyptian Competition Authority. Their presentations reviewed problems of the past, discussed issues the banking sector encountered during the period of privatization and economic reform, and shed light on the issues that could face sectors that have not yet privatized.

Dr. Attia opened by outlining the deficiencies in the state-owned banks. Sheltered by government for close to 50 years after nationalization, national

banks were shaped by political, social and development objectives instead of by criteria for economic and commercial viability. Their chief objectives were to help fund the government's priority projects and offset budget deficits. When nationalized, the banks were divided into four major banks, each in charge of a specific sector in the economy. The Central Bank would fix the commission rates and other rates.

The banking system was characterized by the lack of competition, absence of managerial autonomy, poor performance, inefficient allocation of funds, overstaffing and little incentive for innovation. Such traits were not unique to the Egyptian banking sector; they are typical of state-owned banking sectors around the world. For example, as the U.S. Commissioner Bill Kovacic noted, in the banking and financial services sector in Vietnam, state-owned banks stagnated because they never offered new products or sought input from their customers. Their attitude was to wait until something happened rather than to take the initiative and solicit customer feedback. After Vietnam liberalized entry into the banking sector, the new firms that offered new products and actively sought out and analyzed customer responses to their services succeeded in taking the market share from state-owned banks.

### **I.1 ECONOMIC REFORM AND PRIVATIZATION**

Although Egypt started its economic reform and structural adjustment program in 1991 through the implementation of the comprehensive privatization programs of the IMF and the World Bank, it was not until 2003 that the privatization of the banking sector was addressed specifically. This was done through the enactment of Law No. 88/2003, which put in place the regulatory infrastructure for banking sector reform and paved the way for the Financial Sector Reform Program that was endorsed in late 2004. Significant progress was achieved under this program. State-owned banks were subjected to an independent audit, the problem of non-performing loans was

tackled, the public sector shares in joint venture banks were divested and one of the state-owned banks was prepared for privatization.<sup>1</sup>

Mr. Mahmoud Abdel Latif explained the two-fold plan for privatizing the banking sector. Step one was to privatize all the public sector holdings in private sector banks like 'Banque du Caire' and the National Bank of Egypt. In the past, the state owned huge percentages of other banks and supervised them and operated them directly. In this first phase, the state offloaded and sold all of these holdings to the existing shareholders, strategic shareholders, or to a new shareholder, as was the case with CIB and Barclays. The process was very successful and, apart from some isolated glitches in a few transactions, it proceeded smoothly and quietly. The second phase was to privatize the Bank of Alexandria, which entailed a total structural overhaul of the institution, which was staffed at the time with 9,000 government employees.

Because of his first-hand experience, Mr. Abdel Latif was best poised to offer a clear and detailed account of the privatization of the Bank of Alexandria. It took over four years to restructure the Bank and make it ready for privatization, he said. The first major challenge was to change the public sector culture that had dominated the institution for 50 years. As was the case in Vietnam, employees in the Egyptian banking sector had to become more sensitive to the preferences of customers. This necessitated a complete change of work culture, attitudes and perspective. The second major challenge was to automate the entire bank and reform its infrastructure from an IT point of view. Philippe Brusick brought up some of the same issues when he spoke of the 'corporatization' of state-owned enterprises, which required considerable reorganization and restructuring before privatization could even be contemplated.

Whereas many speakers would later suggest that privatization of management could be a viable option for improving the efficiency of public utilities, Mr. Abdel Latif held that, as far as the banking sector was

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<sup>1</sup> "On Bank Privatization: The Case of Egypt", Mahmoud Mohieldin and Sahar Nasr in *The Quarterly Review of Economics and Finance*.

concerned, this form of privatization was inadequate and unsustainable if it was the sole and final objective. Management, he said, is only one part of a whole set of reform targets. In order to ensure the continued progress and development of the institution, the whole environment has to be changed and this necessitates the privatization of ownership. If privatization had not extended beyond the management to the whole bank, it would have taken no more than five to ten years for the bank to revert to its former inefficient ways. For proper privatization to occur, the larger team must be in harmony. Everyone involved, from the managers of the bank undergoing privatization to the officials in the Central Bank, in its capacity as regulator, and in the relevant ministries, needs to work together and to sustain a dialogue. Only then is it possible to avert those mishaps that come from premature or hasty privatization.

Privatization should result in a win-win situation whereby the people at all levels of the chain benefit. The shareholders should expect a higher return on their investment; the employees who represent the social aspects of the entire privatization equation should expect a better future, higher financial compensation, a good work environment and good insurance; and the customer, the ultimate winner from privatization, should expect higher quality services at more advantageous prices.

## **I.2 COMPETITION AND PRIVATIZATION**

Privatization and laying the proper infrastructure are essential to the creation of competitive conditions. But it is equally true that without a sound competitive environment, the chances are high that privatization will not yield the desired benefits. In fact, the most likely result would be no more than the shift from public to private monopolies, complete with the transfer of all the strings attached to monopolistic behavior. The end loser would be the consumer, whose loss would be aggravated by the easily foreseeable adverse repercussions of this shift on the social welfare system.

Not only did the privatization of the Bank of Alexandria generate better competitive conditions, it also brought the sector a strategic investor. Strategic investors are vital to spur the innovation and technological development needed to enable the economy to compete regionally and internationally. They bring the better management skills, technology and know-how that stimulate the sector, improve returns on investment, and enable Egyptian banks to compete in global markets. When the Bank of Alexandria embarked on the process of privatization in 2003, it had around 600,000 customers of whom 400,000 were inactive. Today, it has over 1.6 million clients, 1.2 million of whom are active. The numbers alone testify to how privatization increased the reach of the bank, enabled it to compete with the major players in the national market and augmented its profitability.

Nevertheless, the financial sector in Egypt remains under-penetrated and the banking sector in Egypt is still structurally incoherent, conditions which are unfavorable to fair and open competition. In addition, the sector is over-banked but under-branched. Mr. Abdel Latif pointed out that Egypt needs three to four times the number of branches it has so far in order to serve their current and prospective customers throughout the country. The role of the Central Bank is vital here. It has to do more than to encourage and approve the opening of new branches; as regulator, it should avail itself of its legal authority to require newly opened private banks to open branches in remote areas. The principle behind this is similar to the "universal service" requirement, mentioned earlier by Philippe Brusick, that state-owned utilities extend their services to all parts of the country at the same price.

The objective is not to completely crowd out public sector banks. On the contrary, institutions such as the National Bank of Egypt and Bank Misr need to remain in the market, competing on par with private sector banks, as they provide important services like pensions, which are not in the interest of the private banks to perform. In addition, public sector banks are more willing to open branches in places that are not commercially viable for private sector banks. Still, as important as it is for these banks to remain public so that they can continue to carry out these social functions, they should not be

allowed to revert to past behavior, i.e. to policies dictated by the government's mega development projects or grandiose social visions. Therefore, they, too, must be restructured and put on track with other banks so as to better equip them to compete with the rest of the market. In a privatizing banking sector, the customer, whether retail or corporate, is very sensitive to the quality of service, the quality of the product and the nature of his relationship with the bank. Herein reside the essential ingredients for competing successfully in the banking sector. Curiously, pricing considerations take a back seat among all the other variables in the equation, as varied the prices of bank products are in today's free market economies. Price wars are not an issue in this sector, because at the end of the day it is the client-bank relationship, the advisory role and the diversification of the portfolio, rather than the cost of transaction, which make the difference.

The privatization of the banking sector has worked to level the playing field for all banks operating in the country, without discrimination between public and private banks. Nor is there a risk of foreign banks dominating the market since the competition law, which prohibits abuse of dominance, applies as much to them as it does to domestic banks. A sound and effective competition policy and implementation of the competition law in the banking sector are what it takes to drive forward a robust privatization process and safeguard the market from monopolistic or restrictive practices.

### **I.3 THE RELATIONS BETWEEN THE CENTRAL BANK AS A REGULATOR AND THE COMPETITION AUTHORITY**

The conference also proved a valuable forum for probing the relationship between the regulator and the competition authority. As noted above, Law No. 88/2003 conferred upon the Central Bank vast responsibilities as the monitor and regulator of the banking system and foreign exchange market. The Central Bank approves all new applications for opening of new branches and follows through with the banks to ascertain that they are within the

boundaries of the rules and regulations. It must further take the precaution to conduct regular inspections of the credit decisions and credit files of the authorized banks in order to ensure that they are functioning properly; however, it does not interfere in pricing activities or transactions. As the backbone of the entire economy, the banking sector tends to be a firmly regulated sector.

Although the Central Bank occupies a unique and historically strong position and is capable of safeguarding sound and fair competition in the banking sector without interfering in pricing activities, this does not rule out the possibility of conflict between the Competition Authority and other sector regulators. The issue is a serious one and must be taken into consideration early on in all future privatization efforts.

## **II- COMPETITION AND PRIVATIZATION IN THE PUBLIC UTILITY SECTOR**

The second section of the conference was devoted to an extensive discussion of the following points:

- (i) Competition in and Privatization of the public utility sectors
- (ii) Unilateral conduct and abuse of dominant position during privatization
- (iii) Whether or not privatization can promote competition in the natural monopolies and regulated sectors?

Although many questions still remain open, speakers and participants in this one-day conference made a serious effort at clarifying a number of very important points regarding the relations between competition, privatization and the natural monopolies. Of central concern in the course of their discussions were the relations between the competition authority and the privatization authority, between the competition authority and the sector regulators, and between privatization and social responsibility which is an integral concern of the economic reform process.

Amidst the general euphoria over privatization, it was not surprising that conference participants would wonder whether Egypt was not now ready to privatize its public utilities and whether competition in this area would help improve the efficiency of these utilities and enable them to offer the public the best quality service at the lowest possible prices. Such speculations led to the question of how public utilities fit into the process of privatization and competition within the overall framework of the Egyptian economic reform program.

As was explained in the terms and concepts section, well functioning public utilities are crucial to the economic development of developing countries. They furnish the essential infrastructure for the economy, enable the productive sectors (trade and industry) more competitive and, hence, are vital to attracting more foreign direct investment (FDI). Without proper roads, transport, ports, telecommunications, airports, electricity, etc., the private sector would find it very difficult to do business, let alone compete.

Hassan Qaqaya, acting head of the Competition Department at UNCTAD, kicked off discussion with a number of crucial questions:

- (i) How is it possible to surmount the challenges posed by public utility monopolies in Egypt when they are exempted from the Competition Law?
- (ii) What types of solutions could be envisaged to ensure high efficiency and best practices in those sectors without subjecting them to privatization and competition rules and regulations?
- (iii) What role undertaken by sector regulators and what relationship between them and the competition authority would best further the improved effectiveness of these sectors?

Mr. Qaqaya went into some detail on the current legal status of Egypt's public utility monopolies with respect to privatization. Article 9 of the Competition Law states that the provisions of that law do not apply to public utilities managed by the State. Yet, further along, the article establishes a criterion for exemption, for it states that the benefits to the public interest or to the consumer that derive from exemption must exceed the disadvantages

of restricting freedom of competition. In other words, even though public utilities are exempted from competition regulations, they are required to provide sufficiently high quality services at reasonable enough prices to warrant their exemption. Under the regulations and procedures set out by the Executive Regulation of the Law, exemptions must be justified and reviewed every two years.<sup>2</sup> Thus, Qaqaya explained, public utilities are not granted a blanket exemption, but rather an exemption based on their meeting a clear test. The effect of this is to render the question of the relationship between public utilities and privatization and competition somewhat more complex, as it must be continually established that it is in the public interest or of benefit to the consumer for a utility to warrant exemption. Otherwise the Competition Board could revoke the exemption.

## **II.1 COMPETITION IN AND PRIVATIZATION OF PUBLIC UTILITY SECTORS**

In general, public utilities were historically provided by vertically integrated, government-owned or government-regulated monopolies. However, these have been in decline for some time, especially in the developed countries. Economists began to understand the weaknesses in the traditional modes of government regulation and so began searching for both improved regulatory schemes and ways to replace regulated monopoly with competition. For some time, the dominant restructuring model urged by reformers has been vertical separation. In this model, as Russell Pittman, Director of Economic Research, U.S. Department of Justice, explained, the potentially competitive activities in the sector – trains in the railway sector, generation in electricity, production in gas, “value added” activities in telecommunications – are undertaken by companies fully separated from the utilities that operate the remaining monopoly grid (the railway infrastructure, long-distance transmission lines for electricity, gas pipelines, the local fixed telecommunications network, etc.).

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<sup>2</sup> Part Five of the Executive Regulations of the Law: Public Utilities and Essential Products, Article 17

Pittman then turned to the issues that arise in the restructuring of natural monopolies, using the privatization of Bell/AT&T telephone systems in the U.S. in the sixties to illustrate. Bell telecommunications had been a very successful vertically integrated natural monopoly, its network of wires covering the entire U.S. However, with the advent of microwave technology it became possible for smaller companies to 'bypass' the long-distance wires of the traditional vertically integrated telecommunications monopolies of AT&T. This, moreover, was only the prelude to the waves of innovations in telecommunications such as the internet, mobile telephony, and 'voice over internet' that have revolutionized competition and regulation in this sector.

Eventually the Antitrust Division of the U.S. Department of Justice decided to bring an abuse of dominance lawsuit against AT&T. Officials at the antitrust division maintained that AT&T had to choose between providing either short distance or long distance communications, since it was impossible for it to provide both in a nondiscriminatory manner. AT&T opted for long distance communications, leaving short distance communications to local service monopolies.

Technological changes and better understanding on the part of economists, lawyers and policy makers in developed countries and market economies, in particular, have raised new possibilities in the traditional natural monopoly sectors. For example, the gas pipelines and electricity grids tend to remain monopolies even though their competition can be introduced in electricity generation and natural gas production competition. Likewise, in the railways sector, some argue that competing trains can operate over a single monopoly track.

Moreover, privatizing public utility sectors is not a foregone conclusion even in developed countries. Qaqaya forwarded a case in point: Switzerland's rejection, by public vote, of the privatization of its water utilities, although this did not prevent the government from outsourcing the water resources to private management. Also, in Switzerland and elsewhere, there have been discussions on and experiments with competing purification systems and competing sources of water and water pipelines as ways to break this

traditionally vertically integrated monopoly sector. As the foregoing indicates, it is possible for ownership remains in the hands of the collective community, or the government (a choice dictated by the nature of the market structure or political and social considerations), while outsourcing the management to the private sector with a view to making these sectors more efficient and accountable to the citizens and consumers.

In most developing countries virtually all public utilities continued to be provided by vertically integrated monopolies well into the eighties and beyond. Since the eighties, however, many countries, including Egypt, embarked on serious attempts to reform and restructure their major public utility sectors. The objectives behind this were many and included improving sector efficiency, reducing public deficit and increasing consumer welfare. Nevertheless, as earnest as these endeavors were in their desire to reform these sectors and promote competition through partial privatization and inclusion of private sector participation, these sectors are still characterized by the lack of cost effective competition, which can be linked to price distortions, excessive subsidies to public enterprises, a crippling national budget deficit and the absence of the freedom to choose suppliers. The latter problem – how to protect the freedom of choice both from the supply side and the consumer side – lies at the very heart of economic reform.

A major reason why infrastructure services sectors in developing countries lack effective competition is because they have weak sector regulators, a phenomenon due to inappropriate regulations, inadequate government supervision and the inability of both government and regulators to design appropriate pricing policy. All these factors place an unquestionably heavy burden on the operation of public utility monopolies, particularly in developing countries such as Egypt which are undergoing structural readjustment and have recently introduced legislation to help them cope with public utilities monopolies.

### **II.1.A. CHALLENGES OF PRIVATIZING PUBLIC UTILITIES**

Pittman then proceeded to the crucial question as to whether vertical separation – the complete separation of the competitive sectors from the grid or infrastructure sectors – is always the best policy. Despite the generally positive feeling on the vertical separation of natural monopolies, which is favored by policy makers as the ‘default option’ for restructuring public utilities, Pittman argues that we must still ask whether it is always the right answer. So much depends on what exactly is needed in a given country, the current stage and level of reform, and the target sector.

It is hard to conceive of privatizing public utilities in Egypt today. Not only is the market structure unfavorable to this step, but also, and more importantly, it would could have adverse repercussions on the poor and lower income groups. There are social priorities that the government must bear foremost in mind. This does not mean, however, that public utilities can not be privatized at some point in the future. The banking sector was initially regarded as a strategic sector that should be spared from privatization. But then it became clear that privatization was necessary to improve the quality of banking services and, hence, to strengthen this strategic sector. A privatized and competitive banking sector was, thus, an integral part of the economic reform program in Egypt. By the same token, ceding a bigger role to the private sector in public utilities would boost efficiency, stimulate innovation and generate higher levels of income and employment. *So the bottom line is – be it for the banking sector and, arguably, public utilities – privatization is not an end in itself but a means to improve the governance structure and create stronger incentives for performance.*

As Brusick pointed out, most public utilities have historically been and continue to be state owned and operated, especially in countries like Egypt, and their privatization is often a politically-charged decision. However, new technologies have drastically altered the situation in a number of ways. The advent of cell phones brought an end to the network monopoly on telephones. A similar phenomenon occurred in electricity generation: small production units became quite competitive and could be disseminated in remote areas. Egypt did not hesitate to privatize the mobile phone service

and render that market competitive. New technologies often required huge investments at a time when the state was often running a budget deficit, a considerable chunk of which resulted from subsidizing ailing state monopolies. In many countries, the combination of ineffective state management and competitive pressures propelled towards widespread privatization and deregulation aimed at liberalizing industries thirsting for the injection of new capital and up-to-date technologies.

Brusick also spoke of different types of privatization for state-enterprises, which are also applicable to public utilities. State-owned enterprises/utilities often take the form of a ministerial department and have to be transformed into an independent stock corporation the shares of which are owned by the state before they can be sold to the private sector. In addition, they need to be managerially restructured so as to be able to perform like a private firm with a balance sheet showing profit and loss. Once these profound transformations are made, it becomes possible to evaluate the approximate market value of the enterprise and determine the actual type of privatization which should occur. The firm can remain the property of the state but have its management awarded to private interests under different forms of management or service contracts. Or it can be privatized for a fixed term under a concession contract, which might be periodically revisable. Or, thirdly, it can be sold outright to private interests. In any of these modalities, the state can award the firm directly to private investors, or it can resort to the auction mechanism. The latter option is recommended because it allows for transparency and gives the state the opportunity to evaluate and compare competitive bids.

Brusick stressed that it is not always true that privatization and competition helps bring down prices and provide quality services. Contrary to expectations, prices could rise instead of fall, at least in the short term. Brusick offered several explanations for such an occurrence. The prices could shoot up because the privatized firm has a monopoly or, if there are other firms in its field, entered into a cartel arrangement with those firms with the purpose of fixing prices. Alternatively, the cessation of the subsidies that an

enterprise had received from the state before privatization forced it to raise its prices. A third explanation might be that the enterprise no longer cross-subsidizes poor regions with the proceeds from more profitable ones. In other words, they might no longer operate a universal service undertaking, which is one of the conditions normally imposed on government utilities.

When privatizing, the privatization office is especially eager to replenish the budget and will be looking for the best possible offers from the private sector. Often offers are much higher if the state can offer an exclusivity contract, guaranteeing the purchaser a monopoly. In some cases governments granted long-term monopoly contracts in the privatization process (as can be seen in the case in Argentina),<sup>3</sup> only to discover later that the absence of competition pushed prices up and reduced incentives to innovate and that revoking the exclusivity contract led to protracted litigation at exorbitant cost to the government. Where governments initially lack the capacity to instigate large-scale private investment, preference should be given to an incremental approach, beginning with the use of service contracts or lease contracts until experience is gained in operating regulatory regimes. Once a comprehensive regulatory framework is in place and an attractive investment environment has been created, governments can proceed to more complex privatization practices such as concession allocations or full privatization (as occurred in Chile).<sup>4</sup>

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<sup>3</sup> **Water Concession in Argentina:**

In 1995, a 30-year concession was awarded in the Province of Tucumán (1.1m people) to Vivendi, the French global utility company. The concession had been awarded by a Peronist government, but a new governor belonging to the Radical Party was elected soon after. Within only a few months after taking over operations Vivendi doubled water tariffs. Not only did the quality of service fail to improve, the water itself "inexplicably" turned brown. In protest, 80% of residents stopped paying their bills. Responding to the public outcry, the new governor started a campaign that led to the cancellation of the concession in October 1998 and the hand over of water operations to the provincial government. Vivendi countered with a US\$100m suit against the government.

**Source:** Nickson, A. (2001), "The Cordoba Water Concession in Argentina" Working Paper 442 05, GHK International and University of Birmingham.

<sup>4</sup> **Electricity Sector in Chile:** By the late 1980s, the sector was dominated by two publicly owned companies, ENDESA and Chilectra, which were responsible for 90% of generation and 89% of electricity distribution. The monopolistic position of ENDESA provided it with the power to determine its own tariff structure. The sector was characterized by high production and delivery costs, with tariffs set below long-run marginal costs. Management was poor and maintenance neglected. Between 1986 and 1995, the market was segmented into four generation and transmission markets. Two most important markets accounted for

### **II.1.B. ENTRY OF POTENTIAL COMPETITORS**

Hassan Qaqaya, in his discussion of privatization and competition in 'natural monopolies,' explained that the question of competition in the public utilities sector essentially centers on the entry of potential competitors. Recalling Kovacic's observation that thwarting or protracting the entrance of potential competitors into a market is a form of abuse of dominance that is punishable by law, Qaqaya stressed that competition in the utility sectors was absolutely vital to improving their performance and that for this condition to be fulfilled, potential competitors or entrants into these sectors had to have access to the essential facilities (e.g. electricity grids, railway lines, telephone lines, water distribution infrastructure). And, in fact, gaining access to these essential facilities is the major hurdle for the competitors.

An examination of the experiences of developing countries in the privatization of state monopolies reveals that the process can have adverse repercussions, especially on the social dimensions of the services provided. Qaqaya reminded participants of the catastrophic case of Argentina (See Footnote 3) in which the government awarded a private firm a 30-year monopoly concession in the water sector. Within a year, prices doubled and water quality and service standards plummeted drastically. Under heavy political pressure, the government was forced to cancel the concession, which in turn led to an ongoing case in an international tribunal. The Argentinean disaster was a case of badly formulated restructuring or privatization that failed to provide for competition in a particular sector. There are, however,

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97.6% of total electric power: the Sistema Interconectado del Norte Grande (SING) and the Sistema Interconectado Central (SIC). After the reforms, despite price reductions, prices differed between different regions due to differing transmission costs. It was suggested that the dominance of ENDESA, which owns the grid, gave rise to the concern that the company might abuse its monopoly position (Covarrubias and Maia 1994). Improvements in the Chilean electricity industry are, thus, considered to have been largely determined by regulatory reform rather than as a direct consequence of privatization (Galal et al. 1994; Spiller and Martorell 1996).

**Source:** Cook, Paul. "Privatization and utility regulation in developing countries: the lessons so far", in *Annals of Public and Co-operative Economics* 70:4 1999. pg. 565-571.

other examples (e.g. the railway sector) where restructuring and reforms using horizontal and vertical separation of several operators actually seemed to work quite well.

One frequently espoused set of options, these days, is third party access through 'partial unbundling' as opposed to complete separation. Third party access, as Pittman explained it, is basically when the monopolist, yielding to pressure applied by the competition authority, gives access to its network to a competitor. Under this alternative restructuring model, the potentially competitive activities are separated from the infrastructure operation only in an 'accounting' or perhaps 'organizational' sense, i.e. a single parent company still owns both. Creation of competition under this alternative model means requiring the vertically integrated infrastructure enterprise to allow entry into the infrastructure by non-integrated producers in the upstream sector, under access terms and conditions that are regulated by the government. The primary advantage of the third party access option over vertical separation as a restructuring model and strategy, according to Pittman, is that the non-separation of upstream and downstream operations allows existing companies of national importance to remain intact and for the retention of economies of scale. Also it permits for the gradual introduction of competition, in contrast to the shock effect of restructuring. The disadvantage, however, is that the integrated service will continue to be tempted to discriminate against its non-integrated upstream competitors, a likelihood that is augmented by the fact that competition and regulatory agencies in developing countries are still green and tend to lack the resources and the enforcement power needed to prevent discrimination in providing access to the infrastructure.

### **II.1.C. MERGERS AND ACQUISITIONS**

Once privatization actually takes place, there arise a number of recurring issues. First of all, there must be strong merger control provisions. In many case studies, privatized or split up assets were placed in the hands of

different owners. After the privatization, these different pieces recognized one another and decided to merge, recreating the type of dominant enterprise that existed before privatization took place. Without a merger policy in place following privatization it is hard to forestall this process and the consequent loss of the benefits of privatization. One possible solution is to include merger control in the competition rules. Otherwise, the sector regulator or the competition authority, which sees a cartel in the making, will be powerless to intervene to forestall the concentration of market power and eventually the creation of a monopoly. This, too, is a major deficiency in the Egyptian Competition Law; it does not encompass merger controls.

It was interesting to note in Professor Gamze Öz's presentation that privatization was not specifically covered under Turkish Competition Law. Rather, it was treated under the heading 'acquisition,' in this case the acquisition by a private entity of a state institution in contrast to an acquisition through a private-private merger. It was, therefore, subject to the same rules that govern mergers and acquisitions in the Turkish Competition Law (Article VII). But the matter was far from straightforward as it appeared. It was one thing to accept, in theory, that mergers and acquisition should also cover the privatization process; it was quite another to deal with the practicalities – too many questions of principle and procedure remained open.

#### **II.1.D. COORDINATION BETWEEN PRIVATIZATION AND COMPETITION AUTHORITY**

Professor Öz stated that coordination between the privatization and competition authorities is a pre-condition for the establishment of an environment conducive to competition. She related that when the state-owned petroleum distribution company was to be privatized, many questions were raised: Who is going to apply? How and when? Should the approval process from the privatization administration take place before or after the tender? What was the best structure? There were practically no answers these questions. This case, which left a bad taste in the privatization process,

led the Turkish Competition Authority, founded more than ten years after the privatization process had begun in Turkey in the early eighties<sup>5</sup>, to draft the principles and procedures of a structured cooperation between the privatization administration and the competition authority.

The result is that now the competition authority submits its opinion on the privatization before the tender process and this opinion is reflected in the tender specifications issued by the privatizing authority. Afterwards, when the tender is over, the top three bidders are submitted for approval by the competition authority. The process, thus, provides for ex-ante and ex-post intervention by the competition authority: the authority first states its opinion how the privatizing authority should formulate or draft a tender specification, so that this privatization will not cause anti-competitive effects in the market. Then, when the tender process is finished, it approves the names of the bidders.

Professor Öz recounted a recent case involving the privatization of a port in a small Aegean coastal village in Ezmir. Because the competition authority had not been notified in advance, the matter was brought to court. Eventually, the Supreme Court ruled that notifying the competition authority to obtain its opinion was “a procedural condition for any privatization” and that the privatization of the port should have also been opined upon by the competition authority.

However, the ability of the competition authority to set the rules in advance is not necessarily a guarantee for fair competition, even if it is a good start. Professor Öz cited a case in point. When Turkey contemplated introducing a third mobile operator after the year 2000, until which time the country had only two operators, the Minister of Transport requested the opinion of the competition authority to avert any anti-competitive effects in the market. The competition authority advised against allowing the existing operators to bid for the tender and suggested that a brand new third

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<sup>5</sup> Between 1982 and 1994 Turkey had a privatization law without competition law, which Professor Öz called “pre-competition law stage”. It was only after 1994, when the Competition Law was enacted that Turkey felt the impact of competition law on the process.

operator enter the market. Even so, as subsequent investigations indicated, competition in the mobile phone market was not immune to foul play.

The Turkish Competition Authority is also empowered to reject out-of-hand privatization applications. For example, it refused to approve the privatization of a state-owned fertilizer company on the grounds that it could cause concentration and more powerful dominance in the relevant market. Another example occurred two years ago when the cement companies were to be privatized. The competition authority had opined that these facilities should be privatized factory by factory and not as block sales, so that everyone would have the opportunity to bid on each of these facilities. Afterwards, the competition authority refused to approve this very privatization process on the grounds that it would lead to dominance in the market. In other words, the case of the Turkish cement industry furnishes an example of the competition authority reversing itself in the ex-post phase.

## **II-2 RELATIONS BETWEEN SECTOR REGULATORS AND COMPETITION AUTHORITY**

The monopoly position of large state-owned enterprises/utilities emerges not only from market power, but also from government laws, rules and regulations. For example, Qaqaya explained, a government policy barring entry for competitors while at the same time setting rules for “universal requirements” will always favor a state-owned enterprise. This is why it is crucial to separate competition authorities from sector regulators. At the same time, it is important to be clear about the role of competition policy, the challenges it faces and the nature of potential tensions between the competition authority and the sector regulators in the context of privatization. One of the most foremost challenges that confronts both policy-makers and competition authorities is to determine what constitutes the right balance between the appropriate level of regulations and the level of competition and market adjustment. Bill Kovacic, Commissioner, FTC, held that during the privatization process the government needs to remain deeply skeptical towards purchasers’ demands for exclusivity, i.e. to be granted

exclusive rights to provide a reasonable service at reasonable prices and in accordance with which new entrants into the market are formally prohibited. Governments particularly need to harden themselves against higher offers by firms seeking exclusivity at times when the state treasury is pressed by severe budgetary demands. It is in this setting that the competition authority can play a very valuable role as an advocate and advisor to the privatization authority, its task being to ensure that the privatization authority is absolutely clear on what costs would be entailed in granting an exclusivity franchise. Overall, government needs to remove ancillary barriers to entry (i.e. striking down the provisions that severely limit licenses for new entrants).

In addition to weak competition law and policy and inappropriate enforcement lack of jurisdiction of the competition authority over the sector regulator. The question then arises as to whether the sector regulator should be solely responsible for competition or whether the competition authority should be made a co-eminent partner? Lack of coordination and lack of clear competence enforce the hand of sector regulators, which retain the strength that they had prior to the introduction of competition law, a phenomenon that is conspicuous in telecommunications, transportation and other infrastructure service sectors. Furthermore, competition authorities lack technical expertise and the legal power to handle specific problems, which begs the question, again, of the appropriate level of competence that should be accorded to competition authorities. For example, should they have experts to cover the sectors under their jurisdiction or should they depend more on other sector regulators?

All speakers stressed the importance of coordination between sector regulators and the competition authority, especially when it comes to ensuring that the restructuring of state monopolies meets the envisioned goals, be they improved efficiency, attracting higher levels of investment or extending services to the poor. Pittman cautioned against restructuring state monopolies through horizontal separation whereby a natural monopoly would be broken into vertically integrated competing companies, thus resulting into

two stages of monopoly instead of one. He continued that if the goal is to increase investment, vertical separation has been ineffective in increasing investment. In fact vertical integration and government regulation have tended to be better at encouraging investment and reassuring investors that their investments would be secure. On the other hand, if the purpose is to provide direct service to the poor, vertical separation could work well. Universal service obligations can be complicated and it would be a challenge to set up both universal service obligations and incentives for expanding a network in a way that would be consistent with competition. In Pittman's opinion, if the ultimate goal is to serve the poor better and to provide coverage for remote areas, retaining vertical integration and supplementing it with more enlightened regulation might be a better strategy. At any rate, all of the options discussed above require both sector and competitor regulators.

Philippe Brusick pointed out that relations between competition authority and sector regulators are often prone to conflict. He then asked whether both the competition authority and sector regulators should be made responsible for the application of competition rules and regulations and, if so, which should have the final say. He proposed the following answer:

To ensure maximum competition, the public utilities monopoly should be limited to the strict network portion of the service and efforts should be made to introduce competition in all non-network components of the industry. In order to ensure that the network monopoly does not abuse its dominant position over the essential facility, the sector regulator should be endowed with powers to apply competition rules. As for the sector regulator's and competition authority's sharing responsibility for applying competition rules, different countries have come up with different solutions. In some countries, competition matters are left to the competition authority, in close co-operation with sector regulators. In others, the competition authority has no powers in the regulated sectors and the sector regulator retains total authority. The criticism, in terms of competition policy, is that sector regulators can sometimes be "captive" of the sector they regulate, in the

sense that they fear that by applying competition rules to the industry under their supervision they will weaken their own power. Another critique, from a broader perspective, is that sector regulators can not apply competition rules throughout the economy as uniformly as a competition authority could and, consequently, sector discrepancies would arise.

In any event, even when sector regulators are exclusively empowered to apply competition rules in their sectors, it would be highly advisable to ensure close co-operation with the competition authority for advice and, eventually, for training. In all cases, government policies should be carefully revised prior to divestiture with an eye to obviating private exploitation of monopoly rights. Without fierce competition private ownership is unlikely to lead to much improvement in performance. Brusick offered a vivid illustration from the telecommunications industries in Japan, Malaysia and Philippines, where the relative performance of three Asian telecommunication firms – Nippon Telegraph and Telephone Company (NTT), Telecom Malaysia (TM), and Philippine Long Distance Telephone Company (PLDT) – were analyzed following privatization and the introduction of competition. The analysis reported a number of findings relating to the pre- and post-restructured performance of these privatized firms, offering a comparison of accounting-cum-financial indicators of this industry over forty-two years in aggregate. Statistical tests on the pre- and post-values of these firms suggest statistically significant overall gains after privatization. There was also evidence that performance and efficiency improved after simultaneous adoption of privatization and competition reforms in Asian telecommunications. First, the profitability measure of performance increased significantly in Malaysia, though not in Japan or the Philippines. Second, operating efficiency rose significantly in the three cases post-privatization, compared with the period under State monopoly control. Third, capital expenditure also increased significantly in the Philippines (but not Japan and Malaysia) as a result of, and response to increased competition (full liberalization) in the market. The empirical tests suggest that after privatization of the firms, the main outputs increased significantly (without

raising employment), while productivity, technical efficiency and consumer welfare also improved<sup>6</sup>.

Speakers stressed a final point: once privatization has taken place, even if a regulated sector is not a monopoly and there are various operators, the possibility remains that the operators will try to fix prices and conditions among themselves, or that after some time they will decide to merge, increasing concentration from, say four to three, then from three to two and finally to one. The fewer the operators are, the higher the risk of collusion to fix prices. Kovacic also raised the concern of anticompetitive pricing behavior, such as when incumbent firms lower prices in order to deny an entrant or a fringe firm the opportunity to expand operations. Most jurisdictions, including Egypt's competition law, follow generally permissive approaches to dealing with allegations of below cost sales as a form of abusive dominance. A third risk is that a dominant firm turns to the state, itself, and demands concessions and safeguards to keep competitors out of the market. This is achieved through personal connections between the incumbent and the state. Such risks underscore the importance of competition. Kovacic argued for the need to establish a clear mandate that would give the competition authority jurisdiction over all aspects of industrial and commercial activity. If this is not possible and if there remain carve-outs for sector regulators, the competition authority must, at least, have a strong advisory role so that it can build the personal relationships necessary to becoming an effective entity. Finally, any good competition authority needs to understand the value of reassessment. As in any good health regime, the competition authority needs to periodically review its performance.

In closing, Pittman recapitulated the three main lessons gained from the discussion:

First, competition is good but not the only good. It is essential to make an assessment of what one wants competition to achieve and how effectively it would promote the desired goals.

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<sup>6</sup> Ariff, Mohamed. 2002. "Performance gains through privatization and competition of Asian telecommunications," ASEAN Economic Bulletin, [www.highbeam.com](http://www.highbeam.com)

Second, vertical separation can be good, but it is not the only 'pro-market' or 'pro-competition' reform strategy for natural monopoly sectors. There are other strategies that could be used in order to reach a specific goal. Reformers should consider carefully the costs and benefits of any strategy before proceeding.

Third, it is important to bear in mind the goals that are to be achieved on a sector-by-sector basis, as what works for one sector may not necessarily work for another. Qaqaya spoke, here, of a kaleidoscope of options and policies that needed to be sifted through with an eye to fulfilling the objectives of restructuring any particular industry. The experience of different countries demonstrates that is no single cure-all.

## **SECTION THREE**

### **III. RECOMMENDATIONS**

As the conference addressed its two focal topics – (a) successful privatization and application of competition policy in the banking sector, and (b) increasing efficiency in the public utilities sector – it became increasingly obvious that competition and privatization are two sides of the same coin. Proper privatization can not occur without provisions for competition, for this is only to clear the way for the shift from public type of monopolies to private sector monopolies. Likewise, fair and equitable competition necessitates prior privatization.

It was also made clear in the conference that privatization and competition are not ends in themselves but means to promote a welfare society with higher standards of living and stronger incentives for performance. The successful experience of the privatization of the Bank of Alexandria offers a paradigm of success. But as much as is known about the banking sector's successful experience, much remains unclear about the applicability of the competition law to the public utilities sector, which remains out of the bounds of privatization. The efficient functioning of these

sectors becomes all the more challenging in the context of the economic reform program and the need for the Egyptian economy to become more competitive nationally, regionally and internationally.

The one-day conference produced a number of recommendations, which have been summarized as follows:

1. Egypt must work to promote a culture of competition and privatization and to generate mindsets that are more receptive to a more dynamic and competitive environment. This should be a shared effort between the government, the media, an active private sector, civil society, informed consumers and think tanks and research centers.
2. Although public utilities are not subjected to the competition law, this does not relieve them of their responsibilities. Under law, in order to hold on to their exemptions they must ensure that benefits accruing to the consumers exceed the adverse effects of restricting freedom of competition. In other words, public utilities are not given a *carte blanche* and must, therefore, act in keeping with the statute that requires them to benefit the consumer. This brings to the fore the importance of informed and empowered consumers and, hence, the need to raise the public's awareness of its rights so that it can better hold government monopolies accountable for reliable and efficient services.
3. Drawing on the experience of other countries in similar situations, Egypt should be able to devise a variety of options for enhancing the efficiency and cost-effectiveness of natural monopolies. Among the alternatives are privatization of management, vertical separation, and private public partnerships in the public utility sector. The Egyptian transport sector in Egypt, to which the government has recently begun a drive to attract new private (local and foreign) investment, offers scope for some innovative thinking.

4. It is absolutely necessary that coordination and close cooperation continue between the competition and privatization authorities and between the competition authority and sector regulators.