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AIRLINE COMPETITION

-- Note by Egypt --

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Summary

1. In accordance with the vision of the Ministry of civil aviation, Egyptian Competition Authority (ECA) initiated two studies related to the aviation sector:

1. Domestic scheduled passengers airlines (2002-July 2009);
2. Regional scheduled passengers airlines (2010-2012).

2. Both studies compared Egypt's current regulatory framework with pre- and post- Deregulation steps adopted by the Egyptian Authority for Civil Aviation. The reports offer policy recommendations that will minimize and, in some cases eliminate, certain prevailing barriers to competition based on ECA market study as well as comparative foreign liberalization experiences (United Kingdom, Japan, Turkey, United Arab Emirates, Jordan, Lebanon, Morocco, and India) as alternative models.

3. ECA tend to advocate a liberalized market structure to the best possible extent based on marketing the fact that competition is better than regulation to deliver efficient aviation services and consumer benefits. ECA is trying to be active in lobbying for such change and ultimately the aim would be to achieve a gradually open aviation market on the long term.

4. This would be achieved through the removal of all government-imposed restrictions on the private airlines companies, putting Egyptian private airlines on the same footing as the National Historical flag carrier "EGYPT AIR", which is one of the biggest barriers in the Market.

5. This paper is based on the above mentioned reports; it aims to assess the competition in the aviation sector in Egypt and offers some recommendations that will minimize and in some cases eliminate certain prevailing barriers to airlines competition.

1. Introduction

6. The air transport sector¹ is considered to be among the pillars of the economy due to its close connection with several sectors; i.e. tourism, trade, etc. ..., which encouraged the governments in the past to interfere with its ownership and management and to consider this sector as public utilities. (The public utility is a project established by the state in order to achieve the purpose of public benefit purposes).

7. Air transport has been for many years among public utilities that falls under a full regulation system, until the global liberalization trend appeared during the seventies and eighties of the last century.

8. Egypt's civil aviation sector has evolved recently in 2002, through several stages, including: restructuring the aviation market, and modification of the companies' requirement to establish a private airline company.

9. However, despite the positive steps toward liberalization, this sector is economically concentrated on both levels (domestic and regional); where a single company dominates this activity without facing a real competition from others.

¹ The air transport sector in this paper refers to the commercial air transport for passengers.

10. However this situation has its historical background.

- Evolution of the airline sector in Egypt

11. This section gives a background on the evolution of the airline sector in Egypt, three main points to discuss:

- 1.1 The National carrier chronology;
- 1.2 The establishment of the regulatory bodies (restructure of the sector);
- 1.3 The laws and regulations governing the aforementioned sector.

1.1 National carrier (chronology)

12. The airline sector in Egypt had and still owns a long history of government involvement and participation.

13. Egypt Air was established on May of year 1932 as a private company, it became the seventh air carrier in the world. The Egyptian Government took over the company during the Second World War and changed its name to “Misr Airlines”, however, it was soon returned to its status as an Independent private company. In the 1960s, the company was merged with Syrian Airlines, forming a new company called “United Arab Airlines”. Although this merger lasted for only one year, the company kept the name until 1971, when it was renamed “Egypt Air”.

14. In July 2002, by the Presidential Decree number 137/2002, EGYPTAIR became a 100% government owned Holding Company with seven subsidiaries² with special legislation permitting the management to operate “*as if the company were privately owned without any interference from the government*”. The company is self-financing without any financial backing by the Egyptian government³ which certainly affirms the very important complementary role played by its subsidiaries in the air transport services industry. And of course the subsidiaries play a very important complementary role in the air transport services industry.

15. To improve its competitive stance in its markets, Egypt Air established a new subsidiary to strengthen its position in the domestic and regional markets. ***Egypt Air Express*** was launched in mid 2007 to provide competitive services to all domestic airports as well as selected regional destinations. The combined and integrated schedules of EgyptAir Airlines and Express aims to enhance customer service, improve Group revenues and increase overall efficiency. It is worth noted that Egypt Air wholly owns Egypt Air Express⁴.

² The subsidiaries are: EgyptAir Maintenance & Engineering Company, EgyptAir Ground Services Company, EgyptAir Cargo Company, EgyptAir In-flight Services Company, EgyptAir Tourism & Duty Free Shops Company, and EgyptAir Medical Services Company. Two more subsidiary companies were added at a later date – EgyptAir Supplementary Industries Company (launched in 2006) and EgyptAir Express (launched in June 2007).

³ Institute of developing economies-Japan external trade organization: African Growing enterprises file-Egypt Air.

⁴ Egypt Air holding also own stakes in the airline company “Air Cairo” (60%) and “Smart Aviation Company” (20%) which are both competing mainly on the domestic market.

16. It was only in 2005 that the private companies started to be established in the Egyptian civil aviation sector when the Ministry of Civil Aviation facilitated the procedures and abolished some barriers to entry, and that was to attract new investment for this important and vital sector.

17. In 2007 the government cancelled plans to sell 20 percent of EgyptAir following the airline's formal decision to join Star Alliance⁵.

1.2 Regulatory bodies

18. The «**Civil Aviation Authority**» was created back in late thirties of the last century it was evolved over time, at the beginning it was "**Egyptian General Authority for Civil Aviation**" which had two main roles a first, a «*supervisory*» role: supervise all Egyptian airports and air traffic control, and second, a «*regulatory*» role: to implement the aviation laws and regulations for aviation activities and the chairman of the authority was appointed by a Presidential decision.

19. In 1971, **The Ministry of Aviation** was first established to include the "Egyptian General Authority for Civil Aviation". But soon after its establishment, the Ministry of Aviation was canceled in 1995 and its bodies were transferred to the "**Ministry of Transport**". And according to the «ICAO⁶» request, the Government had to separate the supervisory sector such as airports and air traffic control device and the regulatory sector. The Ministry of Transport established the regulatory and legislative authority under the name of «**Egyptian Civil Aviation Supervisory Authority**» which had its financial and administrative independency, along with an executive director and a board chaired by the competent minister for the aviation sector.

20. Seven years later, in year 2002, the **Ministry of Civil Aviation** was established to cancel «The Egyptian Civil Aviation Supervisory Authority» which performed the role of the Civil Aviation Authority. The latter Ministry included « operations and air transport sector ». It performed the role of the Civil Aviation Authority, but its powers were "limited" as a sector within the Ministry of Aviation and hence, did not have the financial or legal independence which could enable it to exercise its «supervisory» role as is customary and internationally required.

21. And in order to accomplish this requirement, in 2004 a decision was issued to assign **the Operations Sector** at the Ministry of Aviation the mission of the «Civil Aviation Authority». Later on, the «ICAO» requested that there should be an Egyptian Civil Aviation authority having "full independence" either financially and/or in human resources.

22. And finally, the latest law amendment in 2010 included in Article II bis a provision establishing an authority within the aviation ministry called «**the Civil Aviation Authority**». The Minister of civil aviation shall be appointed as its president and the official name for the authority in the Administrative structure of the Ministry of aviation is «the sector of civil aviation authority» which makes its independence «incomplete».

1.3 Laws and regulations

23. In 1981 the Egyptian law for civil aviation No 28 and its executive regulation was issued by the government to regulate the civil aviation sector which was firstly amended in 2003 then finally in 2010.

⁵ Institute of developing economies-Japan external trade organization: African Growing enterprises file-Egypt Air.

⁶ (ICAO): International Civil Aviation Organization.

24. The Egyptian civil aviation authority has been working on expanding the market by lowering the Capital required for entering the market; hence new private companies were established.

25. Paper structure: the paper starts with an overview of the Egyptian airline industry, (structure of the sector: airports, airlines, and working conditions), before moving to study the different existent barriers. On a later stage it will present the positive step already taken toward the liberalization of the sector and finally ends with some recommendations.

2. Egyptian Airline Industry's (Sector Overview)

26. This section gives a background about the structure of the Egyptian Aviation market, concerning:

2.1 Egyptian Airports and their relative importance;

2.2 Airlines companies in the market and their activities;

2.3 Working conditions

2.1 Egyptian Airports and their relative importance

27. Regarding Egyptian Airports, Egypt has 23 airports running domestic and International flights. All these airports are state owned, except 2 of them namely Marsa Alam and Alamein Airports which are operating through a Build-Operate and Transfer system (BOT).

28. There are 11 International Airports Cairo International Airport, Sharm el Sheikh, Hurghada, Aswan, Luxor, Alexandria (Nozha), Borg el Arab, Asyut, Taba, Marsa Matrouh, and Sohag. Their importance varies according to both passengers and flights traffic.

29. Cairo airport is considered as the most important Airport in Egypt, it has a major part of the traffic of the country (around 44 %) which shows that Cairo Airport is the main destination for many foreign carriers. Still the importance of other airports cannot be neglected specially that lately Egypt has liberalized most of the international Airport except Cairo Airport which remains under control of EgyptAir as shown later in the paper.

30. The table illustrates the market shares of the airports on both Passengers and flights traffic.

International Airports	Passengers traffic (Thousand passenger)			Flights traffic		
	2010	2011	2012	2010	2011	2012
Cairo	14479 40%	12552 42%	14712 44%	138813 44%	13535 8%	142674 49%
Sharm el Sheikh	8694 24%	5983 20%	6622 20%	64336 20%	46188 27%	46607 16%
Hurghada	8062 22%	6373 21%	7134 21%	56526 18%	46292 27%	46847 16%
Luxor	1971 5%	991 3%	800 2%	24227 8%	17950 10%	12128 4%
Aswan	955 3%	367 1%	294 1%	13032 4%	6253 4%	5502 2%
Alexandria (Nozha)	0% 0%	708 2%	0% 0%	0% 0%	15801 9%	0 0%
Borg el Arab	712 2%	1317 4%	1960 6%	7311 2%	12928 7%	20843 7%
Asyut	315 1%	255 1%	289 1%	3986 1%	3329 2%	3076 1%
Alamein	24 0%	15 0%	19 0%	647 0%	245 0%	190 0%
Marsa Alam	1182 3%	878 3%	1089 3%	9722 3%	7691 4%	8432 3%
Sohag	14 0%	240 1%	311 1%	206 0%	2777 2%	2912 1%
Total	36408 100%	29679 100%	33230 100%	318806 100%	172989 100%	289211 100%

Source: Central Agency for Public Mobilization and Statistics (CAPMAS)⁷

⁷ The yearly statistical Book of the Arab Republic of Egypt 2013 - Central Agency for Public Mobilization and Statistics (CAPMAS) - www.capmas.gov.eg.

2.2 *Airline companies in the market and their activities*

31. There are currently **10 airline** companies permitted to work in the Scheduled flights for Passengers market. The Air services in Egypt are **practically** dominated by only one national flag carrier (Historical National flag carrier) namely (Egypt Air).

2.2.1 *Egypt Air Holding*

32. As mentioned before, EgyptAir operates through 2 companies; EgyptAir Airline and EgyptAir Express⁸ which operate mainly scheduled domestic and regional flights known as “short haul market⁹” The company’s main base and major operations are at the Cairo International Airport with a smaller base in Alexandria (Nozha Airport).

33. There are only 4 private companies¹⁰ that fly from Cairo Airport on a schedule basis other than EgyptAir Airlines and Express. The rest of companies operate mainly from Asyut, Sohag, Nozha and Borg el Arab to different regional destinations. However, the market is open for charters flights.

2.3 *Working condition*

34. The internationally agreed regime for the operation of aviation services set a number of requirements that any airline must adopt in order to operate in the market. Same requirements are applied by the Egyptian Civil Aviation Authority. The 1st step is the establishment of the company; this requires a prior permission from the Minister of Civil Aviation after presenting some data concerning the company’s operational plan and the feasibility study.

35. Following that come the requirements of the Civil Aviation Authority, in a first place; an airline must acquire an operating license (certifying that the airline has met the economic and commercial demands considered necessary to operate), on a second stage, the company must hold an Air Operator’s Certificate (AOC) (certifying an airline’s compliance with safety requirements).

36. After the accomplishment of those requirements, comes the stage of traffic allocation from a permission from the civil aviation authority which is considered to be one of the biggest barriers to operate in the sector.

3. **The Barriers to entry and to operate in the civil aviation sector in Egypt**

37. The 2 studies conducted by ECA concerning the (Scheduled flights for Passengers on both level: domestic and Regional) ended up with the conclusion of the existence of some regulatory as well as some practical barriers, that refrain the private Egyptian Airlines from operating properly in the Market.

38. Those barriers are as following:

3.1 *Allocation of traffic rights (Route permits)*

39. The area of traffic rights regulation is the main concern to any airline as it reflects the commercial exploitation of the company.

⁸ Established in May 2006.

⁹ From 3 to 5 hours flying time.

¹⁰ Nesma Airline – Cairo Aviation – Nile Air – El Masreiya.

40. The article 122 of the Executive Regulation of Civil Aviation Law states: requires for granting route permission/assignment the following condition: “the project shall not contradict with operation of the licensed Egyptian companies and establishments. The Civil Aviation Sector shall coordinate and facilitate cooperation between both of them in the operation field”.

41. While the article of the law is stating “the operation of the licensed Egyptian companies) but in practice, there is a considerable preference granted to the national Flag Carrier (Egypt Air) such as the operation timing barrier mentioned in decree no.934/2001 which stipulates clearly that regular domestic or International flights shall not be operated in the same time of EgyptAir.

42. The problem of allocation of traffic rights between competing Egyptian airlines has different dimension on the domestic level than the regional level.

43. As on the regional level, this problem arises where more than one Egyptian airline seeks to operate services between Cairo Airport and another regional destination, but the bilateral air services agreement with that country restricts the number (or nature) of services that can be operated, or the number of carriers that can fly or else the journeys are fully operated by the Historical National flag carrier which is considered as one of many advantages that Egypt Air is enjoying.

3.2 *Constraint on Regional flights from Cairo Airport*

44. The outstanding importance of Cairo Airport was illustrated earlier in this paper; one of the most important barriers according to the private companies working in the sector is the existence of some restriction to fly from Cairo Airport. Although restriction on charter and low cost flight is acceptable and common in most jurisdiction for the main Airports in country, “the practical” approval that the private companies need to get from EgyptAir cannot be justified. This restriction aims with others to protect the national carrier from any competition but it is also important to note that sometimes this restraint is due to the bilateral air services agreement where EgyptAir is image of the national Flag based on the historical existence of the company in the Market.

3.3 *Preferential prices of Fuel and payment conditions*

45. The Fuel is considered as the main element of operation cost of the airline industry in Egypt (35 to 40%). ECA found out that EgyptAir is purchasing the Fuel against preferential prices which is considered as one of biggest barrier according to the operating National Airlines.

46. The problem arises from the fact that the government and the public authorities still consider EgyptAir as a public institution although EgyptAir was transformed into a public company.

47. Add to that, Egypt Air is granted some payment facilities, it is the only Company allowed to pay the fuel price as well as the airports fees by Egyptian pound, while the other companies have to pay the due amounts in US dollars. A 3 months exceptional decision was issued January 2014 allowing all Egyptian companies to pay airport fees with Egyptian currency, due to the foreign currency crisis and Central bank regulation (during a very low operational season), a step welcomed and appreciated from the companies, yet not renewed.

3.4 *Brand name and Consumer perception*

48. For the Egyptian consumers, EgyptAir enjoys a strong brand name as well as long history in the Egyptian market since its establishment in 1932, and that definitely help in creating a strong image and consumer perception that relate the brand name with the sovereignty of the country which is considered as a big barrier to the other airline companies to compete in the market. Therefore, the new competitor has to

pay huge amounts of money on the publicity in order to attract those loyal customers, but on the other hand that may increase the investment costs of the project.

3.5 *EgyptAir Competitive advantages*

49. EgyptAir enjoys competitive advantages as following:

- The company's history has as results the existence of highly trained employees in all aviation fields (technical or administrative) which helped the company acquire an advantage in comparison to the other private companies as it is a public company that gives its employees lots of advantages such as: medical insurance, pensions ...etc.).¹¹
- Its long history also contributed in its special share in most bilateral agreements, which had as consequences to the company to open new routes and to increase its network on the national and international level.
- EgyptAir is considered an integrated organization, which means it has a vertical integrated relationship with its subsidiaries making it operate more effectively. Also EgyptAir gets a preferential treatment in the agreements signed with its subsidiaries whether in the maintenance or the catering... etc. This preferential treatment helped it gain a priority treatment, better prices in all services offered by the subsidiaries companies which gave EgyptAir a competitive benefit over any potential competitor due to the non-existence of other companies that could offer the same services.

4. Positive steps toward liberalization

50. The Egyptian Civil Aviation Authority has been working on lowering the barriers to entry and to operate in the market in order to enhance the participation of the private sector. The main 2 steps were by lowering the capital required to establish an Airline company and also the reduction of ownership restriction.

4.1 *Decrease of required Capital*

51. A minimum capital of 200 million EGP was required to establish a private schedule airline company prior to 2005. Today no specific minimum capital is required. Also the condition of ownership of at least one air craft was removed in 2005, leaving the option to the airline companies to work with a complete leased fleet.

4.2 *Ownership restriction*

52. The freedom to invest is the principle in the Egyptian Investment Law; however exceptions concerning ownership and control exist in some specific sectors.

53. The aviation sector used to be one of the most constrained regulatory frameworks, the old Egyptian Aviation Law used to require a 100% national ownership. However the Egyptian government by 2005 started to increasingly recognize the importance of removal of such constraint. The new Aviation

¹¹ Worth noted that the huge number of employees working in the holding company and its subsidiaries represents a major concern to the policy makers that refrains them from moving forward in the liberalization process due to social aspect and the already existent high unemployment rate in the country.

Law issued in 2005 updated the old requirement and took a positive step toward liberating the sector by modifying the limitation on the ownership to allow foreign ownership with a limit of 40 %.

54. This step was essential to the healthy development of the industry, many private airlines were established which should bring considerable benefits to the industry, global economic activity and therefore, the consumer welfare.

4.3 Liberalization of working from Airports other than Cairo International Airport

55. A very important step was taken in 2009, with the liberalization of certain International Airports, yet Cairo Airport remains under the control of EgyptAir.

56. This created new routes and new destinations which increased the passenger traffic significantly for those airports. (i.e.: Sohag international airport, Nozha airport, Borg el Arab airport).

57. In mid-March 2014, the civil aviation authority granted some traffic right from Cairo airport (Cairo – Jeddah), allowing private companies to work on the same route and to compete with EgyptAir for the first time, the price of the ticket vary from 4000 LE (Egypt air) to 1850 LE (private company) which is a great reflection of competition benefit for the consumer.

58. Although those positive steps are significant and important yet there are some important required steps.

5. Recommendations

59. This last section of the paper presents some recommendations that are intended to reduce the barriers to entry and to expand in the market based on similar cases in other countries. However, such countries succeeded to liberalize/deregulate the market allowing several private companies to enter and compete effectively in the market.

60. Upon reviewing liberalization experience in 8 countries,¹² ECA concluded the following:

- Liberalization/Deregulation requires allowing equal competition opportunities for all the market players;
- Liberalization/Deregulation requires elimination of all legal and regulatory barriers especially barriers in favor of any company (particularly the state owned company);
- Elimination of barriers shall be followed by monitoring competition in the market to prevent barriers which might result due to market concentration;
- Competition serves in favor of the industry, the economy as a whole and the consumer regardless the concerns of the deregulation/ liberalization.

¹² United Kingdom, Japan, Turkey, United Arab Emirates, Jordan, Lebanon, Morocco, and India.

61. The proposed recommendations are:

1. Considering eliminating of regulatory barriers mentioned in the reports and stipulated in article 122 of the executive Regulations of the Civil Aviation Law which requires for granting route permission/assignment that the project shall not contradict with operation of licensed Egyptian Companies. As in practice this is only applied for the benefit of the state owned company.
2. Considering liberalizing working from all airports especially Cairo Airport as well as Studying the Bilateral International Treaties and check the available possibility to private airlines to use the available flights.
3. Considering the elimination of preference granted to Egypt Air when dealing with other governmental authorities, such as preferential price of Fuel, and preferential payment conditions to the fuel price and Airport fees.