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Maritime Transport and Related Logistics Services in Egypt



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Omneia A. Helmy, Faculty of Economics and Political Science, Cairo University,
and the Egyptian Center for Economic Studies



International Centre for Trade
and Sustainable Development

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ACRONYMS

BOT	Build Operate Transfer
CPC	Central Product Classification
ECES	Egyptian Center for Economic Studies
EDI	Electronic Data Interchange
ENIT	Egyptian National Institute of Transport
ENR	Egyptian National Railway Authority
EU	European Union
FCL	Full Container Load
FIATA	<i>Fédération Internationale des Associations de Transitaires et Assimilés</i> (International Federation of Freight Forwarders Associations)
GAFI	General Authority for Investment and Free Zones
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GoE	Government of Egypt
GOEIC	General Organization for Exports and Imports Control
ICTSD	International Centre for Trade and Sustainable Development
IELA	International Exhibition Logistics Associates
LCL	Less Container Load
MEDAmos	Mediterranean Motorways of the Sea
MFN	Most-Favoured Nation
MTO	Multimodal Transport Operators
NDP	National Democratic Party
PPP	Public Private Partnership
RCA	Revealed Comparative Advantage
TEU	Twenty Feet Equivalent Unit
UN	United Nations
UNCPC	United Nations Provisional Central Product Classification
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
WTO	World Trade Organization

FOREWORD

Eleven years after services were included in the multilateral trading system, the WTO's General Agreement on Trade in Services (GATS) remains an unfinished project. It continues to arouse scepticism among its original proponents - given the arguably low level of liberalisation attained so far - as well as deep concern among others with regard to the policy orientation of its provisions. In the context of international negotiations, the GATS was the result of a complex process of political *quid pro quos* that catapulted services to the forefront of the Uruguay Round negotiations. By and large, major service providers in the US and Europe acted as *demandeurs* for rules and for a process that would lead to global trade expansion in the services sector. Their counterparts in developing countries were confused, and their development concerns - omnipresent in the process - were ultimately left appallingly vague. The absence of data, commercial insecurity and a crippling perception of an unfavourably tilted playing field prevailed in development circles throughout the negotiations. Broad public policy issues remained off the negotiating table. Difficult tensions - arising, for instance, from the fundamentally different approaches of diverse public law traditions, to the role of the state in the provision of certain services - permeated the discussions. The eight years of talks to design the GATS represented a hugely rich, creative and analytical effort, characterised by complexity, technicality and a high degree of politicisation.

The implementation of the Agreement has perpetuated the pattern. In the past few years - as we continue to move into the liberalisation phase mandated as a built-in agenda in the GATS - policy-makers in developing countries, academics, civil society analysts and advocacy organisations have expressed serious reservations about the potential implications of requiring developing countries to make greater market access concessions; the need to sequence liberalisation; the lack of adequate domestic regulatory frameworks; the imperative of universal access for essential services; and institutional reform and good governance. The unresolved discussion on whether liberalisation and further advancement of negotiations can proceed in the absence of the mandated impact assessment of implementation seems to be most troubling for practically all parties. Indeed, a comprehensive policy analysis of the implications of trade in services for sustainable development, and of the policy spaces available for implementing public policies, is still missing.

At the national level, the impact of services liberalisation on the local economy is among the most challenging and controversial issues. In many developing countries the services sector has grown in the last two decades to comprise roughly half of their gross domestic production. Yet trade in services continues to comprise only a small portion of total trade flow with most of the services being domestically generated and supplied. At the same time, the sector remains largely underdeveloped and the regulatory framework is inadequate.

At the international level, most developing countries have had difficulties articulating their negotiating positions beyond rhetoric and general statements. So far, only a small percentage of developing countries have submitted formal requests and offers. While it is true that there may have been posturing due to the perception of lack of progress in other negotiating areas, for some it is simply a lack of genuine understanding or familiarity with the GATS and the WTO negotiating context. For many, it is symptomatic of a lack of deeper, substantive knowledge of their interests in specific sectors and modes of supply and rules. However, as significant domestic support measures in agriculture non-tariff barriers, preference erosion and supply side constraints continue to hamper the exports of Least Developed Countries (LDCs) and many developing countries to the markets of developed industrialised countries, services trade is steadily gaining momentum over the years as an alternative channel for providing new opportunities for diversification and export oriented economic growth.

To address this concern, ICTSD has commissioned, as part of its programme on Trade in Services and Sustainable Development, a series of studies on the opportunities and risks of liberalising services trade in selected developing countries, including, Bangladesh, Egypt, Guatemala, Mozambique, Nicaragua, Pakistan, South Africa and Tanzania. These studies have been carried out in co-operation with local researchers and experts through a participatory process involving a wide range of domestic stakeholders. As such, they are not intended to be an academic exercise but rather a practical tool for policy-makers and non-state actors with an interest in services trade. They have been designed as a contribution to understanding the reality of developing countries' services economy and identifying both offensive and defensive negotiating interests.

Although facing institutional and capacity constraints as in many developing countries, Egypt has been actively involved in the GATS negotiations by pursuing a strategy of "critical engagement", recognising the positive role that services liberalisation can play by improving the competitiveness of the goods sector and other services, as well as increasing export opportunities and improving the efficiency of domestic services. At the same time, Egypt is involved in regional trade initiatives such as the Arab GATS and the Association Agreement with the European Union that address services liberalisation.

The present study, produced in collaboration with the Egyptian Center for Economic Studies, identifies maritime and related logistics services as representing fundamental activities in Egypt that can play an important role in achieving national policy objectives through their strong forward and backward linkages to the rest of the economy. The study suggests adoption of a comprehensive strategy consisting of regulatory and competition policy dimensions as well as targeted public infrastructure investments to overcome existing challenges in these sectors and contribute to the creation of an enabling environment. Additionally, reform in the maritime and related logistics sectors would increase in effectiveness through simultaneous strengthening in the closely related sector of multimodal transport.

This study comes at an opportune time for Egypt in implementing concerted measures for macroeconomic stabilisation and structural reforms as its economy advances towards a higher degree of openness and export orientation. In this context, it provides a timely backstopping analysis for the definition of its negotiating interests in regional and multilateral negotiations

We hope you will find this pleasant and informative reading and an effective contribution to the debate.



Ricardo Meléndez-Ortiz
Chief Executive, ICTSD

EXECUTIVE SUMMARY

There are several variables which affect the cost of maritime transport and related logistics including geography, directional imbalance in trade between countries, port infrastructure and port services. While there are some variables which cannot be easily influenced, such as geography, others can be positively affected by improving both the institutional infrastructure and the policy framework. Empirical studies have found that inefficient port services are equivalent to a 60 percent increase in distance from markets for an average country. In this study, we focus on the measures that can influence the maritime sector and related logistics services in Egypt such as infrastructure, regulatory framework and policies adopted. Maritime and related logistical services play a role of paramount importance in the Egyptian economy with, on average, Egyptian ports handling around 65 percent of the country's exports. Maritime services and related logistics are important to a large number of sectors in the economy because of their link to both exports and imports. Improving the efficiency of maritime transport and related logistics can have significant positive spillover effects on encouraging private investments, trade flows, and subsequently enhancing production and job creation in almost every sector in the economy, reducing costs of imports for producers and consumers, and increasing government revenue from port services.

The study pinpoints the importance of services in the Egyptian economy which contribute to more than 48 percent of GDP and 51 percent of jobs. The maritime sector and related logistics services together with other production services constitute 36 percent of GDP and 16 percent of jobs in the economy. Egypt enjoys a revealed comparative advantage in a number of services including transport, travel, communications and construction. In fact, exports of services have contributed significantly to the surplus achieved in the current account and have overcome the chronic deficit in the merchandise trade balance. In other words, enhancing maritime services and related logistics, among other services, can play an important role in achieving Egypt's national policy objectives, which are mainly focused on promotion of non-oil exports, attraction of foreign direct investment and job creation. Efficient maritime services and related logistics can help Egypt to achieve such goals both directly and indirectly through their direct links to the rest of the economy.

The study provides an overview of the status of maritime and related logistical services in Egypt and aims to identify both the strong and weak points that can be affected by opening up the economy within the context of the GATS (General Agreement on Trade in Services) negotiations and other regional initiatives within the Arab GATS and the Association Agreement with the EU. The interest of WTO Members in logistics services has recently increased and a number of Members have tabulated statements, proposals and a checklist for liberalising such services. Hence, the study aims to portray the status of such sectors while investigating the impact of liberalising trade in these sectors. Moreover, the study delves into the details behind the weak performance of some maritime services and related logistics, and finally provides some policy and regulatory suggestions to improve the status of such services.

On the positive side, this study shows that there is increased attention given by the government of Egypt to this sector (captured by the increased amount of public investment allocated to the maritime sector). The number of containers handled by Egyptian ports has increased by more than 56 percent between 1995 and 2003, and the number of vessels calling into Egyptian ports increased by 35 percent within the same period. Moreover, Egypt has remained among the 20 largest developing countries in terms of container traffic. On the negative side, the study points out that the Egyptian fleet has decreased from 141 vessels in 1999 to 71 vessels in 2005 and that the existing fleet has aged. Moreover, there is a high degree of concentration among the shipping lines visiting Egyptian ports. In addition, the

infrastructure of Egypt's ports is in a relatively poor condition due to lack of maintenance of terminals, shallow quays and lack of equipment and facilities.

The study found that in Egypt maritime services and related logistics suffer from a number of regulatory and policy pitfalls associated with overlapping jurisdictions between different authorities in ports, absence of separation between ownership and regulation (no clear role of regulator), heavy governmental control over pricing (determined by ministerial decrees), domination of public sector in logistics services and lack of clear regulations. The negative effect of such policies and regulations has resulted in weak performance indicators for the maritime sector and related logistics services. For example, the stevedoring operations' rate is slow at 22 moves per hour per clinch compared to the best practice of 25 moves per hour per clinch. Moreover, dwell time in Egypt is excessive, ranging from 5 to 20 days, compared to the best practice of 4 to 7 days, and the containers' handling services' fees reach 20 percent of freight costs compared to the best practice of 8-10 percent. Multimodal transport suffers from a number of policy and regulatory obstacles that hinder its efficiency in Egypt. Among such obstacles are the weak governing regulatory framework, poor rail, road and river transport infrastructure, absence of dry ports and low containerisation rate.

Egypt's GATS commitments in the maritime sector and related logistics are rather modest. They are confined to maritime passenger and freight transport and port dredging, subject to a number of restrictions. Domestic rules and regulations - notably, Investment Law 8 of 1997 - have opened several related fields to the private sector without any type of commitments. Moreover, laws and regulations related to the maritime sector and related logistics services - namely, Law 1 of 1996 and Law 1 of 1998 - opened up port and port services to the private sector. Nevertheless, several regulatory and policy problems such as price fixing and port authorities' ownership of firms providing logistics services negatively affect the private sector's engagement in such services. Hence, the study argues that even in the case of liberal GATS commitments, without domestic regulatory and policy reforms the impact of GATS liberalisation efforts are likely to remain minimal.

To conclude, the study proposes a number of policy recommendations including the need to establish an effective independent regulator for the maritime sector, fixing the pricing systems of logistics services while enhancing the financial autonomy of port authorities, accelerating automation procedures of ports, overcoming the scarcity and inconsistency of data, creating an efficient regulatory framework for multimodal operations and upgrading the ports' infrastructure by activating regional initiatives with the European Union, enhancing co-operation with international institutions and promoting public-private partnerships in this field.

1. INTRODUCTION

Empirical evidence has identified the importance of maritime transport and related logistics services efficiency as a major determinant of competitiveness. For example, Ximena, Dollar and Micco (2002) studied the impact of port efficiency on shipping costs. They identified that for an average country, inefficient port services are equivalent to a 60 percent increase in distance from markets and that there are several reasons behind inefficient port services, including excessive regulation and the general condition of a country's infrastructure. Inefficient border measures related to logistics increase transaction costs for traders and can also result in loss of business opportunities and impose inventory-holding costs on traders¹ (Essawy and Ghoneim, 2005). Technological advances and infrastructure modernisation including containerisation, usage of e-commerce and global manufacturing and production processes such as the implementation of supply chain management techniques and just-in-time production processes have increased the interest of World Trade Organization (WTO) Members in maritime, logistics and multimodal² services since they act as determinant variables in affecting their competitiveness. As a result, there have been increasing calls from WTO Members to include logistics and multimodal services under the General Agreement on Trade in Services (GATS) (UNCTAD, 2006a).

Maritime transport and related logistics services play an important role in Egypt's economy and international trade with Egypt's maritime ports handling over 65 percent of exports (Al Tony, 2005). Recent efforts to upgrade and reform ports and port services have resulted in significant improvements when compared to the past where the costs of handling a container in Alexandria port were 30 percent higher than similar ports in the Mediterranean (World Bank, 1997). However several problems remain.

Indicators of port efficiency, such as dwell time³ and overall fees for container transport, confirm that Egypt is lagging behind when compared to other competitors, thus lessening the competitiveness of Egyptian exports and

increasing transaction costs for traders. Moreover, inefficient maritime and related logistics services imply a loss of revenue which could have been raised by exploiting Egypt's natural comparative advantage as a regional hub for trans-shipments. The main reasons behind this study are the need to understand the reasons and consequences of such inefficiencies in maritime transport and related logistics services, the desire to cope with international best practices in such areas as well as requests from WTO Members for Egypt to liberalise these services. Improving the efficiency of the maritime sector and related logistics services can have significant positive spillover effects on encouraging private investments, promoting trade flows and subsequently enhancing production and job creation in a large number of sectors that are strongly linked to exports and imports. Moreover, upgrading maritime transport and related logistics services can have wider developmental benefits in terms of overcoming some urgent environmental concerns.

There are several variables which affect maritime transport and related logistics costs including geography, directional imbalance in trade between countries, port infrastructure and port services (UNCTAD, 2003). While there are some variables which cannot be easily influenced, such as geography, others, such as directional imbalances in trade (which imply that many carriers are forced to haul empty containers back) can be indirectly affected through an increase in trade volume.

This study focuses on the measures that can influence maritime transport and related logistics services in Egypt such as the institutional infrastructure, regulatory framework and policies adopted. These measures are likely to affect the efficiency of many services including pilotage, towing and tug assistance, cargo handling and customs procedures. The paper also deals with policies and regulations, which affect other issues such as multimodal services, development of containerised transport (which allow large cost reductions in maritime transport and cargo handling), commercial routes (which

are more liable to competition and less subject to monopoly power) and private anti-competitive practices (which include the practice of fixing rates of maritime conferences and controlling port services). The study assesses the status of maritime transport and related logistics services from three angles: it provides a description of the existing regulatory and institutional framework, identifies the market structure that has resulted from such a framework and analyses the different policies adopted. The paper highlights the major deficiencies that affect the performance of these services and fleshes out the positive developments that have taken place so far.

The study focuses on the following maritime transport and related logistics services: *Cargo handling*, including container handling and other cargo handling services (such as stevedoring),⁴ storage and warehousing services in ports, freight transport agency services, and other supporting and auxiliary transport services including some aspects of multimodal services; *maritime transport services* including freight transportation, rental of vessels with crew, pushing and towing services, and supporting services for maritime transport such as quays and terminal facilities; and *internal waterways transport services as well as road and rail services* as long as they are related to maritime transport

services in the context of multimodal transport (these maritime and related logistics services based on the United Nations Central Product Classification are shown in Annex 1).

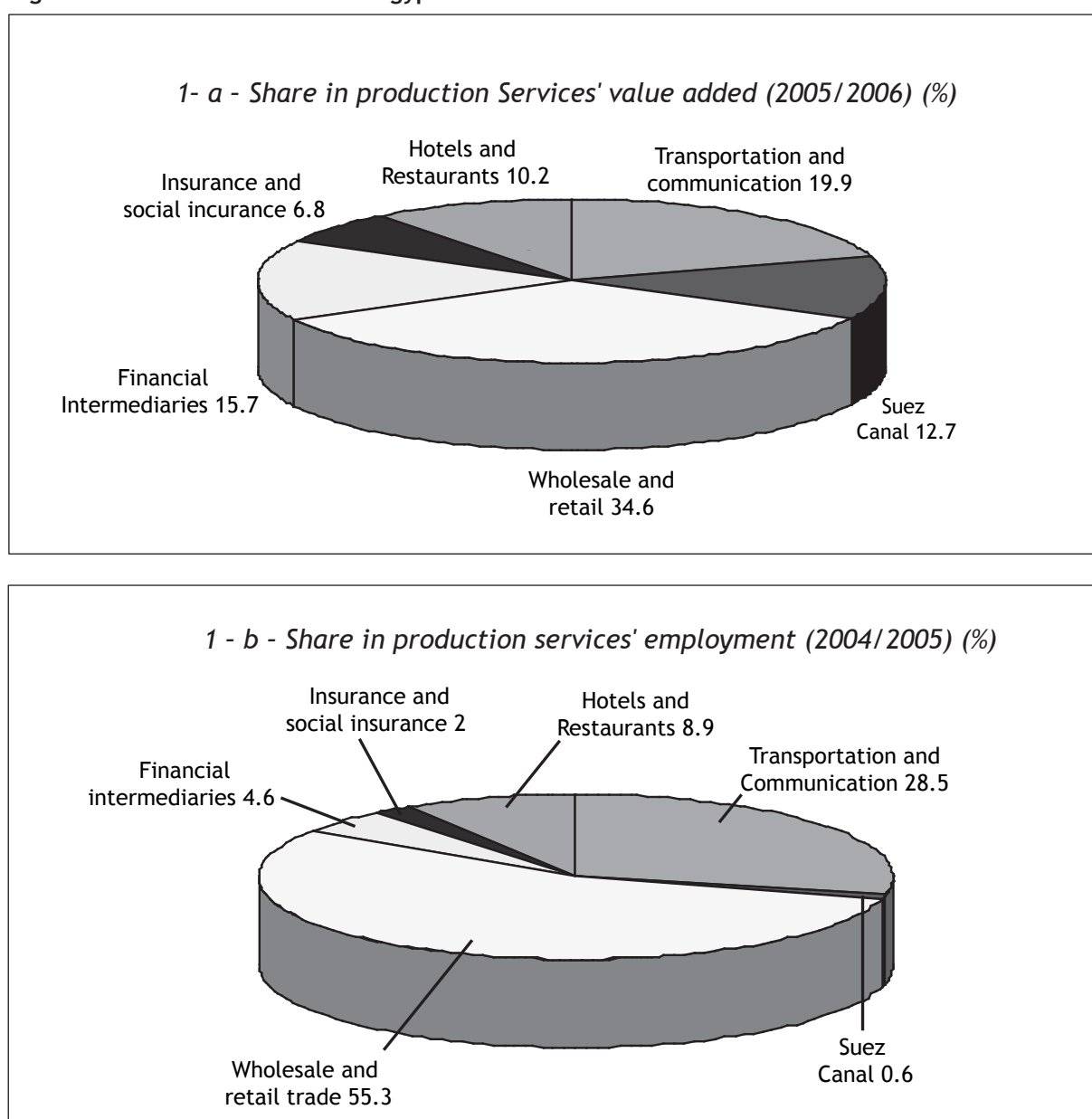
Following this introduction, the study starts in Section 2 by providing an overview of Egypt's services profile and highlighting the importance of the services sector to the Egyptian economy in terms of its contribution to gross domestic product (GDP), employment and current account. In addition, the major services in which Egypt enjoys a comparative advantage are presented. In Section 3, national policy objectives with regards to services are highlighted, focusing specifically on maritime transport and related logistics services. The government of Egypt's multilateral, regional and unilateral efforts to liberalise trade in services and enhance their efficiency are discussed. In Section 4 the main constraints facing maritime transport and related logistics services in Egypt are identified and their impact on the performance of these services is assessed. Section 5 provides an overview of multimodal transport services in Egypt and identifies their main constraints. In Section 6, specific regulatory and policy reforms are proposed to help enhance the efficiency of maritime transport and logistics services in Egypt.

2. OVERVIEW OF EGYPT'S SERVICES PROFILE

In 2005/2006, services constituted 48 percent of GDP in Egypt, out of which 20 percent were provided solely by the government⁵ and 28 percent were jointly provided by the government and the private sector. The employment share of services reached 51 percent in 2004/2005 with government employees representing more than half of this percentage (Ministry of Economic

Development, 2007a). Maritime transport and other production services⁶ contributed nearly 32 percent to value added in 2005/2006 and more than 16 percent to employment in 2004/2005. Figure 1 shows the composition of production services among different sub-sectors in terms of value-added and employment shares.

Figure 1. Production Services in Egypt

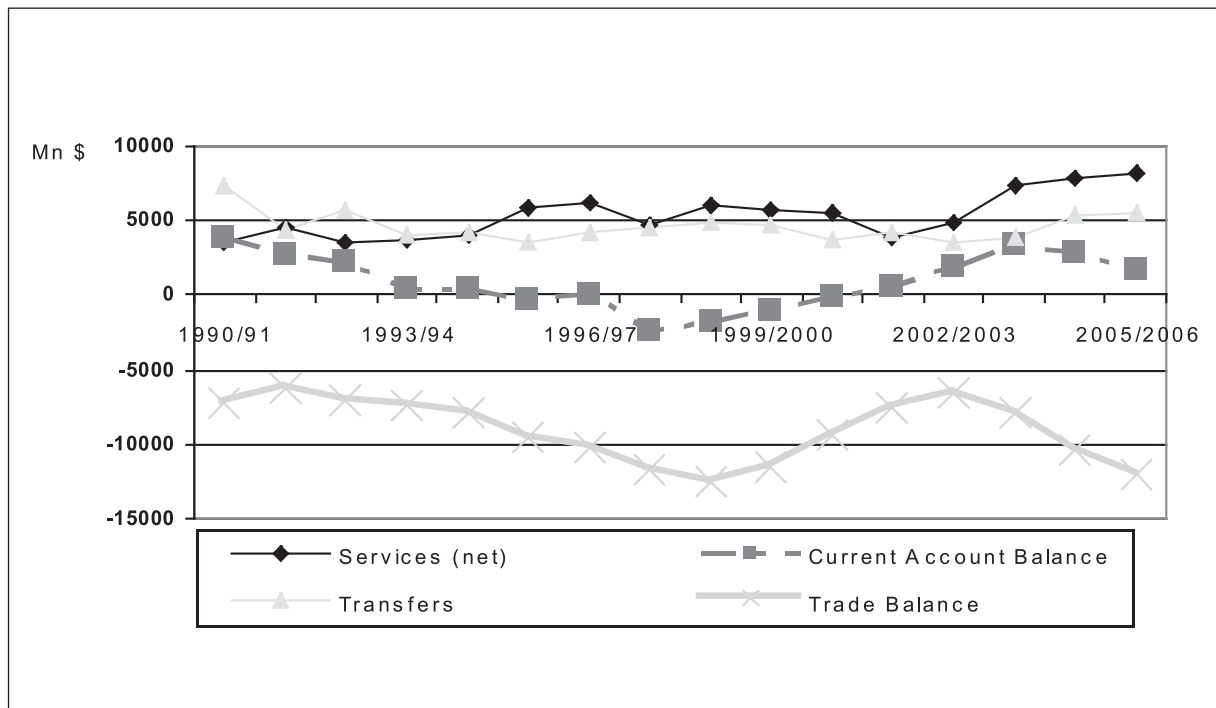


Source: Ministry of Economic Development, 2007a.

Service exports play an important role in overcoming the chronic deficit in merchandise trade balance leading to a surplus in the current account and an improvement in the status of the balance of payments (see Figure 2). There has always been a surplus in the services balance mainly due to exports of transport (Suez Canal tolls) and tourism. Investments in the services sector have increased over time with private investments surpassing public investments by 2004/2005 in some sectors such as telecommunications, tourism and construction. Foreign investment (proxied by foreign participation in issued capital) has increased over time in the services sector. Most of the foreign participation is concentrated in certain

sectors such as telecommunications, followed by tourism and financial services. It is worth noting that the breakdown of foreign participation in the services sector changed dramatically after huge investments were injected into the telecommunications sector. For example, in the year 2000 the bulk of foreign investment was concentrated in the transport sector followed by tourism and financial services and insurance. In 2006, the telecommunications sector had the highest contribution of foreign participation, followed by tourism, and financial services and insurance, with transport's share being modest (General Authority for Investment and Free Zones, 2007).

Figure 2. Services in the Egyptian External Sector (1990-2006)



Source: Central Bank of Egypt, 2007.

United Nations Conference on Trade and Development (UNCTAD) data showed that Egypt's rank among leading exporting developing countries has deteriorated (though not significantly) between 2001 and 2004 in a large number of service sectors. Nevertheless, data shows that Egypt enjoys a revealed comparative advantage (RCA) in a number of services including transport (mainly because of Suez Canal tolls), travel, communications and construction.

Egypt used to enjoy an RCA in other business services in 1995, which it has lost since the year 2000; nevertheless, there is a great potential for increasing the exports of such services, especially back office services. Table 1 below shows Egypt's RCA in different services.

Table 1. Revealed Comparative Advantage (RCA)* of Egypt in Different Service Sectors

	1980	1985	1990	1995	2000	2003	2004
Transport	1.47	2.03	1.56	1.54	1.23	1.40	1.34
Travel	0.88	0.44	0.53	0.95	1.47	1.46	1.52
Other services	0.63	0.67	1.04	0.73	0.60	0.57	0.57
Communications	..	..	..	1.23	1.43	1.29	1.30
Construction	..	..	..	0.00	0.60	1.20	1.68
Computer and information services	..	..	..	0.01	0.08	0.05	0.06
Insurance	0.26	1.06	0.37	0.07	0.16	0.12	0.10
Financial services	..	..	..	0.21	0.08	0.13	0.08
Royalties and licence fees	..	..	..	0.11	0.11	0.20	0.11
Other business services	0.89	0.86	0.95	1.09	0.95	0.76	0.86
Personal, cultural and recreational services	..	..	..	0.03	0.11	0.48	0.34
Government services (not included elsewhere)	0.40	0.54	3.77	1.01	0.44	0.77	0.36

* The RCA index of country i for service j is often measured by the service's share in the country's exports in relation to its share in world trade: $RCA_{ij} = (x_{ij}/X_{it}) / (x_{wj}/X_{wt})$, where x_{ij} and x_{wj} are the values of country i 's exports of service j and world exports of service j and where X_{it} and X_{wt} refer to the country's total exports and world total exports. A value of less than unity implies that the country has a revealed comparative disadvantage in the service. Similarly, if the index exceeds unity, the country is said to have a revealed comparative advantage in the service.

Source: Calculated by the authors based on UNCTAD, 2006 (online database).

3. NATIONAL POLICY OBJECTIVES IN MARITIME TRANSPORT AND RELATED LOGISTICS SERVICES

Egypt's economic and social development five-year plan (2007/2008-2011/2012) aims at enhancing the competitiveness of the Egyptian economy, promoting exports of goods and services at an annual rate of 12 percent and encouraging private sector's participation in economic activity, particularly in service sectors (Ministry

of Economic Development, 2007b). Recognising that services play a key role in achieving these national objectives, the government of Egypt's multilateral, regional and unilateral efforts to liberalise trade in services and enhance their efficiency will be discussed in this section.

3.1. Liberalisation of Trade in Services: Egypt's Multilateral Commitments

Egypt's modest commitments in the GATS reflect the conservative approach that was adopted by the government of Egypt (GoE) during the Uruguay Round. Since 1997 this approach to liberalisation and reform has changed significantly with the adoption of a new investment law (Law 8/1997) which opened up several service sectors to investment (both domestic and foreign). Reform of different service sectors is ongoing at an accelerating pace through deregulation, privatisation and adoption of liberal laws and regulations, reflecting the increasing importance devoted to trade in services by the GoE.

Egypt's commitments in the GATS are in five main sectors, namely, the telecommunications, tourism, construction, financial and maritime sectors. In the maritime transport sector, Egypt's commitments are very modest including two main activities: international passenger and freight maritime transport and port dredging (see Annex 3). Commitments made include certain constraints on foreign investment and labour participation. In the field of passenger and freight transport, joint establishment of companies is subject to a limitation on foreign participation (not to exceed 49 percent) so that the vessel can raise the Egyptian flag and 95 percent of the crew must be Egyptians with their wages representing 90 percent of the paid wages. Joint establishment of companies for the purpose of port dredging (deepening and cleaning of ports) is allowed under the following conditions: maximum foreign equity share cannot exceed 75 percent, Egyptian labour must represent at least 25 percent and Egyptians must represent at least 25 percent of the board of directors. Such commitments

do not reflect the changes that occurred in the maritime transport sector and related logistics services starting in 1996 when new laws (Law 1/1996 and Law 1/1998) were passed which allowed the private sector (both domestic and foreign) to engage in building private ports and in an array of port and logistics services as will be explained below. Out of the following Mediterranean countries, Malta, Cyprus, Jordan, Morocco and Tunisia, Egypt's GATS commitments can be considered average. Malta has the most liberal commitments made in maritime services, with no restrictions with the exception of cabotage. Jordan made several commitments, though it maintains several restrictions related to the participation of Jordanian agents and discriminating in favour of Jordanian vessels. On the other hand, countries such as Morocco and Cyprus made no commitments in maritime services while Tunisia included substantive Most-Favoured Nation (MFN) exemptions in this area without making concrete commitments.

In December 2004, Egypt submitted an initial offer under the ongoing Doha Round negotiations including the two new sub-sectors of construction and of refining its economic needs test in insurance. The revised new offer submitted in June 2005 included new commitments in air transport, courier services and computer services, and an increase in Egypt's level of commitments in insurance and construction. Moreover, Egypt received plurilateral requests for opening up further service sectors including telecommunications, computer, postal and courier, distribution, environment, energy, construction, financial services, air transport,

maritime services, legal services, logistics, as well as liberalisation of rules governing the supply of services through the means recognised under the GATS, i.e., Mode 1 (cross-border supply), Mode 2 (consumption abroad) and Mode 3 (foreign direct investment in services). Most of the requests Egypt received were from developed countries. Finally, Egypt has joined a number of developing countries in their plurilateral request to developed countries to liberalise Mode 4 (entry and temporary stay of workers from abroad).

Logistics services are difficult to define in the context of the WTO. The agreed upon definition is “the process of planning, implementing, managing and controlling the flow and storage of goods, services and related information from the point of origin to the point of consumption.” In 2001, the WTO Secretariat issued a background note describing logistics services to include general and value-added logistics (WTO, 2001). *General logistics services* listed include: storage, loading/unloading, stripping and stuffing, consolidation and distribution. *Value-added logistics* include: repackaging, customising, assembly, quality control, testing, repair, equipment maintenance, equipment renting and leasing, cleaning facilities, tanking, information and communications, safety and security services and offices (UNCTAD, 2006c). In theory, logistics services are covered by the GATS as it encompasses all services in all sectors except those exercised under governmental authority. In practice, logistics services have not been captured by the WTO sectoral classification list that was developed for the Uruguay Round services negotiations. Nevertheless, elements related to logistics services can be found in the classification list under different sectors and sub-sectors, including freight transportation, cargo handling services, storage and warehousing services and freight transport agency services (under transport services). As a result, there have been several efforts by WTO Members to shape and define what is meant by logistics as reflected by the submission of several statements, proposals and a checklist.

Regarding the latest developments in maritime transport and logistics services under the

auspices of GATS negotiations, Hong Kong (China) and Switzerland were the first to express their interest in extending services negotiations to include logistics services in 2001.⁷ In 2004, eleven WTO Members (both from developing and developed nations) tabled a joint proposal to encourage WTO Members to consider liberalising logistics services and offered a checklist of services commitments which would facilitate effective provision of logistics services⁸ (see Annex 2 for the checklist). In February 2005, the Friends of Logistics Group⁹ made a joint statement, endorsed by a mix of developed and developing countries, urging Members to actively engage in negotiations with a view to undertaking commitments on logistics services. In February 2006, ten Members¹⁰ presented a collective request covering logistics services. The targeted group comprised 33 WTO Members, 26 of which were developing countries (UNCTAD, 2006a).

Besides GATS commitments, Egypt has been a member of different United Nations (UN) maritime conventions including the UN Liner Code¹¹ of 1974, which entered into force in 1983, the UN Convention on Carriage of Goods by Sea of 1987 (Hamburg Rules),¹² which entered into force in 1992 and the UN Concession on Conditions for Registration of Ships of 1986, which has not yet entered into force as it does not have the required 40 signatories (UNCTAD, 2004). Egypt is not a member of the UN Convention on International Multimodal Transport of Goods of 1980; however the Convention has not yet entered into force as it needs 30 signatories and it presently only has ten. Egypt’s membership in such international agreements reflects the interest of Egyptian authorities in adopting international norms in certain areas of maritime transport and related logistics services and in being a part of the international community. However, it is important to emphasise that being a signatory of an international agreement in the field of maritime transport and logistics does not ensure a certain level of performance in those sectors. In other words, the aforementioned international agreements and conventions do not provide tools for punishing non-compliant countries or rewarding adhering ones.

3.2. Liberalisation of Trade in Services: Egypt's Regional Initiatives

At the regional level, Egypt is negotiating liberalisation of services within the context of the Arab GATS and the Egypt-European Union (EU) Association Agreement based on a GATS-plus approach. No concrete commitments have been made. However, within the context of the Arab GATS, during the last round of negotiations Egypt and Jordan initiated full liberalisation of three sectors including adopting a sectoral approach. Egypt has also submitted requests for a number of the Arab GATS Members to liberalise the communications, construction, financial, transportation, audiovisual and tourism sectors, as well as Mode 4. Egypt has received requests from Members of the Arab GATS concerning horizontal commitments, business, communications,

construction and financial services. Within the Egypt-EU Association Agreement, no sectoral negotiations have started, however the Association Agreement and the Action Plan following the Neighbourhood Policy which was signed between Egypt and the EU in March 2007 included co-operation in transport and financial services and alignment of Egyptian laws with EU laws. Regarding maritime transport, the Action Plan emphasised co-operation between the EU and Egypt regarding the development of the landlord model¹³ of ports in Egypt and ending the discrimination against the EU regarding the treatment of European vessels in Egyptian ports (see Section 4).

3.3. Liberalisation of Trade in Services: Egypt's Unilateral Efforts

At the unilateral level, domestic liberalisation of services exceeds Egypt's GATS commitments in a large number of sectors. For example, in the case of maritime services and related logistics the investment law (Law 8/1997) identified international maritime transport as a sector open for private (both domestic and foreign) investment including transportation of materials, goods and passengers beyond territorial waters by means of ships, tankers, steamers and ferries. Moreover it allows the establishment of containers' operations and handling stations as well as grain silos (including all related loading and unloading activities) to be free from any restrictions. Specific maritime laws do not impose any restrictions on cross-border supply of foreign shipping companies (international shipping and cabotage, both liner¹⁴ and tramp),¹⁵ though the foreign supplier must nominate a local agent. There are no restrictions on application of the principle of reciprocity, on the number of foreign suppliers or on bilateral agreements including cargo-sharing clauses. Conference agreements¹⁶ are not present in the case of Egypt and are not granted any sort of preferential treatment, neither are they mentioned in the regulations of that sector. A large number of such unilateral liberalisation steps have not been tabulated in Egypt's GATS commitments.

However, Egypt discriminates in favour of vessels raising the national flag in terms of prices paid for port services. It is worth noting that there is no common practice adopted in competing ports with a country like Malta having no discrimination (following its GATS commitments) whereas a country like Jordan reducing service fees for pilotage, berthing and docking by ten percent for Jordanian vessels (following its GATS commitments). Although Jordan has tabulated such discrimination in its national treatment limitations, Egypt does not consider this as a national treatment limitation since there is no discrimination among service providers, rather it is a discrimination against users of the service which, from Egypt's perspective, is not considered a national treatment limitation following GATS provisions.

For Egypt to become a regional hub for transshipments and containerised trade, the government decided to adopt a Master Plan (2001-2017)¹⁷ to modernise Egyptian ports by creating independent profit-oriented, cost-based corporations to manage the ports, adopting the landlord model, whereby operating functions are devolved to specialised private sector firms working under supervision and monitoring by the new corporations. Moreover, policies will be

adopted to enhance the operating efficiency of Egyptian maritime ports, introduce electronic data interchange (EDI) systems, develop multimodal transport, connect maritime ports with domestic transport networks and achieve higher safety and security levels in all modes of transport. Further deepening of the Suez Canal, to reach a depth of 72 feet, will facilitate passage of large vessels.

Investment funds allocated to the transport sector in the economic and social development plan have increased from 13.2 billion Egyptian pounds in 2005/2006, to 17.2 and 29.3 billion Egyptian pounds in 2006/2007 and 2007/2008,

respectively. This reflects the increased interest of the government in enhancing the efficiency of the transport sector.

Although more than 23 percent of the public investment funds allocated to the Ministry of Transport in 2006/2007 are earmarked for maritime ports and related logistics services, these funds remain short of the investments needed per individual port, such as the port of Alexandria or the port of Damietta (Ministry of Transport, 2006a). Therefore, it is imperative to attract more private (both domestic and foreign) investment to maritime transport and related logistics services.

4. PERFORMANCE OF MARITIME TRANSPORT AND RELATED LOGISTICS SERVICES

The purpose of this section is to identify the main constraints facing maritime transport and related

logistics services in Egypt and assess their impact on the performance of these services.

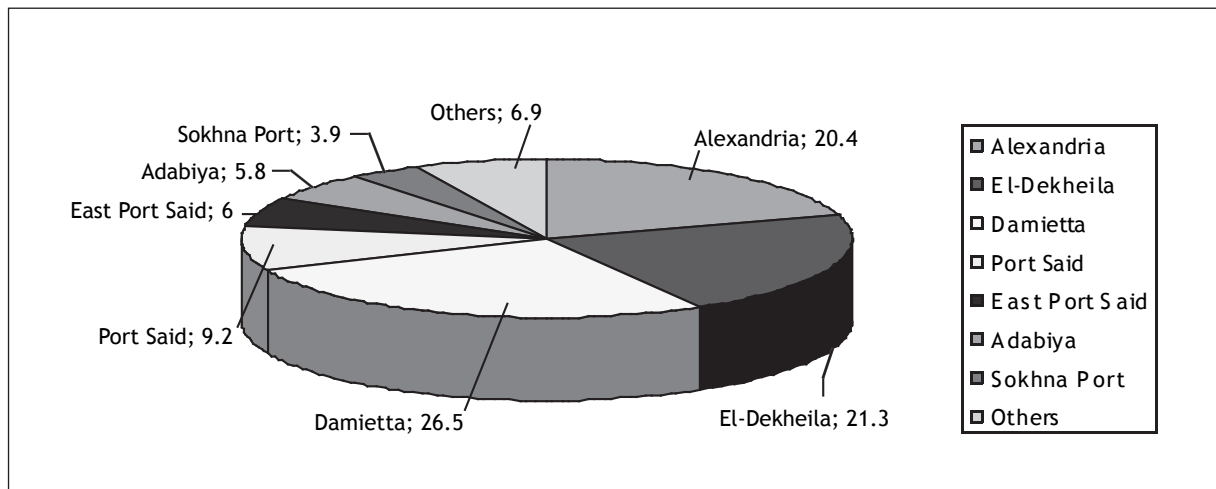
4.1. Inefficiencies in Maritime Transport and Logistics Services

There are 82 ports¹⁸ in Egypt, out of which nine are main commercial ports (Alexandria, El-Dekheila, Port Said, Safaga, East Port Said, Damietta, Adabiya, Suez and El-Sokhna), six are general commercial ports and 67 are specialised ports.¹⁹ There are nine dry ports, some of which are not used to their full capacity.

According to the *Egyptian Maritime Data Bank* of the Ministry of Transport, there was a 56 percent increase in the TEUs (Twenty Feet Equivalent

Units)²⁰ handled by all Egyptian ports, up from 435,655 TEUs in the year 1995 to 884,481 TEUs in 2003. Figure 3 shows the share of Egyptian ports in total local and transit cargo in 2005. The number of vessels visiting Egyptian ports increased from 8,799 in 1995 to 11,876 in 2003, a 35 percent increase. Alexandria Port is considered the most important port in terms of vessels received by Egyptian ports, receiving in 2005 around 26 percent of total vessels.

Figure 3. Share of Egyptian Ports In Total Local and Transit Cargo in 2005 (%)



* Others include El-Arish, Suez, Safaga, Hamrawein, Abu Ghosoun and Nuwaiba.

Source: Ministry of Transport, 2006a.

The capacity of Egyptian commercial ports reached 135.18 million tonnes in 2005.²¹ General cargo handled by Egypt's ports in 2005 reached 97.5 million tonnes, in addition to 231.6 million tonnes handled by specialised ports out of which petroleum products represented 230.8 million tonnes (Ministry of Transport, 2006b; National Democratic Party, 2006).

The number of containers handled by Egyptian ports reached 3.6 million TEUs (of which 1.2 million TEUs are imports and 2.4 million TEUs are

transit).²² There is a relatively high concentration in the ports' handling of trans-shipment containers, with Damietta and Port Said handling the majority of trans-shipment containers in Egypt's main ports, as shown in Table 2 below (MEDAмос, 2006).

Although container port traffic in Egypt has been experiencing a decline in recent years, the country remains among the largest 20 developing countries in terms of container traffic (UNCTAD 2006b; UNCTAD 2005). According to data from the *Review of Maritime Transport 2006* and *Review of*

Maritime Transport 2005, Egyptian ports ranked 18th in the world in 2004 and 17th in 2003 in terms of container throughput²³ and among the largest 57 developing countries in terms of container traffic. Egypt's status in terms of container traffic reflects the comparative advantage that it enjoys as a regional hub for trans-shipment.

Despite some recent improvements, maritime transport and related logistics services in Egypt

face various constraints that limit private sector participation and competition in providing these services and have negative impacts on their performance. The main constraints include the inefficiency of the national shipping fleet, weak port infrastructure, ineffective implementation of regulations, inadequate institutional setup, rigidity in price setting of port fees and services dues, and over-staffing and lack of trained personnel.

Table 2. Trans-Shipments Trade in Egyptian Ports (in TEU)

		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Alexandria & El-Dekheila	Import	2,337	1,134	0,884	4,143	11,780	20,977	100,997	7,408	8,748	9,926
	Export	2,351	1,147	0,881	3,806	10,876	21,732	11,476	7,741	8,545	10,819
	Total	4,688	2,281	1,765	7,949	22,656	42,709	22,473	15,149	17,293	20,745
	% of Grand Total	0.8	0.3	0.2	0.9	5.5	6.3	2.5	1.6	1.6	1.5
Port Said & El-Arish	Import	59,695	125,971	120,511	157,340	72,583	136,452	219,281	223,221	227,232	282,353
	Export	58,807	119,813	120,132	154,040	69,463	129,984	178,060	213,212	217,516	254,454
	Total	118,502	245,784	240,643	311,380	142,046	266,436	397,341	436,433	445,248	536,807
	% of Grand Total	19	31	31	36	34	39	43	46	42	39
Damietta	Import	246,515	280,312	268,441	273,455	122,246	185,097	252,297	257,927	315,008	406,267
	Export	242,270	270,491	267,960	268,693	125,254	189,369	246,705	248,287	288,371	372,651
	Total	488,785	550,803	536,401	542,148	247,500	374,466	499,002	506,214	603,379	778,918
	% of Grand Total	80	69	69	63	60	55	54	53	57	56
Red Sea Ports	Import	-----	-----	-----	-----	-----	-----	-----	-----	-----	56,454
	Export	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	Total	-----	-----	-----	-----	-----	-----	-----	-----	-----	56,454
	% of Grand Total	-----	-----	-----	-----	-----	-----	-----	-----	-----	4
Grand Total	Import	308,547	407,417	389,836	434,938	206,609	342,526	482,575	488,556	551,488	755,000
	Export	303,428	391,451	388,973	426,539	205,593	341,085	436,241	469,240	514,432	637,924
	Total	611,975	798,868	778,809	861,477	412,202	683,611	918,816	957,796	1,065,920	1,392,924

Source: Ministry of Transport, 2004.

4.1.1. Inefficient National Shipping Fleet

The size of Egypt's commercial fleet decreased from a total of 141 vessels in 1999 to 71 vessels in 2005. Nearly 72 percent of the vessels are more than 15 years old, signalling the relative inefficiency of the existing fleet and the likely negative effects on the country's water system.

Currently, the Egyptian fleet handles only 5 percent of Egypt's trade (MEDAmos, 2006) down from 10-20 percent in the first half of the 1990s

(USAID, 1996). The public sector owns 13 percent of the fleet whereas 52 percent is owned by public sector firms which have been partially privatised and the private sector owns 35 percent (National Democratic Party, 2006). It is prohibited to sell a privately built and owned vessel raising the Egyptian flag without prior permission of the ministry of transport, thus constraining private sector participation in this activity.²⁴

There are around 90 shipping lines that call on Egyptian ports, eight of which (see Table 3) dominate 69 percent of container movements in these ports (MEDAmos, 2006; Haiba, 2007). This

implies a high concentration within this activity, which could result in increasing prices of freight and hence negatively affect competitiveness of Egyptian trade.

Table 3. Most Important Shipping Lines in Egypt

RANK ON THE BASIS OF CALLS TO EGYPTIAN PORTS	INTERNATIONAL RANK
1 Maersk (Denmark)	1
2 CMA CGM	5
3 K-Line (Japan)	14
4 PON	4
5 YML	18
6 MSC	2
7 APL	6
8 COSCO (China)	9

Source: MEDAmos, 2006.

4.1.2. Weak Port Infrastructure

Some characteristics of Egyptian ports hinder them from efficiently fulfilling their role. Such limitations include the status of existing terminals which suffer from lack of maintenance (although this service is open to foreign participation following Egyptian domestic regulations and GATS commitments) and layouts and equipment that do not correspond to the requirements of shipping lines (including insufficient space and water depth unable to accommodate containers). Poorly maintained narrow roads inside the ports negatively affect the movement of cargo inside ports. This is specifically applicable to the ports

of Alexandria, Port Said and Damietta. The three aforementioned ports have limits with regards to the length of ships allowed to enter due to their limited entrance canal depth (11.3 metres in Damietta),²⁵ short quays (12 metres only in Alexandria) and limited quay area (720 square metres in Damietta). Table 4 shows that Egypt's ports infrastructure lags behind when compared to other competitor ports in the world including those of the United Arab Emirates, Cyprus, Tunisia, Malta, Jordan and Morocco; however it is in a better position when compared to countries such as Turkey and Algeria.

Table 4. International Ranking of Port Infrastructure in Selected Countries

COUNTRY	INTERNATIONAL RANK
Singapore	1
United Arab Emirates	9
Cyprus	32
Tunisia	34
Malta	35
Jordan	49
Morocco	53
<i>Egypt</i>	<i>61</i>
Turkey	76
Algeria	78

Source: World Economic Forum, 2007.

Recognising that Egyptian ports' infrastructure had fallen behind international standards, it was imperative for Egypt to upgrade its ports in order to accommodate import demand and to enable the country to meet export targets. Thus, the first phase of the Alexandria Port renovation began in 2002 and was completed in March 2007 at a cost of 750 million Egyptian pounds. Renovations included construction of deeper quays to receive larger vessels, the redesigning of storage areas, warehouses and associated infrastructure, implementation of a more automated management system and the construction of a new passenger/cruise ship terminal. These renovations included widening the roads inside the port, increasing the number of berths from 37 to 59 and minimising congestion at the port. Instead of serving 40 vessels a month, the port can now serve 60 or 70 vessels a month. The port's handling capacity is expected to increase to 44 million tonnes per year, up from 32 million tonnes before renovations. The

same 1,000-tonne vessel that used to take ten to twelve days to discharge and load, now takes four to five days. Customs clearance time decreased from three to four weeks in 2004, to about one week at present (Craig, 2007).

Another example is El-Sohkhna Port that was designed with the objective of handling trans-shipment traffic and hence does not suffer from the same infrastructural constraints as other main commercial ports. However, El-Sokhna port is currently handling only 500,000 TEU per year, as it is relatively new, but is expected to reach four million TEU by 2020 (MEDAmos, 2006).

Taking into consideration that environmental issues are an important element in Egypt's overall strategy for sustainable development and economic growth, new projects, expansions and renovations are required by law to obtain an environmental compliance certificate before obtaining a licence.²⁶

4.1.3. Ineffective Implementation of Regulations

The regulatory framework governing service sectors is complex with, in many cases, several entities involved in the regulation of each sector. Moreover, the entanglement of general laws and regulations (e.g., the investment law) with sectoral laws and regulations, and the overlapping jurisdictions between different ministries and municipalities, add to the complexity of the regulatory framework governing services and highlight the necessity to undertake regulatory reforms.

Before 1961 the maritime transport sector and its related logistics services were fully owned by the private sector, except for certain ports that were publicly owned. During Nasser's era and starting in 1961, the ownership of the sector was transferred to the state. Law 12/1964 created state monopolies in all port services. Law 12/1964 established the Egyptian Public Organization for Maritime Transport, an independent organisation affiliated to the minister of transport, which should have acted as regulator of the maritime sector (USAID, 1996).²⁷ The role of the Egyptian Public Organization for Maritime Transport was never fulfilled and it has acted as a secretariat

for issues related to maritime transport under the auspices of the ministry of transport; even the role of the secretariat was overtaken by the maritime transport sector in a later period and continues today.

In the 1990s, the GoE began to change its policy and started to implement policies aiming at directing the sector towards market-driven mechanisms. Starting in the early 1990s privatisation accelerated, in terms of policies and regulations, through a number of decrees which allowed the private sector to engage in some port services.²⁸ Law 1/1996 and its amendment, Law 22 /1998, permitted the Egyptian private sector to establish and operate private ports and participate in managing existing terminals and ports through leasing. Law 1/1998 amending Law 12/1964 permitted the private sector to participate in maritime transport activities, agencies, ship maintenance and fuelling.²⁹ No restrictions were imposed on the private sector's participation in a large number of logistics services including stevedoring, cargo handling, warehousing, maritime freight forwarding and

maritime agencies. Nevertheless firms require a licence from the ministry of transport. Also, companies registered under Investment Incentive Law 8/1997 must obtain a shipping licence from the General Authority for Investment and Free Zones (GAFI) adding to the institutional complexity of the sector.

Since Laws 1/1996 and 1/1998 were enacted, a number of projects have been launched for private investment. A new container port in East Port Said was established through a Build-Operate-Transfer (BOT) model; a second was set up at the southern end of the Suez Canal "Sokhna Port" and a 30-year concession for the construction of a bulk terminal was to be given to two petroleum companies in the port of Alexandria (Essawy and Ghoneim, 2005).

A large number of private sector firms became engaged in the provision of logistics services related to maritime transport. The market structure in shipping agencies includes four public firms and 87 private ones. Stevedoring activities include two public firms and 17 private ones; container handling activities include three large public firms, and a few private firms are specialised in Ro-Ro³⁰ vessels (the public firms are owned by the three main port authorities

4.1.4. Inadequate Institutional Setup

A number of institutional constraints limit private sector participation and competition in providing services. Firstly, port authorities are the owners, regulators and providers of a large number of services, while they lack financial autonomy. Secondly, Egypt's main ports remain far from adopting the landlord model. Finally, the Supreme Ports Council is relatively ineffective.

There are four port authorities in Egypt including Alexandria General Port Authority to which the ports of Alexandria and El-Dekheila belong; Port Said General Port Authority to which Port Said, El-Arish and East Port Said ports belong; Damietta General Port Authority to which Damietta port belongs; and the Red Sea General Port Authority to which belong Suez, Adabiya, Safaga, El-Sokhna ports in addition to Sharm El-Sheikh and Hurghada

of Alexandria, Damietta and Port Said, and perform their activities only in their related ports); storage activities include essentially two public firms and finally, in the fields of ship breakers, forwarders and cargo clearance there are around 40 private firms (National Democratic Party, 2006).

Despite the fact that there are a large number of private sector firms, many maritime and logistics services remain mainly controlled by large public sector firms. The government still owns stevedoring companies, shipping agencies and shipyards through two holding companies. State-owned companies continue to operate terminals and warehouses and provide stevedoring and shipping agency services. This is due in part to uneven implementation of Law 1/1998 and Ministerial Decree no. 30 of 1998, which were designed to introduce greater competition into container port services but maintained the restriction that private entry into container port terminals is only allowed in greenfield terminal development, not existing operations. Another obstacle is stevedoring where authorities have allocated specific quays to favourite companies (mainly state-owned firms), hence preventing the establishment of an environment of fair competition (Essawy and Ghoneim, 2005).

ports, which are passenger ports. The ministry of transport controls the four port authorities as well as the Ports and Lighthouses Authority which changed to the Egyptian Authority of Maritime Safety (per Presidential Decree no. 399 of 2004). It inspects ships and maintains navigational aids.

The port authority is the highest authority operating in the port. It has administrative control over other agencies operating within the port and supervises performance and the flow of processes. In 2000, Presidential Decree no. 110 was issued to strengthen the authority of the port heads in terms of supervision over all the operating agencies inside the port, however it was not fully enforced until 2006 (National Democratic Party, 2006).

The head of the port authority is authorised by the minister of transport to negotiate agreements with the private sector and can sign agreements that extend up to 30 years. Agreements extending beyond a 30-year period fall under the authority of the minister. In general the agreements between the port authority and terminal operators can be structured in various ways:

1. The operator rents the terminal from the port authority against a set fee and undertakes all works necessary to make the terminal operative;
2. The operator shares the responsibility of running a terminal with the port authority where the port authority undertakes the construction of the infrastructure³¹ and the operator takes care of the superstructure;³²
3. The port authority undertakes the development of the infrastructure and the superstructure and the company rents the terminal when ready for operations.

Notwithstanding Law 1/1996 and Law 1/1998 and the development of ports, the maritime transport sector and its related logistics services suffer from conflicts of interests as port authorities are the owners, regulators and performers, all at once (where they provide services such as pilotage, safety and tugboat, and are owners of companies that provide stevedoring activities). The landlord type of model has been the one followed in the main commercial ports. However, in reality what applies is rather a quasi-landlord or rather a service port³³ model due to the entanglement of public authorities' ownership of port facilities, their management of the same ports and their undertaking of port services. The main commercial ports (with the exception of El-Sokhna port) continue to be managed by public port authorities with an ill-defined incentive framework (National Democratic Party, 2006).

Interlocking directorships and shared ownership between the state operating companies and the port authorities inhibit competition and reduce incentives to maintain and improve port facilities. For example, authorities of some ports are shareholders in the container handling company operating in the port, such as Alexandria Port

Authority which owns 40 percent of Alexandria Container Handling Company and the Port Authority of Port Said which owns 39 percent of Port Said Container Handling Company. This cross-ownership between port authorities and these state-owned service companies blurs the boundaries between regulatory and commercial functions creating a barrier to entry for the private sector in those ports. As a result, important up to date port services remain monopolies controlled by state-owned companies, so while privatisation is introduced in theory, in practice their market is not contestable (Essawy and Ghoneim, 2005). For example, in the Alexandria Port Authority there is only one container handling company currently performing, namely, Alexandria Container Handling Company and there is only one warehousing company which is the Egyptian Public Warehousing Company (Ministry of Transport, 2006b). In other words, the overall macro reform initiatives in the maritime sector and related logistics services were pre-empted by lack of efficient enforcement of free market policies, which hinders the effective participation of the private sector.

The main maritime ports of Alexandria, El-Dekheila, Port Said, Damietta and Adabeya do not operate on a commercial basis. Port authorities lack financial autonomy as they are linked to and financed by the government budget. It is reported that the four main port authorities have been holding debt in substantial amounts, which up until 2006, was being financed by the government (National Democratic Party, 2006; World Bank, 1997).³⁴

In 2000, Presidential Decree no. 109 was issued forming the Supreme Ports Council³⁵ to formulate the general strategy for all Egyptian ports, propose legislative and regulatory reforms, monitor the implementation of all decisions related to port activities and set the fees for port services (Mobarek, 2007). However, it seems that the Supreme Ports Council's mandate has not yet been effectively implemented (National Democratic Party, 2006). For example, the Council has not met a single time during the last three years since the appointment of a new cabinet in July 2004.

4.1.5. Rigidity in Price Setting of Port Fees and Service Dues

The prices that private firms offer for some of their maritime services and related logistics are set through ministerial decrees, which pre-empt market mechanisms announced by Law 1/1998.³⁶

Port fees and port service dues are set by ministerial decrees, regardless of actual costs and quality of provided services (the exception is El-Sokhna port). Thus, ports are not free to independently set competitive charges, which is an essential prerequisite for competition and efficient management. Although reports have questioned the logic behind such systems for more than a decade (USAID, 1996), the system has remained in place. Such rigidity in terms of price setting has decreased intra-port as well as inter-port competition between different terminals and among firms performing in the port.

Concerning prices of logistics services, price floors have been set by the government for

warehousing and storage services (Ministerial Decree no. 74/2003) and for cargo handling services (Ministerial Decree no. 72/2003), excluding El-Sokhna and East Port Said. However, Ministerial Decree no. 393/2003 set a fixed price for such services instead of determining floor prices.

Regular services such as pilotage, towing, navigation aids and anchorages are mandatory for ships entering any of Egypt's main ports. Access to services is discriminatory for foreign carriers as opposed to domestic ones with regard to pilotage, towing, navigation aids and anchorage. According to several ministerial decrees the fees for such services are lower for national vessels than for foreign ones. Moreover, trans-shipment containers are accorded a discount of 20-50 percent and transit container carriers are accorded a 75 percent discount (Ministry of Transport, 2006b).

4.1.6. Over-Staffing and Lack of Trained Personnel

Over-staffing, poor skills and training are among the most prominently cited problems contributing to high costs and inefficient operations in Egyptian ports. Surplus labour, limited resources to acquire modern cargo handling equipment and government policies in favour of maintaining or creating employment, contribute to over-manning in Egyptian ports. There are no recent data on the size of labour employed in Egyptian ports and public firms concerned with logistics.³⁷ Nonetheless, an old study estimated the size of labour in Egyptian ports to be in the neighbourhood of 18,000

workers, excluding the employees of the holding companies. Out of the 18,000 workers, 3000 were employed by state-owned shipping agencies, 5000 worked in container handling and 10,000 worked in stevedoring and warehousing (USAID, 1996). Such labour figures are considered high by international standards.

The aforementioned constraints that limit private sector participation and competition in providing maritime and logistics services have had a negative impact on the performance indicators of these services as discussed below.

4.2. Inefficient Maritime Transport and Related Logistics Services

Performance indicators reveal that maritime transport and related logistics services in Egypt

are inefficient in comparison to those provided in other countries and to acceptable benchmarks.

4.2.1. Low Productivity of Stevedoring Operations

Stevedoring activities in Egypt's main maritime port terminals were compared to similar activities

performed in typical modern international container terminals worldwide. The number

of containers moved from a vessel per hour is one of the yardsticks used to determine the productivity of a stevedoring operation where the higher the number of moves, the more efficient the service provided. In Egyptian ports, the average rate was 22 containers per hour per clinch which is less than the best practice rate recorded at 25 moves and the rate of 40 moves in some American and Far Eastern ports (see Table 5). Latest studies have reported that the average rate in Alexandria port is 20-25 moves

per hour, dropping to 13-15 moves per hour in bad weather conditions (Mobarek, 2007). Such low discharge rates negatively affect the overall costs associated with stevedoring and handling of cargo. This inefficiency is partially associated with old and poorly maintained equipment (such as old gantry cranes, forklifts and terminal contractors in ports), lack of hinterland facilities - such as sufficient warehouses - and a lack of trained personnel (USAID, 1996; Burrell and Ghoneim, 2004).

4.2.2. Excessive Dwell Time

Dwell time³⁸ is relatively excessive in Egyptian maritime ports and adds considerable expense to an import shipment. The average dwell time according to Maersk/Sealand's statistics is 21 days in the three main commercial seaports (Alexandria, El-Dekheila and Damietta).³⁹ Official sources reveal that the average dwell time in Egypt's main ports is 3.6 days (Ministry of Transport, 2005) whereas recent studies assert that the dwell time in El-Sokhna port is four to five days compared to an average of 20 days in other Egyptian ports (Mobarek, 2007). Such inconsistency in data is one of the main problems with the maritime sector and related logistics

services, which needs to be overcome to reach suitable policy recommendations. The length of dwell time could be attributed to importers and brokers failing to file declarations and clearance documents in a timely fashion. Other studies have determined that excessive dwell time can be attributed to customs processing or quality control inspections. Reasons are many and varied and statistics are not available to determine the frequency of this problem (Burrell and Ghoneim, 2004). Table 5 provides some information on the status of logistics services in Egypt compared with other countries.

Table 5. Performance Indicators for Egyptian Ports

INDICATOR	BEST PRACTICE	EGYPTIAN PORTS
Dwell time (general cargo)	7-12 days	5-20 days
Dwell time (containers)	4-7 days	5-20 days
Loading and unloading (discharge) rates	25 containers per hour per clinch	22 containers per hour per clinch
Overall fees for container's transport	120-180 USD	300-350 USD

Sources: National Democratic Party, 2006; Al Tony, 2005.

4.2.3. Costly Container Handling Services

Container handling services are inefficient. It was estimated that terminal handling services represent more than 20 percent of freight expenses in Egyptian ports compared with an average of eight to ten percent in surrounding Mediterranean ports (USAID, 2000; Mobarek,

2007). Such inefficiency in container handling can be attributed to many reasons. For example, the system for containers' warehousing does not use advanced new techniques for allocating container places and handling equipment used for containers is old. Moreover, there are

problems with setting of unregulated containers and open top containers where registering issues are not done efficiently. The transfer of containers from ports to dry ports is done under the supervision of customs and police where the customer bears all the fees and the delay. There are no representatives from the supervising authorities in dry ports and in case of conflict on customs issues between the importers and

customs authorities in dry ports, they have to refer back to the original port. In addition there are no consolidation facilities outside ports to handle LCL (Less Container Load) export cargo shipments.⁴⁰ Moreover, containers do not use inland water transport and rarely use rail due to several associated infrastructure problems and bottlenecks.

4.2.4. Cumbersome Clearance Procedures

Despite recent improvements, some cumbersome clearance procedures remain. Based on interviews it was noted that clearance time has been significantly reduced in the last two years, partially because of automation and partially due to the reform of regulatory measures concerning customs. Before 2005, the customs process alone required 17-32 signatures (if documents were clean); lack of certification for product quality resulted in shipment delays (Burrell and Ghoneim,

2004). The main problem that remains untackled is the procedures of the General Organization for Exports and Imports Control (GOEIC) which delay the time needed for clearance, especially when traded goods are subject to inspection by specialised authorities such as health and agriculture inspectors. Table 6 shows that Egypt still lags behind other main competitors regarding clearance time.⁴¹

Table 6. Clearance Time Comparison in Selected Countries for Standard Dry Cargo

COUNTRY	SEA CARGO LCL	SEA CARGO FCL
Turkey	1-2 days	1-2 days
United Arab Emirates (Dubai)	1-2 days	1-2 days
Cyprus	2 days	2 days
Singapore	3 days	2-3 days
Jordan	--	12 days
Tunisia	--	12 days
Algeria	--	2 weeks
Egypt	3-4 weeks	2 weeks

--: Not Available

Source: International Exhibition Logistics Associates (IELA) obtained from www.iela.org (visited 3/7/2007).

4.2.5. High Freight Costs

Freight fees for inbound shipments are high compared with those of other destinations in the Mediterranean due to a number of factors. Increasing containerisation rate can help bring freight costs down significantly (European Commission, 2005). However, containerisation in

Egypt's total cargo trade is low, at 27 percent of imports and 36 percent of exports (35 percent of total cargo handled) (World Bank, 1998a; Al Tony, 2005; European Commission, 2005). Some experts assert that the containerisation rate has recently increased reaching 40-45 percent of total

cargo handled.⁴² This stands in contrast to the international rate of containerisation which has reached 80 percent. The level of containerisation in Egypt remains low for three main reasons. First, the average dwell time for containers is quite long as highlighted above, hence negatively affecting the speed of the movement of containers, which shipping lines view as a loss that translates into higher shipping costs. Second, there exist very few centres for containerisation in Egypt (seven in total) and these are not evenly distributed.

Third, as imports generally exceed exports by a significant margin, 60 to 70 percent of import containers are returned to vessels empty (Essawy and Ghoneim, 2005). The importer, if returning an empty container, often pays additional charges, including trucking to the port as well as shipping costs passed on by the vessel carrier. The export of empty containers from Egypt is a major problem adversely affecting the cost of imported goods. Table 7 provides some figures on freight costs from Egypt to different destinations.

Table 7. Freight Costs From Egyptian Ports to Different Destinations (2001-2003)

YEAR	2001		2002		2003	
	20'	40'	20'	40'	20'	40'
Beirut	\$225	\$400	\$150	\$300	\$150	\$300
Hong Kong	N.A.	N.A.	\$400	\$550	\$325	\$550
Rotterdam	DEM(*) 120	DEM 250	Eur 175	Eur 200	Eur 100	Eur 300
New York	N.A.	N.A.	\$ 1700	\$ 2225	\$ 1825	\$ 1900

(*) Data obtained for Rotterdam in 2001 was quoted in Deutsche Marks (DEM)

Source: Ghoneim, 2004.

4.2.6. Inefficient Utilisation of Dry Ports

Egypt's dry ports are not used efficiently. As an illustration, a consignment destined for a dry port often passes through a preliminary inspection at the port of arrival, hence the container is opened and a preliminary evaluation of duties is set by customs. Customs authorities at the bonded warehouse cannot set a duty less than

the one set at the preliminary evaluation, even if proven to be higher than the norm. In fact, with a preliminary evaluation and the possibility of a pre-inspection of a consignment at seaports, dry ports are not actually used as ports but rather as customs bonded warehouses.

4.2.7. Modest Level of Automation and Electronic Data Exchange

The level of automation is modest in Egyptian ports but is improving significantly. Container terminals in the ports of Alexandria, El-Dekheila, Port Said and El-Sokhna have been automated with state of the art software for container terminal operations. Although such automation is progressing at a fast pace, companies have not declared any plans to install and use Electronic Data Interchange (EDI). Currently there is no communication between ships and the container terminal prior to arrival except in three ports (Alexandria, El-Dekheila

and El-Sokhna). Hence, there is no exchange of loading and unloading plans between the terminal and ships, which could save time and reduce costs (Burrell and Ghoneim, 2004; private communication with a former head of a port authority). El-Sokhna port uses EDI and requires that all shipping agents, logistics providers and clearance agents who deal with the port use EDI. The implementation of EDI is likely to face several obstacles due to the cultural and organisational complexity⁴³ of port authorities.

To summarise, the lack of a conducive regulatory framework that enhances the participation of the private sector in the maritime sector and related logistics services when combined with the problems associated with ports' infrastructure identified above, have resulted in several negative consequences including: relatively high freight costs, low level of containerisation, high costs of cargo handling, inefficient stevedoring activities, inefficient use of dry ports and cumbersome clearance procedures. All such features of inefficient maritime transport and related logistics services have resulted in delays in clearing goods. The frequent delays in goods clearance have implied that importers had to hold excessively large inventories due to the possibility of input supply disruptions (Cunningham, 2002). Holding large inventories leads to additional costs to traders and manufacturers which reduces their competitiveness and raises the prices of traded goods with negative implications for consumers.

In addition, inefficient port services have resulted in less shipping lines calling at Egyptian ports. Less frequent shipping lines cause delays and

raise the transport risks for traders (USAID, 1996). Moreover, inefficiency of port services implies losses to the firms working in ports. Given the fact that a great majority of firms are government-owned, the government is the one incurring extra costs. Inefficient ports and port services lead to foregone income that could have been generated to the overall economy through increased trans-shipment trade, particularly given the geographical comparative advantage of Egypt's ports. They can also result in foregone foreign direct investment (FDI) and job opportunities. Mueller-Jentsch (2003) pointed out that Tunisia lost a bid worth 12 million USD in FDI and 1,700 jobs, as a German car manufacturer refrained from locating in the country for logistical reasons. The inefficient logistical services were unable to secure a one day saving in each direction which was vital for the German manufacturer to reduce its order-to-delivery cycle. Egypt could have faced a similar situation, which implies that improving maritime services and related logistics could have a significant impact on enhancing FDI and creating jobs in the Egyptian economy.

5. MULTIMODAL OPERATIONS IN EGYPT

Contrary to conventional wisdom several cases suggest that multimodal operations exist in Egypt. While the majority of trade flows does not experience a well structured multimodal model, there are however a number of trade commodities which depend on Egypt's multimodal system. El-Sokhna port represents an example of multimodal transport as it has an oil terminal on site and a pipeline serving the Nile Delta with petrol coming from the Gulf which allows tankers to avoid passing through the Suez Canal. Moreover, El-Sokhna was designed, as noted above, to act as a container port, handling containers coming from Asia and Europe, which saves time (approximately 15 hours) and money (about 100,000 USD per ship on average) for the vessels that would have otherwise had to pass through the Suez Canal. A rail line is foreseen for container train shuttles linking El-Sokhna to Cairo and the delta and possibly Damietta or Port Said (MEDAmos, 2006).

5.1. Lack of Multimodal Operators

Egypt lacks Multimodal Transport Operators (MTOs) who act as principals and assume responsibility for the execution of the contract. Multimodal Transport Operators, as principals and not as agents or on behalf of either the consignor or the carriers participating in the transport, conclude contracts covering more than one mode

of transport, regardless of who actually performs the transport. Multimodal transport therefore implies that a transport operator is capable of controlling the entire door-to-door transport operation, as well as of assessing and preventing inherent risks related to such an operation (risk-management capability) (UNCTAD, 2003).

Egypt has approximately a dozen large and experienced freight forwarders offering a variety of transport and logistics services, as well as many medium and small-sized forwarding companies. Established forwarders, such as Egytrans, Delta Express and Speditrans are authorised to issue a multimodal transport bill of lading (also known as "house bill of lading") through affiliation with FIATA (Fédération Internationale des Associations de Transitaires et Assimilés or International Federation of Freight Forwarders Associations based in Vienna, Austria). Less established forwarders serve as clearing agents, providing services to importers and exporters in the clearance of inbound and outbound cargo through cross-border formalities at the port (Devlin and Yee, 2002). Multimodal operations could help enhance the efficiency of transport in Egypt, however they face various constraints.

5.2. Lack of a Legal Framework for the Liability of Multimodal Carriers

There exists no standard legal framework for liability and insurance of multimodal carriers. The insufficient carrier liability insurance (particularly for trucks) poses additional costs when faulty equipment leads to damage or loss of cargo and there is no compensation for the trader, which undermines confidence in services provided by the trucking industry and impedes trade. Lack of harmony in the liability regimes among the different modes of transport and in some cases insufficient coverage for each mode to cover the full value of the cargo, creates uncertainty in

multimodal transport as well as complications for the shipper in providing adequate insurance to cover the value of the cargo, should the limits of liability be too low (Devlin and Yee, 2002). As a result, liability items are still negotiated on a case by case basis in contracts between various parties involved in the door-to-door trips. This lack of standardisation results in different interpretations of contracts and creates several legal problems associated with uncertainty (European Commission, 2005).

5.3. Low Containerisation Rates

Multimodal operations are negatively affected by low containerisation rates in Egypt as argued above. Since its introduction in the 1960s, containerisation has rapidly taken over international trade. Starting in 1985, global trade container moves have grown sevenfold (UNCTAD,

2005; Haiba, 2007). To date, most goods are carried in containers irrespective of the mode of transport, their variation and multiplicity; hence containerisation facilitates trade by using multimodal transport (UNCTAD, 2003).

5.4. Complex and Lengthy Customs Procedures

Multimodal operations are likewise hampered in Egypt due to customs rules and regulations. For customs in Egypt transit shipments are classified into two categories: direct transit and indirect transit. Direct transit refers to the situation where the cargo that is unloaded in the port remains in the same terminal to be loaded again and shipped. Indirect transit refers to the cargo that is unloaded and is to remain in warehouses in the same port or transported to another port or customs bonded warehouse in order to be released to the local importer using one mode of transportation. This is due to the fact that customs require that the value of the cargo be covered by a letter of guarantee and linked to only one mode of transport. If the cargo is to change modes, then another letter of guarantee is to be issued. This leads to extra costs and extra loss of time. This situation overrides the principal aim of multimodal transport, which is to move goods to their destination on time, in good condition and as cheaply as possible.

Hence, in Egypt, multimodal transport, meaning that a cargo can be unloaded in a port then transferred to another port and shipped outside the country, falls outside the definition. This situation causes problems, especially during the transfer of the cargo from one mode to another and because of the procedures involved. Most

of the transportation from and to the ports is done by road although there is a railway network linking all the seaports. To move transit goods from port to port through the railway network requires lengthy procedures and many employees to deal with the Egyptian railway and customs authorities, a situation which prevents many from using the railways, despite being less costly and safer than road transport.

Another problem is that “Dry Ports or Inland Container Depots” do not exist in the laws governing the transport sector; hence, the only available inland depots are customs bonded warehouses. This situation creates a dilemma during the movement of the shipments. The absence of dry ports in their real definition and the perception of customs authorities regarding multimodal transport inhibit the issuance of a thorough bill of lading to customs bonded warehouses; hence the port of entry is specified and later, “Delivery to” is added on the bill of lading. As mentioned above this is not considered a direct transit, hence, the charges and fees that apply to those inbound shipments that are not considered in transit, are the same as those that apply to shipments with the seaport as main destination. This adds to the cost of handling the shipments.

5.5. Weak Road, Railway and River Ports Infrastructure

Weak roads, railway and river ports infrastructure imply that the building blocks are not in place for an efficient multimodal system. For example, in the case of roads, trucks suffer from weak maintenance, overloading, old age, high prices and inefficient services. More than one third

of the road fleet is owned by small fragmented firms whereas the rest is owned by cooperatives or public firms. The market structure prevailing implies an inefficient system where quality is not considered. As a result, a large number of producing firms became dependent on their

own fleets (37 percent of the existing road fleet is owned by production firms). In addition, there are no trucks specialised in containers transport (Al Tony, 2005). Instead, modified flat bed trucks are used that have additional pieces of metal welded to the bed of the trailer to accommodate a container (Burrell and Ghoneim, 2004), which is both unsafe and inefficient. In the case of railways, the lack of comprehensive adoption of the concept of dry ports has led to less traffic which, when accompanied by modest investments from the Egyptian National Railway (ENR) Authority, implies an inefficient railway system for freight transport. The amount of freight carried by railway does not exceed eight percent of total domestic freight (Al Tony 2005;

Burrell and Ghoneim, 2004).⁴⁴ River transport also suffers from insufficient investment with the government establishing only three cargo ports (in addition, there are 43 private ports established by firms); hence domestic freight transported by river does not exceed four percent⁴⁵ of total domestic freight (Al Tony, 2005). It is worth noting that Egypt does not follow international norms in using the different modes of transport. All over the world trucks are the most expensive means of transport (and thus the least used), whereas rivers and railways are less expensive (and thus the most used). In Egypt, due to the absence of a reliable railway network or an efficient river transport system, trucks, or rather road transport is the most widespread means of transport.

6. PROPOSALS FOR REFORMING MARITIME TRANSPORT AND RELATED LOGISTICS SERVICES

The analysis of Egypt's maritime transport and related logistics services reveals that the entanglement of ineffective implementation of regulations, lack of competition in logistics services, lower and unbalanced traffic densities, poor status of other means of transport (road, river and railway) and lack of physical investments, are the main culprits behind Egypt's inefficient maritime sector and related logistics services. The maritime sector and related logistics services face the dual challenge of national economic reform and of adapting to international practices in this field. Such challenges require urgent adoption of a comprehensive regulatory and policy strategy

addressing the weaknesses of the maritime sector and related logistics services. Creating a favourable climate for private investments, targeted public infrastructure investments and regional co-operation on transport matters, can reduce the impact of adverse economic or geographic circumstances. More specifically, the liberalisation of service markets has to focus on removal of entry barriers resulting from public monopolies and government policies that limit competition. Liberalisation of transport services has to be tied to a strong regulatory and competition policy framework. Regulations are necessary to avoid market failures.

6.1. Regulatory Dimension

1. Laws and regulations enhancing private sector participation should set a level playing field. Private sector participation is unlikely to increase so long as price setting of port services is manipulated and heavily controlled by the government or is a result of unfair practices among private sector players where the role of regulator is absent. It is worth noting that the extent of inter-port competition is restricted by geographical location, where vessels coming from East Asia are more likely to use Red Sea ports compared with vessels coming from Europe, which are likely to use Mediterranean ports. Moreover, private sector participation cannot be enhanced so long as existing government firms and port authorities collude whether in terms of ownership of competing port services firms or in terms of controlling terminals in ports;
2. An independent regulator should be established if Egypt wants to adopt the model of landlord ports. Nonetheless, this model cannot result in positive outcomes unless there is a clear regulator especially in the Egyptian case where the port authorities are at once owners, port regulators and providers of services. International experience shows that the regulator needs to have a clear mandate to avoid several unnecessary interventions, which could deter private investment. The experience of Colombia in reforming its port and logistics sectors highlights the necessity for a regulator with a clear mandate (World Bank, 1998b). The regulator should set guidelines for fees and charges of different port activities, ensure that port services are not too expensive, prevent unfair competition and set minimum rates of return for each port;
3. Customs and associated laws should be reformed to enhance multimodal transport and correct the concept of dry ports, which currently act as bonded warehouses;
4. The entanglement of jurisdictions should be streamlined where the port authority should have the upper hand on controlling and supervising different services provided within the port. This requires enforcing the laws and regulations that provide heads of port authorities with more control on activities taking place within ports;
5. The financial independence of Egyptian port authorities will enable them to adopt financial systems in accordance with international standards and measures. Such concepts will enable them to spend budgets timely and effectively in accordance with changes in circumstances.

6.2. Policy Dimension

1. Price-setting by governmental decree should be replaced with a free market system where prices should be deregulated taking into consideration the status of services and infrastructure in each port, the prevailing prices in regional competing ports and the contestability of markets for different services. A system of setting a price floor in conjunction with a price ceiling should replace the existing system of rigid prices in a transitional phase until the environment and circumstances allow full liberalisation of prices. This system has been adopted in Colombia and has proved to be a success (World Bank, 1998b);
2. Special incentives (such as price discounts on services) for the use of containers should be provided to different stakeholders (including terminal operators, warehouses, handling and stevedoring service providers). The existing regime allows such incentives for vessels carrying trans-shipment containers. What is needed is the expansion of the system of incentives for container handling firms and multimodal operators dealing with containers. Increasing the ratio of containerisation will help trans-shipment trade to flourish. It will also increase revenues for the government and acting service providers;
3. Wider use of automation is needed especially given that the use of EDI is likely to enhance FDI and reduce transaction costs associated with different activities in ports. It was estimated that successful implementation of EDI in Egyptian ports could result in a 350 million USD increase in yearly revenue to the Egyptian economy (Cox and Ghoneim, 2000). Recent studies reveal that automation is still incomplete in Egyptian ports and that its introduction is likely to result in significant positive developments in terms of facilitating port and customs services including lessening cargo clearance time (USAID, 2006). The GoE can make use of the ongoing available funds from international donors allocated to trade facilitation to enhance its port automation plans. However, introduction of automation should be balanced against the expected negative impact on labour. A transitional plan should be established to ensure that labour layoffs are undertaken in a smooth way;
4. There is an urgent need to upgrade port infrastructure. Accompanying trade infrastructure is a prerequisite for competitiveness (Devlin and Yee, 2005). New schemes for involving private investors in financing existing and new infrastructure should be designed, especially given that current regulations for the maritime sector and related logistics services have not significantly increased private investment. The GoE is currently promoting Public Private Partnerships (PPPs) in different fields, especially infrastructure and social services. Public Private Partnerships should be enhanced in the field of maritime services. Moreover, enhancing co-operation with international financial institutions such as the World Bank and bilateral donors such as the EU (for example, under the Action Plan of the Neighbourhood Policy) in providing concessional loans and grants for upgrading the infrastructure should be encouraged. It is worth mentioning that there are several projects currently under consideration with international funding agencies to finance port infrastructure; however there is an urgent need to accelerate the process of agreement on funds and to widen the scope of international participation;
5. There is an urgent need to overcome the inconsistency of data available in the maritime sector and related logistics services. Data published by official sources in many cases do not reflect the perceptions of different stakeholders (e.g., dwell time estimations) and there is wide unavailability of data and information on different aspects of ports, port services as well as auxiliary services.

Piecemeal reforms such as for example, adopting privatisation or liberalisation initiatives without adopting the appropriate regulatory framework, are not likely to generate positive outcomes. This does not contradict the need to identify priorities as it is difficult to target all the sub-sectors of maritime and logistics activities across the country. Instead, it would make sense to start tackling the most urgent needs of the sectors based on the country's specific characteristics, which include high concentration of maritime traffic in a small number of ports (namely, Alexandria, Port Said, Damietta and El-Sokhna); and the high geographical concentration of trade with the European Union (Mueller-Jentsch, 2003).

Hence reforms and investments should focus on a network of priority ports and a related network of roads and railroads. In other words, reforms of the maritime sector and related logistics services can only be efficiently pursued if the accompanying pillars of multimodal transport are upgraded simultaneously. Sequencing of reforms should be seriously considered. For example, some studies have called for the need for privatisation and/or inclusion of multimodal transport under the activities of Law 8/1997 (ENIT, 2005); however it is not expected that such changes, if implemented, would yield positive results. The reason is that the private sector, as has been the case in several areas of logistics services, does not respond to changes in laws without changes in the rules of the game that can effectively enhance competition and increase profitability. Hence, expected outcomes are unlikely without changing the overall regulatory framework governing multimodal transport and ensuring that accompanying laws and regulations allow effective private sector participation. The same applies to GATS commitments, which have allowed foreign participation in international passenger and freight maritime transport, as well as port dredging but have remained ineffective partially due to the unfair rules of the game adopted on the ground (though consistent with the GATS). It is worth noting that it is not only foreign investors who have remained aloof, but domestic private investment has also remained largely modest in this field.

Several issues related to privatisation should be taken into account to ensure a positive outcome. Increasing concentration in the market for port services has increased the risk that private firms may capture the benefits of government reforms (World Bank, 2004). International experience shows that privatisation of ports has faced problems including withdrawals of operators (Argentina), perceived unfair competition (Argentina), delays (Chile), labour unrests (Brazil) and complete failures (Uruguay) (Hoffmann, 2001). Privatisation should avoid possibilities of private monopolies. Common user and service ports (which are the port systems currently prevailing in Egypt) might need to be divided into competing terminals to increase inter-port competition, along with intra-port competition. Mergers between companies operating such terminals should be reviewed and an aggressive adoption of competition policies needs to be invoked. This should be one of the main roles of the regulator of the sector, especially that Egypt's competition law does not include a provision for merger review (whether *ex ante* or *ex post*). Laying off redundant labour in ports and port services companies should be coupled with social security programmes, training programmes and job search assistance. The net effect of ports and port services reform has to be assessed *ex ante*. However, it is expected that some public firms will lay off some of their employees to meet the new competitive environment.

GATS commitments can help anchor domestic reforms. However the case study of Egypt's maritime sector and related logistics services confirms that GATS commitments alone cannot help. The failure of the Egyptian shipping industry to attract FDI implies that GATS commitments alone are not sufficient. Moreover, international maritime passenger and freight transport, which has been free from restrictions, or rather liberal in trade terminology, has ended up in a high concentration of shipping lines carrying Egyptian trade. This implies that trade liberalisation alone cannot generate positive results. It must be accompanied by an efficient regulatory framework that ensures fair competition. Along the same lines, Egypt's GATS commitments were found to anchor a status quo that was in

itself unable to attract FDI due to the absence of a conducive environment. GATS commitments should be complemented by an overall domestic regulatory reform that creates an enabling environment for the private sector to participate in different maritime and logistics sectors. GATS commitments in the case of Egypt should be used to set targets for reforms in this sector and signal serious reforms to the outside world. An important issue is the need for conducting domestic reforms in an efficient manner, as a prerequisite for GATS commitments.

Finally, the reform of the maritime sector and related logistics services has positive environmental spillovers, hence enhancing sustainable development. The poor status of infrastructure and vessels coupled with the absence of a well-enforced regulatory framework could have serious negative environmental effects. All reforms undertaken should emphasise such developmental aspects, so as to not only comply in theory with Egyptian laws and regulations but also to ensure their application in practice.

ANNEX 1. CORE FREIGHT LOGISTICS: DEFINITIONS ACCORDING TO UN CENTRAL PRODUCT CLASSIFICATION (CPC)

Freight transportation services*

CPC 72121 Transportation by seagoing vessels of frozen or refrigerated goods in specially refrigerated compartments.

CPC 72122 Transportation by seagoing vessels of bulk liquids or gases in special tankers. These vessels may also be refrigerated.

CPC 72123 Transportation by seagoing vessels of individual articles and packages assembled and shipped in specially constructed shipping containers designed for ease of handling in transport.

CPC 72129 Transportation by seagoing vessels of freight not elsewhere classified.

CARGO HANDLING SERVICES

CPC 7411: Cargo handling services provided for freight in special containers. Included are services of freight terminal facilities, on a fee or contract basis, for all modes of transport, including stevedoring services (i.e., the loading, unloading and discharging of vessels' containerised freight, at ports).

CPC 7419: Cargo handling services provided for non-containerised freight or for passenger baggage. Included are services of freight terminal facilities, on a fee or contract basis, for all modes of transport, including stevedoring services and cargo handling services incidental to freight transport, not elsewhere classified. Also included are baggage-handling services at airports and at bus, rail or highway vehicle terminals.

STORAGE AND WAREHOUSING SERVICES

CPC 7421: Storage and warehousing services of frozen or refrigerated goods, including perishable food products

CPC 7422: Bulk storage and warehousing services of liquids and gases

CPC 7429: Storage and warehousing services of other goods, including: cotton, grain, wool, tobacco, other farm products and other household goods.

TRANSPORT AGENCY SERVICES

CPC 7480: Freight transport agency services (freight brokerage services, freight forwarding services - primarily transport organisation or arrangement services on behalf of the shipper or consignee - ship and aircraft space brokerage services, and freight consolidation and break-bulk services).

OTHER MANAGEMENT CONSULTING SERVICES

CPC 86509 Advisory, guidance and operational assistance services concerning other matters. These services include industrial development consulting services and tourism development consulting services.

** The United Nations Provisional Central Product Classification (UNCPC) is a classification of products based on the physical characteristics of goods or on the nature of the services rendered and provides a framework for collection and international comparison of the various kinds of statistics related to goods and services.*

Source: UNCTAD, 2006c.

ANNEX 2. THE LOGISTICS SERVICES CHECKLIST

The logistics checklist proposes three broad categories of logistics services. The checklist provides a definition of each category, then lists its sub-categories and, where applicable, the relevant W/120 and CPC codes are provided. The checklist also includes a number of suggested additional commitments, including that: i) Members should accept electronic versions of trade administration documents, ii) suppliers are entitled to supply listed freight logistics services in combination, subject to measures necessary to prevent anti-competitive behaviour, and iii) Members should ensure that various procedures and formalities such as documentary requirements, customs clearance, customs inspection and electronic processing, would not be unnecessarily burdensome.

I. CORE FREIGHT LOGISTICS SERVICES (SERVICES ESSENTIAL TO LOGISTICS OPERATION AND SUBSTANTIAL LIBERALISATION WOULD BE REQUIRED FOR VIABLE LOGISTICS SERVICES).

Services auxiliary to all modes of transport (corresponding W/120 classification: 11.H)

- a. Cargo handling services;
- b. Storage and warehousing services;
- c. Transport agency services;
- d. Other auxiliary services.

II. RELATED FREIGHT LOGISTICS SERVICES

(1) Freight transport services

Maritime Transport Services (corresponding W/120 classification: 11.A)

Internal Waterways Transport Services (corresponding W/120 classification: 11.B)

Air Transport Services (corresponding W/120 classification: 11.C).

- Air freight transport.

- Rental of aircraft with crew.

Rail Transport Services (corresponding W/120 classification: 11.E)

- Freight transport.

Road Transport Services (corresponding W/120 classification: 11.F)

- Rental of commercial vehicles with operator and without operator.

(2) Other related logistics services

Technical testing and analysis services (corresponding W/120 classification: 1.F.e)

Courier Services (corresponding W/120 classification: 2.B)

Commission Agents' Services (corresponding W/120 classification: 4.A).

Wholesale Trade Services (corresponding W/120 classification: 4.B).

Retailing Services (corresponding W/120 classification: 4.C).

Other supporting services not covered by 11. H:

III. NON-CORE FREIGHT LOGISTICS SERVICES

Computer and Related Services.

Packaging Services.

Management Consulting and Related Services.

Source: UNCTAD, 2006c.

ANNEX 3. EGYPT GATS COMMITMENTS IN MARITIME TRANSPORT

1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of natural persons

ADDITIONAL COMMITMENT	LIMITATIONS ON NATIONAL TREATMENT	LIMITATIONS ON MARKET ACCESS	SECTOR OR SUB-SECTORS
I. HORIZONTAL COMMITMENTS			
	3) Acquisition of land: - Authorisation is required for the acquisition of land and/or real estate. Applications in this respect are considered on the basis of the evaluation of the specific projects for which the acquisition is requested and in accordance with the national policy objectives; -Acquisition of land and/or real estate property in free zone areas is unbound. 4) None	3) None 4) The entry and temporary stay of natural persons According to the labour code (Law No. 137/1981) and its executive regulations, the number of foreign personnel necessary to the supply of services in any entity, regardless of the number of its branches, shall not exceed 10 percent of the total number of personnel employed therein, unless otherwise specified in a sectoral entry of this schedule.	ALL SECTORS INCLUDED IN THIS SCHEDULE
	1) Unbound 2) None 3) None 4) None	1) Unbound 2) None 3) Commercial presence is only allowed for joint-venture companies. - Foreign capital equity should not exceed 49 percent; - All ships owned by the established companies should be registered at the Egyptian ship register as a prerequisite to fly the Egyptian flag. 4) Ninety-five percent of the crew should be national and their wages and salaries should not be less than 90 percent of the total paid up wages and salaries. The chairman and majority of the board of directors must be nationals.	International Maritime Transport A) Passenger transportation B) Freight transportation
	1) Unbound 2) Unbound 3) None 4) None	1) Unbound 2) Unbound 3) Commercial presence is only allowed for joint-venture companies; Foreign capital equity should not exceed 75 percent. 4) At least 25 percent of both the personnel and members of the board of directors must be nationals.	Supporting services for Maritime Transport: Port dredging

ENDNOTES

- 1 Costs for inventory-keeping include both lost interest on capital tied up in goods at ports, as well as the need to keep larger buffer-stock inventories at the final destinations in order to accommodate possible variations in border clearance times.
- 2 The concept of transportation as a door-to-door service rather than port-to-port. Multimodal transport enhances the efficiency of transport as a single carrier coordinates the movement and documentation among different modes of transportation. Multimodal is sometimes referred to as intermodal, however multimodal extends to different countries using different modes of transport whereas intermodal is confined to different modes within the same country.
- 3 Time spent since the container is unloaded from a ship until it is reloaded, either empty or full.
- 4 The service of loading/unloading vessels.
- 5 Provision of some social services such as real estate registration and student's health insurance are the sole responsibility of the government.
- 6 Production services include transport, communications, Suez Canal tolls, wholesale and retail trade finance, insurance and social insurance, restaurants and hotels.
- 7 Maritime Transport Services, background note by the WTO Secretariat, S/CSS/W/106, 2001. See also logistics and related services, communication from Hong Kong, China, 28 March 2001 (CSS/W/68).
- 8 Logistics services, communication from Australia; Hong Kong, China; Liechtenstein; Mauritius; New Zealand; Nicaragua; Switzerland and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu, 25 June 2004, TN/S/W/20.
- 9 The Friends of Logistics Group brings together WTO Members interested in securing commitments on services required in order to provide an integrated door-to-door cargo movement. Joint Statement on the Liberalisation of Logistics Services, Australia; Canada, Chile, Djibouti, the EC, Hong Kong China, Iceland, Japan, Korea, Liechtenstein, Mauritius, New Zealand, Nicaragua, Norway, Panama, Peru, Singapore, Switzerland, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu and the US, 18 February 2005, TN/S/W/34.
- 10 Australia, Chile, Hong Kong (China), Japan, New Zealand, Switzerland and the separate customs territory of Taiwan, Penghu, Kinmen and Matsu.
- 11 A convention drafted under the auspices of the United Nations Conference on Trade and Development (UNCTAD) which provides that all shipping traffic between two foreign countries is to be regulated as far as the quantities of shipments are concerned on the following percentages: 40 percent for owners from the country of origin, 40 percent for owners from the country of destination and 20 percent for owners from the country which is neither the origin nor the destination.
- 12 Rules governing the rights and responsibilities of carrier and cargo interests which may be incorporated into a contract for the carriage of goods by sea either by agreement of the parties or statutorily. These rules were adopted by the United Nations Convention on the Carriage of Goods by Sea in 1978.

- 13 The landlord model involves three institutional layers where the government defines the sector policy, port authorities are in charge of regulation and private companies compete in the provision of port services. The private operator invests in infrastructure and owns and operates the superstructure. The landlord scheme tends to be called a “mono-operating” system because the same operator who has the concession is also usually the only company that provides the stevedoring services on a given terminal. The main alternative system is the “tool port” usually applied as “multi-operator” (open access stevedoring) system, which implies that the public sector provides the infrastructure and superstructure and different private stevedoring companies use these under hourly or daily rental schemes. Mono-operator is not to be confused with a monopolist.
- 14 A cargo-carrying ship, which is operated between scheduled, advertised ports of loading and discharge on a regular basis.
- 15 Vessels operating without a fixed itinerary or schedule or charter contract.
- 16 Conference agreements are made between two or more ocean common carriers, and provide for the fixing of and adherence to uniform tariff rates, conditions of service, etc. among them. They are cartel-like agreements and are the most widespread type of rate-binding agreements. They are sometimes referred to as liner conferences. For more details on conferences and their impact on increasing maritime costs see: Fink, Mattoo and Negau, 2002; François and Wooton, 2000; and Andriamananjara, 2001.
- 17 Interviews revealed that such a plan is not effectively implemented.
- 18 It is worth noting that different sources state different figures.
- 19 Specialised ports provide specific services such as transporting specific goods (e.g., mining ports, petroleum ports) or services (tourism ports).
- 20 TEU is a standard container measure and refers to Twenty Feet Equivalent Unit.
- 21 According to the maritime transport sector of the ministry of transport (2004), the total capacity of ports reached 70.5 million tonnes in 2004 while the ministry of economic development (2007b) stated that the total capacity of ports reached 80 million tonnes in 2005.
- 22 In 2006, nearly 66 percent of containers handled were in transit. Trans-shipments (containers handled that are in transit) could increase the port’s revenue because a warehouse nearby can perform value-added activities, such as assembling computers to meet the individual specifications of their destination countries.
- 23 The number of movements measured in TEUs.
- 24 A communication with Dr. Ismail Mobarek, advisor to the President and CEO of AMIRAL company.
- 25 It is worth noting that the maximum water depth in Damietta port is 15.5 metres compared to the maximum of 18.9 metres in all other Egyptian ports. The lower the water depth, the less ports are able to serve large ships. This is why El-Dekheila remains the most capable port to serve large ships in Egypt (see Ministry of Transport, 2006b).

- 26 Articles 19, 23, 70, 76 and 77 of the environment law 4/1994 and Articles 10, 19, 51, 54 and 59 of its executive regulations promulgated by Prime Ministerial Decree no, 1741/2005.
- 27 USAID (1996) mentioned that the GoE's policy towards the maritime sector started to change in 1981, however no details have been provided on what kind of changes have been adopted.
- 28 Decree 3/1993 allowed Egyptian private companies to perform loading and unloading of dry bulk (mostly grain) at El-Dekheila port and Decree 19/1996 allowed the same at the ports of Damietta, Port Said and Suez.
- 29 Law 1/1998, Article 1 states the following: "Natural or juridical persons may exercise business works of maritime transport, shipping, unloading, shipping agencies, ship handling, ship repair and maintenance, maritime supplies, and other maritime transport related works as shall be determined by a decree of the minister of transport and communications, and by virtue of a license to be issued by him."
- 30 Ro/Ro: Roll on/Roll off: loading and unloading of containers on special tractor-pulled trailers.
- 31 Covers the basic works such as quays, rails (either for train or rail mounted gantry cranes) roads, yards, telecommunication and electricity.
- 32 Covers all that is used in operations such as handling equipments (gantry cranes) and any other construction and equipment the company sees necessary for its operations.
- 33 Landlord ports are ports where the port authorities own and manage the infrastructure while private firms provide the rest of port and maritime auxiliary services. Private firms are also able to own superstructure and operate assets pertaining to infrastructure, by concessions or licensing. Tool ports are where port authorities own both infra and superstructure but private firms provide services by renting port assets through concessions or licences. Service ports are ports where port authorities own assets and supply services by directly hiring employees (Fink, Mattoo and Negau, 2002).
- 34 Interviews confirmed that were it not for the provision of free services to certain public firms, ports would have been making profits, or at least covering their costs rather than incurring losses.
- 35 The Supreme Ports Council is presided over by the minister of transport. Members of this Council are: the head of the maritime transport sector, the head of the Central Administration for Ports and Lighthouses, the legal counsellor of maritime transport sector, a representative of each of the ministries of defence, interior, tourism and investment, head of Customs Authority, chairman of the General Authority for Exports and Imports Control, the head of the Central Navigational Chamber and three academic experts in the field of maritime transport and ports assigned by the minister of transport.
- 36 Cargo handling is limited or determined by a discretionary decision (subject to Ministerial Decree number 21/1996) and storage and warehousing service is subject to Ministerial Decrees 30 and 31/1998. In addition, once the licences are allocated they cannot be sold as per the previously mentioned ministerial decrees.
- 37 Currently, there are around 3,300 employees at the Alexandria Port Authority. These are the employees who work directly in the port. A number of other employees have jobs that are related

to the port, for example, security, customs and export and import control (a communication with Admiral/Emad Oesha, Alexandria Port Authority).

- 38 Time spent since the container is unloaded from a ship until it is reloaded, either empty or full.
- 39 Other studies have reported that dwell time in Alexandria port is 11-15 days (see Burrell and Ghoneim, 2004).
- 40 For additional problems associated with cargo handling see: USAID, 2000.
- 41 It is worth noting that figures for clearance time differ extensively among different sources. The main reason for such differences are a result of the perception of the interviewer which is based on the type of commodity handled, the port and the methodology used in calculating the average.
- 42 A communication with Dr. Ismail Mobarek.
- 43 Associated with computer illiteracy combined with abundant labour and lack of full coordination among customs authorities, port authorities and other agencies and authorities in the port.
- 44 Some experts assert that 97.5 percent of domestically transported cargo use trucks whereas only 2.5 percent use railway (Dr. Ismail Mobarek in a private communication).
- 45 The minister of transport announced that only 0.8 percent of Egyptian freight uses the river (see German Arab Trade, 2007).

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