PART III. THE TELECOM MARKET IN EGYPT

1. Introduction

Egypt's telecom market is typical for a developing country in that it still has large public sector involvement, has tremendous growth potential, but also substantial risks. However, Egypt is undergoing a successful transition to a more liberalized telecom sector, with a third private mobile operator on the way, planned deregulation of an international gateway, and a partially privatized national fixed-line provider.

2. Fixed-Line Services: Telecom Egypt

Telecom Egypt's waiting list fell from over a million in the 1990s to 36,000 in December 2006

For a long time, ARENTO was the regulator and provider of telecommunications services for all of Egypt. It was infamous for its inefficiency and bureaucracy. However, once its regulatory functions were spun off to the NTRA, and TE was formed as a joint stock company, efficiency skyrocketed. Also, the decision to let private companies handle wireless services let Telecom Egypt work on its core responsibilities of providing land-line service and serving its customers. The waiting list for a landline remained over a million for most of the 1990s, but fell to just 200,000 in 2002, and around 36,000 in December 2006.[29]

TE provides voice-based fixed line telephony, Internet, and data services, in addition to wholesale services to other operators via the only backbone network and international gateway in the country. It had been planned for TE to lose its monopoly over the international voice market with the issuance of two international gateway licenses by the end of 2006. However, there seems to be some hesitancy, and no official announcement has been made as of March 2006. The MCIT has been doing the preparatory work for some time, but it is unclear when the actual awarding of a license will be announced.

In search of diversification, TE is becoming a regional player. The subsidiaries listed below show some of its efforts to branch out into provision of data services and other areas. In addition to the subsidiaries listed below, TE has a 44.7% stake in Vodafone Egypt, and has a presence in Algeria through a 50/50 joint venture with Orascom Telecom, after winning the second fixed-line license in March 2005.

Table III.1
Telecom Egypt Subsidiaries

Subsidiaries	Country of Incorporation	TE Ownership Interest	
		2005	2004
Middle East Radio Communication (MERC)	Egypt	51	51
T.E. Information Technology	Egypt	97.7	92.5
T.E. Data	Egypt	93.3	92.5
Centra Technologies	Egypt	55.0	51.2
Centra Industries - Indirect Ownership	Egypt	54.9	51.2
T.E. Data Jordan - Indirect Ownership	Jordan	93.3	92.5

Source: Telecom Egypt website: http://ir.telecomegypt.com.eg/Subsidiaries.asp

Financial Status

In 2006 TE achieved year on year subscriber growth of 4% to 10.8 million subscribers implying a fixed line penetration rate of 15%. Average Revenue Per User (ARPU) improved by 6.1% in 2006 to LE 58.7 driven mostly by strong growth in local traffic as well as smaller gains in international traffic. 2006 revenue was LE 9.5 billion, an 11% increase over 2005.[30]

29 *MCITwebsite*

30 *Telecom Egypt 2006 Results, http://ir.telecomegypt.com.eg/press-details.asp?News_ID=628*

Although the government plans to award the first private international gateway in mid 2007, the new competition will not begin to affect TE revenue for at least another year or two. Even then, while the new company gets set up TE will have time to enhance its services and competitiveness in preparation for the new entrant. Furthermore, TE is strengthened by its market leading position in data services and other areas. Its IT subsidiary TE Data is the largest ISP in the Egyptian market and has begun to develop a regional presence with TE Data - Jordan.

One key issue that will affect Telecom Egypt is the degree to which the government pursues tax rebalancing. Currently there is a 15% sales tax on mobile providers, but only 5% on fixed lines. The mobile companies have continued to vigorously raise this issue, and Minister Tarek Kamel has commented that it is an issue that will be looked at in the coming months, but it is uncertain whether any changes will actually take place. The government is much more likely to raise the fixed-line tariff rather than cut the mobile one in order to preserve revenue. However, with a string of recent subsidy cuts, the political implications of an increase in fixed line rates may be too tough for the government to pursue.

TABLE III.2
TELECOM TAX REBALANCING

	Status	Year	Before	After
Residential Subscription Fees	Approved	April '06	LE 8/month	LE 10/month
Business Subscription Fees	Approved	April '06	LE 13/month	LE 16/month
Free Minutes	Approved	April '06	166 minutes	50 minutes
Local First Minute Price	Approved	April '06	5 piasters	6 piasters
Residential Subscription Fees	Proposed	July 08/ Jan. 09	LE 10/month	LE 12/month
Business Subscription Fees	Proposed	July 08/ Jan. 09	LE 16/month	LE 20/month
Local Next Minute Price	Proposed	July 08/ Jan. 09	2 piasters	3 piasters

Source: EFG-Hermes, Telecom Egypt Profile, September 20, 2006

ANALYSIS

Fixed line penetration in Egypt was 15% in December 2006

Telecom Egypt is unlikely to face serious competition in the near future, and thus its financial outlook is quite good. Its attempts at regional expansion in Algeria and Jordan bode well for its future ability to expand into other markets as well. The main concern is the progression of privatization and amount of government assistance that the company relies upon. The sooner that competition is introduced the better it will be for the Egyptian consumer, and the more pressure TE will face to streamline its practices and move away from its monopolistic past.

One stumbling block that has long plagued the country is its inability to add sufficient fixed line capacity. Since 1999 it has stated that its goal has been to increase lines by 1 million per year, however it has never reached the goal, and only come close in 2005 when it added approximately 900,000 lines. (See Table III.3) Fixed line expansion is also slowing as mobile phones extend into poorer communities. Fixed line penetration in Egypt was at 15% in December 2006. Urban rates were much higher at 25.9% but only 6.5% in rural areas.[31]

TABLE III.3
FIXED LINES IN EGYPT

	Sep. 2003	Sep. 2004	Sep. 2005	Sep. 2006	CAGR
Rural	1,839,262	2,188,278	2,567,207	2,728,363	**10.4%**
Urban	6,696,000	7,154,214	7,673,340	7,938,212	**4.3%**
Total	**8,535,262**	**9,342,492**	**10,240,547**	**10,666,575**	**5.7%**

Source: MCITData

[31] *MCIT website: www.mcit.gov.eg*