Government to withdraw from five industries

The Egyptian government is drawing up a timetable to end its interference in five sectors of the economy – fertilizers, textiles and cotton, cement, sugar and automobile assembly. By **Patrick Werr**.

Imagine the travails of an investor who contemplates buying a government fertilizer plant in Egypt.

As it stands now, most, if not all, of your competitor plants would be owned by a government holding company under the Ministry of Investment. The price of your main feedstock, natural gas, would be set by the Ministry of Petroleum. The price of your power would be set by the Ministry of Electricity. Inside Egypt you would sell your production to the Ministry of Agriculture, which in turn sets the price to farmers. And you could not count on selling outside Egypt, since for the last two years, because prices were higher abroad than in Egypt, the government, wanting to ensure cheap and adequate supplies to local farmers, banned exports.

Having prepared a long list of companies for sale in a variety of industries, the government is now drawing up a timetable to end these and other forms of interference in five sectors, including fertilizers, so that potential investors can know what they're getting into and can factor it into their business plans.

"You can't just say tomorrow morning 'just pull out of everything'. The whole thing will break up. You cannot go out and sell 162 companies in one week," says industry minister Rachid Mohamed Rachid, referring to the list of state-owned companies for sale. "You cannot sell some of these companies unless you can untie some of the other problems."

Rachid's ministry has been drafting policy documents charting out the government plans for withdrawing from fertilizers, textiles and cotton, cement, sugar and automobile assembly. They will define where the government is involved in each, where it supplies raw materials, owns production units, sets prices and subsidizes or controls exports and imports.

At the same time, "the documents will explain what is the way forward for the government to withdraw from all of this, so we can allow people to have the clarity and the transparency for taking investment decisions," says Rachid. "It's just describing what has to be done, who'll be doing it and when. To give clarity to the decisions of investment here."

The government's withdrawal will take place over the course of five years, by which time it plans to have totally liberalized the market in each sector.

The documents, due to be issued within weeks, are being circulated to the ministries involved to get their input and for them to agree to the steps they will follow. For the time being the government will limit itself to only five sectors to maintain its focus.

"By creating this clarity, by making that document clear, people can invest now. They will know what they are facing," says Rachid.

The policy of withdrawing from industries also entails a fundamental change in the government's approach to subsidies. In the sugar industry, for example, it currently sets the price for crops, owns the refineries and sets the price the consumer pays for the end product. It also gets involved in the importation of sugar by adding or removing taxes. In effect, it has been subsidizing different parts of the market by stealth. The main sugar refiner, which has carried all the subsidies, is now all but bankrupt because it was state-owned and nobody cared.

"So here we are setting the scene of saying how we can stop all this," says Rachid. "We need to accept that if you as a government want to continue to subsidize a certain area, then the Ministry of Finance should do that. It does not have to come through all these complicated ways.

"So we are dismantling this whole system now and creating a new paradigm, where the government, if they decide to subsidize a commodity, do it through the budget, which will allow anyone to produce," Rachid adds. "It doesn't have to be a public sector company anymore. So if you have a private sugar refinery, the government would buy from you and subsidize if they wish to do that," says Rachid. "Without these changes," he adds, "nobody would dare invest in the sugar industry."

Solutions for another main problem of state industry, its bloated staff, may still be a way down the road, Rachid adds. "We hope that, with the programmes we have put in place in terms of economic reform, the economy picks up we can really start generating jobs, and that some of these jobs start absorbing some of these people through a transformation process."

Meanwhile, Rachid's ministry is working on drawing up standards and specifications, quality systems, technology centres and accredited labs to help support the different sectors. "We are finalizing all the mandatory specifications and standards," says Rachid. These will be based on those used by the European Union. Some 600 or more mandatory specifications and standards should soon be in place. Half of the remaining ones should be finished by June and the rest by December 2005, for a total of 5,000 items.

Rachid Mohamed Rachid: "Describing what has to be done, who'll be doing it and when".