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Final Report:
Competition Policy: Assessment of Anti-Competitive Behavior in Two Sectors

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Final Report

Competition Policy:
Assessment of Anti-Competitive Behavior in Two Sectors

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TABLE OF CONTENTS

Potentially Anti-Competitive Behavior in the Wholesale-Retail Sector

Introduction

This report examines potentially anti-competitive behavior in the Egyptian wholesale-retail sector by examining the entry and exit of a food retailing chain in Cairo, a merger in the Egyptian beverage industry, and the phenomenon known as "burning the market". These events have occurred in the recent past. They have occasioned wide public comment and governmental interest in potential competition issues. There have been suggestions that if Egypt had had a competition law and a competition agency, the outcomes for these events might have been different. The concept of the report is to describe how a competition agency might approach the competition issues, and what the treatment might be under US competition law, EU competition law, and the competition law of some other countries.

A Note on Sources of Information. Most of the information in this report comes from interviews. Some comes from available documents and press reports. The time period for accumulating information was short. This limited process is in contrast to the resources usually available to a competition agency. In a qualifying merger the competition agency will have specified what information the merging parties would have to file initially with the agency. The agency can then request additional information from the parties and compel the production of documents and testimony from third parties having information relevant to the merger inquiry. The competition agency will also typically have access to any relevant information held by other government agencies. In a competition investigation, the agency can compel production of documents and testimony from the party under investigation, and from third parties possessing information relevant to the inquiry. It is for these reasons that all conclusions in this report should be treated as tentative and are dependent on the quality and completeness of the information accumulated.

The food retailing case will be examined first. The case raises interesting issues about marketing practices, vertical restraints and group boycotts. It will also illustrate how competition and regulatory regimes in other countries might differ in addressing these issues.

SAINSBURY'S

Sainsbury's is a large food retailing chain based in the United Kingdom. In April 1999 it proposed to enter the Egyptian food retailing market, and to do so first in Cairo. Its expressed intention was to revolutionize what it saw as an under-developed food retailing industry. Before entering food retailing in Egypt, Sainsbury's was a substantial importer of Egyptian foods for sale in the UK.

In 1999 Sainsbury's established Sainsbury's Egypt of which the parent company owned 80 percent and the Egyptian El Nasharty Group owned 20 percent. It began by acquiring first 25 percent and then 80 percent of the Cairo food retailer Edge. This acquisition gave Sainsbury's access to approximately 80 small stores, including approximately 50 government stores for which Edge held a management contract. In June 1999 it acquired the supermarket chain ABC Supermarket Expo, which had 5 stores serving high-end supermarket consumers but whose business strategy was to rent shelf space to those who wanted to sell products. By February 2000 Sainsbury's had 36 Edge outlets, 5 ABC outlets, a new retail store in Giza, a store in Shubra, and a "super gomla" (wholesale) store near the Autostrade. By the end of 2000 Sainsbury's was still opening stores, of which it now had over 100 with about 5,000 employees. More than 20 of these were stores that Sainsbury's opened after acquiring existing buildings and retrofitting them as food stores. However, by December 2000 plans were in the works for Sainsbury's to withdraw from Egypt. It did so in the Spring of 2001. Its 80 percent ownership in Sainsbury's Egypt was sold to the El Nasharty Group. The government stores were returned to the government. Other stores were closed. There are now 2 ABC stores that remain open.[1]

The first competition issue arose with respect to Sainsbury's marketing practices. As a new entrant, Sainsbury's adopted a "loss leader" marketing strategy. It is a well-established practice in food retailing, albeit a controversial one. What Sainsbury's did was every week to offer a few basic and popular items at prices that were alleged to be below the wholesale invoice cost to Sainsbury's. The exact items could change from week to week. A food retailer might adopt this marketing strategy rather than, for example, engaging in extensive advertising. In its overall business strategy, the cost savings from not spending on usual advertising go to fund losses on loss leaders.

Whatever was in the Sainsbury's business plan, the loss leader strategy worked all too well. Competitors were not happy. Here two sets of competitors will be discussed.

Small traders are small grocers who have one or two small stores. They cater to customers who cannot afford or cannot get to supermarkets. These small grocers are not equipped as are supermarkets – they do not carry fresh meat, for example. But before Sainsbury's came they had their own customers who were almost like family, and a quiet life. Since they were small grocers they served small areas, and there are many such small grocers. They do buy at wholesale branded products such as detergents or milk, and sell them in their stores. Their marketing strategy is to take the wholesale price, add a markup and sell the product.

Supermarket chains in general serve more affluent areas of Cairo. While they do not have the large numbers of stores often found in large cities, their stores are much larger and better equipped than are the stores of small grocers. For example, Metro Supermarkets has 18 stores, Alpha has 4 stores, and Shoprite has 3 stores.

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[1] N. El-Sherif, "Learning To Love FDI", BUSINESS TODAY – EGYPT (April 2001) p. 24; "Sainsbury's pulls out of Egypt, while others plan to come in", COMMUNITY TIMES (May 2001) p.17; A. F. Hassan, "Counter Attack", BUSINESS EGYPT – TODAY (February 2000) p.17. *See also,* "Editor's Note". BUSINESS EGYPT – TODAY (January 2001 and June 2001).

An alternative description of food retailing competitors in Cairo, as a producer of detergents might see it, provides more detail:

UPPER TRADE --Supermarkets with greater than 1000 sq. meters
Discounter stores with 500 –750 sq. meters
Self Service stores with 500 – 1000 sq. meters

RETAIL TRADE -- “A” Grocers with at least 100 sq. meters
“B” Grocers with less than 100 sq. meters.
WHOLESALERS

PHARMACIES

Wholesalers sell direct from the producer to about 70% of the small grocers in Cairo. There are about 20 discounters in Cairo – these are stores who sell large quantities of products at very thin margins. It was discounters and wholesalers especially who were incensed by Sainsbury’s “loss leader” pricing.

Small grocers also immediately felt the effects of Sainsbury’s loss leader marketing strategy, since in contrast to other supermarket chains, Sainsbury’s had broad coverage through Edge. Larger supermarkets felt growing competitive effects as Sainsbury’s opened more and more stores. Attention of both sets of competitors focused on the loss leader strategy. Some supermarkets believed that Sainsbury’s was obtaining price discounts from suppliers that were not available to Sainsbury’s competitors. Some also believed that Sainsbury’s strategy was predatory, intended to drive all competitors from the market and then to recoup losses by charging high prices after competitors were eliminated. They also believed Sainsbury’s was making preemptive purchases of products at wholesale so as to deny the availability of these products to its competitors.

Consumers were apparently happy. The distinctive Sainsbury’s orange plastic bags could be found in many, many homes, including those who had usually shopped at small grocers.

To respond, an organization of food retailers called Misriyitna (Our Egypt) was formed. A number of small grocers belonged to this organization. So did discounters and wholesalers. Large supermarket chains deny they belonged. Perhaps it was not necessary.

Suppliers to Sainsbury’s and its competitors were approached by food retailers. They requested that suppliers agree to require that Sainsbury’s agree not to sell at prices below wholesale invoice price. A number of food retailers also agreed among themselves not to sell at below wholesale invoice price. In one instance the supplier of a particular commodity agreed with the food retailers, and required Sainsbury’s to agree not to sell at below wholesale invoice price as a condition of its continuing to sell to Sainsbury’s. This firm may have been a dominant firm in the product it supplied. In another instance a supplier of the same commodity, a multinational company that also may have been a dominant firm, refused the request of Sainsbury's competitors that it make a similar minimum price agreement with Sainsbury's. The small grocers then agreed to boycott this supplier and this boycott was joined by some supermarket chains. The first supplier benefited for a time from this boycott. Eventually several of the supermarket chains abandoned the boycott as unwise.

COMPETITIVE ISSUES IN THE SAINSBURY'S CASE

For purposes of this analysis, the product market will be defined as food retailing, and the geographic market is Greater Cairo.

<u>"Loss Leader" Selling.</u> Under US competition law no competition agency would take action against a firm engaging in a "loss leader" marketing strategy except in the most unusual circumstances. These circumstances would be a charge that the firm was engaging in predatory pricing as part of an attempt to monopolize. To satisfy this charge, a competition agency would have to show that the overall pricing was below average variable cost, that competitors were being driven from the market, and that the firm would be successful in recouping its losses once it had gained monopoly power. None of these conditions seems to be satisfied in the Sainsbury's case. No one had been driven out of business. Indeed one supermarket said it was "holding its own" against Sainsbury's and Sainsbury's could not be successful in any effort to monopolize. Supermarket competitors were continuing to expand and plans for new entry were occurring.

Under US law private parties have the right to bring their own lawsuits under federal competition laws even if the competition agencies decide not to sue, but the elements required to prove a violation of the law are the same as for competition agencies.

There is one exception under US law. Some states have adopted state "fair trade" laws which bar below cost selling except in certain circumstances. Federal competition agencies usually counsel against such laws. California has such a law but recently in California in a private lawsuit under California law the California Supreme Court made it more difficult for plaintiffs in such cases to prove their case.[2]

EU competition law bars below cost pricing when it is done by a dominant firm for predatory purposes.[3] In France it is a criminal offense to engage in "loss leader" selling.[4] In Germany the competition authorities recently required the Wal-Mart chain to raise some of its prices since German law bars "loss leader" selling where it harms small business. However, there is an exception in German competition law when "an undertaking enters a market for the first time in cases where its market share under the

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[2] *Cal-tech Communications, Inc. v. Los Angeles Cellular Telephone Co,* 99 C.D.O.S. 2575 (April 8, 1999).
[3] Donncadh Woods, "An Outline of Community Competition Policy", (1996) *available at http://europa.eu.int/comm/competition/speeches/text/sp1996_008_en.html.*
[4] American Bar Association Section of Antitrust Law, II COMPETITION LAWS OUTSIDE THE UNITED STATES 6-1 at 35-36 (2001).

Bundeskartellamt's definition will be marginal anyway. That does not apply, however, when a firm changes hands or when a merger is involved."[5]

The Sainsbury's loss leader marketing strategy violated a sense of fairness felt by many Egyptians in the Sainsbury's competitors did not know how to fight back against selling below cost.

Discriminatory Pricing at Wholesale. So few facts are available on this issue that no conclusions can be drawn. Suppliers deny selling at different prices to similarly situated customers; competitors of Sainsbury's are sure it happened. If Sainsbury's did receive discounts, then there might be questions as to the extent that "loss leader" or below cost selling was occurring. In US competition law there is no objection to cost-justified quantity discounts at wholesale. There are also few facts as to preemptive purchasing at wholesale by Sainsbury's.

Vertical Restraints -- Resale Price Maintenance. Relationships between a supplier and a distributor are usually controlled by an agreement between them. In such an agreement the parties may agree to the imposition of conditions – termed "vertical restraints". At one time vertical restraints were roundly condemned. More recently it has been recognized that vertical restraints can be pro-competitive, depending on the circumstances for inter-brand competition and for intra-brand competition. Thus the legality of these restraints is generally assessed under a "rule of reason" analysis taking account of all the facts.[6]

One vertical restraint continues to be universally condemned, often on a *per se* basis. This is an agreement for minimum resale price maintenance. In such an agreement the supplier and the distributor agree that the distributor will not resell the supplier's products at a price below an agreed minimum.

Such agreements are condemned for two basic reasons. First, they interfere with the pricing mechanisms, which are at the heart of the competitive process. There are often less restrictive measures the parties can adopt to achieve legitimate objectives such as the prevention of free riding. These might include agreements as to exclusive territories or exclusive distributorships. Second, minimum resale price maintenance agreements may facilitate the formation of horizontal price cartels among competing distributors.

Minimum resale-price maintenance agreements are unlawful per se in US competition law. However, if a supplier engages in unilateral conduct to prevent price discounting, there is no violation. Thus a supplier could announce that it would sell only to

[5] "Announcement on sales below cost price (13.10.2000)", *available at http://www.bundeskartellamt.de/13_10_2000_englisch.html.*

[6] For a helpful review of EU law on vertical restraints and proposals to modify that law, *see* GREEN PAPER ON VERTICAL RESTRAINTS in EC COMPETITION POLICY (1997), *available at http://europa.eu.int/comm/competition/antitrust/96721en_en.pdf.*

distributors who do not discount, and enforce that unilateral decision by cutting off any distributor it finds engaging in price discounting.

While there is not the same per se concept in EU competition law, the result with respect to minimum resale price maintenance is virtually the same in EU law as in US competition law. In the case of EU law, it should be remembered that the whole thrust of EU law, including its competition law, is to bring about the economic integration of member countries. Thus, EU competition authorities are vigilant against efforts by suppliers to bring about different sales prices in different countries for their products.[7]

The Sainsbury's case illustrates many of the features of minimum resale price maintenance. Distributors (food retailers) entered into a horizontal price-fixing agreement not to sell at below wholesale invoice price. Distributors and one supplier reached a minimum resale price maintenance agreement, and Sainsbury's agreed as well (or at least stopped discounting that supplier's products). Distributors attempted to reach such an agreement with another supplier and when that agreement was refused, established a horizontal group boycott to punish this supplier's refusal. In this latter case the supplier, a company operating worldwide, was said to have an agreement with Sainsbury's not to interfere with its pricing decisions. It is quite possible such an agreement would be intended to show compliance with the general condemnation by many competition authorities of minimum resale price maintenance agreements.

BURNING THE MARKET

The phenomenon of "burning the market" has been described in the following way. A putative businessperson obtains credit – either from a bank or from a supplier – and purchases products at wholesale for later resale. But this person then sells the products at prices below their wholesale in order to turn these products into cash. The person then defaults on the debt, and disappears or declares bankruptcy after the cash is hidden and there are no assets against which a creditor can recover. Alternatively, the businessperson might need cash to pay off a loan coming due, with the hope that somehow this businessperson could continue to get enough cash to stay ahead of his creditors. An example given was the purchase by such a businessperson of a certain amount of Coca-Cola at 39 L.E. per unit, which would be the usual wholesale price. The Coca-Cola would then be sold for cash at 32 L.E. per unit.

One could imagine that a competition agency could concern itself with alleged incidents of "burning the market", but it is unlikely to be an efficient use of its resources. "Burning the market" is really a problem associated with creditors' rights, credit arrangements, information collection and dissemination, determinations of credit worthiness, and criminal enforcement against fraudulent transactions.[8] Particular attention needs to be

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[7] Minimum resale price maintenance agreements are on the "black list" of agreements the EU will not allow. *See* Commission Notice: Guidelines on Vertical Restraints (2000), *available at http://europa.eu.int/comm/competition/oj_extracts/2000_c_291_10_13_0001_0044_en.pdf.*

[8] Egypt apparently has serious problems with respect to defaulting on loans. "Hard Times Ahead", BUSINESS EGYPT – TODAY (March 2001) p.26 (…a result of repeated incidents of high-profile clients

given to the availability of a creditor to take a secured interest in the debtor's collateral, to track that interest and to enforce that interest. This is also a place where government can set a good example by making timely payment on its own obligations.

AL AHRAM BEVERAGES – EL GOUNA BEVERAGES MERGER

In February 2001 Al Ahram Beverages Company announced it had acquired its only domestic competitor El Gouna Beverages Group.[9] This gave Al Ahram a monopoly of all beer, wine and non-alcoholic beer produced in Egypt. The acquisition solidified Al Ahram's reputation for acquiring anyone in Egypt who produced alcoholic beverages.

Al Ahram began by purchasing the only Egyptian brewery from the government in a competitive tender process about four years ago. In 1998 it acquired from state ownership Gianaclis, then the only Egyptian winery. Soon Al Ahram bought the new Nile Brewery, before it had ever produced a can of beer. El Gouna Beverages was established in 1999 by some of those who had lost government tender offers to Al Ahram. It produced two brands of beer and the Obelisk line of wines.

It is unlikely that competition authorities in the US or the EU would have allowed this merger. Unless imported wine and beer are important competitors to Al Ahram (thus in effect expanding the geographic market definition beyond Egypt), a merger to monopoly or near-monopoly would not be approved. Competition authorities would have already known that the market structure before the merger was a duopoly, and that Al Ahram was a dominant firm.

Competition agencies would oppose the merger despite the fact that Al Ahram clearly has made major improvements to those entities it has acquired. An "efficiencies" defense would not prevail in a merger to monopoly. Al Ahram has also indicated it plans to expand internationally. Al Ahram might argue with the market position it has after merger, it should be viewed as a "national champion" for Egypt in international markets. However, most experts conclude that the best way for a country to compete internationally is to have strong competition in domestic markets. Facing the rigors of domestic competition prepares domestic companies for the rigors of international competition. Now Al Ahram will have no significant domestic competition.[10]

The circumstances of the merger also suggest other competition issues. In the process of acquiring the Nile Brewery, Al Ahram said it was sure Nile could only have succeeded by undercutting Al Ahram's prices. The acquisition was made to prevent this "market destabilization". Al Ahram let Nile Brewery spend the money to construct the brewery, and then bought Nile out at half the cost of the brewery. It also appears that Al Ahram

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defaulting on their loans and fleeing the country. Several times, however, it was caused by the government failing to pay its debts to its suppliers.")

[9] R. El-Bakry, "Revealing Egypt's 'Worst kept Secret", BUSINESS TODAY –EGYPT P.18 (June 2001).

[10] Both Al Ahram and Gouna Beverages held alcoholic beverage licenses from the government. It would be interesting to know whether governmental approval was needed when the ownership of Gouna Beverages changed.

controlled the most suitable distribution outlets, which made any new entry very difficult. Al Ahram also states that it decided to "let El Gouna live", allowing El Gouna to sell at lower prices, with the plan to buy El Gouna when El Gouna became "too much of a threat."[11]

The issue is whether Al Ahram abused its dominant position in production and distribution (abuses either made or threatened) to force competitors out of the market or to force them to let Al Ahram acquire them. Competitors might give attention to the Al Ahram distribution system and whether it was in some sense an "essential facility" to effective entry. To the extent distributors were not owned by Al Ahram, there might be inquiry as to whether Al Ahram required such distributors to carry only Al Ahram products. For distributors owner by Al Ahram, consideration might be given to requiring them to handle products by competitors of Al Ahram, or to force divestiture of those distribution facilities owned by Al Ahram.

One might inquire why in a predominantly Muslim country competition authorities should give attention to an industry that produces products most of the population does not buy. This circumstance should not be controlling. For example, in the case of the hospital merger, the products are ones that most of the population would not use. Moreover, the beverage industry is certainly an important component of services offered to tourists. Egypt has every reason to be sure that no part of its tourism services is monopolized when Egypt must compete with the rest of the world for tourists.

[11] R. El-Bakry, "FACE OF BUSINESS *Ahmed Zayat",* BUSINESS TODAY – EGYPT, p. 38 (June 2001).

Potentially Anti-Competitive Behavior in the Hospital Sector

Introduction

This report examines potentially anti-competitive behavior in the Egyptian hospital sector by considering an acquisition of hospitals and other health care facilities proposed last year. The concept of the report is to describe how a competition agency might approach the competition issues raised by the merger, and what the treatment might be under US competition law, EU competition law, and the competition law of other countries.[12]

The proposed hospital transaction generated substantial public and governmental interest, including questions whether the acquisition was anti-competitive, and whether the existence of an Egyptian competition law and a competition agency might have been useful in evaluating the proposed transaction. In the end the acquisition was abandoned.

A Note on Sources of Information: Most of the information in this report comes from interviews. Some comes from available documents and press reports. The time for accumulating information was short. This limited process is in contrast to the resources usually available to a competition agency. In a qualifying merger the competition agency will have specified what information the merging parties would have to file initially with the agency. The agency can then request additional information from the parties and compel the production of documents and testimony from third parties having information relevant to the merger inquiry. The competition agency will also typically have access to any relevant information held by other government agencies. In a competition investigation, the agency can compel production of documents and testimony from the party under investigation, and from third parties possessing information relevant to the inquiry. It is for these reasons that all conclusions in this report should be treated as tentative and are dependent on the quality and completeness of the information accumulated.

Hospital mergers present important issues of competition law and economics. Analysis of these mergers has developed into a well-specified analytical routine. Essentially that routine includes defining the product market or markets, defining the geographical market, and then asking whether the merging hospitals could profitably implement a significant and non-transitory price increase for their hospital services. Analysis turns on whether enough patients who would otherwise use one of the merging hospitals would switch to competing hospitals in face of any such price increase so as to make the price increase unprofitable. If such a price increase would not be profitable, the merger of the hospitals does not adversely affect the competitive environment, and competition authorities should not oppose the merger. An additional issue is whether there is the

[12] An excellent review of the competition laws of the EU and nine countries, including texts of the relevant laws, can be found in American Bar Association, Section of Antitrust Law, COMPETITION LAWS OUTSIDE THE UNITED STATES (2001).

possibility of new entry, making the market contestable and therefore eliminating any advantage to the merging hospitals from raising prices above the competitive level. [13]

This analytical routine means that an analysis of a proposed hospital merger is highly fact intensive, and definition of geographical market is often critical.

Hospital merger analysis is also affected by changing technology in health care, and efforts by governments and third-party payors to contain costs.[14] There is some concern that Egypt already has more hospital beds and more doctors than are needed, and there is also concern that more high technology equipment has been imported into Egypt than can be efficiently utilized. The Anglo Egyptian acquisition presented the opportunity to realize efficiencies in utilization of medical technology and other resources.

The Proposed Acquisition

Anglo Egyptian Corporation Plc, a UK company, proposed in late 2000 to acquire seven health care providers located in Cairo. Although the acquisition was described as an acquisition of seven hospitals, in fact there were six hospitals and one laboratory. While the merging entities were said to have 900 beds, a careful count shows there are approximately 800 beds. Each of the providers is privately owned. These are:

Cairo International Hospital, located in Heliopolis, with 250 beds.
Al Salam Hospital, located in the Mohandiseen/downtown area, with100 beds.
Al Sharouk Hospital, located in the Mohandiseen/downtown area, with 82 beds (to be expanded to 102 beds).
Al Nile Badrawi Hospital, located in Corniche Maadi, with 180 beds.[15]
The International Eye Hospital, located in Dokki, with 40 beds.[16]
The International Kidney and Urology Hospital, located in the Mohandiseen/downtown area with 120 beds.
The Borg Nile Medical Laboratory, the largest medical laboratory in Cairo, with locations in several areas of Cairo, elsewhere in Egypt and in Saudi Arabia.[17]

While these entities are privately owned, the ownership structure varies. The Al Nile Badrawi Hospital is owned by the Badrawi Group, which is family-based, but apparently shares of this hospital (or the Group) trade on the stock exchange. It is not unusual for the owners of a hospital to be doctors who practice at that hospital. The Al Salam Hospital started with about 40 owners and now has approximately 300 owners. Three

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[13] See J. Langenfeld and Wenqing Li, Critical Loss Analysis in Evaluating Mergers, *Antitrust Bulletin 2001* (forthcoming).
[14] U.S. Department of Justice and Federal Trade Commission Statements of Antitrust Enforcement Policy in Health care, *available at* http://www.ftc.gov/reports/hlth3s.htm; K Grady, Impact of Federal Antitrust Laws on the Health Care Industry's Increasing Consolidation, *available at http://www.alston.com/docs/Articles/199709/2910158.HTM.*
[15] The Al Nile Badwari Hospital Website is http://www.misrmedical.com/Nile_Badrawi/
[16] The International Eye Hospital Website is http://www.inteyeshosp.com.
[17] The Al Borg Laboratory Website is http://www.alborg.com.eg.

doctors and three banks comprise six of the seven shareholders of The International Eye Hospital.

All of the entities lose money except for the medical laboratory. They survive on loans from public sector banks, and on these loans only interest is being paid. Of the 34 million L. Sterling to be paid in the acquisition, 23 million L. Sterling was to pay off hospital bank loans. The remaining 11 million L. Sterling was to be paid to owners of hospitals in proportion to their share of half the net asset value of the hospitals. The remaining half of the hospital net asset value was to be received in shares of Anglo Egyptian.

Hospital utilization rates vary between 50 percent to 70 percent.

The proposed acquisition has horizontal, vertical and conglomerate competitive aspects. The two specialized hospitals and the medical laboratory do not compete in the same product market as do the four acute care hospitals. The four acute care hospitals each offers a cluster of hospital services. The laboratory is a supplier of services to hospitals, and the two specialized hospitals treat patients on referral from acute care hospitals or from doctors associated with acute care hospitals. At the same time, the four acute care hospitals do or could supply their own specialized eye treatment services, specialized kidney/urology services or laboratory services.

There is an additional competitive aspect posed by the acquisition. The transaction agreement required doctors who were owners of hospitals or other entities being acquired, or who were associated with hospitals being acquired, to work exclusively for the merged entity, except that any existing practice activities in health care entities not part of Anglo Egyptian could continue. For example, a doctor practicing at Al Nile Badrawi Hospital might also be a professor at a university medical school and practice at the university hospital. Continuance of these activities outside the Anglo Egyptian entity would be grandfathered after the consummation of the acquisition. However, this doctor could not thereafter take on any new practice outside the new entity. Moreover, any doctor newly joining Anglo Egyptian would be required to work exclusively for the Anglo Egyptian consortium.[18]

Market Definition --The Product Market

There are three major types of acute care hospitals in Cairo. There are privately owned hospitals that generally provide high quality care at prices most residents of Cairo cannot afford. There are general government hospitals where service is free. The quality of service provided by these government hospitals is such that they are not competitive with

[18] The Badrawi Group also owns Middle East MediCare, an HMO with 35,ooo members. In its HMO network it has 32 hospitals, 40 primary care physicians and 2,500 doctor specialists. Middle East MediCare was not part of the Anglo Egyptian acquisitions, although its eventual relationship with the new entity was unclear.

private hospitals. Consumers who can afford to go to a private hospital would not consider these government hospitals to be a substitute.

The third major type of acute care hospitals is government owned but so-called privatized hospitals that treat patients on a fee-for-service basis. These hospitals are typically operated by the government or by universities. An example is the new addition to the Kasr El Aini Hospital at Cairo University. This hospital has 1200 beds. It is likely that there are occasions when a patient might choose a government or university operated fee-for-service hospital when that patient could also have chosen a private hospital. This might happen if a well-regarded doctor practiced at that government hospital and the patient of the doctor followed the doctor to that hospital. However, overall patient care in most government fee-for-service hospitals is not as good as the care in private hospitals, and there is ground for excluding most such hospitals from the product market under consideration.

One relevant product market in analysis of the proposed acquisition is acute care hospital services of the quality of service generally provided by privately owned hospitals. A second product market is specialized eye services of the quality generally provided by privately owned hospitals. A third product market is specialized kidney/urology of the quality generally provided by privately owner hospitals.

Market Definition -- The Geographic Market

The four acute care hospitals are located in three different areas of Cairo. Al Nile Badrawi Hospital is located in an area just south of Garden City, on the east side of the Nile and close to the river. The Cairo Medical Center in Heliopolis is well to the north and east of Garden City. The other two acute hospitals are located in an area on the west side of the Nile. The configuration is thus triangular.

It is unlikely that the relevant geographic market is all of Egypt. Hospitals usually draw most of their patients within a city or community area, and patients choosing a hospital will usually choose in an area where they live. This concept is particularly important because an evaluation of the merger requires an estimation of what patients would do if the hospitals in the merged entity tried to raise prices significantly.

The proponents of a merger often argue to a competition agency that in the face of price increase, enough patients would switch to hospitals located in other towns or cities so as to make any attempted price increase unprofitable. The competition agency may argue that the relevant geographic market is much smaller, and test this by determining what proportion of a particular hospital's patients come from an area close to the two merging hospitals.

One of the tests employed is the well-known Elzinga-Hogarty test[19], which posits a particular geographic market and then asks what proportion of the patients of the merging hospitals come from within that geographic area. If most of the patients come from that area, that is if there is little in from outside (LIFO), the test shows strongly this area is the relevant geographic market for competition analysis. The test is performed by examining patient admission lists at each hospital over a suitable test period.

A factor in this analysis is the availability of transportation and the ease of traveling to a hospital farther away. This is an important consideration in Cairo, where traffic jams are notorious. So if we were to suppose that patients mostly go to hospitals near them, an analysis of the proposed merger might proceed in this fashion.

Of the seven entities to be acquired, most are located in different areas of the city. It might be supposed then, that a hospital in Heliopolis does not compete with a hospital in, for example, Maadi. If this were the case, then a merger of the two hospitals would not affect existing competition in any adverse way. In this analysis, the exceptions would be the two acute care hospitals in the Mohandiseen/downtown area, El Sharouk and Al Salaam. They can be used to illustrate one way a competition agency might proceed. If it were thought that the merger of these two hospitals in the same geographic area would adversely affect competition, the competition agency might employ a "fix it first" strategy. That is, the agency might tell the parties that the proposed merger needs to be changed so that only one of these two hospitals would be acquired. The agency would leave it to the parties to decide which of the two hospitals would be acquired, and if the parties agreed and changed the merger agreement, the agency would approve the merger.

If fact, it appears that each of the merging hospitals draws a substantial number of its patients from all over Cairo. This is due in part to the way in which competition takes place -- a matter discussed below. It is also due to the changing nature of competition for hospital services and for doctor services. Thus the appropriate geographic market is the entire area from which the hospitals draw patients, that is Greater Cairo.

There is also some evidence that the geographic market extends beyond Greater Cairo. The new Dar El Fouad Hospital, an acute care hospital constructed in 6th of October City benefits from its access to a fast roadway. The hospital was constructed to bring to Egypt the quality of care offered by the world-famous Cleveland Clinic and has 88 beds with plans to increase it to 200 beds. The hospital is partially privately owned and Cleveland Clinic is one of the shareholders, and a state-owned bank and a state-owned insurance company own 50 percent.[20] There may be many occasions where a patient in certain areas of Cairo would find this new hospital a suitable choice if the merged hospitals were to attempt a price increase.

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[19] Kenneth G. Elzinga & Thomas F. Hogarty, "The Problem of Geographic Market Definition in Antimerger Suits", 18 *Antitrust Bulletin* 45 (1973)

[20] *"Digging In"*, BUSINESS TODAY – EGYPT, June 2001, *available at* http://www.businesstoday-eg/BT_June_2001/main/sector*.htm.*

Competitive Analysis

The process of competition among private hospitals in Cairo is changing. Traditionally a private hospital had connections with well-known professors at medical schools and with other doctors of outstanding reputation. These doctors might practice in several different ways. Some of their time was spent teaching and practicing at free hospitals at university or at government hospitals. They also maintained their own private clinics and this is where private patients came initially. (Indeed it is reported that the present Minister of Health has his own five-star private clinic under shared ownership with the head of the Cairo Medical Association.)[21] Patients trusted individual doctors rather than institutions such as hospitals. Patients then followed the doctor to a private hospital where the doctor practiced. The patient paid the hospital for hospital services against a hospital invoice, but the patient paid the doctor directly for the doctor's services. Payment was made at the doctor's private clinic, in cash, and in the amount the doctor and the patient negotiated. Patients obtaining the same services from a doctor could end up paying different prices, depending on perceived ability to pay.

The changes that have occurred are three-fold. First, there is substantial walk-in traffic for private hospitals. These are patients who have come directly to the hospital, rather than following a doctor to a hospital from the doctor's private clinic. Second, an increasing number of patients are the beneficiaries of third-party payor contracts where prices for hospital services and doctor services have been negotiated by payors representing groups of potential patients. Third, government-managed or university-managed fee-for-service hospitals in some cases provide strong competition to privately owned hospitals.

In proceeding with a competitive analysis, a measure of market share must be chosen. In many mergers the measure will be market revenues. But measures of capacity can also be used, and number of hospital beds will serve, particularly where there is substantial underutilization of capacity as there is here. (This measure would not be appropriate for the laboratory service product market where annual revenues would be a more appropriate measure.)

There are 7000 private hospital beds in Greater Cairo[22]. The merged firm will account for 750 beds. Assuming all private hospital beds are in the relevant product and geographic markets, the merged firm would have a market share of 11.5 percent. It would be useful to know what the structure of the market will be after the merger – for example whether this firm will now be the firm with the largest share in the market. However this information is not readily available. In any event it is unlikely a competition agency would take action against a merger that results in an 11.5 percent market share.

[21] *"MPs Fire Across Minister of Health's Bows"*, EGYPTIAN MAIL, November 17, 2001, page 1.
[22] Reportedly there are approximately 30,000 hospital beds in Greater Cairo.

An alternative way to measure the competitive effect of the merger is to use the Herfindahl-Hirshman Index (HHI). This index is constructed by squaring the market share of each competing firm and adding the sum. This is done for the circumstances before and after the merger. As an example, if before the merger there were 100 firms in a relevant each with a 1 percent market share, the HHI for that market would be 100 (1 squared for each firm with a total of 100.) If the 100 firms then merged into 3 firms with a 20 percent market share and one firm with a 60 percent market share, the post-merger HHI would be 4800 (400+400+400+3600) and the increase in HHI brought about by the mergers would be 4700.

While the data is not available to construct HHIs for the entire market before and after the proposed merger, another part of the HHI evaluation is to measure the increase in the HHI as a result of the merger. This calculation would proceed as follows. The market share of each hospital would be calculated by dividing its number of hospital beds by 7000, squaring this share and adding the total. This sum would then be compared with the HHI of these hospitals after the merger – 11.5 squared or an HHI of 133. In a highly concentrated market the HHI will already be large and any increase brought about by a merger will be worrisome. The advantage of the HHI analysis is that rather than just looking at the market share created after the merger, the HHI analysis takes account for the overall market structure. Here however, the increase in HHI is approximately 100 HHI points.[23] In a highly concentrated market, a merger bringing about an increase of even 50 points would be questioned. That is not the situation here.

The analysis so far as used rough measures for overall market size and market shares. It is clear, for example, that not all beds in private hospitals are necessarily good substitutes for each other. The existence of two specialized hospitals as part of the merging parties illustrates this issue. However, to this point three hospitals have been excluded from the calculation of the overall market – hospitals that appear to be in competition with private hospitals. These are the hospital in 6th of October City, the new wing of the Kasr El Aini Hospital at Cairo University with 1200 beds, and the Ein Shams Specialized Hospital in Heliopolis with 800 beds. Adding the beds of these three hospitals helps ameliorate the roughness of defining the product market as all private hospital beds. In addition a new affiliate of the Ministry of Health, the G.O.I.H.T., has 9 teaching hospitals and 9 specialized institutes. Each of the hospitals has some fee for service "private sector" beds designed to meet the quality of accommodation levels available at privately owned hospitals. The quality of medical services is also designed to meet quality of care levels of privately owned hospitals. G.O.H.I.T. has 1500 of these private-sector beds.[24]

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[23] Before the merger, the six hospitals together represented approximately 30 HHI points.

[24] Ministry of Health and Population hospitals are thus in active competition with privately owned hospitals. The Minister of Health opposed the Anglo Egyptian acquisition and issued a decree on November 11, 2000 requiring the Ministry's approval for any ownership change in private hospitals. A. Sami, "Protecting a Strategic Sector", AL-AHRAM WEEKLY ONLINE, December 21-27, *available at* http://www.ahram.org.eg/weekly/2000/5413/ec5.htm; MELES Egyptian Wakayeh/Government Bulletin – Issue No. 278 (December 4, 2000). In 2000 The Government of Egypt paid for health treatment abroad of 461 Egyptian citizens at a cost of approximately 35 million L.E., presumably because the necessary treatment of the requisite quality was not available in Egypt. CAPMAS, *THE STATISTICAL YEARBOOK* p. 135 (2001).

An additional consideration in a merger analysis concerns conditions of entry. In the event that a firm after merger tries to raise prices, the result may induce a new firm to enter the market. If the merged firm perceives this is a possibility, it may be deterred from any such attempted price increase. It will prefer the outcome at present prices to a situation where a new firm enters the market with the competitive consequences such entry might entail.

The difficulty in the hospital sector is that new entry takes a long time. Estimates are that it takes five years for construction of a new hospital like the new wing of the Kasr El Aini Hospital, or even to convert an existing building into another private hospital.

However, there is another source of potential entry "waiting in the wings." These are the various government, teaching or university hospitals whose quality (actual or perceived) does not now match privately owned hospitals. In the event the merging hospitals attempted to raise prices, there would be additional incentives for these hospitals waiting in the wings to upgrade themselves so as to be able to compete. This process would take a shorter period of time. Again, the merging hospitals would be deterred from raising prices so as to encourage this "new" entry.

In addition, apparently there are a number of highly trained Egyptian doctors who practice abroad.[25] In a sense these doctors also represent potential entrants "waiting in the wings" to provide high quality medical services in Egypt.

The competitive analysis for the product markets of specialized eye services, specialized kidney and urology services, and laboratory services follows that the product market for high quality hospital services. Most hospitals in the relevant market either do provide these services, or could do so. In addition, with the grandfathering provisions in place, the exclusivity arrangements applicable to doctors in the merging entities do not pose competitive issues.

Competition authorities would not have opposed the Anglo Egyptian acquisition under US competition law. The EU competition authorities have had little occasion to consider hospital mergers, but its Guidelines for defining relevant market match those employed under US law.[26]

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[25] A. Khalil, *Unchecked Exodus,"* April 1999 CAIRO TIMES, *available at http://cairotimes.com/content/issues/health/brain.html.*

[26] COMMISISON NOTICE on the definition of the relevant market for the purposes of Community competition law, *available at http://www.europa.eu.int/comm/competition/antitrust/relevma_en.html.*

Competition authorities in the UK have considered hospital mergers and their analysis is similar to that employed here.[27] There is some difference between US competition law and EU competition law in the treatment of conglomerate mergers with portfolio effects.[28]

[27] Proposed acquisition by General Healthcare Group Limited of Community Hospitals Group Plc, UK Office of Fair Trading, *available at http://www.oft.gov.uk/html/mergers/general-healthcare.htm*

[28] A recent notable case involves the proposed GE-Honeywell merger, approved by the U.S. authorities but barred by the EU. The case illustrates one sense in which the EU protects consumers by protecting competitors, while the US protects consumers by protecting competition. *Compare* GE/Honeywell EU Merger Decision, *available at* http://europa.eu.int/comm/competition/mergers/cases/decisions/m2220_en.pdf *with* W. Kolasky, "CONGLOMERATE MERGERS AND RANGE EFFECTS: IT'S A LONG WAY FROM CHICAGO TO BRUSSELS", *available at http://www.usdoj.gov/atr/public/speeches/9536.htm.*

Comments on 2001 Draft Law
On Anti-Trust and Monopoly Elimination

This memorandum comments on the draft Egyptian Competition Law, which was translated into English on or about November 1, 2001. The law was drafted in the Ministry of Supply and Internal Trade under the direction of Professor Dr. Hassan Gemei of the Faculty of Law at Cairo University.

Overall Structure of the Law

There are four introductory articles and twenty-nine substantive articles to the law. Two matters in the introductory articles are of note. Article 2 says the President will issue a decree deciding which Minister will be responsible for the implementation of the law. This article suggests that the issue is still up in the air. Article 3 announces that the Prime Minister will issue the Executive Regulations implementing the law within three months of publication of the law. As will become clear below, an evaluation of this draft law cannot be made without studying the Executive Regulations, and it would be highly preferable to consider them together.

In the 29 articles of the draft law, Article 1 is hortatory; Article 2 has definitions; and Article 3 deals with extraterritoriality.

Article 4 is apparently intended to deal with horizontal agreements.

Articles 5 through 12 deal with abuse of dominant position, notification of possession of a market share greater than 30 percent, and merger notification. Provisions on the action to be taken by the competition agency with respect to these are combined within these articles.

Articles 13 through 29 describe the Anti-trust and Monopoly Elimination Bureau, its composition, organization and functions, its procedures and rights of appeal, and the penalties it can impose.

General Comments

It is always difficult to tell whether a perceived problem with a draft law translated into English derives from problems with the translation. However, the only way to approach comments is to assume that the translation is perfect.

In general the draft law is highly regulatory in its approach. It threatens criminal penalties and confiscation of goods for all violations of the law. All entities with a greater than 30 percent market share must submit a notification to the agency, with the contents of the notification to be specified in the Executive Regulations. At the same time, action against abuse of dominate position is limited to situations where the entity concerned has a greater than 30 percent market share. In addition, only those mergers which would achieve at least a greater than 30 percent market share are required to be notified for review -- there is no Egyptian pound value that triggers merger review. Enforcement of the law in many respects turns on the conclusion that a greater than 30 percent market share is held by an entity, but the apparent definition of a *market* in the draft law bears no relationship to agreed definitions of market commonly used in competition law and economics. The time for review of mergers will be inadequate for major mergers. There are substantial exceptions to the coverage of the law but their extent is unclear. It does not appear that the competition agency has the authority to compel testimony or the production of documents. This is a serious deficiency where the agency is dependent in the first instance on what interested parties tell it. For example, in the case of a merger another party might have announced an intention to enter the market. It would surely have done a market analysis. Compelled document production and testimony from that entity could provide highly useful information relevant to analysis of the proposed merger. It does not appear the agency has to explain its decisions and make those explanations public.

Specific Comments

I will comment only on those articles that present major issues.

Article (2) a). This part of the article defines *persons* and thus establishes the coverage of the law. The coverage of the law is expansive. It explicitly covers *unions*, suggesting that it also covers syndicates. It covers all *economic entities*, which suggests it covers state-owned enterprises. I wonder if this expansive coverage is intended. Portions of Article 6 suggest it may not be.

Article (2) c). This part of the article defines what amounts to *dominant firm*, by defining the word *control* to mean a *person or group of persons* whose market share exceeds 30 percent. The definition seems to say that possession of a greater than 30 percent market share inexorably means the possessor is able *to control the product market.* There is also a puzzling addition to the 30 percent market share test: *this in addition to the market structure, that is to say, the position of this person vis-à-vis other competitors, this person's recent transactions and other auxiliary factors.* The meaning of this addition is unclear. It might be suggesting a rule of reason test for dominance but I doubt it. A concern is that it allows a determination of dominance for an entity possessing less than a 30 percent market share.

Article (2) d) provides: *Competitors: The persons producing, distributing, marketing, selling, purchasing, providing, updating, or developing similar or exchangeable products.* The problem here is construing the language. The idea of competitors has to be limited to those producing *or* distributing *or* marketing *or* selling, etc. That is, to say that competitors are all those who produce. A separate idea of competitors is all those who distribute. Otherwise, one gets the idea that if a company produces detergents and distributes detergents by selling to supermarkets, the producer and the supermarkets should be deemed competitors. This ignores the law and economics of vertical arrangements.

Article (2) g) is a critical definition:

The Market Concerned: The type of commercial activity involving restriction of free competition among products and within the territory, in which this activity is practiced, even if there are nearby areas giving this market access to products or substitutes thereto under reasonable conditions and reasonable costs, this in compliance with the Executive Regulations implementing the law.

I take this to be the definition of *market* in the law, although so far as I can tell, the phrase *The Market Concerned* nowhere appears in the law. It is not too much to say that market definition lies at the heart of competition law and enforcement. The legality of a merger often turns on market definition because once the market is defined, concentration ratios or HHI follow. So does the issue of monopolization or abuse of dominant position because it is market definition that determines monopoly or dominance. So it is critically important to get market definition right.

The main problem is that the definition appears to EXCLUDE from the definition of market *nearby areas giving this market access to products or substitutes thereto under reasonable conditions and reasonable costs, this in compliance with the Executive Regulations implementing the Law.*

I also rest my case that review of the Executive Regulations is critical to any evaluation of the draft law.

This market definition appears to reject the most basic ideas about market definition. It appears to exclude from the definition of a market, those products or substitutes that are reasonably available. Yet this is exactly how a market is defined in competition law and economics. I have wondered whether this is a misprint or a miss-translation. I here assume its statement is accurate. The consequences for regulation of dominant firms or for review of mergers are obvious. It also means that the law will have little relationship to promotion of competition, and is likely to punish success, innovation and any new entry that imperils existing competitors. In addition, no one will be able to tell ahead of time when they might run afoul of the law.

Article (4) reads*:*

Any agreement, conclusion of contracts, or practices of activities that may prejudice the rules of free competition shall be prohibited, with special emphasis on the following:

> *1) Manipulating the prices of products subject of transaction by increasing, reducing, or fixing thereof, or by any other means.*
>
> *2) Wholly or partially limiting the freedom of product flow to and from the markets by concealing, refraining from dealing therein, or unlawfully storing thereof by any other means.*

3) Fabricating a sudden abundance of products leading to the circulation thereof at unrealistic prices, thus negatively affecting the economic dealings of other competitors.

4) Preventing, obstructing any person from practicing commercial activity in the market, or seizing thereof.

5) Concealing, wholly or partially, the products available at the market from a certain person.

6) Dividing or allocating product markets, in accordance with any of the following criteria:

a. Territory
b. Distribution outlets
c. Type of customers
d. Seasons or periods

7) Influencing the normal flow of supply, provision, purchase or sale tenders of products whether in tenders, bids or supply proposals.

8) Fixating or cutting down industrialization, development, distribution, marketing or any other form of investment.

This article has a number of problems. It is not clear that it is in fact aimed at horizontal agreements among competitors. For example, in addition to contracts and agreements it also covers *practice of activities*, whatever this is. Moreover, subpart 6 of this article seems to refer, at least in part, to vertical restraints. If the article were clearly limited to horizontal agreements, its content would be less objectionable simply because competitors should not be agreeing to do many of the actions condemned in the article. But if it covers unilateral action as well, then a number of the provisions apply to unilateral conduct that is normal in a market economy, that should not be regulated, and then the article is likely to deter beneficial competitive activity.

The article appears to establish an incipiency test for illegality: actions that *may* prejudice the *rules of free competition*, and these rules are no where described. This test could greatly expand the scope of liability. On the other hand, if the article is aimed solely at horizontal agreements among competitors, then there is no *per se* illegality for price-fixing cartels.

Finally, the article states a general condemnation in its beginning and the subparts appear to be examples that do not limit the general condemnation. There are a number of other comments that could be made about language and desirability of various subparts, but these comments are the most important.

Article (5) deals with abuse of dominant position or *abusing their power.* The article contains the same broad coverage and incipiency test, with subparts stating only examples, as is found in Article 4. All *practices* engaged in by an entity with more than a 30 percent market share that *may distort competition* are condemned. Examples then include refusals to deal that lead to *unrealistic pricing,* which is not defined; and manipulating available quantities *leading to an unreal deficiency or surplus,* which is also not defined. All sales below cost are barred, there appears to be a bar against tying, and unjustifiable refusals to deal or to discriminate among competitors are also barred. I note that determinations of below cost pricing are notoriously complicated, even in so-called regulated industries, and often call for arbitrary allocation decisions as to fixed and variable, joint and common costs. The result is a statute with great potential for detailed regulation of competitors and mischief making by special interests.

Together Articles 4 and 5 condemn vertical arrangements such as exclusive territories or exclusive distributorships, which on many occasions have been shown to be pro-competitive and which are normally evaluated in a rule of reason analysis. The trend of competition law in the past few years has been to view vertical restraints more favorably, and a landmark of this trend was the issuance of the EU Green Paper on Vertical Restraints in 1996.

Article (6) has exclusions from coverage of the draft law. The first part of the article deals with Article (4), which is the putative article covering horizontal agreements among competitors. Article (4) is NOT to apply to *practices and agreements that restrict the freedom of competition* (note the reference to *practices* suggesting again that article (4) reaches unilateral conduct) that have the *purpose* of:

> *Reducing costs, improving production or distribution, or encouraging technological development*

provided that benefits to the consumer are greater than the impact of restricting freedom of competition.

The result of this part of Article (6) is to establish a sort of efficiencies defense for activities barred in Article (4). Without knowing what Article (4) covers, it is hard to assess the effect of the defense. Efficiency defenses are usually associated with merger analysis, or where potentially objectionable conduct is not condemned *per se* but is subject to a full economic analysis to weigh costs and benefits. Such defenses are almost never available in the instance, for example, of hard-core horizontal price-fixing agreements between competitors.

It is also a bit strange for the defenses to be available where the *purpose* of the conduct was to be beneficial, rather than where the conduct itself was actually beneficial. I also expect that large sophisticated business entities with highly capable talent will find it easy to take advantage of the defenses made available. The competition agency will find itself in proceedings where proof of costs and benefits to consumers is exceedingly difficult. Small entities will have a much harder time.

The second part of Article (6) excludes from the coverage of Articles (4) and (5) (which deal with agreements and abuse of dominant position):

agreements concluded by the government for the purpose of specifying set prices for strategic products determined by a decree issued by the Prime Minister.

and

products having a unique status impelled by the nature thereof within the provisions of the legislation regulating such products.

I cannot tell what these exclusions cover, but they look expansive and can be easily added to through a decree of the Prime Minister. I fear they cover products and services of great importance to consumers, where promotion of competition should be a high priority under this law.

Article (7) requires notification to the competition agency of mergers that result in a market share greater than 30 percent. It also requires notification from any entity that presently has a market share of more than 30 percent. However, Article (7) also contains the language stating that merger notifications are adjudicated by the competition agency. Basically the agency gets 30 days to look at the merger notification, and an additional 60 days for further examination if it so decides. Expiration of relevant periods denotes acceptance of the proposed transaction. The agency can also reject the merger by the end of the 30-day period. The time allowed will be insufficient to analyze mergers raising substantial issues.

The draft law leaves to the parties the decision whether a merger or a market position exceeds a 30 percent market share and notification is required, with little to guide parties on making that determination. Of course, once they file they have admitted to having a dominant position. It would also appear that if a party does not file and asserts that it does not possess the requisite market share, if the agency finds otherwise the party risks criminal prosecution. I do not know if there is room for a conditional notification, where the filing party denies having the requisite market share but files just in case. It would be highly preferable to have a merger filing trigger based on the value of the transaction. It would also be highly preferable to remove the "monopoly register" procedure, with the agency free to investigate, study, or initiate proceedings concerning abuse of a dominant position on a case-by-case basis.

Article (10) allows the merging parties to proceed with the merger even if the agency says it will take an additional 60 days for examination. The result will be that if after further examination the agency decides to reject the merger, it will have to unscramble the eggs.

Article (12) deals with the situation where management of competitive entities are combined. Here the agency gets 60 days to adjudicate, and it is not clear why the procedures in this instance should be different than those applicable to mergers.

Article (14) establishes a Board of Directors that takes actions for the agency. It has 13 members as I count them. This is a very large number of members for a controlling board of a competition agency. It takes 8 members to constitute a quorum, it appears that decisions must be approved by seven votes, but the Chair can only vote if there is a tie. The Board includes 3 members of the judiciary, including the Chair. I do not know enough about the role of the judiciary in Egypt but such membership seems unusual, given that appeal from agency action is to the Administrative Court. In addition it is the Chair of the Board who initiates criminal action, with consent of the Board (see Article 25). A civil action by the Board is without prejudice to initiation of criminal action (see Article 24). Article 23 provides that NGOs *concerned with protecting the consumer may file lawsuits* against the practices covered by Articles (4), (5) and (7) but the nature of those lawsuits and the nature of the remedies that can be sought is not described. The offender can be required to pay compensation of some amount, but there is nothing to indicate to whom the compensation is paid.

As described above, action by the agency can occur only if a relevant party has a greater than 30 percent market share. Under the draft law if the Anglo Egyptian hospital acquisition would not achieve a more than 30 percent market share, it would not be required to notify the competition agency even though the transaction was valued variously at L.E. 500 million or L. Sterling 34 million.

Under the draft law, if Sainsbury's did not have a greater than 30 percent market share, it would not have to file notification with the competition agency as a dominant firm and its use of "lost leader" pricing would not by covered by Article 5.

Egypt and the EU have recently entered into an Association Agreement. Articles 34, 35, 36, 48, 61 and 72 have some relationship to competition law. I focus on Article 34, which provides in part:

1. *The following are incompatible with the proper functioning of the Agreement, insofar as they may affect trade between the Community and Egypt:*

   (i) all agreements between undertakings, decisions by associations of undertakings and concerted practices between undertakings which have as their object or effect the prevention, restriction or distortion of competition;

   (ii) abuse by one or more undertakings of a dominant position in the territories of the Community or Egypt as a whole or in a substantial part thereof;

   (iii) any public aid which distorts, or threatens to distort, competition by favoring certain undertakings or the production of certain goods.

2. The Association Council shall, within five years of the entry into force of the Agreement, adopt by decision the necessary rules for the implementation of paragraph 1.

One might imagine that Article 4 of the draft law was meant to track section 1.(i) Article 36 of the Egypt-EU Agreement above, and Articles 5 – 12 of the draft law to deal with 1.(ii), above. The sections from the Association Agreement track Articles 81 and 82 of the EC Treaty. The Association Agreement has no merger provision. Section 2 of Article 36 also illustrates the EU approach – to define major aspects of implementation through issuance of subsequent regulations. The draft law seems to adopt a similar approach, which is another reason that examination of Executive Regulations is necessary to evaluate the draft law.

I conclude with a comment on the Terms of Disbursement language at page 25 of the Third Draft of the DSP II Monitoring Plan, dated October 16. As I told the Minister of Supply, the one area where there is virtually universal agreement is that hard core price-fixing cartels should be condemned in any competition law. The language often extends to agreements among horizontal competitors to fix prices, control output, share customers, or divide markets. EU competition law condemns *per se* such agreements, as does U.S. law. The terms of disbursement might require provision against such agreements.

It is not clear to me that the draft law includes "minimum exceptions," and whether it concentrates on anti-competitive behavior rather than market share.

Draft Language to Adjust the Proposed Competition Law to Make it Compatible with the New Egypt– EU Association Agreement

The proposed Egyptian Competition Law -- the proposed LAW ON ANTI-TRUST AND MONOPOLY ELIMINATION – was drafted prior to the conclusion of the new Egypt-EU Association Agreement. That new Agreement contains provisions concerning competition law as it relates to Egypt-EU trade. These provisions follow EU competition law and Articles 81 and 82 of the EU Treaty, and are standard in EU Association Agreements. It is advisable that the proposed Egyptian Competition Law be compatible with EU competition law. With a few adjustments, the present proposed Egyptian Competition Law can be made compatible with EU competition law.

This memorandum begins by quoting relevant portions from the Egypt-EU Association Agreement in italics. The memorandum then suggests adjustments to the present proposed Egyptian Competition Law. Quotations from the present proposed Egyptian Competition Law are in italics; suggested adjustments are underlined.

Egypt-EU Agreement

Article 34 of the new Egypt-EU Association Agreement provides in part:

ARTICLE *34*

1. The following are incompatible with the proper functioning of the Agreement, insofar as they may affect trade between the Community and Egypt:

(i) all agreements between undertakings, decisions by associations of undertakings and concerted practices between undertakings which have as their object or effect the prevention, restriction or distortion of competition;

(ii) abuse by one or more undertakings of a dominant position in the territories of the Community or Egypt as a whole or in a substantial part thereof;

Suggested Adjustments

With some adjustments the proposed Egyptian Competition Law can be made compatible with the Association Agreement. These are:

I. Article 4 of the proposed Competition Law presently reads in part:

Any agreement, conclusion of contracts, or practices of activities that may prejudice the rules of free competition shall be prohibited, with special emphasis on the following:

Adjust this part of Article 4 to read:

All agreements between persons, decisions by associations of persons, and concerted practices between persons which have as their object or effect the prevention, restriction or distortion of competition shall be prohibited with special emphasis on the following:

Explanation of adjustment: This adjustment makes the relevant Article of the proposed Competition Law compatible with Article 34 of the Egypt-EU Association Agreement.

II. Article 5 of the proposed Competition Law presently reads in part:

Persons of control are prohibited from abusing their power in practices that may distort competition, especially in the following:

Adjust this part of Article 5 to read:

Abuse by one or more persons of a dominant position in a relevant market is prohibited, especially in the following:

Explanation of adjustment: This adjustment makes the relevant Article of the proposed Competition Law compatible with Article 34 of the Egypt-EU Association Agreement.

III. Article (7) of the proposed Competition Law presently reads as follows:

Persons of control must, within three months as of the effective date of this Law, notify the Bureau of such status.

Furthermore, persons who wish to own assets, proprietary or usufruct rights or shares or to incorporate associations, amalgamations, or mergers leading to control must notify the Bureau accordingly.

Henceforth, the Bureau shall examine the notice stipulated hereunder in paragraph (2) and adjudicate in pursuance of the provisions stated in the following articles, against a fee of not more than ten thousand Egyptian pounds, as determined by the Executive Regulations implementing this Law.

Adjust Article (7) to read in its entirety:

Persons who wish to acquire assets, proprietary or usufruct rights, or shares, or to incorporate associations, amalgamations, or mergers, or to combine the management of more than one person, of a value in Egyptian pounds to be specified in Executive Regulations, must notify the Bureau accordingly.

Henceforth, the Bureau shall examine the notice stipulated hereunder in paragraph (2) and adjudicate in pursuance of the provisions stated in the following articles, against a fee of not more than ten thousand Egyptian pounds, as determined by the Executive Regulations implementing this Law.

Explanation of adjustment: The adjustment follows the EU competition law pattern of focussing on behavior of persons rather than on market structure. The adjustment removes the monopoly register by deleting the first paragraph of Article 7 of the proposed Law as inconsistent with EU competition practice. The adjustment also provides for the setting of an Egyptian pound value for a merger or acquisition or other transaction requiring notification to the Bureau, rather than a market share trigger to require notification, thus making this part of the Article compatible with EU competition law.

IV. Eliminate Article 12 and references to Article 12 in Articles 24 and 26.

Explanation of adjustment: This adjustment results from incorporating reference to the transaction contemplated in Article 12 into the adjusted Article 7, which deals with all forms of amalgamation.

V. Article 2 (g) of the proposed Competition Law presently reads:

The Market Concerned: The type of commercial activity involving restriction of free competition among products and within the territory, in which this activity is practiced, even if there are nearby areas giving this market access to products or substitutes thereto under reasonable conditions and reasonable costs, this in compliance with the Executive Regulations implementing the law.

Adjust Article 2 (g) to read in its entirety by substituting this language:

Market: Market is the relevant market. The definition of a relevant market has a product dimension and a geographical dimension. A relevant product market comprises all those products and/or services which are regarded as interchangeable or substitutable by the consumer, by reason of the products' characteristics, their prices and their intended use. The relevant geographic market comprises the area in which the persons concerned are involved in the supply and demand of products or services, in which the conditions of competition are sufficiently homogeneous and which can be distinguished from neighboring areas because the conditions of competition are appreciably different in those areas.

Explanation of adjustment: This adjustment sets the definition of the market concerned in the proposed Competition Law along the lines used by the EU in its competition law.

VI. Article 2 (c) of the proposed Competition Law presently reads as follows:

Control: The position through which a person or a group of persons, working jointly, are able to control the product market by possessing a share exceeding 30% thereof; this in addition to the market structure, that is to say, the position of this person vis-a-vis other competitors, this person's recent transactions and other auxiliary factors.

Adjust Article 2 (c) to read in its entirety by substituting this language:

Dominant: a dominant position is such that a person or a group of persons would be in a position to behave to an appreciable extent independently of its competitors, customers and ultimately its consumers. No person possessing less than a 30 percent market share in a market will be deemed to be dominant. The burden of proof as to market share is on the agency.

Explanation of adjustment: This adjustment changes the definition of market control so that it concentrates on market behavior rather than on market structure, which is in accord with EU practice.

VII. Articles 25, 26 27, 28 and 29 refer to criminal violations and the possibility of imprisonment. In addition, Article 28 provides for confiscation of goods. These provisions should be eliminated.

Explanation of adjustment: EU competition law provides only for monetary fines and not for imprisonment or for confiscation of goods.