

Meeting the Needs of Egyptian Aviation in the 21st Century

By General Abdel Fattah Kato, Chairman, Egyptian Civil Aviation Authority
Amr A. ElSawy, Senior Vice President and General Manager, The MITRE Corporation
Askold Boretsky, Financial Advisor, Air Traffic Control and Airports Systems,
The MITRE Corporation

Time for Making Institutional Changes in Egyptian Aviation Has Arrived

Over the past decade, the Egyptian Civil Aviation Authority (ECAA) has created a technologically modern air traffic management system and has enhanced its aviation safety oversight to ensure Egypt is in accord with international standards and recommended practices (SARPs). In fact, an International Civil Aviation Organization (ICAO) assessment in 1999 found the ECAA to be fully compliant with SARPs for personnel licensing (ICAO Annex 1), operation of aircraft (ICAO Annex 6), and airworthiness of aircraft (ICAO Annex 8). During the 1990's, modernization investments totaled over 1 billion Egyptian pounds (over US\$300 million) for the air traffic management system and the ECAA airports. The Cairo Air Navigation Center is currently in the final stages of being modernized with the installation of a new EUROCAT2000 system, which will provide air traffic controllers with modern radar and flight data processing capabilities. Enhanced capabilities are also being installed in seven airport terminal areas throughout the country. Plans have also been developed to migrate to a space-based navigation system when it becomes available. Coupled with these advances in aviation technology and safety in Egypt, the country has recently decided to modernize its institutional aviation structure. This year additional steps are being undertaken that will transform the ECAA into one of the most modern aviation organizations in the world.

Rationale For Restructuring the Egyptian Civil Aviation Authority

Concurrent with its expanding tourism sector, Egypt is experiencing a high level of aviation growth, primarily at coastal Egyptian airports. To meet the need for a 21st century aviation infrastructure, Egypt needs a significant level of investment in airports. A recent study for the ECAA by The MITRE Corporation indicates that by 2025, annual aviation passenger traffic in Egypt will have grown to a level approximately 4 times the current level, given a 3 percent annual Gross Domestic Product (GDP) growth rate. Under a 5 percent annual GDP growth rate scenario, annual aviation passenger is expected to grow to approximately 10 times the current level. The number of annual aircraft operations, including overflights in Egyptian airspace, is expected to grow to a level approximately 2.6 times the current level under the 3 percent GDP growth rate scenario and approximately 5 times the current level under the 5 percent GDP growth rate scenario.

Aviation plays a very important role in the growth of the Egyptian economy. To meet the needs of aviation in the 21st century, the Government of Egypt has decided that it must provide a flexible, responsive aviation system. First, Egypt intends to provide additional aviation system capacity when and where it is needed. This will mean that additional investments will be made in Egyptian airports and the air traffic management system. Egypt will consider introducing

changes in airspace design and air traffic control procedures as needed, commensurate with both aviation safety and national security requirements. ECAA is also prepared to work wherever possible to foster regional coordination to achieve these goals for the aviation system. Second, Egypt is committed to maintaining an economic environment that is attractive to airlines, charter operators, and the flying public. This means that a high level of service must be provided at reasonable prices.

As is the case in many countries, difficulties inherent in governmental development and operation of an aviation system inhibit its ability to provide the most flexible, responsive system. The civil service system is not well suited to build aviation employees' skills to achieve performance levels commensurate with these goals. The governmental budgeting system does not provide an effective framework for financial management of a modern aviation system. Furthermore, service improvements cannot be easily made without a customer orientation, and this is generally lacking in a governmental setting.

In its analysis of global trends in aviation, the ECAA has found growing international acceptance of project financing and corporate structures for the aviation system. With project financing, aviation investments are increasingly being made based on market-driven needs and using commercial financial institutions. Corporate structures are being used successfully for airports and air navigation service providers in many other countries around the world. Furthermore, MITRE's recent studies of the ECAA indicate that corporatization of ECAA operational responsibilities is financially viable. Following a national dialogue, the President of Egypt has concluded that corporatization of ECAA's operational responsibilities will be profitable for the people of Egypt and the requisite levels of aviation safety and security can be maintained.

Approach to Restructuring the Egyptian Civil Aviation Authority

In 1998, Egypt restructured the telecommunications and electricity sectors of economy. Following the practices that were developed for these other sectors, the ECAA would be reconstituted as a governmental entity that regulates aviation activity, grants licenses, and issues the rules for operators. The main sources of income to the regulatory entity would be fees from granting licenses, registrations, rights and the like. This regulatory entity would supervise new corporations that would be created.

ECAA's operational responsibilities for air navigation services and airports will be assigned to new corporations. At this stage, the Government will be the sole shareholder in the corporations, with the possibility that other investors may be invited to participate in the future, as the Government wishes. The ECAA will represent the Government in these corporations.

In the case of the air navigation service provider, the main income will be from fees for the use of air navigation facilities. Such fees include enroute charges and overflight charges that are based on tariffs regulated by the ECAA. Any corporation created to operate any of the Egyptian airports would be able to derive revenues from aeronautical sources, such as the passenger departure tax, landing fees, aircraft parking fees, and aircraft service charges. The aeronautical revenues would be regulated by the ECAA. There are also non-aeronautical revenues such as fees for leasing of space to duty free shops, cafeterias, cargo handlers, automobile parking, and

other airport uses. Corporations would be in a much better position to develop these non-aeronautical revenues than the government. Accordingly, the ECAA would not regulate these activities as actively as the others.

To restructure the ECAA so that it would focus specifically on its regulatory role and assign its operational responsibilities to another entity will require a new law. The Egyptian government is currently in the process of developing this new law.

Conclusion

Aviation growth in Egypt is projected to generate future demands on its aviation system that Egypt's civil aviation authority is unlikely to be able to meet in its current form. In examining global trends in aviation, it is evident that corporate forms are increasingly being used within the civil aviation sector in many nations throughout the world. Just as other sectors of the Egyptian economy have been restructured as corporations, corporatization of ECAA's operational responsibilities is projected to be financially viable. This approach could be accomplished by restructuring the ECAA into a regulatory entity with corporate operators. It is expected that this approach will better ensure Egypt's ability to address the nation's future aviation needs. An important step for ensuring that corporatization supports Egypt's strategic objectives will be the creation of a coherent management and financial framework.

The framework for corporatization is currently being drafted into law. In creating this new framework, the ECAA is committed to ensuring that the highest standards of aviation safety are met. The new framework must facilitate the development of new and expanded services as well as aviation system capacity where it is needed. Technical excellence and a highly trained professional workforce must be nurtured. Finally, corporate efficiency and a customer orientation should be introduced to better serve the airlines, the charter operators, and the flying public, all very important constituents to the future economic growth of Egypt and the region.