

# **The Cultural Industries in Egypt**

**Report submitted to:**

***World Intellectual Property Organization  
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\* The opinions and views expressed herein are solely those of the author and should not be attributed to WIPO or his employer

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# Report on Cultural Industries in Egypt

## *A General Overview*

By Ahmed F. Ghoneim

### 1. Introduction:

The Cultural Industries in Egypt are well reputed for their long lasting history in the Arab countries. Ranging from being accounted as one of the largest producers of Film Industry in the World (WTO, 1998), and a well-established Book-Publishing Industry, a flourishing Sound Recording Industry to a dynamic Software Industry, the role of Cultural Industries in the Egyptian economy is on a rising trend.

The four industries investigated represent an example of the so called "core cultural industries". The core of the cultural industries includes book publishing, newspapers, periodicals, printing, advertising, radio and television broadcasting, sound recording, musical and audiovisual works, motion pictures and films and computer software. Each of these sectors deals with the generation of material protected by copyright, and with the dissemination of the material. In addition, there are related non-core industries and institutions whose activities are in some measure copyright dependant. These include those industries that deal with the production of equipment or hardware needed for use of copyrighted material (radios, television sets, computers, recording and listening devices), as well as the output of printers, binders, paper and printing machine manufacturers, which contribute to the output of the copyright industries; and of course such institutions as libraries, theaters and so on (Alikhan, 2001)

This report is a step forward towards measuring the importance of Cultural Industries in the Egyptian economy. It aims at describing the status of four core cultural industries, namely, **1)The Book Publishing Industry (BPI), 2)Music Sound Recording (MSR), 3)The Film Production Industry (FPI), 4)The Software Industry (SWI)**. The report is mainly based on a standard questionnaire that has been used for interviewing firms and experts working in the four Industries (for a summary of the results, see (Table 1.). It is complemented by the available data (national and international) and literature on those industries, which are scarce. Hence, the results of the report follow to a large extent the opinion of the performers in the market, experts (independent and in the government). The number of interviews undertaken reached 37 interviews distributed unevenly among industries. For example the number of interviews in the FPI and SWI exceeded the number of interviews undertaken for the MSR and BPI.

## **2. Economic Importance of Cultural Industries:**

The economic importance of cultural industries can be either measured by their contribution to GNP or their employment capacity. The first approach is adopted here as the data unavailability render the second approach to a huge margin of error.

It is important to note that the contribution of Cultural Industries to GNP is a lower bound of their actual contribution to the Egyptian economy. The reasons for considering their contribution as a lower bound include the non-inclusion of related and supporting industries that are highly linked to the core industries and the problems concerned with the difficulty of separating the activities of some firms working in more than one field and calculating the actual contribution of their core cultural activities.

The BPI accounted for 20 million US \$, The MSR production accounted for about 15-17 million US \$ in 2001, the FPI accounted for 20 -25 million US \$ and the SWI constituted for about 50 million US \$. Thus a lower bound for their contribution was about 105 million US \$ and an upper bound put the number at 112 million US \$. This accounted for 0.00128% of the GNP in the year 1999. It should be noted that such estimate is a conservative one, if more optimistic estimates are used, the contribution of the investigated core cultural industries will not exceed 0.5% of GNP by all means.

Such figure is low when compared with the estimates of the core cultural industries in other countries. Studies indicated the contribution of cultural industries to their GNP. These were in Australia 3.1%; Germany 2.9%; India 5.06%; Netherlands 4.5%; New Zealand 3.2%; Sweden 6.6%; United Kingdom 3.6%; the United States 3.3% for the core industry and 5.8% for the total copyright industry (Alikhan, 2001).

## **3. Cross Cutting Themes Among the Cultural Industries:**

The Cultural Industries share a number of cross cutting themes that have been revealed by the interviews and are identified below.

Intellectual Property Rights (IPR) enforcement is weak, a problem that has been identified by the majority of interviews undertaken. Moreover, the high taxes on advertising seem a major problem identified by all firms. Given the nature of cultural products and the heavily dependence on advertising especially when compared to other industries in general this seem to be a major bottleneck. Inconvenience of obtaining loans from banks is a shared theme in the Cultural Industries, mainly due to the intangible form of their products. They suffer from the scarcity of high skilled labor. Despite the availability of educational institutions, the graduates are not equipped with the necessary skills required in such industries.

The Cultural Industries suffer from neglect of government. They share weak institutional and political support. Hence, governmental policies affecting them have been either not effective or counter effective. The demand conditions related to cultural industries are highly vulnerable to the prevailing economic and political conditions. They have a high price and income elasticities.

The cross cutting themes among the Cultural Industries should not lead us to jump to the conclusion that they are identical in everything. On the contrary, every Cultural Industry has its own specificity which makes it impossible to provide "one size fits all" solutions (for a similar argument see UNESCO, 2000). Hence, they also differ substantially in other aspects which is the point that follows.

#### **4. Government Policies:**

The report revealed that the government policies were not able to meet the expectations of the industries. The government was not appraised in any of the industries for its efforts to enhance the industry with the exception of the Software Industry (SWI). In many cases, despite that government policies were rather neutral (i.e. not negatively affecting the industry), the role it played in the related and supporting industries deprived the core industries under investigation from reaping the full benefits due to the existence of several bottlenecks in the related and supporting industries. The Book Publishing Industry (BPI) reveals this case. In other cases, the institutional role of the government as preserving competition and/or protecting the copyrights in an effective way was a major obstacle. The anticompetitive behavior was predominant in the case of the Cinema Industry while the weak enforcement of copyrights protection was prevalent in the Music Sound Recording (MSR) Industry. Hence, the role expected from the government to play to promote the cultural industries in Egypt differs according to the status of each industry. Despite the fact that there are major common concerns, the urgency of these matters and their impact on the performance of the studied industries differ significantly. This report helps to identify such major differences among the studied industries.

#### **5. Differences Among Cultural Industries:**

The impact of the weak enforcement of IPR differ from one industry to another. For example, it heavily affects the MSR, and the imported software. The BPI and the Software Development do not suffer to the same extent. The FPI suffers more than BPI and less than MSR.

Main factors affecting demand differ among Cultural Industries so as well the targeted consumers. Moreover, the type of market prevailing in each Industry and in some cases the different segments of each Industry differ substantially ranging from intensive competitive markets in some cases to pure monopoly and oligopolistic market structures in other cases.

#### **6. Intellectual Property Laws Governing Cultural Industries:**

The Cultural Industries suffer from weak enforcement of IPR protection. There have been recent governmental efforts in better enforcing IPR, however, there is still a large room for improvement. Currently, there is a new comprehensive IPR law that has been recently approved by the Egyptian Parliament, but still not enacted. The costs of complying with TRIPS are substantial especially for developing countries and Egypt is no exception. A 1996 study by UNCTAD reported some estimates of the institutional costs of compliance with TRIPS in developing countries. In Egypt, the fixed costs were estimated to be \$800,000 with additional annual training costs of

around \$1 million (Commission on the Intellectual Property Rights, 2002). The new IPR law builds upon the existing IPR laws and regulations that exist in Egypt since the 1930s and is in line with the TRIPS agreement. Major features of the IPR protection in Egypt are identified below (Harvard Computing Group, 1999).

**Patents.** Despite significant government efforts to improve legal protection for copyrighted works and enforcement of the copyright law, Egypt has been behind in passing a modern patent law. Because of that, in May 1995, the US. Trade Representative placed Egypt on the "Watch List". A new patent law is under consideration. The new law represents a significant improvement, and once implemented, is considered a model patent law for the developing world.

**Trademarks.** Egypt is signatory of the Paris Convention For Protection Industrial Property of 1883, the Madrid Convention of 1954, and the Nice Convention for Classification of Goods and Services. Law 57 of 1939 provides trademark protection. The trademark law is not enforced strenuously and the courts have only limited experience in adjudicating infringement, although criminal penalties are theoretically available. The Ministry of Supply is introducing a new bill, that consolidates Egypt's 1939 Trademark law, the 1951 trade name law, and the 1949 Industrial Design Law.

**Copyrights.** In response to calls for improved legal protection for copyrighted works, the government passed law 38 of 1992, amending the 1954 copyright law. The Berne Convention, to which Egypt acceded in 1977, is self-executing according to Egypt's constitution. Thus, international copyright holders may be able to rely directly on Berne Convention provisions in Egyptian courts in areas where the coverage of the Egyptian copyrights law is vague or non-existent. In March 1994 the government amended provisions of law 38 to ensure that computer software was afforded protection as a literary work (allowing it a 50-year term of protection). In addition, in April 1994 a ministerial decree clarified rental and public performance rights, protection for sound recordings, and the definition of personal use.

Copyright piracy is still widespread and affects all sections of ownership, however progress is being made in most areas except software where most piracy seems to be in the local market, with some imports of pirated works coming from Lebanon and the Gulf States.

**Trade secrets.** Egypt has no specific trade secrets legislation. Protection of commercially valuable information is possible through contractual agreement between parties. Breach of contractual terms of protection can be remedied in legislative proceedings under either the civil or criminal code, depending on the severity of the damage caused.

**Table 1: Summary of the Main Results**

Indicators	Industries			
	Book	Film	Software	Music
<b>Overall performance</b>	Cannot be determined	Cannot be determined	Positive	Moderate
<b>Role of Supply</b>				
Labor	Important	Highly important	Highly important	Highly important
Capital	Moderate	Important	Important	Moderate
<b>Role of Demand</b>				
Domestic demand	Important	Important	Important	Important
Export market	Important	Highly important	Important	Important
<b>Role of Related Industries</b>				
Upstream	Major bottleneck in distribution	Highly important	No major bottlenecks	Important
Downstream	No major problems	Not important	No major bottlenecks	No major problems
<b>Role of Market Structure</b>				
Type of Market	Cannot be determined due to high segmentation	Few large dominant firms and 10 small firms	Competitive but segmented	3 large firms and 20 small firms
Competition	Moderate-Intense	Intense but unfair	Intense	Moderate
<b>Role of Government Policies</b>				
Development of human resources and technology	Weak	Moderate	High	Weak
Infrastructure and investment	Weak	Weak	High	Absent
Stimulation of the demand	Neutral	Weak	High	Weak
Enforcement of IPR	Weak	Weak	Weak	Weak
<b>Firms' Expectations</b>	Highly undetermined	Highly undetermined	Optimistic	Optimistic but highly undetermined

# I - Book Publishing Industry in Egypt

## 1. Overview:

There are no accurate estimates (actual or approximate) for the size of the Book Publishing Industry (BPI) in Egypt. Estimates cannot be deducted from the interviews undertaken due to the heterogeneous character of the publishers working in that field which made their judgment inconsistent if our concern was the whole industry. This problem has been asserted by other studies which identified that even data from international organizations as UNESCO are inaccurate (Abdelgwad, 2000). Number of employees cannot be estimated as well, however, it should be noted that the BPI is definitely larger in its size when compared to the Sound Recording Industry. A guess estimate would put its size at 20 million US \$ (less than 0.0002% of GNP). Moreover, in this Industry there are two ways to estimate the size; first, the number of titles published each year and, second, the number of copies, which complicate the methodology of estimation of the size of the Industry. Data available from the UNCTAD and UNIDO databases show that the size of that Industry has been growing in considerable terms as identified in table 1. The BPI in Egypt is considered the largest BPI in the whole Arab - though in a none linear form - world, publishing a number of titles each year that surpass the number of titles published in the rest of the Arab countries altogether (Abdelgwad, 2000). The number of employees in large publishing firms might reach 70-80 people in each firm whereas in small firms the number of employees is on average 15 people. In Greater Cairo alone (Cairo, Giza and Kalyobia provinces) there is at least 112 publishing houses<sup>1</sup>. The study is mainly based on personal interviews with a number of experts in the BPI and firms' owners in that field after a review of data available from international sources. The following tables (1-4) give an indication of the development of BPI in Egypt. However, the value of the industry is difficult to capture as the indicators reveal either the number of titles and/or the number of copies produced in addition to the large discrepancies between the data revealed by national versus international sources as shown in tables 1 and 4. Hence, a true value assessment of the performance of the industry cannot be captured if we depend on the available published data alone.

**Table 1. Book Production in Egypt: Number of Titles by UDC Classes (Data in thousands)**

Year	Total	Generalities	Philosophy	Religion	Social sciences & Philology	Pure sciences	Applied sciences	Arts And literature	Geog./history
1974	1 765	41	40	382	575	145	151	319	112
1985	1 366	14	49	186	309	82	141	479	106
1990	2 036	514	54	353	290	147	126	444	108
1991	2 599	293	37	291	314	172	208	468	85
1993	3 108	289	58	329	458	190	280	496	176
1995	2 215	92	66	307	406	206	331	655	152

**Source: UNIDO Database and UNESCO (Statistical Yearbook, 1999)**

<sup>1</sup> According to the Telephone Directory of 1999.

**Table 2. The Books' Production: Number of Copies by UDC Classes in Egypt**

Year	Total	Generalities	Philosophy	Religion	Social sciences	Philology	Pure sciences	Applied sciences	Arts	Literature	Geog./history
1974	33 120	845	145	4 472	5 411	3 597	5 565	1 872	139	8 519	2 555
1985	37 853	219	284	3 168	3 478	5 214	8 758	2 169	564	8 901	5 098
1990	43 149	6 966	373	9 261	4 317	2 226	11 020	2 618	454	2 742	3 172
1991	127 800	9 102	495	11 696	4 527	10 198	15 395	7 488	1 813	5 154	2 316
1993	108 042	4 185	586	11 196	4 605	9 417	11 538	8 571	3 073	2 643	2 384
1995	92 353	632	1 249	13 577	2 344	16 725	19 936	17 910	6 681	6 750	6 549

*Source: UNIDO Database and UNESCO (statistical Yearbook, 1999)*

**Table 3. Printed Book Production in Egypt 1985-1995**

Year	Total book production by title	Total amount of books in thousand copies	Total school books by title	Total amount of school books in thousand copies
1985	1366	37853	329	30716
1990	2036	43149	378	29816
1991	3599	127800	646	50283
1993	3108	108042	735	41149
1995	2215	92353	701	60752

*Source: UNIDO database and UNESCO (Statistical Yearbook, 1999)*

**Table 4. Book Registration in the Concerned Agency for Book Registration in Egypt, (1990 – 2000)**

Year	Local Books Production by title	Translated books by title	Registered foreign books by title
1990	4302	120	413
1991	4824	174	379
1992	6182	248	462
1993	5751	253	420
1994	5374	211	423
1995	4611	231	342
1996	4817	197	264
1997	4878	209	322
1998	9365	384	437
1999	7421	354	424
2000	8539	483	519

*Source: Hassenin, Naser, 2002.*

## **2. The Economic Performance of the Firms in the Book Publishing Industry:**

There is no obvious trend in the economic performance of the firms working in the BPI. Some firms experienced an upsurge in their sales in the last two years where other firms experienced sluggishness in their sales. A theme that joins the good performers or the bad performers has been absent. In other words, performing well was not confined to large or small firms or firms dealing in a certain type of books. In the last two years, the number of employees has remained constant as a conservative estimate for the whole Industry but has increased for a number of firms by 2 5% and in one of the firms it has almost doubled. Profits have increased in some cases and decreased in others, again preventing any clear-cut trend that can be deducted for the whole industry. As a result, the evaluation of the firms' owners ranged from full satisfaction to complete dissatisfaction with the performance of their firms. However, the dissatisfaction in some cases was not related to the BPI per se but was rather related to bottlenecks in other related industries, or the value chain, where distribution outlets have been a major problem. Moreover, according to some experts the BPI in Egypt faces some obstacles that prevent its development. It faces an important problem regarding technology transfer and the adequate availability of the paper manufacturing and printing and book publishing equipments, such as printers, ink cartridges (Hassenin, 2002). This is mainly due to the fact such equipments are not locally produced and hence their importers are obliged to absorb most of the continuous rise in their international prices due to their inability to raise the prices of their final product (books) due to the high demand elasticity. Moreover, the governmental policies (see section on governmental policies) do not help to overcome such problems.

## **3. Supply Side Conditions:**

The Industry depends mainly on a mixture of high skilled labor and medium management where the percentage of high skilled labor is on average 40% in the sample of firms investigated and medium management account for another 40%. The firms agreed that required labor quality is available in adequate terms for the Industry regarding low skilled and medium skilled labor and medium management. There was no consensus regarding the availability of high skilled labor and top management. The firms interviewed provide continuous training for their employees which is financed by the firms themselves as they all agreed that the performance of their employees has a strong effect on their performance.

In general, the firms in the BPI do not encounter financial problems as finance is available in relatively adequate terms. The source of finance is mainly coming from the own equity of the firms' owners or shareholders whereas some firms that are affiliates of foreign publishers obtain loans from their headquarters abroad. Most of the firms prefer to obtain finance through their own capital, as terms of getting loans from banks are inconvenient and/or the procedures are cumbersome. As a result, most of the firms working in that Industry are constrained from entering into large projects, which extend beyond their means, due to the unavailability of convenient sources of finance. The data available identify that in Egypt one book is published for

every 21000 people compared to a ratio 1 to 7000 in the case of Great Britain and 1 to 70000 in the case of Morocco, Tunisia and Algeria (Abdelgwad, 2000).

The public sector has been historically playing a role in the BPI where a number of publishers are governmentally owned. The public owned publishers enjoy an advantage of having their own distribution outlets which provide them with extra privileges in that business when compared with their private counterparts which do not control the same distribution facilities.

The firms working in the BPI asserted that the prices of some of the government services and utilities are relatively high compared to their modest quality especially those related to telephones and postal services. Moreover, a number of the firms that are engaged in exporting and importing confirmed that the port services, including custom procedures, are cumbersome and time consuming.

Having said that, the supply conditions for that industry are moderately favorable for the existing firms if a status quo position is to be maintained despite the obstacles mentioned. However, for a larger extended industry in the future there seem to be a number of bottlenecks. Some of such bottlenecks are related to finance where firms that depend on their own capital cannot extend their business due to shortages in sources of finance whenever they think of undertaking large scale projects in which their own equity cannot satisfy. Moreover, the absence of the required high skilled labor in abundant terms might act as an obstacle especially that there exist no special vocational education or training for labor working in that Industry.

#### 4. The Demand Conditions:

Demand conditions differ substantially according to the niche of each firm in the BPI. Some firms view domestic demand sufficient in absorbing their production, while others see that that reading books is a luxurious service, especially in a population with more than 40% illiteracy rate<sup>2</sup> (World Bank, 2001). Given the low purchasing power of the majority of the Egyptian population<sup>3</sup>, the domestic demand is not sufficient, or in other words, the market is tight. This has been confirmed by some studies. According To Hassenin 2002 he asserts that the small size of the market combined with other factors as export barriers, the drop off of the role of public libraries and its undersized budgets has affected the negatively the performance of the BPI. The small market size led to a decrease in the distributed quantity of books which is an obstacle to the progress of this industry and prevents the use of high technology that require the printing of large amounts of books to utilize economies of scale.

The targeted consumers differ according to the niche of each firm ranging from children, to university students, to foreign language readers, to religious readers, etc.. hence, there is no distinguished targeted consumer in that Industry. Thus, whether the consumers are demanding customers or not in that Industry depend on the niche related to each firm, however, the majority of the firms related the demand of their customers to the overall economic and political conditions that control the demand of their customers. The sensitivity of the demand in this Industry to the economic conditions prevailing has been asserted in a number of studies (e.g. Abdelgwad, 2000). Price was one of the main determinates that affect the demand on the products of the BPI. To a lesser extent, most of the firms agreed that quality and cultural taste play a role in determining demand.

Most of the firms export their products with percentages that range from 5% of their production to 100% of their production. The reasons for being engaged in exporting were utilizing economies of scale and making larger profits. Other aims for exporting included spreading the Egyptian culture.

In a nutshell, it appears that the demand for the BPI is highly correlated with the economic and political conditions prevailing. Each niche of the Industry is affected in a different way according to the circumstances that govern the demand on its products. On the one hand, price plays a role when the books are bought in the market, or in other words highly elastic products, such as literature, Romans, etc. On the other hand, income has no role when it comes to less demand elastic products such children, school and university books. The demand is highly affected by unpredictable factors such as fashionability, herd behavior and experimentation. The small market size is a main limiting factor on the expansion of the BPI.

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<sup>2</sup> The illiteracy rate was 35% for males and 58% for females in 1998.

<sup>3</sup> The GNP per capita was 1400 \$ in 1999.

## **5. Related and Supporting Industries and Services:**

The BPI depends on a number of related industries. The two main important ones are the paper suppliers as backward linked industries and printing and distribution services as forward linked industries. Other related industries in the value chain include montage and separation of colors, which are mainly part of the printing or the publishing processes. Paper is mainly monopolized by one major supplier; nevertheless, there has been no bottleneck in the supply of paper. Printing services are available in adequate terms so as well montage and color separation, however, they suffer from low quality in some cases<sup>4</sup>. A number of firms have asserted that the distribution service is a problem for them and that the governmental owned distribution outlets discriminate in their treatment against distributing their products, which affect the market access of their books. Moreover, books published by governmental owned publishers have an extra advantage in being better distributed by such outlets. Nevertheless, the interviews revealed that the governmental policies were not efficient in dealing with the issues related to the supporting industries.

Not all the firms in that Industry depend on insurance firms and legal houses, however the ones that depend on their services confirmed that they provide strong support for their business. Dependence on research institutions and their consumer surveys is almost nil in that industry. There exists "The Arab Publishers Union", however its role in helping the Industry to overcome its impediments is insignificant. Services of advertising, marketing and public relations is not highly made use of in this Industry.

To conclude, the role of supporting industries is highly significant in some cases as distribution services, which represents a major bottleneck for the flourishing of some firms in that Industry and is almost insignificant in other cases as advertising and marketing, and insurance and legal services.

## **6. Market Structure and Firm Strategy:**

The market structure of the BPI cannot be described following the classical definitions. The reason is that each of the firms interviewed is working in its own niche which is sometimes characterized as a niche full of many firms with one or two dominant, like the case of Romans, social and religious books and sometimes characterized as a niche with few firms where one or two are dominant as English Romans and English school educational books. Hence, competition is a relative term in that industry, but all the firms agreed that it is not so intensive in their niches and ranges from being moderate to intensive. Some firms asserted that their products are not competitive in the actual meaning since all books are different even when they are dealing with same topic, but competition arises in the case of distribution and marketing. Competition, has been agreed to be healthy if it is fair, otherwise it is destructive for the firms especially if distribution outlets are monopolized in some niches. The UNESCO 1996 data reveal that the publications concerned with scientific

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<sup>4</sup> The firms registered in the printing chamber reached 4400, and it is estimated that there are another 3600 unregistered. The investments in the field of printing is about 5 billion pound consisting of public and private printing houses where 100 000 are employed , with investments estimated at 3.5 billion Egyptian pounds including more than 250 publishing houses, 700 book store, 2000 print house (Hassenin, 2002).

products constituted around 26% of the total number of publications in the year 1996 whereas the school and children books had a share of 29% (cited in Abdelgwad, 2000).

Most of the firms' owners agreed that market access to that Industry is difficult, not because of legal restrictions but rather because it is difficult to know the rules of the game unless you are an insider of that Industry to be able to tackle its specific problems. The specific problems ranged from those related to IPR protection to special technological knowledge and editorial talents. Foreign firms face no restrictions in entering this Industry and their market share has been increasing over the last few years in the different niches of the Industry.

Most of the firms have explicit business strategy which is formulated by either the owner or a corporate team like board members. In some cases, the help of outside consultants is asked for to design the business strategy of the firm. The main goals expressed by the firms' managers or owners were spreading the knowledge and the Egyptian culture and increasing profits. The strengths of the firms working in this Industry ranged from unique editorial qualifications to making use of some monopoly situations in publishing a certain product. The weakness of the firms were mainly either due to internal organizational problems or dealing with the government as the sole buyer which affect their bargaining power and postpone the collection of their money.

Most of the firms have been engaged in aggressive marketing and flexible pricing policies in the last two years where few have chosen targeted advertising for their products. All the firms agreed that they are constantly upgrading their firm's organization so as well their production technology and product mix including many of the digital developments (e.g. e-books). Moreover, as explained in Section 8, the Government policies in enhancing investment in other related fields forced some of the publishing houses to move in other fields as printing. Out of the 112 publishing houses in Greater Cairo 40 are engaged in printing as well.

## **7. The Role of Intellectual Property Rights:**

About 66% of the sample of firms interviewed identified that they adopt an explicit IPR strategy to preserve their own copyrights which take several forms, but mainly revolving around having specific contracts that preserve such rights. Moreover, there have been some efforts undertaken by the Union for Arab Publishers in that field to enhance the enforcement of copyrights, especially that the government efforts in this regard have been inadequate. Most of the firms have a special department or a person devoted for taking care of IPR and those that have special departments together with those that do not consult external specialists on that issue on regular basis. The Egyptian Law No. 354 for 1954 protects the copyrights for the products of the BPI. Moreover, the new law, which has been recently by the parliament, contains special provisions for preserving the rights of book publishers.

Despite such awareness of the IPR by the book publishers, the majority has not encountered problems related to IPR. The minority that have faced IPR enforcement problems identified that the problems they faced were rather minor problems and have been solved before reaching the court. The only major problem faced by one of the book publishers was outside Egypt in a European developed country!!! The book

publishers agreed that better enforcement of IPR would have positive effects on the flourishing of the Industry. Such low piracy rates for local published books is in contrast to the piracy of some English text foreign published books used in by certain segments of the society as University textbooks and especially in the field of Medicine. An international report has identified that the foreign published English textbooks for Universities suffered from a high piracy rate in the year 2000 (International Intellectual Property Alliance, 2001).

The relatively low piracy rate in the field of book publishing compared for example with the case of sound recording can be interpreted in terms of a cost benefit analysis of piracy of books. This is confirmed by the available estimates on piracy rates for cultural books which was estimated to be 35% in the early 1990s and increased to 65-70% in the case of some of the University books (cited in Hasssenin, 2002). The costs of reproducing a book are not too low when compared with producing the original copy, especially after taking in consideration that the royalty fees paid to authors are not high. In some cases, there are no royalty fees as the author undertake the publishing procedure himself (Abdelgwad, 2000). This is in contrast to the case of sound recording where the marginal cost of reproducing a cassette tape or a CD approach zero and the cost of the producing the original copy is high especially after taking in consideration the high royalty fees paid for composers, singers and song writers. On the benefits side, given the high illiteracy rate in the Egyptian society and given that the market for published goods is highly segmented, the benefits from piracy seem not so attractive. This is in contrast to the case of Sound Recording where the market is larger and illiteracy rate has no effect which enlarges the potential benefits from piracy.

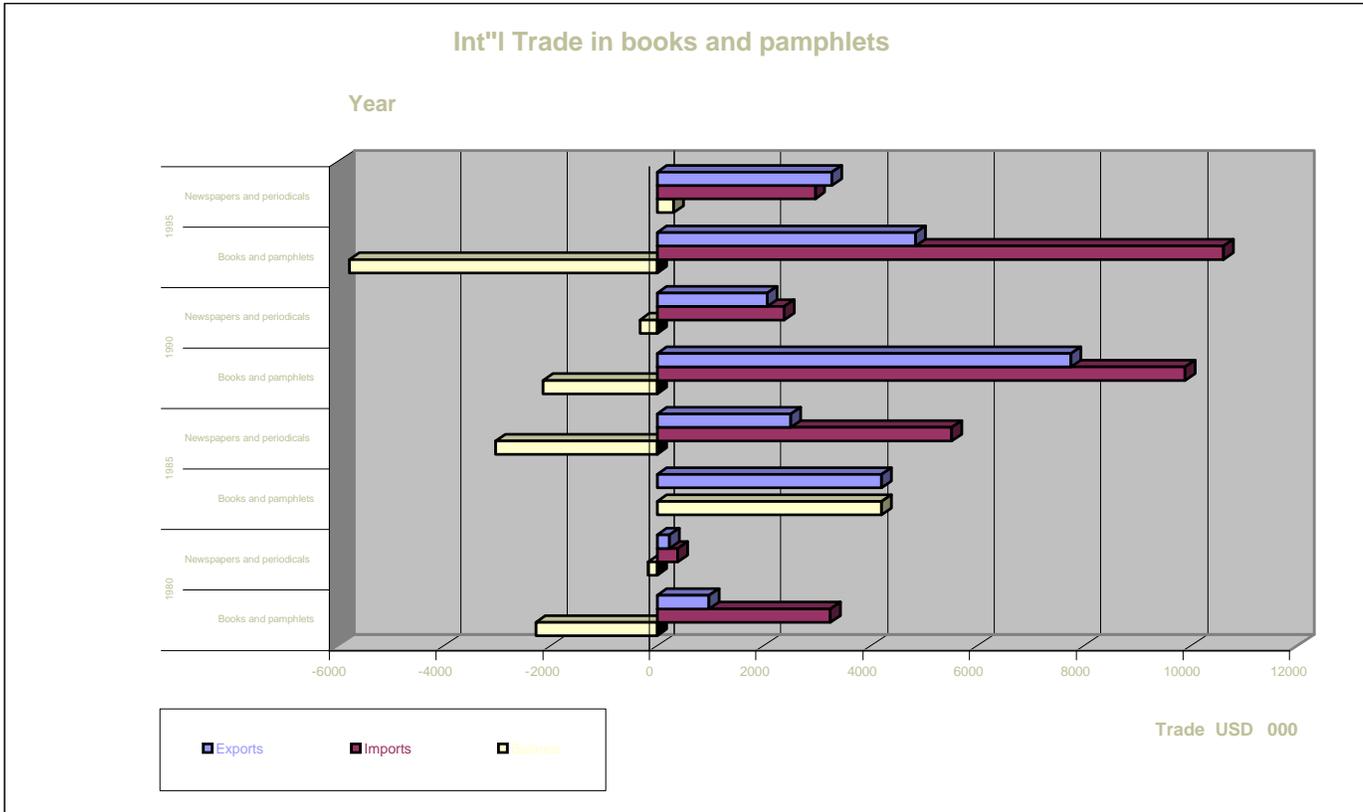
## **8. Government Policies:**

The firms have identified that the government policies to promote the BPI have remained short of expectations. For example, the government did not try to develop human resources in that Industry, neither did it promote science and technology in that field. In a number of different niches, as religious, social and children books, the government tried to stimulate demand by reprinting a cheap copy of the most famous books<sup>5</sup>. The reprinting of such books, might have had a positive impact on increasing demand for reading in general, but it had influenced the book publishers in a negative way as books were sold for less than their costs at prices that the original publishers cannot compete with.

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<sup>5</sup> This is a national project called "Reading Fair for All" undertaken by the government under the auspices of the Ministry of Culture.

**Figure 1. The Books' Int'l trade for Egypt.**



**Source: UNCTAD Database**

The government did not try to facilitate the development of clusters for that industry. The government did neither try to promote competition in that industry nor tried to enhance its exports (Figure 1 identify the exports and imports of different books). The government did not try to control prices in that industry, something which had a positive effect, but the insufficient efforts to control prices in related industries and specifically in the provision of paper had a negative impact on the BPI in terms of increasing its cost of production. The government imposes 10% sales tax in addition to an average of 30% on all printing equipments and requirements. Also there are tariffs on printing paper for about 18% . The tariff plus the sales tax on printing ink reaches 46%. The tariffs on printing plates are 35%, and on printing machines is 18.5%. This implies a burden on the BPI which has to be bared by the producers due to the inelastic demand on books sold in the market. The recent devaluation of the Egyptian pound by more than 30% is likely to have a negative impact on the costs incurred by the BPI as well.

The policies regarding the importation of books remain open, and the tariffs on the imported book is 5% only, which gives books published in other Arab countries (as Lebanon) a competitive advantage when compared to books published in Egypt. However, all imported books are subject to scrutinized control which impede the access of imported books and act as non-tariff barrier.

An overall evaluation of the government policies adopted towards the BPI reveal that they are poor policies which had a negative impact on the development of the

Industry. Even the policies that had had a positive impact such as promotion of investment (domestic and foreign) in the related industries were based on ad-hoc planning and were characterized by lack of coordination.

### **9. Expectations of the Industry:**

The BPI in Egypt suffers from weak institutional and political support. The overall picture of the development of that Industry hinges on the domestic and world economic and political changes. A better domestic economic environment, in terms of getting away from the recession situation is likely to have a positive impact on the Industry with all its different niches. On the political front, the worldwide changes occurring after the 11<sup>th</sup> of September's events are likely to increase the world demand for certain products of the BPI related to religion, social and cultural aspects, despite the overall worldwide recession. Hence, the unexpected factors that influence demand identified in Section 3. as fashionability and herd behavior can play a critical role here. The BP firms should attain the right strategies to be able to make use of such political cycles.

Despite the fact that the piracy in that Industry is not high, the move towards new economy tools and the engagement of BP firms in this new form of business is likely to increase the chances of piracy. Hence, setting the right institutional setup and governmental policies, especially those that deal with IPR enforcement, will have a positive impact on the development of that Industry

## Book Publishing Industry's Summary:

<p><b>The Economic Performance of the Firms</b></p>	<ul style="list-style-type: none"> <li>• There is no obvious trend in the economic performance of the firms, performing well was not confined to large or small firms</li> </ul>
<p><b>Supply Side Conditions:</b></p>	<ul style="list-style-type: none"> <li>• High skilled labor and high management are inadequate</li> <li>• The firms in the BPI do not encounter financial problems</li> <li>• The prices of some of the government services and utilities are relatively high compared to their modest quality.</li> <li>• For a larger extended industry in the future there seem to be a number of bottlenecks related shortages in sources of finance.</li> </ul>
<p><b>The Demand Conditions</b></p>	<ul style="list-style-type: none"> <li>• Given the low purchasing power of the majority of the Egyptian population, the domestic demand is not sufficient</li> <li>• There is no distinguished targeted consumer in that Industry.</li> <li>• Most of the firms export their products</li> <li>• Demand for the BPI is highly correlated with the economic and political conditions prevailing</li> </ul>
<p><b>Related and Supporting Industries and Services</b></p>	<ul style="list-style-type: none"> <li>• The two main feeding industries are the paper suppliers and printing and distribution.</li> <li>• One major supplier mainly monopolizes paper; with no bottleneck in paper supply.</li> <li>• Printing services are available in adequate terms</li> <li>• The distribution service is a problem for private owned entities.</li> </ul>
<p><b>Market Structure and Firm Strategy</b></p>	<ul style="list-style-type: none"> <li>• The market structure of the BPI cannot be described due to the high market segmentation; competition is a relative term in that industry all the firms agreed that it ranges from being moderate to intensive</li> <li>• Competition arises in the case of distribution and marketing.</li> <li>• Market access to that Industry is difficult.</li> </ul>
<p><b>The Role of Intellectual Property Rights</b></p>	<ul style="list-style-type: none"> <li>• About 66% of the sample of firms interviewed identified that they adopt an explicit IPR strategy</li> <li>• The majority has not encountered problems related to IPR</li> <li>• The Relatively low piracy rate in the field of book publishing, as the costs of reproducing a book are not too low when compared with producing the original copy</li> </ul>
<p><b>Government Policies</b></p>	<ul style="list-style-type: none"> <li>• The firms have identified that the government policies to promote the BPI have remained short of expectations no development in human resources neither promoting science and technology in that field.</li> <li>• NO promotion for investment nor competition in that field.</li> </ul>
<p><b>Expectations of the Industry</b></p>	<ul style="list-style-type: none"> <li>• The BPI in Egypt suffers from weak institutional and political support.</li> <li>• Political changes strongly flourish the industry.</li> <li>• IPR enforcement is needed in the future with the development of information technology and the appearance of e-versions of books</li> </ul>

## II - The Music Sound Recording Industry in Egypt

### 1. Overview

In the year 2001 the Music Sound Recording (MSR) Industry in Egypt was estimated to be worth of 15 to 17 million US \$<sup>6</sup> (in terms of the production value) according to the valuation of people working in that industry. This accounts for less than 0.0002% of GNP in the year 2000. There are three large firms in the industry accounting for 70-80% of the production and about 20 small firms accounting for 20-30% of the production indicating a high degree of concentration. The number of employees is estimated to be in the range of 650 person where large firms employ on average 45 persons in each firm and small firms employ 25 on average. All the firms are private with the exception of one quasi governmental firm where its role is declining (the firm falls under the umbrella of the Union for Radio and Television). The study is mainly based on personal interviews with expertise in the music sound recording firms due to the lack of published data on this industry in Egypt<sup>7</sup>. The interviews' results are supplemented by available literature on the Industry in general and not confined to Egypt.

### 2. The Economic Performance of the Firms in the MSR Industry:

The large firms have been performing relatively well in the last two years whereas their sales have increased with an average annual growth of 30%. This is in line with the international reports which estimated the growth in the value of that Industry in 1998 to have increased by 24% (<http://www.ifpi.org>). The profits of the firms have been either increasing or at least remaining constant. Indeed, the Industry has been doing relatively well since the beginning of the 1990s. The prerecorded music sales have gone up in terms of units, from 11 million in 1992 to 20.1 million in 1997, and in retail value of these sales, from US \$ 13.3 million in 1992 to US\$42.8 million in 1997 (Alikhan, 2000). On the other hand, small firms have not been doing relatively well where a number of them have been experiencing losses in sales and profits. As a result, a number of small firms have been merged with one of the large firms in the Industry, a phenomenon that is still taking place. The owners of the firms in general have shown dissatisfaction with the economic performance of the industry attributing the weak performance to the relative neglect of the industry from the government side, lack of efficient institutions especially the weak IPR protection, inadequacy of funds needed to flourish the industry and, the overall recession that has been facing the Egyptian economy.

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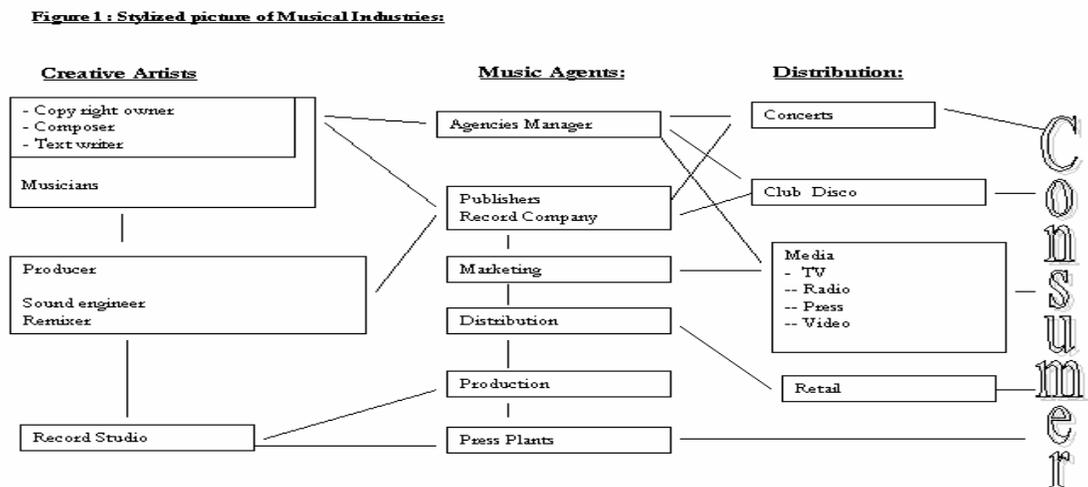
<sup>6</sup> Using exchange rate 1US\$ equivalent to 4.3 Egyptian pounds.

<sup>7</sup> This is a worldwide phenomenon where data are not available for this sector., See for example Anderson et. al (2000), p. 3, and Kozul-Wright and Stanbury (1998)

### 3. Supply Side Conditions:

The industry depends to a large extent on high skilled labor that represents more than 50% on average of the people employed in each firm. The owners of the firms have asserted that they encounter problems in finding high skilled labor and top management which affect the performance of their firms in a significant matter. They accounted the deficiency in the high skilled labor and the top management to the miss-matching of the educational system, represented in the Institute of the Arabic Music, with the requirements they need in their employees. Hence, they all provide continues training for their staff financed by the firms themselves.

The public sector has traditionally played no role in the MSR in Egypt (with the exception of the quasi governmental firm, Sharikat Kahira lil Soutiat and Mariat, which is experiencing a decreasing role in that field). The estimated 650 persons working in the MSR, all in the private sector, reflect only the direct labor. However, the Industry has a role in providing jobs for indirect labor in other fields as distribution services, promotion services, sound system services, recording studios services, etc. (see Figure 1. below). Hence, the figure estimated represents a lower bound to the actual figure working in MSR and underestimates its actual contribution in the economic activity in Egypt.



Source: Wilfred Dolfsma, "How Will the Music Industry Weather the Globalization Storm?" *First Monday*, volume 5, number 5 (May 2000), URL: [http://firstmonday.org/issues/issue5\\_5/dolfsma/index.html](http://firstmonday.org/issues/issue5_5/dolfsma/index.html)

All firms in the MSR depend on equity for their finance without any kind of dependence on loans from banks or other organizations. There has been no consensus on whether the form of finance supplied by own capital of the firms' owners is adequate or not where some agreed that it is adequate while others disagreed. Reasons for not depending on other sources of finance differed from arguing that terms of obtaining loans from banks are inconvenient to asserting that the way of doing such kind of business in Egypt is in no need for getting loans from banks. No matter what the reasons are, the situation in Egypt is similar to other developing countries where most producers do not have the financial muscle to underwrite large scale manufacturing (Kozul-Wright and Stanbury, 1998). The system of producing tapes normally takes the following steps where the recorded tape is sold by the production firm in advance to the wholesalers before it materializes and hence the owners use such money to pay the singers, writers, etc or postpone the payment

till the tape is sold to wholesalers thus minimizing the production firms' exposure to risk of inadequate finance.

The Industry is not affected significantly by the quality and/or price of the services and utilities supplied by the government which include electricity, postal services, telephones, domestic transport, port and airport services.

In a nutshell, the supply conditions for this industry seem to suffer from one major bottleneck which is the deficiency of high skilled labor, and to some extent top management. The Egyptian Music Industry in general achieves its competitive edge mainly from its cultural capital and highly efficient and music industry professional working mainly with tacit knowledge. The Egyptian music industry has a regional dimension, which includes a long historical closeness to, and influence on the Arab market. The financial position as well as the services and utilities supplied by the government do not represent a major obstacle hindering the flourishing of that Industry in Egypt.

#### **4. The Demand Conditions:**

According to the owners of the production firms the domestic demand is not sufficient in absorbing their entire production and is not capable of covering their costs of production. From another perspective it can be viewed that there is overproduction and hence the optimal size of the firm and/or the number of firms in the market are not optimal.

The targeted consumers do not have a definite income baseline. In other words, although income plays a role in affecting the demand on the products of such industry, it is not the main factor. Income affects the demand in general terms by raising the purchasing power of the population in general which affects demand and in turn the demand on a luxurious good as sound recorded tapes. However, the main determinant of demand in such industry is age. The targeted consumer group is the age group 15-30 years old. The educational and social levels also play as well an important role in determining the demand on certain products in that industry. The cultural tastes, quality, technological superiority and price play a role in affecting demand with price playing a major role in that respect. Hence price, age group and overall economic conditions are the key determinants of demand for that industry. Moreover, the Egyptian market consumes merely recorded tapes and not CDs. The use of CDs is on rise, however the high tariffs on CD equipment, and the price difference between CDs and normal cassettes force consumers to rely on normal tapes. It was estimated that the CD sales merely represent 11% of the total album sales and the rest are all cassette tapes in the Middle East region (<http://www.ifpi.org>).

The owners of the production firms view their customers as very demanding customers and that domestic demand act as an indicator for foreign demand. A number of the firms are engaged in exporting either directly by selling their products in Arab markets or through production and distribution licenses. Reasons of exporting include covering their costs of production and utilizing economies of scale.

Having said that, it appears that demand for the products of the MSR Industry is a function of the prevailing economic conditions and that the income elasticity for that product is high as it is considered as a luxurious good. Age group plays the major role in determining the targeted consumer whereas price elasticity is above one indicating high price elasticity of demand. Nevertheless, it should be mentioned that MSR, so as the case worldwide, suffers from unpredictable factors that affect consumer behavior and include fashionability, herd behavior, and experimentation (see Anderson, et. al, 2000, p. 8)

## **5. Related and Supporting Industries and Services:**

The Music Industry depends on a number of related stakeholders as identified in figure 2, however the analysis here is confined to MSR. All firms in MSR depend on local suppliers for empty tapes and CDs, which are available in adequate terms in relation to the needs of the industry. The Industry does not suffer from bottlenecks in terms of local suppliers or backward related industries (mainly manufacturers or distributors of imported cassettes and CDs), which are shared among the firms existing in the markets and cooperate with all of them without specific problems in that regard.

The Industry depends heavily on composers, songwriters, performing artistes including musicians and singers. There is no bottleneck in the availability of the services of those related activities. On the contrary, such related activities are abundant in relative and absolute terms in the Egyptian market.

The Industry does not depend on institutions in the fields of insurance, legal services or banking. It does not rely on consumer surveys or other kinds of research products produced by universities or R&D institutions. There exists "The Association for Cassette Tape Producers", however it has no effective role in tackling the problems that face the existing firms in the Industry. This is similar to the case of the music industry in other developing countries where there is a lack of institutions and organizations including lobbying and interest groups that support the Industry (Kozul-Wright and Stanbury, 1998). Specialized journals, newsletters and magazines are used as a method of marketing and advertising, but play trivial role in identifying the problems faced by that Industry or utilized as a method of tackling its obstacles. The only kind of companies that such Industry depends on is the advertising, marketing and public relations companies where the firms existing in the MSR Industry rely heavily on their services especially the three aforementioned large firms.

In a nutshell, the MSR Industry does not face major problems related to its backward or forward linkages with other industries. Despite that they are available in adequate terms the Industry seems to be in no need of strong forward and backward linkages with the exception of the backward relationship with the suppliers of raw cassettes and CDs and the forward linkages existing in the case of large firms with advertising and marketing agencies and companies. There seems to be no specific bottlenecks regarding the related and supported industries in the sense that their absence does not hamper the functioning of the Industry, however, their absence will not have a positive impact on its flourishing.

## 6. Market Structure and Firm Strategy:

Based on the introduction and taking in consideration the openness of the market for representatives of international firms and stretching the geographical boundaries of the Egyptian firms to Arab markets, it can be argued that the market is better described as an imperfect competition type of market where many firms exist with few dominant firms. The government is not engaged by any means in that Industry with the exception of one firm (quasi governmental) whose role is rather diminishing. Competition is described to be rather intensive and some commentators argue that it is not fair due to the inequality of size of the few dominant firms and the other small firms, and hence though it is agreed that competition in theory should have a positive effect on the industry the prevailing type of unfair competition affects the Industry in negative terms. There seems to exist a high degree of collusion among the major firms in the Industry where the pricing policies are coordinated between them in explicit as well as implicit ways. A number of acquisitions by one large firm for small firms have happened. Moreover, international firms as Sony and EMI operate in the market, however, there has been a problem related to IPR enforcement as identified below.

There are no legal or significant bureaucratic restrictions on entry of new firms, whether domestic or foreign, to the market. Nevertheless, the entry of new firms remains difficult and the continuing existence of incumbent firms is a difficult task. The main reasons for such difficulties are embedded in the specific know how and managerial and art talents needed to run successfully in such type of business. Moreover, the size of the Egyptian market in terms of demand and its incapability of covering costs deter potential firms from entering the market and result in a large number of firms leaving the market.

On a micro or firm level, most of the firms have an explicit business strategy formulated by the owner and his partners. This is because the type of the existing firms in this Industry is merely sole proprietorships. The structure of performing business in that Industry resembles to a large extent the system in Europe where the recording companies act as the primary entrepreneurs. They hire talent scouts to seek suitable artistes as well as work of authors for production and publication, and then offer contracts to these artistes and authors (James, 2000, p. 25)<sup>8</sup>. There neither exists public firms in that field nor large firms with shareholders, with the exception of one large firms identified above that is merging with a number of small firms. The MSR firms include the activities of production, renting or owning commercial studios and the recording of the cassettes and CDs. The goals of firms involve an economic dimension represented in profit maximization and reputation preservness and a national dimension represented in the form of establishing a strong national music industry. The strengths of the firms as viewed by their owners rely mainly on their personal art and managerial capabilities and their efficient methods to capitalize on such capabilities. Weakness of the Industry is mainly attributed to the absence of high skilled labor and the weak enforcement of intellectual property rights represented in high piracy rates which affect negatively the performance of their industries.

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<sup>8</sup> In other cases, the artiste bears responsibility to make the arrangements for copies to be manufactured as in Jamaica and Trinidad and Tobago.

The large firms in the Industry have been engaged in aggressive investment and marketing policies so as well flexible pricing policies versus the small firms which have not been engaged in such type of policies. Firms, both large and small, have been constantly upgrading their production technologies, organization and product mix, though this has been more evident in the case of large firms when compared with small firms.

## **7. The Role of Intellectual Property Rights:**

As identified by experts, the MSR can hardly survive without an effective Intellectual Property Rights (IPR) system since it is mainly based on creative expression and related intangible assets (Anderson, et, al. 2000: p. 2). In Egypt, IPR seem to be a major concern for the firms in that MSR Industry<sup>9</sup>. According to the last report released by IFPI, the level of domestic piracy in the year 2000 was estimated to be between 25-50% (<http://www.ifpi.org>). The products of MSR Industry are protected by the Copyright Law No. 354 for 1954 and are present in the new comprehensive IPR law that has been recently approved by the Parliament. However, the problem is embedded in the weak enforcement of IPR in the domestic market which negatively affect the performance of the Industry. Firms are quite aware of such problem and the majority has encountered problems related to that issue, mainly in the domestic market. They try to adopt an IPR strategy and consult legal houses for that matter but their efforts remain short in overcoming this problem. The problem is exacerbated by the weak governmental policies in that regard. The government is inefficient in controlling the smuggling of foreign and pirated tapes, dealing effectively with the piracy of the products, though government efforts in this regard have increased substantially in the last period<sup>10</sup>. In one of the reports it has been asserted that the government was even engaged in legalizing the piracy of the products of this Industry by issuing false licenses to pirates engaged in the production and distribution of music sound tapes. The report has mentioned that there are serious efforts to overcome this problem (for example, the number of cases caught for piracy in this industry increased from 1230 cases in 1997 to 2200 in 2001 with a substantial increase in the number of pirated copies which almost doubled in the same period from 315000 to 670000 copies according to the record of the Ministry of Interior), however they still remain inadequate (see International Intellectual Property Alliance, 2001)<sup>11</sup>. Such problem has prevented the Egyptian market from developing over years. The piracy of CDs is still relatively insignificant due to the low user rate of CDs in Egypt. Recently, in the first half of 2001, a number of advancements have been undertaken in this regard where the authorities stopped providing censorship clearance for recordings released under the terms of the fraudulent licenses previously granted (<http://www.ifpi.org>). Nevertheless, it is important to mention that

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<sup>9</sup> Internationally, the MSR is organized as a copyright industry, in the sense that a large share of its income comes from royalties based on copyrights and neighboring rights. As asserted by specialists without such incomes, the industry is not likely to survive. (see James, 2000, p. 16).

<sup>10</sup> For examples, recently the inspectors of the Ministry of Culture's censorship department and local police officers raided a warehouse in one of Egypt's large cities which was a distribution point for pirated music cassettes where at least 300,000 inlays for cassette tapes and 6,000 cassette tapes were found (see. <http://www.ifpi.org>).

<sup>11</sup> False contracts are produced from pirate sources in Asia or elsewhere whereby pirates claim to be legitimate subsidiaries of the true right holder as a way to continue to hold and obtain false licenses in Egypt.

the ineffective enforcement against piracy and violations of copyrights in the MSR is a worldwide phenomenon<sup>12</sup> (James, 2000: p.9; Kozul-Wright and Stanbury, 1998).

## **8. Government Policies:**

The owners of the producing firms have described the government policies towards their Industry to be a total failure. In some areas the government did not tackle the obstacles facing this Industry by any means. In other areas, the efforts of the government have been either inadequate or counter effective. Regarding the areas in which the government did not try to overcome the obstacles facing this Industry, they included the absence of efforts to promote science and technology for the Industry, technological infrastructure, establishment of strong clusters, promotion of investment, foreign and/or local, promotion of competition, encouraging exports, and most importantly effective protection of IPR. The Industry does not receive any kind of subsidies from the government. The areas in which the government efforts remained short or counter effective included the heavy tax burden on advertising (where for example, adding the logo of the firm on the advertisement in television costs 100% more of the actual cost of the advertisement), ineffectiveness in controlling smuggling and tracing piracy through a well enforced IPR laws and regulations, high import tariffs on raw cassette tapes and CDs and other main inputs, and a mismatched educational system producing weak candidates to be employed by the production firms. The existing educational institute “The Institute of the Arabic Music” is mainly confined with enhancing the art talent whether for singers, composers, etc. However, there is no special department for educating production skills.

## **9. Expectations of the Industry:**

The MSR Industry in Egypt suffers from weak institutional and political support, massive copyright infringement and, weak levels of entrepreneurial capability. Nevertheless, the firms in general show an optimistic attitude towards the future of the Industry, however constrained by the overall economic conditions prevailing in the domestic and regional economies. Given that the overall economic conditions act as a major determinant for the demand conditions in that Industry and taking in consideration that the income and price elasticities are relatively high on its products due to their luxurious nature, it seems that the flourishing of this industry will heavily depend on overall economic conditions. On the supply side, the industry is heading towards higher concentration with one of the large dominant three firms undertaking a series of acquisitions which leaves the overall picture undetermined till the market settles down again and adapt to its new structure. The Industry has strong export capabilities in the Arab region, but it is hindered by weak supplier response, and infrastructural and organizational deficiencies. Plans for exporting, especially in the Arab region, are ambitious and are likely to be enhanced if the aforementioned obstacles are dismantled due to the limited size of the domestic market and the inability of the existing firms to cover their production costs from selling only in the local market. Hence, the untapped potential of exporting can be realized and

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<sup>12</sup> For an argument that asserts that copyright enforcement, given the existing stringent worldwide proposed rules will lead to collusive behavior and rent seeking activities in the music industry and will not benefit the consumers and will benefit only non-creative intermediaries see Dolfmsma, Wilfred (2000).

economies of scale could be reaped if the right institutions are in place and the policies governing that industry are set accordingly. With the existence of flexible pricing policy the firms might be able to overcome the downturns in the demand side, however, the extent of adopting such flexible pricing policies is bounded by the inability to cover the production costs from the local market which leaves exporting as the last resort for such firms as a surviving strategy. A regional program that is able to provide better allocation of resources following the lines of the European Music Office established by the European Union in 1997 or other similar projects in the Caribbean is highly welcome (for more details on such projects see Office of the Cultural Affairs, 2002). Moreover, partnership between local and foreign companies should be enhanced to overcome the weak financial position of many of the local firms. Such kind of mergers or partnerships are a world wide phenomenon (see Kozul-Wright and Stanbury, 1998) and need to be addressed in the MSR in Egypt. Regarding the institutional infrastructure, the needed IPR laws prevail but stronger enforceability of IPR will help to enhance and flourish the Industry where the prevailing protection structure act as a major bottleneck that causes losses to incumbent firms, deter foreign and domestic investment from entering this field and reduce the government revenue represented in loss of sales tax collected on the pirated copies. Finally, investment in human capital and matching between the educational outcome and the needs of the Industry is required especially in the following professions: entertainment lawyers, sound engineers, multi-media specialists and, marketers.

**Music Sound Recording Industry's Summary:**

<p><b>The Economic Performance of the Firms</b></p>	<ul style="list-style-type: none"> <li>• Large firms grew by 30% on average basis during the past two years.</li> <li>• Owners showed dissatisfaction with the performance of the industry due to the government neglect to the industry, lack of efficiency, inadequate funds &amp; recessionary conditions facing the economy.</li> </ul>
<p><b>Supply Side Conditions</b></p>	<ul style="list-style-type: none"> <li>• Skilled labor is very hard to find and performs 50% of the employment force of the industry</li> <li>• The industry is not affected by the quality and/or price of the services and utilities supplied</li> </ul>
<p><b>Demand Side Conditions</b></p>	<ul style="list-style-type: none"> <li>• The domestic demand is not sufficient in absorbing their entire production and is not capable of covering their costs of production.</li> <li>• The targeted consumer group is the age group 15-30 years old.</li> <li>• The educational and social levels play as well an important role in determining the demand on certain products in that industry.</li> <li>• The cultural tastes, quality, technological superiority and price play a role in affecting demand with price playing a major role in that respect.</li> </ul>
<p><b>Related and Supporting Industries and Services</b></p>	<ul style="list-style-type: none"> <li>• The Industry depends heavily on composers, songwriters, performing artistes including musicians and singers.</li> <li>• There is no bottleneck in the availability of the services of those related activities.</li> <li>• The Industry does not depend on institutions in the fields of insurance, legal services or banking.</li> <li>• MSR Industry does not face major problems related to its backward or forward linkages with other industries.</li> </ul>
<p><b>Market Structure and Firm Strategy</b></p>	<ul style="list-style-type: none"> <li>• The market is described as a an imperfect competition type</li> <li>• Three large firms and 20 small ones</li> <li>• One large firm merging with a number of small firms</li> </ul>
<p><b>The Role of Intellectual Property Rights</b></p>	<ul style="list-style-type: none"> <li>• The MSR can hardly survive without an effective Intellectual Property Rights (IPR) system.</li> <li>• The problem is exacerbated by the weak governmental policies in that regard.</li> <li>• The government is inefficient in controlling the smuggling of foreign and pirated tapes, dealing effectively with the piracy of the products, though government efforts in this regard have increased substantially in the last period.</li> </ul>
<p><b>Government Policies</b></p>	<ul style="list-style-type: none"> <li>• The government policies inadequate or counter effective the heavy tax burden on advertising, ineffectiveness in controlling smuggling and tracing piracy high import tariffs on inputs (cassette tapes. CD's ...)</li> <li>• The government is a major culprit in not effectively protecting IPR in practice.</li> </ul>
<p><b>Expectations of the Industry</b></p>	<ul style="list-style-type: none"> <li>• The MSR Industry in Egypt suffers from weak institutional and political support.</li> <li>• The Industry has strong export capabilities in the Arab region, but it is stymied by weak supplier response, and infrastructure and organizational deficiencies</li> <li>• With the existence of flexible pricing policy the firms might be able to overcome the downturns in the demand side</li> <li>• - Partnership between local and foreign companies should be enhanced to overcome the weak financial position of many of the local firm.</li> </ul>

### III - Film Production Industry in Egypt

#### 1. Overview:

The Egyptian Cinema Industry is well recognized for its long lasting history and its large size (WTO, 1998). The size of the Film Production Industry (FPI) in Egypt was estimated to be about 20-25 million US \$ in the year 2001<sup>13</sup>. This figure accounts for the locally produced films and does not take into consideration the revenue from foreign distributed films which accounted for about 12 million US \$. However, it should be noted that this size of the Industry is highly variable from year to year and the volume of production reached in the year 2001 should not be recorded as an average. Figures on FPI are misleading since firms and experts have asserted that tax evasion in this business is extremely high and hence figures announced are always underestimated. The FPI represented about 0.0002% of GDP in 2001. The firms registered as working in the FPI are more than 450 firms. However, the active firms producing films per year might not exceed 15 firms with very few accounting for over than 80% of the volume of production. The number of employees in the FPI is difficult to estimate due to the nature of seasonal type of work in this Industry and to the vertical integration of the Industry which results in the difficulty of calculation for the exact number of people working separately in film production. The average number of permanent employees in small firms interviewed was about 15 employees whereas the average number of permanent employees in large firms reached 50. If firms besides their film production activities are engaged in the business of studios, cinemas, and/or printing and development of films the number of employees differ significantly. Moreover, the firms working in the FPI depend to a large extent on temporary employees as actors, engineers, etc. where they are just hired on short-term contracts whenever a film is being produced. The number of employees registered in the Cinema Syndicate are about 3000, where estimates suggest that about 25% of them work in Cinema and its related fields and the rest work in television.

The study is mainly based on interviews with owners of film production firms and experts in the field. It is supplemented by work that the author has done for another study on the Audiovisual Sector in Egypt, Morocco and Tunisia<sup>14</sup>.

#### 2. The Economic Performance of the Firms in the FPI:

All the firms in the FPI, with the exception of a handful of firms, have been performing badly in the last two years. Their sales, market share, employment and profits have been decreasing significantly in the last two years. This might be contradictory with the overall performance of the Industry where the number of films produced increased significantly in the year 2001 (more than 40 films) compared to the average production per year in the latest years of the 1990s (see Table 1). This contradiction lies in the exceptional two firms which were established in the years 2000 and 2001

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<sup>13</sup> Using exchange rate 1 US \$ equivalent to 4.3 Egyptian pounds.

<sup>14</sup> Ghoneim, Ahmed F. (forthcoming), "The Audiovisual Sector in Egypt, Morocco and Tunisia" a study undertaken for the World Bank and International Affairs Institute to enhance the capacity building of MENA countries in the coming GATS Negotiations.

with a huge starting capital compared to other firms. Moreover, one of those two firms owns about 28% of the cinemas in Egypt and a number of cinemas in the Arab world. Such features, mainly large capital and vertical integration, allowed this firm to dominate the market and it had produced alone 15 films in the year 2000 and 25 films in the year 2001. By the end of the year 2001, another large private firm, and another quasi governmentally owned firm, were established. Hence, it is expected that those new firms will lessen the dominance of the former firm in the market, especially that the new private firm owns as well a number of cinemas. The performance of the FPI hinges mainly on the behavior of the dominant players in the market and is expected to remain so for an extended period of time.

**Table 1: Number of films produced on annual basis**

Year	No. of films	Year	No. of films	Year	No. of films
1966	34	1978	51	1990	85
1967	33	1979	29	1991	69
1968	38	1980	34	1992	62
1969	44	1981	50	1993	76
1970	48	1982	55	1994	30
1971	43	1983	60	1995	25
1972	42	1984	74	1996	24
1973	42	1985	106	1997	28
1974	42	1986	77	1998	16
1975	52	1987	85	1999	27
1976	49	1988	112	2000	NA
1977	51	1989	95	2001	NA

**Source: Chamber of Cinema Industry (2001), unpublished data**

### 3. Supply Side Conditions:

High skilled labor is the backbone of the FPI. High skilled labor represents more than 80% of the employees in each firm. All the firms have identified that high skilled labor equipped with the needed skills is not available in adequate terms. Nevertheless, all the firms do not provide training for their employees because of absence of adequate sources of finance. The firms depend on the Cinema Institute graduates. Such Institute has several departments including acting, directing, etc. and its graduates have been the major pool for employment by the FPI. In other words, the education skills needed by the firms in the Industry are available in adequate terms, but training initiatives to sharpen the required skills and keep them updated are absent.

The main source of finance for firms in the FPI is their own capital. A consensus has been reached among the people interviewed that finance is available in adequate terms if they are to undertake their traditional volume of production, however, it is inadequate to finance a larger volume if they decided to expand. The firms' owners agreed that their type of business cannot be financed by banks due to a number of reasons, among which are the intangible nature of their products and the underreporting of the expenses and revenues of the firms to escape taxation. Such non-transparent nature of the business does not allow banks to finance it.

Most of the interviewed firms' owners agreed that the governmental services and utilities including electricity, postal services, telephones, domestic transport, port and airport services do not affect them in any significant matter.

The public sector has participated in the FPI for a long time through the "Union of Radio and Television" which had produced a number of films in the past, but had

stopped production in 1971 (Hassenin, N., 1995). Recently a new quasi governmental body has been established and is being engaged in producing films either by jointly producing films with other firms or subcontracting the production of films to independent producers. However, the films produced by the Union of Radio and Television had never had a significant effect (whether good or bad) on the performance of the FPI. Moreover, the impact of the newly established body is still not realized.

In a nutshell, the supply conditions featured in the inadequacy of high skilled labor and the inconvenience of obtaining loans from banks are two major supply bottlenecks of the FPI.

#### **4. The Demand Conditions:**

There has been no agreement among the film production firms' owners whether the domestic demand is sufficient in absorbing their entire production or not. Such difference in views is resolved if we know that the firms' owners who argued that the demand is sufficient identified that the main bottleneck is the scarcity of cinemas in Egypt whether relatively to the number of films produced on annual basis or if we take the geographical aspects in consideration where cinemas are concentrated in Greater Cairo and are scarce in the rest of country (see Table 2.). Hence, it can be safely argued that the relative demand (in contrast to absolute demand) is insufficient in absorbing the entire production of the FPI.

**Table 2. Movie Theatres (Cinemas), Number of seats, Number of Employees, Times of Films Broadcasting, Number of Customers and Total Revenues during year 1997**

Provinces	Movies theaters	Seats	Employees	Films broadcasting times	Customers (tickets in thousand)	Revenues In thousand Egyptian pounds
Cairo	37	32165	527	1719	5096	30456
Alexandria	12	11314	190	506	1728	9342
Port Said	3	1936	38	252	238	947
Suez	1	430	5	95	57	125
Damietta	6	4606	42	164	162	632
Daqahleya	5	4600	48	446	271	438
Sharkeya	5	2865	38	294	325	520
Qalioubeya	3	1783	33	173	202	389
KafrElsheikh	3	1535	21	122	113	350
Gharbeya	4	3858	47	167	403	1008
Elmenoufeya	1	400	10	4	14	32
Albeheira	5	2940	47	492	106	151
Ismailaya	4	2165	41	278	264	533
Giza	5	4358	61	391	431	3558
Banysueif	2	982	15	144	11	15
Fayoum	2	1548	33	245	122	212
Menya	3	1641	202	235	94	195
Assiyout	4	3100	37	249	243	457
Souhag	4	2704	39	312	346	525
Qena	3	1740	26	185	106	161
Assouan	2	1144	20	95	19	23
Luxor	1	362	4	73	6	10
Matrouh	1	650	10	80	26	54
Total	116	88826	1362	6685	10383	50188

**Source: Economic Census for the Arab Republic of Egypt 1997/96, Cultural Statistics, Cinema & Theatre, CAPMAS, 1998, p29**

The firms' owners agreed that they produce for the whole population, however, there has been an obvious trend in the last few years where they have mainly targeted the age group between 17- 25 years old. Moreover, they have asserted that given the low GDP per capita in Egypt their product is mainly consumed by the above average income groups. The most important factors affecting demand include the topic presented in the film, cultural taste (light comedy films are gaining popularity). Prices of the cinema tickets have as well a major role in affecting demand on films.

The domestic demand is a strong indicator of foreign demand. Exporting films is an activity well identified in the FPI. All firms export, through a distributor, their films to Arab countries and sometimes to Western countries with high percentages reaching sometimes 100% of their entire production. The main reason for exporting films is covering costs as firms rarely cover their costs when selling their films in the domestic market only. Other reasons for exporting identified by firms' owners have been the dissemination of the Egyptian culture. Table 3. shows the numbers of the permits for exporting in the years 1999 and 2000.

**Table 3. Egyptian Motion Picture Exports Activity in the year 2000**

	Number of permits	Number of copies		Undeveloped picture 35 mm Negative	Beta cam tapes of Egyptian movies & series
		16mm	35mm		
Total of year 2000	119	-	146	638	64
Total of year 1999	69	-	126	305	-
Amount of change	+50	-	+20	+333	+64

**Source: Ministry of Culture: Cultural Statistics, 2000.**

Having said that, it appears that domestic demand is heavily constrained by the scarcity of cinemas and their unequal geographical distribution (see Table 2.). This does not allow firms to cover their production costs which force them to be engaged in exporting. There is no single dominant factor affecting the demand conditions, but rather a number of combined determinants including the topic discussed, the quality of films, the actors participating and finally the prices of cinema tickets.

### **5. Related and Supporting Industries Services:**

The role of supporting industries is highly evident in FPI. On the one hand, there is very low dependence on downstream local suppliers, whereas on the other hand, there is high dependence on up stream local suppliers. Most of the inputs required for the FPI and its subsequent upstream requirements are imported from abroad, including the raw films, chemicals needed for development of films, screens, etc. For the upstream industries, the FPI is heavily dependant on local suppliers such as studios, firms for printing and development of films, distributors, and cinemas. It has been agreed that the upstream industries in general suffer from poor quality and non-adequate availability. The poor quality and inadequacy of some vital related activities (e.g. printing and development) has resulted in the crowding out the initiatives of the firms' owners to undertake the printing and development stages in laboratories outside Egypt where quality is better and the price is lower. Moreover, the importance of such upstream industries for the success of film production have forced many firms to integrate vertically and to be engaged in the upstream activities especially in the distribution and ownership of cinemas to avoid potential bottlenecks.

In general, the firms in FPI do not depend on banking and insurance companies. They do not depend on universities or other R&D institutions for market research. Trade journals are rather used as a method of advertising and the firms in general depend on advertising firms when relevant for undertaking some advertising activities, an activity that has been on a rising trend in the last two years. Otherwise, they undertake the advertising activities themselves. There exist a number of associations, nevertheless, playing a minimal role in supporting the needs of the FPI in an effective way. The most important association is the Chamber of Cinema Industry, which has been playing some important roles as registration of films for their original authors and producers, an activity deemed important in the absence of an effective mechanism for IPR protection.

To summarize, the FPI depends heavily on upstream industries which complete the value chain of the Industry. Despite the fact that the role of associations and especially the "Chamber of Cinema Industry" is still marginal it is highly evident in the

FPI when compared to associations in other cultural industries where the role of associations have been rather absent or completely ineffective.

## **6. Market Structure and Firm Strategy:**

The market contains a mixture of few large and medium sized firms and numerous small firms. This description for the market has been judged for a number of years as a market that contains a large number of firms that do not produce films on yearly basis. The market has undergone substantial changes since the year 2000. A large firm has been established which has been described by a number of interviewed firms' owners as a "tycoon". This firm has produced about 25 films in the year 2001, hence representing more than 70% of the total FPI production in that year. The firm, which is owned by a mother company having book-publishing, sound recording and multimedia firms, has started an aggressive policy of vertical integration buying cinemas and being engaged in the distribution of its films abroad. The behavior of this firm has been described to be a non-competitive behavior. As a reaction from the government, a quasi governmental body for production of films has been established to overcome the negative impact of the monopolizing and anti-competitive behavior attitude of this firm and to flourish the FPI. Moreover, a merger of a number of firms in one another large tycoon happened in the year 2000. The market ended up with a structure comprising two huge private firms, one quasi governmental large firm, and a number of other firms that range between large and small firms. The international firms, working only as representatives of multinational firms operate in the market for the distribution of the films produced by multinationals. This created a specific kind of competition in the FPI between the domestically produced films and the imported foreign films where American films are the most popular foreign films (see Table 4), followed by European and Indian Films. Table 5. shows the number of permits for the imported films and advertising material in the years 1999 and 2000. However, the threat of foreign cultural dominance of foreign films that is a great problem in some countries is not the case in Egypt. Egypt enjoys some sort of "relative natural protection" against foreign films due to several social, religious, and educational aspects, besides, the appealing its films to both the Egyptian and the Arabic consumers (Ghoneim, 2002a, 2002b).

**Table 4: Egypt's Imports of Long films**

Year	Definition of data	Total	Principal countries of origin									
			United States %	France %	Italy %	India %	Russian Federation %	United Kingdom %	Germany %	Total EU %	Japan %	China, %
1970	...	323	48	5.9	23.5	3.4	7.4	5.6	...	42.4	...	...
1975	I*	204	37.3	2.9	39.2	0.5	7.4	4.4	0.5	54.4	0.5	-
1984	I	243	38.7	3.3	32.5	1.2	1.2	2.5	0.8	40.3	0.8	-
1989	...	153	65.4	0.7	9.8	3.9	2	1.3	0.7	14.5	1.3	2
1991	...	146	72.6	0.7	10.3	4.1	1.4	-	-	12.4	0.7	1.4
1994	C**	220	70.9	1.4	-	0.9	-	-	-	1.4	-	-
-) I: Imported in the year indicated						**) C: Approved by censor for public showing in the year indicated						

**Source: UNCTAD Database and UNESCO (Statistical Yearbook, 1999).**

**Table 5. Year 2000 Motion Pictures Imports Permits Compared to Year 1999**

	Number of permits	Foreign 35 mm films permits	Advertisement material permits
Total of year 2000	753	332	421
Total of year 1999	692	326	366
Amount of change	+61	+6	+55

**Source: Ministry of Culture: Cultural Statistics, 2000, p86.**

Competition, among the domestic firms in the FPI, has been described to be rather intensive, however, unfair due to the differences in sizes and the recent anti-competitive attitude of the newly established tycoon. In theory, market access is not constrained by visible restrictions, but in reality it is heavily constrained by a number of obstacles. Such obstacles include the necessity of large capital to be able to compete, cumbersome and non-transparent rules and regulations and necessity of technical and market oriented know how to be able to survive in the FPI.

Most firms have an explicit business strategy set by the owner of the firm or the board of directors or shareholders. The firms' objectives included profit maximization, innovation of new ideas and increasing their market share. The strengths of the firms have included the availability of specialized experts, large capitals (at least for large firms) and the personal connections. The weakness of the firms included mainly the high degree of risk involved in the FPI combined with absence of planning among firms and tax evasion.

Most of the firms have been engaged in aggressive investment, aggressive marketing strategies and flexible pricing policies to overcome the increasing competition mainly in the domestic market. They have been continuously upgrading their production technologies, and their organizations. Such strategies have been utilized by large and small firms each having their own objectives. The large firms wanted to utilize economies of scale whereas the small and medium firms saw such strategies as the only method of survival against the dominance of large firms.

A recent phenomenon in the FPI is the increasing vertical integration where the newly established private firms regarded by other firms as tycoons have already been engaged in distribution activities as well as owning cinemas.

## **7. The Role of Intellectual Property Rights:**

FPI is an Industry that depends extensively on IPR protection. Experts and firms' owners have identified that IPR protection and enforcement is crucial for the success of this Industry. The law No. 364 for the year 1955 is the law that protects IPR in FPI. In 1994 Law No. 38 was enacted that aims at protecting the author's rights. As identified by experts and firms' owners, the law has some loopholes related to the rights of the producer in the ownership of films he purchased where it was for a limited period of time and issues related to performing rights. In the new law, currently its draft is being reviewed by the Parliament, such loopholes are overcome.

Enforcement of IPR is weak, however, as identified by firms' owners, the degree of enforcement is weaker outside Egypt for the Egyptian films than inside Egypt. Piracy level is high in developed and developing, especially some Arab countries. Losses due to piracy are significant for some firms. In the domestic market, international distributors face fragile implementation of IPR enforcement<sup>15</sup>. Video piracy has high

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<sup>15</sup> According to an international report, in one piracy case that went to the Administrative Court in December 1998, a false license for 60 films was not de-recognized by the court, on unclear grounds. The Motion Picture Association and company licensees provide the Egyptian Censorship Office with certificates identifying authorized distributors to verify copyright authorization when titles are submitted for censorship, meaning that in theory censorship certificates are denied to applicants if no copyright authorization is provided. Unfortunately, as recorded by the report, there have been a number of cases in which Egyptian companies have used fraudulent

rates, where pirate back-to-back video copies are primarily used to provide greater variety of titles of rental product in video shops (International Intellectual Property Alliance, 2001; Motion Pictures Association, 2001). The Egyptian government has lately undertaken massive efforts to combat this problem. The efforts resulted in the surge of cases of film piracy controlled by the Ministry of Interior from 850 cases in 1997 to 1650 cases in 20001 whereas the number of pirated copies prevented from release in the market decreased from 67500 copies in 1997 to 52000 copies (Ministry of Interior, unpublished data).

Some firms have a special department or a person in charge of IPR protection, or they consult law firms for that reason. Despite such awareness of IPR matters and their importance, the firms still lack the required capabilities of tackling such problem in the right manner. On the government side, there have been some recent achievements. For example, increased cooperation between the local ant piracy program, the Anti-Piracy Police and the Censorship Department has contributed to an increase in the number of raids against video piracy<sup>16</sup>.

## **8. Government Policies:**

Government policies regarding the FPI remain ineffective. In some domains, the government has neglected the Industry and in other cases, it has enacted counter effective policies or ineffective ones for the development of the Industry.

The first group of policies that have experienced severe neglect from the government included the enforcement of IPR, the promotion of science and technology, the maintenance of physical infrastructure needed by the Industry, the stimulation of demand and enhancement of exports (Ghoneim 2002a and Ghoneim 2002b, and interviews' results). Moreover, the high taxes levied on advertising has negatively affected the firms working in the field of film production.

The other groups of policies that have had counter effect on the development of the Industry or remained inadequate include the training, investment and, demand policies. In the case of training, the government did not try to provide the needed kind of training for people working in this field. The educational system represented in the "Institute of Cinema" remains ineffective in developing the entrepreneurial skills required in this Industry. In the case of investment, Law 8 for 1997 identified Film Production as one of the main fields that enjoys tax breaks and exemptions, however it identified that the for any firm to enjoy such exemptions it has to have a capital of minimum 200 million Egyptian pounds (GAFI, 1997)<sup>17</sup>. The intention of the government was to promote the establishment of large-scale production firms,

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agreements to acquire censorship authorization, and then the Egyptian Censorship Department has refused to revoke these authorizations once the fraud has been uncovered (IIPA, 2001).

<sup>16</sup> In the year 200, the Industry conducted 480 raids, seizing 17, 991 cassettes and 28 VCRs. Industry launched 480 criminal actions, and obtained 225 decisions. However, even when the industry obtained "positive results", the fines that the courts actually apply often run in the range of US \$ 10or less, making a mockery of both the existing statues and any prospect of deterrent penalties. More than 1000 criminal cases remain pending. The increased activity of the Industry throughout Egypt has encouraged the authorities to make more actions against pirates (IIPA, 2001).

<sup>17</sup> According to Law No. 8/1997 any project concerned with construction and/or renting studios, laboratories, cinemas and activities related to shooting, printing, development, broadcasting, producing and distribution of films with a capital not less than 200 million Egyptian pounds benefits from tax concessions.

however, by undertaking such action it discriminated against other players (small and medium) in the market. The demand enhancement was undertaken by lowering taxes on cinema tickets. Such a positive step was counter-affected by letting prices of the tickets be determined by the market which led to increase in prices and hence the positive impact of reducing prices was not felt.

The government does not provide any form of direct grants or subsidies for the production firms. Despite the existence of a fund called the "Cultural Development Fund" which in principal collects part of the taxes levied on the cinema tickets to be used in the provision of subsidies for the production of films and the development of the Cinema Industry in general (cinema subsidy tax), the money that such Fund provides has never been directed to such aims and is subject to discretionary allocations by the Minister of Culture. Moreover, Egyptian produced films suffer from additional surcharges and bureaucracy. There are shooting surcharges, control fees, etc. In the case of cinemas broadcasting a film, the owner of the cinema in the early 1990s was burdened by 14 different types of taxes and fees (Hassenin, 1995).

Other government efforts, to enhance competition, included the recent establishment of the governmental body to produce films (identified in Section 6). The impact of establishing such body cannot be felt as it was established only in the year 2001.

## **9. Expectations of the Industry:**

The FPI is highly sensitive in its expectations to two main variables: first, the overall domestic recession and; second; the degree of competition in the market.

Regarding the first variable, the domestic recession is likely to reduce demand on the FPI products given the high elasticity of income on the products of this Industry. Regarding the second variable, there has been no general agreement among firms and experts. The large firms have ensured that they expect flourishing of the Industry and have asserted their arguments by the upsurge in film production since they started performing in the market. Nevertheless, there have been some indicators that the performance of large firms have experienced a slowdown recently (Ahbar Alnogom, 2002). Small and medium firms have identified that such kind of competition is unfair and that the large firms apply anticompetitive behavior which is driving them out of the market.

In a nutshell, the future of the FPI is uncertain and cannot be determined due to the different views and different variables acting in counter directions.

## ***Film Production Industry's Summary:***

<p><b>The Economic Performance of the Firms</b></p>	<ul style="list-style-type: none"> <li>• All the firms in the FPI with the exception of one firm have been performing badly in the last two years.</li> <li>• This might be contradictory with the overall performance of the Industry where the number of films produced increased significantly in the year 2001 (more than 40 films)</li> <li>• One firm which was established in the year 2000 owns about 28% of the cinemas in Egypt</li> <li>• The performance of the FPI hinges mainly on the behavior of the dominant players in the market and is expected to remain so for an extended period of time.</li> </ul>
<p><b>Supply Side Conditions</b></p>	<ul style="list-style-type: none"> <li>• High skilled labor is the backbone of the FPI and represents more than 80% of the employees in each firm.</li> <li>• High skilled labor equipped with the needed skills is not available in adequate terms and firms depend on the Cinema Institute graduates.</li> <li>• The education skills needed by the firms in the Industry are available in adequate terms.</li> <li>• Training initiatives to sharpen the required skills and keep them updated are absent</li> <li>• The main source of finance for firms in the FPI is their own capital</li> <li>• The supply conditions featured in the inadequacy of high skilled labor and the inconvenience of obtaining loans from banks</li> </ul>
<p><b>Demand Side Conditions</b></p>	<ul style="list-style-type: none"> <li>• There has been no agreement among the film production firms' owners whether the domestic demand is sufficient in absorbing their entire production or not.</li> <li>• The most important factors affecting demand include the topic discussed, cultural taste (light comedy films are gaining popularity). Prices of the cinema tickets have as well a major role in affecting demand on films.</li> <li>• Exporting films is an activity well identified in the FP</li> <li>• It appears that domestic demand is heavily constrained by the scarcity of cinemas. .</li> </ul> <p>There is no single dominant factor affecting the demand conditions</p>
<p><b>Related and Supporting Industries and Services</b></p>	<ul style="list-style-type: none"> <li>• The role of supporting industries is highly evident in FPI.</li> <li>• Most of the inputs required for the FPI and its subsequent upstream industries are imported from abroad, including the raw films, chemicals needed for development of films, screens, etc.</li> <li>• The poor quality and inadequacy of some vital related activities (e.g. printing and development) has resulted crowding out the initiatives of the firms' owners to undertake the printing and development stages in laboratories outside Egypt where quality is better and the price is lower,</li> <li>• The FPI depends heavily on upstream industries, which complete the value chain of the Industry.</li> <li>• The role of associations and especially the "Chamber of Cinema Industry" is still marginal it is highly evident in the FPI compared to the associations of other cultural Industries.</li> </ul>
<p><b>Market Structure and Firm Strategy</b></p>	<ul style="list-style-type: none"> <li>• It is a mixture of a few large, medium sized firms and numerous small firms.</li> </ul>
<p><b>The Role of Intellectual Property Rights</b></p>	<ul style="list-style-type: none"> <li>• FPI is an Industry that depends extensively on IPR protection, currently its draft is being reviewed by the Parliament, and such loopholes are overcome.</li> <li>• Enforcement of IPR is weak.</li> </ul>
<p><b>Government Policies</b></p>	<ul style="list-style-type: none"> <li>• Government policies regarding the FPI remain ineffective.</li> <li>• High taxes levied on advertising has negatively affected the firms working in the field of film production</li> </ul>
<p><b>Expectations of the Industry</b></p>	<ul style="list-style-type: none"> <li>• The domestic recession is likely to reduce demand on the FPI products given the high elasticity of income on the products of this Industry.</li> <li>• The future of the FPI is uncertain and cannot be determined due to the different views and different variables acting in counter directions</li> </ul>

## IV - The Software Industry in Egypt

### 1. Overview:

In the year 2001 the Software Industry (SWI) in Egypt was estimated to be worth of 50 million US \$<sup>18</sup> (in terms of the production value). The Industry is divided into pure Software Industry and software development industry (e.g. business application as banking, hotels, etc.). The software development industry constitutes for about 45 US\$ whereas the local Software Industry's share is about 5 million US\$. If the sales of the foreign software is included, the figure jumps to 80 million US \$. The 50 million US \$ accounts for about 0.0005% of the GNP.

There are more than 300 firms working in this field<sup>19</sup>. Large, medium and small firms do exist in the SWI. The number of employees in large firms is between 50-150 people per firm and some exceptional firms reach 300-400 people. Small firms and start-ups have between 1-5 employees. Employees by the government working in the Information Technology (IT) sector are about 4000 working as supporting staff in ministries and other governmental agencies. Private sector accounts for about 5000 employees. Thus about 8000-9000 people are working in that field mainly in the private sector and the government<sup>20</sup>. Such figures exclude the businesses working in the related activities, mainly distribution which reach more than 1500 distributing agency.

The study is mainly based on personal interviews with expertise in the SWI and private firms' owners. This is supplemented by a number of additional published data and information on this Industry. It is worth noting that the Industry is the most well documented industry relatively to other cultural industries. Nevertheless, the data and figures are still not accurate as there are no precise published figures.

### 2. The Economic Performance of the Firms in the Software Industry:

In general, the firms have been doing relatively well in the SWI. A conservative estimate would suggest that sales and employment have at least remained constant over the last two years. All the firms interviewed identified that their sales and number of employees have increased, with the exception of two firms which experienced a decline in both sales and employees. On the one hand, some firms have enjoyed

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<sup>18</sup> Using exchange rate 1 US\$ equivalent to 4.3 Egyptian pounds. Other studies estimate the industry to be larger, For example, Makary, 1999 put an estimate of 620 million Egyptian pounds in year 2000 compared to 290 million in 1999 with a rate of growth of 60% (i.e. 143 million US \$ in year 2000 and 67 million US \$ in year 1999 if we adopt a similar exchange rate).

<sup>19</sup> The published data which are available in a report on the industry in 1999 assert that the industry is worth million 50US \$ and that there are 120 firms working in it with an annual rate of growth of 35% . The number of employees was estimated to be 5000 (Harvard Computing Group, October 1999). The report did not consider the supporting staff in the governmental agencies. The report as well mentioned that the estimates of the Egyptian Software Association and the multinational companies as NCR and ICL estimated the industry to be worth of 40-45 million US\$.

<sup>20</sup> The latest available published figures for this industry indicate that the size of the industry was 50 million US \$ in 1999 and had 120 firms

increasing profits where, on the other hand, some firms suffered from a decrease in their profits which might have decreased due to intensive competition, devaluation and the gap between the pace of increasing investments and the growing but with lesser extent demand. There was no consensus among the interviewed experts and entrepreneurs regarding their opinion concerning the overall performance of the Industry. Some were rather satisfied celebrating the dynamic pattern of the Industry's growth whereas some viewed that the potential of the Industry is still not fully utilized. Experts view that the SWI is not focused on a certain market niche and hence benefits of coordination and utilization of economies of scale for the whole Industry is absent. Moreover, the rules and legislation are not perfectly adequate to enhance the growth of the Industry in the best way and the significant recession signals have affected negatively the dynamic growth of the Industry.

### 3. Supply Side Conditions:

SWI depends mainly on high skilled labor where the percentage of the high skilled labor accounts for about 70% on average of the people employed in each firm. Most of the firms identified that they encounter problems in finding the high skilled labor with the qualifications they need. A report has asserted that medium to large firms encounter problems in finding the needed marketing and managerial skills and specifically qualified medium management (Harvard Computing Group, October 1999), On the other hand, it should be asserted that there is relative abundance of high skilled labor for this Industry in the economy when compared with other cultural industries, however they lack the managerial and entrepreneurial skills required. Table 1. Identifies the relative abundance or lack of skills required for this Industry. Almost all of the firms interviewed supply their employees with continues training, which is mainly financed by the firms themselves. The government has started recently to be partially engaged in financing the training for employers in this Industry.

**Table 1: Availability of Required Skills for the SWI**

Type of Skill	% Relative to the Need of the Industry
• Project Managers	43
• Product Managers	51
• Middle Managers	69
• Senior Programming Staff	53
• Entry-level Programming Staff	172
• Business Analysis and Consultants	34
• Marketing management	43
• Sales and sales management	43

**Source: Harvard Computing Group, October 1999, p. 90**

Finance is not available in adequate terms for the flourishing of this Industry. All the firms use either their own capital to finance their business and some depend on the funds of their international partners if they are engaged in some form of joint venture or act as an agency for an international firm. The reason for choosing this form of finance has been asserted to be the inconvenience of having loans from banks which are reluctant to finance such business due to the intangible nature of the product. Such reluctance of banks to lend the software firms has a negative impact on the development of the Industry.

The Industry is not affected significantly by the quality and/or price of the services and utilities supplied by the government which include electricity, postal services,

telephones, domestic transport, port and airport services. The most two important services which affect the Industry are electricity and telephones and both have been assessed to have a high quality and low cost properties from the perspective of the interviewed firms.

Having said that, the supply conditions of the Industry are mixed. The Industry suffers from the inadequacy of qualified skilled labor, one of the major components required for the development of the SWI, despite its relative abundance. Moreover, there is an absence of adequate sources of finance. The inconvenient terms of obtaining loans from banks is one of the most highly cited obstacles related to this Industry. On the other hand, the industry enjoys low labor costs where it has been estimated that labor costs even for quite senior programming staff is about \$4/hour compared to \$85-175/hour for equivalent labor in the US (Harvard Computing Group, 1999). Moreover, most programmers use English as a second language which provide the Industry with a competitive edge in dealing with customers in the US and Europe.

The Industry suffers from the scarcity of software firms' incubators where the link between educational institutions and software firms is close enough. The only available model is the Arab Academy of Science and Technology in Alexandria. The firms asserted the need for such incubators and understand fully their importance. On the other hand, there exist a number of educational institutions and universities that produce on average more than 2,000 graduates specialized in IT in general as identified in Table 2.

**Table 2: Educational Institutions Relevant for the SWI**

Type of Graduate	1998	Establishments
1. Computer Science Grads (software)	Computer Science+- 1000/annum	AUC, CU, Ein-Shams University, Sadat Academy etc
2. EE (Hardware and microprocessors)	Small Portion of Courses Graduating+-70/annum	Arab Academy of Science and Technology, AUC
3. Management Information Systems (IT oriented)	Minority Graduating 70/annum	Arab Academy of Science and Technology
4. Post Graduates Course MSc	Computer Science(Software) Graduating +-50/annum	Arab Academy of Science and Technology, AUC
5. Post Graduates Course MSc	Management Information Systems (IT oriented)Graduating 70/annum	Arab Academy of Science, AUC
6. Post Graduate-Computer Science Specific Courses	Graduating about 750 students/annum	ITI and RITI and others
7. Technology Specific-Product Oriented	Provided by individual companies, training firms, or product suppliers	Various including Microsoft League Technology, ACT and Open Soft
8. Management and Business Development	Limited courses available	RITI offers some courses through other Universities in US and Europe

**Source: Harvard Computing Group. February 1999 p.19**

#### 4. The Demand Conditions:

The interviewed firms differed in their opinion regarding the ability of domestic market to absorb their entire production. Some firms argue that the domestic market is capable in absorbing their entire production while other firms view the opposite. Existing reports have confirmed the view that domestic demand is insufficient and

have described it as a "soft" demand (Harvard Computing Group, 1999). The government, on its behalf, has realized this deficiency and is planning to pump about 4.5 million US \$ in the market (e.g. consumer subsidies to buy PCs) to enhance demand. Since, domestic demand is not sufficient, a large number of firms are engaged in exporting. The targeted customers of the Industry are mainly medium and large enterprises including banks, hotels, publishers, etc. Hence the household sector does not play an important role as a major determinate of demand for this Industry. The customers are not highly demanding in this Industry and some are not willing to adapt to the use of IT in general.

The export prospects for the Industry are optimistic. About 35% of the production is exported to foreign markets and the export potential for the Industry is high as asserted by the available reports which revealed that the export potential for SWI have reached 200% in 1998 (Harvard Computing Group, 1999). Currently 50-80 firms are engaged in exporting. There is high degree of concentration in the exporting firms with about 20 firms exporting more than 80% of the total exports of the Industry. Firms have chosen to export to utilize economies of scale and exploit the high profits allowed from exporting abroad.

Both experts and firm's owners agreed that the most important factors affecting demand are price and quality, followed by adaptation to culture taste, and finally technological superiority.

In a nutshell, the demand conditions are favorable for the development of the Industry as domestic demand is still not fully utilized, sometimes as a result of cultural barriers to use IT. The export prospects are promising and large number of firms have been engaged in exporting , mainly to utilize economies of scale.

## **5. Related and Supporting Industries and Services:**

The role of technical IT local suppliers is not of great importance for the Industry. The software development heavily depends on programmers and hence the role of suppliers is rather irrelevant. The same applies for the Software Industry. The Industry in general depends on banks and insurance firms in their exporting business where they provide strong support, but it still needs enhancement. The role of specialized journals of great importance for the Industry and most of the firms are depending on international and local magazines and journals to keep their knowledge up to date. The agencies for international software companies are highly dependant on distributors.

The Industry does not depend on the research institutions and universities' R&D services. Market surveys and other market related research are rather absent from the point of view of the firms working in this field.

Other related industries as advertising and marketing firms and local associations are currently not heavily utilized, though there is a great tendency to depend on their services. This is a natural phenomenon expected with the dynamic growth the SWI is experiencing. For example, a number of associations have been formed including the Egyptian Software Association, Association for Software Exporters, and the Egyptian Hi-Tech Association.

To summarize, the role of technical IT related industries is kept to a minimum in the SWI. The utilization of other related industries such as banking and insurance in the exporting activity, so as specialized magazines and associations is experiencing a rising trend. The role of R&D related activities has been rather absent.

## 6. Market Structure and Firm Strategy:

The SWI in general can be described as a competitive industry with no dominant firms in the market whether in software development or Software Industry if considered collectively. However, the agencies of the foreign software as Microsoft, Apple and Oracle are dominating the market of conventional software, a case which is not confined to the Egyptian market. In the software development, the firms' owners have identified that the market is rather segmented with different firms serving different niches related to business applications including security, financial, hotel services, etc. and hence a disaggregated view of the industry shows that there are monopolies in some segments.

**Table 3. The Different Software Application Fields in Egypt.**

Financial Institution and Banking	21%
Commercial and Trade Sector	18%
Industrial Sector	15%
Educational Institutions and Research	12%
Individuals (household and business)	10%
Service Sector	8%
Tourism Sector	5%
Consulting	4%
Others	7%
<b>Total</b>	<b>100%</b>

**Source: Makary, 1999**

Competition has been described to be fierce in all niches whether domestically or abroad and it has been agreed that it has positive impact on the development of the Industry, except when there is some kind of price war which is likely to destruct a number of firms. Moreover, a number of interviewed firms have asserted that the competition between private firms and software governmental agencies has been unfair due to the huge difference in sizes and the ability to lower the margin of profits in the case of governmental agencies to an extent that private sector cannot compete with. The government has undertaken a number of initiatives to overcome this problem as shown in Section 8.

There are no legal barriers that act as an obstacle to enter the market, nevertheless, the market access has been described to be difficult due to several reasons which include the knowledge of the rules of the game for this business, the role of personal relations and price sensitivity of this Industry. Foreign firms are not deterred from entering the market, however their exact market share cannot be determined precisely. A study has estimated the market share of the foreign firms to reach more than 50% as shown in Table 4., however such figures should be treated with caution as they are based on estimates that are not precisely proven.

**Table 4: Software Market Segmentation**

Market Segment	Market Share
Imported Packages	55%
Locally Developed	19%
Contracts	16%
Arabization	10%

**Source: Makary, 1999**

The firms' owners have emphasized that they have explicit business strategy which is mainly set by themselves or corporate teams. The Industry experts' goals match the firms goals in terms of expansion of sales and exports, empower the human resources and increase the employment in the domestic market, increasing their market share and training human resources. The main source of strength in this Industry is the availability of well trained cheap human resources. The lack of managerial and entrepreneurial skills and absence of a well coordinated vision among the firms' owners is the main weakness of the Industry.

Most of the firms in the SWI have been engaged in aggressive investment in the past two years. They have adopted as well flexible pricing policies and targeted advertising and have been constantly upgrading their production technology, organization and product mix.

## **7. The Role of Intellectual Property Rights:**

The interviews revealed that the firms working in the SWI industry have two different views. The firms working in the software development do not suffer from weak IPR enforcement, hence they do not adopt an explicit IPR strategy. On the contrary, firms working in the field of software suffer from weak enforcement of IPR, especially firms working as agencies for multinationals producers of software as Microsoft, which make them suffer extensively from weak enforcement of IPR. Moreover, the European Commission has estimated the piracy rate to be about 42% of the market for legitimate products (Harvard Computing Group, October 1999). Other estimates show higher piracy rates as shown in Table 5. Hence, it seems that there is an overall consensus that the piracy rate of software products in Egypt is relatively high. It is worth mentioning that the increased governmental efforts to combat this phenomenon increased tremendously over the last few years where the number of cases caught by the police increased from 26 cases with a total number of 2000 pirated copies in 1997 to 700 cases with a total of 43000 pirated copies in the year 2001 (Ministry of Interior, unpublished data). The firms concerned with software have an explicit IPR strategy which enable them partially to reduce piracy rates, nevertheless such efforts remain inadequate. Some firms make use of the external consultants.

**Table 5: Piracy Rates Worldwide**

Western Europe	36%
Eastern Europe	76%
North America	26%
Latin America	62%
Asian/ Pacific	49%
Middle east and Africa	63%
World Average	38%
<i>Egypt</i>	<i>85%</i>

*Source: Makary, 1999.*

The experts' opinion has identified that even firms working in the field of software development are likely to suffer in the near future from the weak enforcement of IPR. Some of the firms have already experienced difficulties related to IPR enforcement but the piracy in business applications is not highly negative due to the fast advancements in the field of IT which make the pirated items obsolete by the time new programs are available in the market. Other firms control the IPR enforcement through special mechanisms by monitoring their clients and their use of the software they bought from. They stressed that weak enforcement of IPR laws and regulations will disable invention and investment in this field<sup>21</sup>. Moreover, multinationals working in that field will be reluctant to produce in Egypt, which can have large spillovers on the enhancement of foreign direct investment in the industry. Moreover, firms' owners have complained about labor laws that do not consider technology and IPR protection. Hence programmers work for them for a while and then leave to establish their own firms using the same programs and business secrets. The original firm owners lack the ability to control this form of piracy and lost their confidence in the judicial system to obtain their rights due to the lengthy procedures of initiating a case and the relative scarcity of attorneys aware of IPR issues.

The weak enforcement of IPR in the SWI has been intensified by the relatively high prices of original software packages developed by multinationals as Microsoft. The multinationals have refused several times to lower their prices arguing that this is the only way to collect enough revenues due to high piracy rates. This has led to a viscous circle where high prices of the original software led to high piracy rate. Finally, the multinationals selling in Egypt have agreed to offer their products at reduced prices for some segments of the society as university students and government offices after reaching an agreement with the Ministry of Information and Telecommunications. Such initiative is expected to lower piracy rate and enhance the investments of the multinationals to develop products in the Egyptian market.

Currently, the copyrights are protected by Law No. 38 of 1994 amending the 1954 Copyright Law and trademarks are protected by Law 57 of 1939 but their enforcement is inadequate which resulted in Egypt being on the Watch List of the US concerning countries violating the protection of IPR (International Intellectual Property Alliance, 2001). As asserted by some reports, the Egyptian government has contributed to reducing the piracy rate by increasing its enforcement efforts (e.g. 120

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<sup>21</sup> As pointed out by an international report, enforcement officials show unconcern toward the problem of software piracy. For example, Police or Ministry of Culture raids are normally confined to visits to resellers, warning them not to sell pirated software; the authorities are often satisfied by the purchase of legal software after a pirate gets caught without undertaking further legal actions and; finally fines imposed are inadequate to deter piracy (between 259 US \$ and 1,924 US \$), see International Intellectual Property Alliance, 2001.

raids against pirates in 2001 were conducted) and by passing anti-piracy legislation but enforcement is considered ineffective<sup>22</sup>. The authorities (police and Culture Ministry officials) responsible for enforcement have insufficient training and some of the measures they use have no significant effect, e.g. confiscating PCs without offering the owners the opportunity to correct the license violations first. Moreover, Police or Ministry of Culture raids are normally restricted to visits to resellers, warning them not to sell pirated software. Fines imposed on accused pirates are not large which reinforces the likelihood of pirating (International Property Alliance, 2001). The result of such actions were cries of injustice and the culprit became the government rather than the perpetrator (Harvard Computing Group, October 1999).

## **8. Government Policies:**

The SWI, relatively to other cultural industries, have enjoyed the support of the government in different domains. Since 1998, a new Ministry for Communications and Information has been established, the first of its kind in the MENA region, which emphasizes the great concern of the government for the IT industry in general. A number of specialized institutions and faculties have been established to produce the required technical human capital for this Industry. A report, based on interviewing firms working in the SWI has identified that the government training programs provide trained staff more than the 35% growth of the industry, however they lack the skills<sup>23</sup> required by the firms (Harvard Computing Group, October 1999). The government has also promoted science and technology in that field and has been engaged in large infrastructure projects that support the Industry. The "Smart Village" is an example of such efforts where it is expected that will be a large cluster employing huge number of programmers to enhance the SWI.

The government's efforts to stimulate demand on the products of this Industry have remained inadequate but soon a program worth of 4.5 million US \$ will be launched to enhance demand on the products of this Industry. Moreover, the government has acted as buyer of the products of some software industries and through government procurement programs have stimulated demand from small and medium private firms in the software development field. The role of the government in enforcing IPR laws and regulations remained inadequate so as well its efforts to enhance competition. The government has as well promoted education for this Industry by establishing a number of institutions for higher education in the IT field. A Faculty for Computers and Information has as well been recently established under the auspices of Cairo University.

The government's efforts to attract domestic and foreign investment in this Industry are worth mentioning where the Law No. 8 for 1997 has identified explicitly that

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<sup>22</sup>In the year 2000, the Ministry of Culture worked in collaboration with the Software Industry on a public awareness campaign, an effective TV advertisement campaign against software piracy, a "Phone Campaign", and a highly effective warning letter campaign (to induce pirate end users to legalize). Moreover, a number of training programs and campaigns on IPR have initiated by various organs of the Egyptian Government in collaboration with the Software Industry International Intellectual Property Alliance, 2001).

<sup>23</sup> Including understanding working in team environments, sophisticated problem-solving skills, project management skills, marketing, and familiarity with the up to date software products (e.g. database systems, programming languages and web technologies).

software activities and information technology projects will enjoy tax breaks and other incentives<sup>24</sup>.

The rules and regulations governing the Industry are not cumbersome and the government did not control prices in the Industry which are likely to have positive effects on the development of the Industry. Moreover, the government is enthusiastic about joining the Information Technology Agreement and lowering the import duties on computers and IT related equipment which currently do not suffer from high applied tariff rates.

## **9. Expectations of the Industry:**

Most of the firms interviewed are enthusiastic about the future of the SWI in Egypt. All the firms have identified that they are willing to expand their domestic sales and their exports. However, firms in the Software Industry identified that the flourishing of this Industry hinges on the better protection of IPR in the domestic market.

The government is launching a number of programs to enhance demand and encourage exports of this Industry, It is targeting to increase exports from 50 million US \$ to 100 US \$ and its efforts to enhance demand and investment are likely to have positive impact on the Industry.

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<sup>24</sup> The Egyptian government provides a tax break for firms in selected industries, among which are the software firms which start at the first level with a 5 year exemption. A 10 year and 20 year exemption are contingent on the physical location of the firm in new industrial cities and in upper Egypt (Harvard Computing Group, October 1999).

**Software Industry's Summary:**

<p><b>The Economic Performance of the Firms</b></p>	<ul style="list-style-type: none"> <li>• All the firms interviewed identified that their sales and number of employees have increased.</li> <li>• There has been no consensus regarding the status of profits.</li> </ul>
<p><b>Supply Side Conditions</b></p>	<ul style="list-style-type: none"> <li>• The Industry depends mainly on high skilled labor.</li> <li>• That medium to large firms encounter problems in finding the needed marketing and managerial skills and specifically qualified medium management.</li> <li>• Relative abundance or lack of skills required for this Industry.</li> <li>• Finance is not available in adequate terms.</li> </ul>
<p><b>Demand Side Conditions</b></p>	<ul style="list-style-type: none"> <li>• The customers are not highly demanding in this Industry and some are not willing to adapt to the use of IT in general.</li> <li>• The export prospects for the Industry are optimistic.</li> <li>• The demand conditions are favorable for the development of the Industry as domestic demand is still not fully utilized</li> </ul>
<p><b>Related and Supporting Industries and Services</b></p>	<ul style="list-style-type: none"> <li>• The role of technical IT local suppliers is not of great importance for the Industry.</li> <li>• The Industry does not depend on the research institutions and universities' R&amp;D services.</li> </ul>
<p><b>Market Structure and Firm Strategy</b></p>	<ul style="list-style-type: none"> <li>• It can be described as a competitive industry with no dominant firms in the market.</li> <li>• Competition has been described to be fierce in all niches whether domestically or abroad and it has been agreed that it has positive impact on the development of the Industry</li> </ul>
<p><b>The Role of Intellectual Property Rights</b></p>	<ul style="list-style-type: none"> <li>• Firms working in the field of software suffer from weak enforcement of IPR.</li> <li>• Currently, the copyrights are protected by Law No. 38 of 1994 amending the 1954 Copyright Law and trademarks are protected by Law 57 of 1939 but their enforcement is inadequate which resulted in Egypt being on the Watch List of the US .</li> </ul>
<p><b>Government Policies</b></p>	<ul style="list-style-type: none"> <li>• The government training programs provide trained staff more than the 35% growth of the industry.</li> <li>• The governments will launch a program worth of 4.5 million US \$to enhance demand on the products of this Industry.</li> <li>• Law No. 8 for 1997 has identified explicitly that software activities and information technology projects will enjoy tax breaks and other incentives</li> </ul>
<p><b>Expectations of the Industry</b></p>	<ul style="list-style-type: none"> <li>• Most of the firms interviewed are enthusiastic about the future of the SWI in Egypt.</li> <li>• It is targeting to increase exports from 50 million US \$ to 100 US \$ and its efforts to enhance demand and investment are likely to have positive impact on the Industry.</li> </ul>

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