Egypt’s Special Economic Zones: An Attractive Investment Opportunity

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Egypt has a well-established system of free zones, overseen primarily by the General Authority for Investment and Free Zones (GAFI). The country’s various zones have a wide range of different sector focuses. The Media Public Free Zone, in suburban Cairo, for example, hosts radio and television companies, while the Shebin El Kom Public Free Zone is mostly populated by the textile spinning and weaving industry. Other zones include those in Port Said, Alexandria, Nasr, Suez, Ismailia and Damietta.

In addition to free zones system, Egypt introduced more investment opportunities by creating the new special economic zones under the Special Economic Zones Law No. 83 of 2002. This article intends to give an overview of the law and the economic zones created to date.

The Special Economic Zones Law No. 83 of 2002 (“the SEZ Law”)

The SEZ Law aims at creating special economic zones to serve as international business hubs. It also aims at utilizing both national and foreign investment to develop industries and exports in order to earn foreign currency, as well as developing new and high technology industries. The economic zones will have a positive social impact through generating thousands of new employment opportunities. The SEZ Law stipulates a number of incentives and guarantees to spur investments and labour opportunities in the country. The following diagram explains in a nutshell the types of incentives and guarantees introduced by the Law:

The SEZ Law is based on the concept of a one-stop shop, providing the establishment of a sole governing body (i.e. the Economic Zone Authority) overseeing investment matters within each zone. This body is competent to carry all government mandates and issue required licences. It provides simplified taxation and customs systems and removes restrictions on foreign ownership. In addition, the law sets out efficient licensing procedures and effective frameworks for the resolution of disputes.

Up to now, only two special economic zones have been established under the SEZ Law: the Suez Canal Special Economic Zone (SCZone), which was established in 2015, and the second the Golden Triangle Economic Zone (GTZone), established in late 2017.

The Special Economic Zones

1. The Suez Canal Economic Zone (SCZone)
The SCZone is a premier services and trade hub offering investment opportunities in various economic sectors including logistics, industry, ICT, renewable energy, business parks and real estate developments as well as infrastructure services and transport links developments. Its target industries include automotive assembly and components, chemicals and petrochemicals, construction and building materials, textile and readymade garments, and agribusiness and food processing.

The SCZone resides along the banks of the newly-expanded Suez Canal, connecting two oceans and two seas. More than 8% of global trade passes through the canal every year. The strategic location of SCZone on the main trade route between Europe and South Asia permits it to offer competitive production cost and makes it the most comprehensive market access programme in the region.

Spanning 461 km2, the SCZone has four unique zones and six strategically-located ports. The four zones are:

1. Ain Sokhna, set aside for heavy industry and renewable energy manufacturing (being near Egypt's windiest region);
2. East Port Said, allocated to light industry and logistics;
3. Qantara West, a coastal area reserved for logistics; and
4. East Ismailia, targeted at agri-business, textiles and ICT industries.

The six ports are at East and West Port Said; Ain Sokhna; Adabiya; Al Tor; and Al Arish. The planned expansions of these ports will increase their capacity for handling maritime traffic and for offering related services such as shipbuilding, stevedoring, bunkering, vessel scrapping, and recycling.

All SCZone investors benefit from a one-stop shop to streamline the registration, licensing and granting of permits in the form of the Suez Canal Economic Development General Authority. The SCZone Authority has been given autonomy over all matters in the zone except national security. Accordingly, investors may count on it for licensing, tax collection and utilities provision.

Since its establishment, SCZone has already attracted a number of investors. For instance, China's Tianjin Economic-Technical Development Area (TEDA) Corporation, a Chinese state-owned entity that specialises in developing free zones in China, entered into an agreement with the SCZone Authority. In addition, the Chinese company Jushi signed a contract for planned expansions by the company in Ain Sokhna zone with an investment of US$60 million in an area of 90,000 square meters.
In January 2016, 32 Chinese companies started operating in SCZone, with a total investment of $400 million. In this regard, the Chinese President announced that the Chinese government would be investing up to $2.5 billion in 100 companies in SCZone.

The Russian government has also confirmed investment and started developments amounting to $107.8 million spread across 398 companies in engineering, machinery, shipbuilding and food near East Port Said.

During the World Youth Forum in Sharm El-Sheikh, the SCZone Authority signed seven contracts with several international companies. The deals include a $3.5 billion contract with a consortium of real estate companies for the industrial development of 5.5 million square meters of land in Ain Sokhna.

An agreement was also signed for the $500 million financing of the Sonker Bunkering Company and DP World Sokhna's liquid bulk terminal at Port Ain Sokhna. The terminal will be used to import and store gasoil and liquefied petroleum gas in the third basin of Port Ain Sokhna. The European Bank for Reconstruction and Development, the International Finance Corporation and CIB announced in 2016 that they were providing $341 million of the project's cost to Sonker.

A number of UAE investors have also invested in SCZone. In November 2017, DP World entered into a partnership agreement with the SCZone Authority to develop an integrated industrial and residential project at Sokhna. The agreement will establish a joint venture between SCZone (51%) and DP World (49%) with DP World managing the zone; it is projected to start in the first quarter of 2018.

2. The Golden Triangle Special Economic Zone (GTZone)
The Golden Triangle is the second economic zone created by the Egyptian government after the SCZone. Presidential Decree No. 341/2017 established the Golden Triangle Economic Zone in Upper Egypt (in the Al Qoseer – Safaga – Qena – Qeft region) as an economic zone of a special nature. Spanning 2,228,754.25 feddan (over 2 million acres), the GTZone is expected to lead to substantial investments in Upper Egypt, especially in the fields of mining, general industry and the tourism sector. According to the government's announced plans, 65% of the project will be composed of modern industrial hubs whilst 35% will be residential, commercial, and touristic.

The GTZone already has basic infrastructure including railroads between Qina and Safaga; three ports, at Qusayr, Safaga, and Al Hamrawen; three airports, Luxor, Hurghada, and Marsa Alam; and numerous main roads including Safaga-Qina, Qusayr-Koft, Marsa Alam-Edfo and the Red Sea Road. These are predicted to assist the swift development of the economic zone.
The area between Qusayr, Safaga, and Qina is filled with untapped mineral wealth, including limestone, phosphate rocks, glass sand, shale rocks, and gold. Existing residential cities are available to increase labour and housing capacities. The area can also be developed into a tourist destination, with beaches in Safaga and Qusayr, or the areas nearby in Hurghada, El Gouna, and Marsa Alam.

On 16 August 16 2017, the Prime Minister issued Decree no. 1788 of 2017 establishing the General Authority for the GTZone (GTZone Authority) as the regulatory authority responsible for administering the zone, and having its headquarter in Safaga.

Immediately after the establishment of the GTZone, Safaga issued tenders for infrastructure developments, including desalination projects and power generation projects funded by the European Bank for Reconstruction and Development (EBRD) to develop the region.

The Safaga desalination project is under the Public Private Partnership program developed by the Egyptian Government. The Safaga desalination project is expected to have an investment cost worth EGP 450 million. Another desalination project in Hurghada was also launched with estimated investment cost of around USD 52 million.

The Safaga mining port, which is expected to have vessel capacity of 60,000 tons, has issued a tender for development of an industrial port focusing on mining. The first phase of the project is the construction of the infrastructure necessary to expand the port and its activities. The second phase will involve the operational aspect of the port. The project is estimated to have an investment cost of EGP 3.8 billion, with the EBRD to finance consultancy, and the International Finance Cooperation (IFC) as the transaction advisor.

In conclusion, with all these developments taking place in Egypt, we expect a flow of foreign direct investment over the coming years to grasp the investment opportunities offered in the several mega projects introduced by the Egyptian government.

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