Chapter V : Foreign investment & government procurement

Free zones, concessions & B.O.T projects

FREE ZONES

Free Zones:1. concept

- A free zone is a **part of the State's territory governed by special provisions on taxation, customs and finance**.

Free Zones: 2. Advantages

- **Free transfer** of invested **capital and profits abroad**.
- Freedom to select **the field** of investment and the **legal form** of projects.
- **Free pricing** of <u>products and profit margin</u>.
- **No restrictions** with regards to the **nationality of the capital's owner,** where a foreign investor can be the sole owner of the capital or can have any share in the investment **(excluding projects set up in Sinai**).
- Providing foreign investors with **residency facilities**.
- Granting **foreign workers residence permits** as requested by the project

Free Zones:3. Guarantees

- **Legal action** may not be initiated against projects operating in free zones until **GAFI is first consulted.**
- Projects and establishments may **not be nationalized or confiscated**.

Free Zones:4. Exemptions

- All **capital assets and production requirements** for carrying out the project activities (excluding passenger cars) are **exempt from custom duties, sales taxes and any other taxes throughout the project period**.
- **The project's exports and imports** are exempt **from custom duties and taxes, whether sales taxes or other taxes or fees applicable within the country.**
- The **project and its profits** are not subject **to any taxation or customs laws** applicable in the country throughout the project period.

Free Zones: Exemptions

- Project **supplies from the local market** are exempt from VAT **value-added tax** .
- **Local components of goods produced by free zone projects** are exempt **from custom duties in case of sale in the local market** (inside the country).

FREE ZONES : 5.Types

1. **Public free zones:** It is a piece of land specified for **establishing industrial, service, and storage investment projects.**
2. **Private free zones:** It is a piece of land that is **located out of the public free zone**, which is **specified for one investment project.**

- because of:

➢ **lack of areas on the public free zone** or

➢ this **location** has a positive **influence** on the economies of running this **project** such as being near to **raw materials**, one of **the export ports, or** a certain **highway** for considerations of material transportation or product exportations

Egypt Free Zones

1. Alexandria Public Free Zone
2. Nasr City Public Free Zone
3. Port Said Public Free Zone
4. Suez Public Free Zone
5. Ismailia Public Free Zone
6. Damietta Public Free Zone
7. Media Public Free Zone
8. Shebin El- Kom Public Free Zone
9. Qeft Public Free Zone
10. Port Said East Port Public Free Zone


Dameitta
Port Said
Alexandria
Shebin
Ismailia
Nasr City
Suez
Media City

1.Public Free Zone: projects

- **Authorized Activities in Free Zones:**

All types of investment activities are allowed to be exercised inside free zones **with the exception of the following:**

1. Weapons, ammunition, explosives and any industry relating to national security.
2. Wine and alcoholic beverages.
3. Fertilizers.
4. Manufacturing of iron and steel.
5. Petroleum refining.
6. Liquefaction, manufacture and transport of natural gas
7. Energy-intensive industries.

2.Public Free Zone: Fees

- **2%** of the good's price upon **entering C.I.F "** COST INSURANCE AND FREIGHT" **concerning storage projects**.
- **1%** of the good's price upon the **exit F.O.B "**FREE ON BOARD" concerning **the manufacturing and collection projects**.
- **administrative fees** of 0.0001% of the project capital to a **maximum of 100K Egyptian pound on yearly basis.**


COMPANY
The seller is responsible for costs/liabilities until buyer receives the goods.
SHOPPER
CIF
Cost, Insurance and Freight
vs.
Free on Board
COMPANY
SHOPPER
FOB
The buyer, not the seller, is responsible for costs/liabilities once goods are shipped.

3.Private free zone: Fees

1. **for manufacturing and collection projects:**

- 1% of the **entire realized profits** of goods **exported abroad**.
- 2% of the **entire realized profits upon goods entry to the country**

2. **projects other than manufacturing and collection projects.**

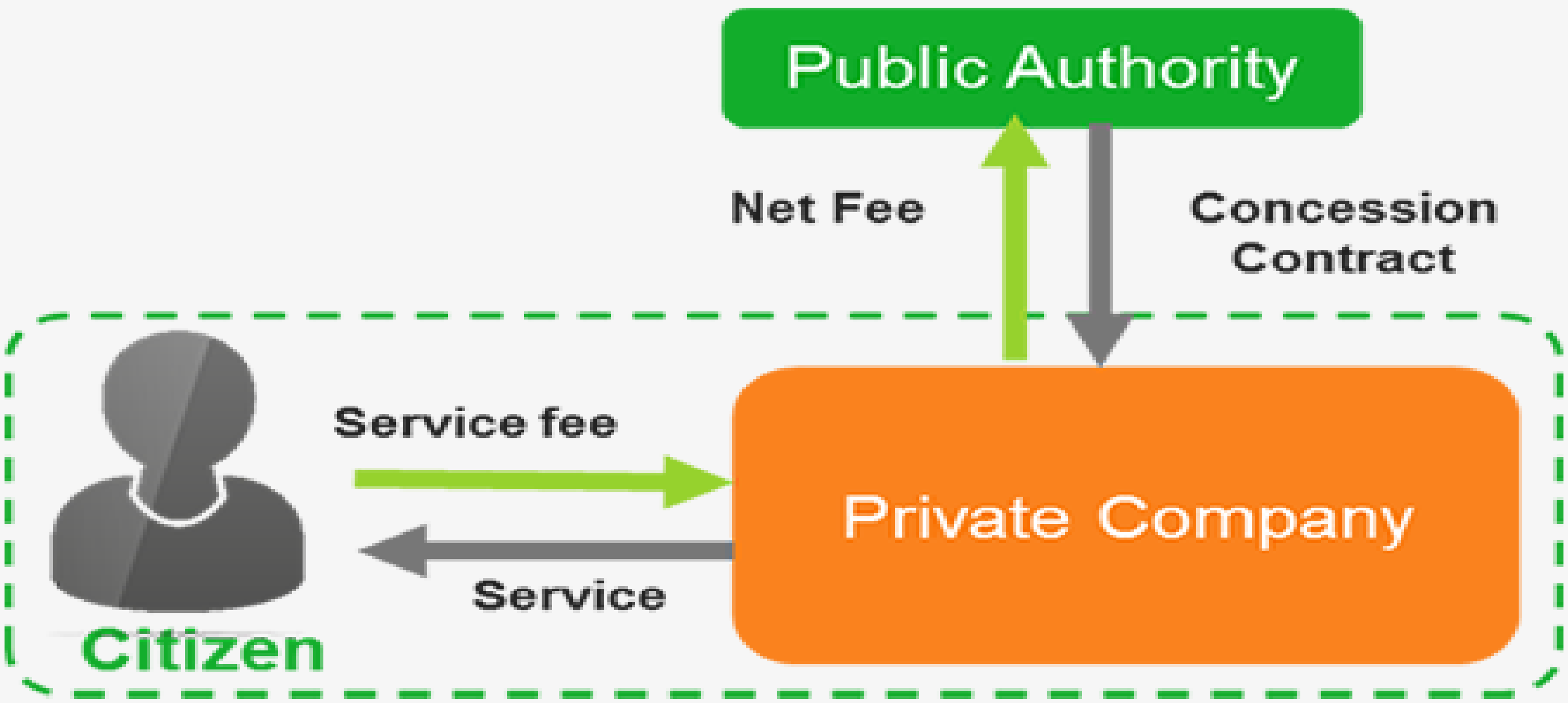
- 2% of the **entire realized profits**

3. **administrative fees** of 0.0001% of the project capital to a **maximum of 100K Egyptian pounds on yearly basis.**

CONCESSIONS

Concessions: 1. Concept

- It is a kind of **partnership** between the **public** sector and a (usually) **private** company that has shown its added value in a specific area, for example **developing infrastructure.**
- **Concession**, whereby the public authority (known as the "**concession authority"**), *grants* the private company (known as the "**concessionnaire"),** the *right to use its assets and provide a paid service to its citizens in exchange of net fees to the public authority* .
- ***Examples***: *road and rail transport, port and airport services,..*



At-a-glance: the concession

- Private company acts on behalf of the public authority
- Citizen pays the private company for the service
- Public authority keeps control, and benefits according to the concession contract

Concessions: 2.Features

- the **concessionaire (private company)** is responsible for the operation of the infrastructure and the public services, and **bears the risks and costs** related to the **administration of the existing infrastructure** and assets, as well as any new facilities.
- The concessionaire **(private company)** *is* ***remunerated by citizens***.
- a concession is a **long term agreement**. In the field of Identity Management**, ten years constitutes a minimum** to amortize investments and cover risks.
- The public authority ***retains ownership of its assets***. This **includes** any **assets acquired by the private company during the concession period**. At the end of the contract, the public authority recovers its assets.

B.O.T PROJECTS: Build Operate Transfer

B.O.T PROJECTS: Features

- agreement pursuant to which an investor agrees to **construct, finance the construction of, and operate and maintain a particular infrastructure asset** (e.g. an airport, port, power plant, water supply system etc.) for a certain period of time before **transferring the infrastructure asset to the government.**
- The term of such an agreement is usually **long enough** for the investor **to recoup the investment costs** of constructing the infrastructure, by **charging a tariff or user fee** during the period it is operating the infrastructure.

What is the difference between Concessions and BOT projects?