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Beirut prepares for long-awaited sale of cellular networks

PRIVATIZATION CHIEF VOWS FAIR PROCESS

Photo by Azakir

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BEIRUT: Lebanon should privatize its two mobile-phone networks next February 21 through a public auction of the licenses, according to a plan announced Friday by the Higher Council for Privatization and the Telecommunications Regulatory Authority.

The long-planned privatization would fundamentally change the nation's fiscal calculus, as about a third of the state's income depends on telecommunications revenues derived from some of the world's highest mobile-phone rates. On the spending side of the deficit-laden ledger, servicing the crippling public debt has devoured 41 percent of expenses this year, while the state-owned Electricte du Liban drains about $3 million per day from the public till.

The architects of the network sell-off tout the expected windfall as a way to pay down the nearly $41 billion public debt and thus shrink the debt-service bill in future years, but the privatization scheme has provoked loud objections from the March 8 opposition. The Hizbullah-led opposition has charged that the terms of the tender have been tailored to favor potential bidders close to the government of Prime Minister Fouad Siniora.

Ziad Hayek, head of the Higher Privatization Council, dismissed the opposition's arguments at the launch of the tender process, saying the auction structure would make the privatization thoroughly transparent.

The privatization project allows interested parties to submit two bids by February 1, 2008, one bid for an arrangement where the license-holder shares 10 percent of revenues with the state, while a second bid category will not require any sharing of income. Allowing two types of bids will increase the transparency of the tender, by making clear how potential operators value the licenses under various conditions, Hayek said.

"It's part of transparency, so that the Lebanese public can see what the potential revenues are for the country," Hayek told *The Daily Star*, adding that some other countries in the region use a revenue-sharing system for their privatized networks. In the end, the government should choose the alternative that allows maximum reduction of public debt over time, he said.

On February 21, the Cabinet will see the amounts of the bids for the two revenue-sharing options – without seeing the names of the bidders – and will select one revenue-sharing format.

An auction – open to the public – will follow, using the highest bid as an opening price. Any parties who submitted qualifying bids can participate in the ensuing auction, with the sale price rising by minimum increments of $25 million in each round of bidding.

Each winner will receive 67 percent of the shares in the entity that holds the license, while the state will sell off the remaining 33 percent of the equity in an initial public offering (IPO) within a year of the auction. The IPO aims to inject some life into the dormant Beirut Stock Exchange and develop a capital market that could offer real financing possibilities for Lebanon's somnambulant economy, Hayek said.

Lebanon's monopoly fixed-line operator OGERO will also receive a third license to operate a mobile network, and if OGERO does not promptly set up another competing service, the Telecommunications Regulatory Authority (TRA) will not hesitate to auction off the third license as well, said TRA head Kamal Shehadi.

Firms interested in bidding for the first two licenses will get access next Tuesday to all documentation regarding the network through an online data room. The networks count some 1.1 million subscribers, giving Lebanon one of the lowest penetration rates in the Mideast with less than 30 percent of the population owning a mobile phone.

Shehadi said the dismal rate showed the enormous potential for growth in the industry, adding that he knew of interest in the licenses among operators from the US, Europe and East Asia.

"This is a vibrant telecommunications market. This auction is going to be a transparent, very competitive auction," Shehadi said.

To prove the value of expanding the cellular networks, Hayek cited data which showed that for each additional increase of 10 percent in the mobile-penetration rate, a country's GDP would grow by 1 percent. Having an experienced private operator lower Lebanon's exorbitant calling rates would permit the penetration rate to bloom, he said.

"It's all about the cost of communications," Hayek said. "First and foremost, this is an opportunity for us to improve the quality of service and lower costs."