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Tuning a market competitive

Regional regulators roam through strategies for their ICT industries

Since the departure of state-run telecom monopolies around the year 2002, telecom regulators have sprung up with the intention to establish an authority that is independent of political and business interests and to promote a pro-competitive environment.

"As far as we are concerned as a regulator, we are attempting to create an environment which allows technology and advances in technology to be fully utilized and quality services to consumers for the lowest cost and choice," explained Alan Horne, director general of the Telecommunications Regulatory Authority (TRA) in Bahrain and president of the Arab Regulators Network (ARNET).

The newest regulator in the region is the TRA in Lebanon that began operations in 2007. For Dr. Kamal Shehadi, its chairman and CEO, "ICT promises to be the engine for growth, prosperity and job creation for the Lebanese economy over the next few years."

With ICT impacting virtually every sector operating in Lebanon, proper infrastructure is a must to keep up with the development taking place throughout the region.

"Lebanon has a competitive advantage because we are rich with human resources," said Shehadi, continuing, "Imagine Lebanon with the infrastructure to support the financial services industry, the creative industries, and many others — we would be far ahead of other countries in the region since the Lebanese can be the most competitive in these industries if given the chance."

Shehadi explained that the ICT revolution has not happened yet as a result of having a monopolistic sector that was subject to political compromises or division of the spoils.

"With the establishment of the TRA we are moving away from both of those problems. We are moving to a competitive environment where you have choice, better price-quality ratios, and leading edge technology. With the powers to license being transferred to the TRA, it also means that the investor is no longer subject to political considerations that may change from one government to another," he said.

A regulator's quick start

In its seven-month history, the TRA has recruited and trained around 40 professionals and has focused on developing the basic building blocks for a rule-based environment. They have developed regulations and policies on conduct such as relations between service providers and interconnection, competition, consumer affairs, and quality of service. The TRA has also issued the national frequency table that assigns the spectrum — the highway of broadband and wireless technology.

The single most important issue on which the young regulatory authority has focused has been the sale of the two mobile licenses and preparing the tender documents, technical conditions, auction rules, and issuing the licenses for new service providers. It also created a public website containing all public information about the sale of the mobile licenses.

To ease the process for firms involved in bidding for the license — to do their due diligence as well as remain fully transparent — the TRA and the Higher Council for Privatization has developed an all-virtual data room where all documents relating to the privatization and licensing of the two mobile operators can be found. The site gives bidders access to more than 40,000 pages of documentation and allows the communication of the same information to all bidders simultaneously to re-enforce transparency.

Though one of the smallest markets in the region, Bahrain's TRA is moving forward for a third mobile license to further stimulate the market. As Horne sees it, "Generally, two operators are seen as being a duopoly and deemed anti-competitive."

He went on to explain, "As regulators, we have to create an environment where there is low barrier entry... There has been a tendency in the mobile sector to limit the number of players but I think progressively that requirement will be lessened, especially if there are established two or three very good players, then really there is no good argument why the regulator shouldn't open to anybody who wishes to enter the market place," because, he remarks, with the original players already firmly established, it only makes sense that if another party can enter and push further growth in the market, "then they should be able to do it."

Jordan, who has the most telecom licenses in the region at four, is focusing on internet and connectivity.

Dr. Ahmad Hiasat, Chairman of the Board of Commissioners and CEO of the Telecommunications Regulatory Commission (TRC) of Jordan, explained, "We consider the year 2008 to be a new turning point in the telecom market as it is expected to considerably reshape it for the coming few years."

"Since the total liberalization of the Jordanian telecom market in 2005, a considerable snowball pattern of growth has taken place and has turned the ICT sector into a market worth \$1.8 billion by the end of 2006. Several foreign and local investors have found a rich, stable, consistent, and transparent telecom environment in which new technologies and services are under great demand," he remarked, adding that "We expect that this market will keep growing to be one of the largest markets in the region."

The fixed market witnessed an important change after announcing frequencies bids to provide fixed broadband wireless access (FBWA). This initiative will allow the entry of radio-based services such as WiFi and WiMAX which could include 'hotspot' services. Five companies have won the offered frequencies bids, one of which has already begun providing FBWA services using WiMAX in the capital Amman. As Hiasat explained, "This healthy competition environment will eventually result in national coverage with high quality, fast wireless data communications, such as internet service at lower prices."

There are currently 17 ISPs operating in Jordan with a user penetration rate of 14.5% as of the third quarter of 2007. In the last two years, the ADSL prices have decreased by 27%.

"We consider the current prices of internet to be considerably high compared to western countries, which when combined with the high prices of computers, results in limitations in user penetration and knowledge transfer. We aim to have a 50%

broadband internet access penetration rate by 2011," Hiasat said.

Lebanon is also focusing on connectivity by regularizing the data service provider (DSP) and internet service provider (ISP) licenses. Under the previous regulation, DSPs and ISPs were renewed every year leaving little incentive to invest in infrastructure. The new licenses will be issued for 10-15 years to give providers the stability they need and plan ahead.

Stability for investment

"That's the reason they haven't invested very much in the last few years," Shehadi explained. "If you have a license that has to be renewed year after year with no certainty that it will be renewed, you aren't going to invest. So we are moving to a 10-15 year license and expanding the scope of services they can offer. We will also be providing for a more rational approach to taxing this sector and seriously reconsidering the revenue-sharing arrangements that exist today. All of these issues have been holding back the development of telecommunications and we hope to unshackle the private sector."

The TRA will also auction off two national broadband licenses in the second half of 2008, with July being the target month. The National Broadband Licenses will allow the service provider to build an international gateway and high-speed core and metro networks throughout Lebanon. The NBLs will also provide fiber to the end-users (both residential and business). Liban Telecom, the company to be established in 2008 to corporatize the Ministry of Telecommunications' operations, will also have a National Broadband License. The TRA will encourage not only the sharing of infrastructure between these licensees, but it will require that Liban Telecom provide equal and open access to the existing infrastructure to lower the cost of deployment of new networks, allow-

ing the provision of services to the broadest spectrum of the Lebanese population at the lowest and most competitive prices. Shehadi added that the NBLs will provide the "highways for prosperity" and the competitiveness of the Lebanese economy for the years to come.

In Bahrain, technology was categorized and regulated by type. "We have not always been technology-neutral. We have licensed GSM, broadband and now WiMax — these are all technologies with specific licenses," explained Horne. "What we see the trend as being, and what our stated objective is, to move towards a unified license where any licensed operator can use any technology they wish."

While the spectrum will still be regulated, the TRA's aim is to make it as available as possible. "That is the step we can take to help in convergence and mobility," added Horne.

"What is required now is to have device manufacturers such as Intel, Nokia and others produce devices which can connect to multiple networks," Horne averred. "The focus should be on choice on the part of the operators, in the technologies they employ, as well as for the consumer." Ultimately, he is for the lowest cost whether that is through the operators or connectivity technology services. "Something we would hope to see in the future in handsets is least cost routing — so the first route is the least cost."

As a region, ARNET is tackling a recommendation on roaming regulations to be finalized before the June 2008 ICT ministers meeting. So far, no intrastate regulations have been agreed upon, leaving telecoms to determine how roaming is charged.

"Mobile operators want self-regulation but the question is — is it good enough and have they proven themselves?" Horne asked.

"If not then certain regulations should be introduced to bring down the cost of roaming." ■

The partnership for Lebanon

Sustaining post 2006 war initiatives

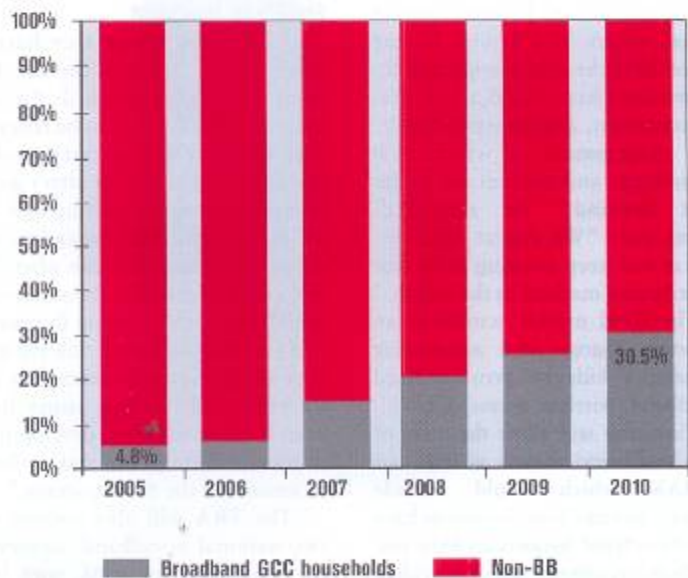
The lack of a modern ICT infrastructure in Lebanon has hindered internet capabilities, causing massive inefficiencies for individuals and businesses. Unlike its neighbors, Lebanon still lacks broadband leaving many sectors without the ability to transfer files electronically. This inefficiency increases costs.

By conservative estimations Lebanon's IT sector grew 12-13% year-on-year, according to Gabriel Deek, president of Professional Computer Association (PCA). He believes that if Lebanon had better ICT infrastructure that growth could reach 20-30%. Cisco, with its partners, has stepped in to help Lebanon get back on track and create a network that in the end will give individuals and businesses cheaper and better access to the internet.

The Partnership for Lebanon began as a crisis intervention by US-based firms Cisco, GHAFARI, Intel, Microsoft and Occidental Petroleum following the 2006 War.

"The Partnership for Lebanon came about following the war in 2006 and it was mainly to see how the private sector in the US could come in and do some sort of assessment and see how it could use its resources to help revive Lebanon," explained George Akiki, program director for Cisco Systems in the Partnership for Lebanon. "We came in and started collecting money from our employees, CEOs, and friends and gave donations and grants to local NGOs and organiza-

Explosion of Broadband in GCC Households



Sources: IDC

tions on the ground, mainly in the south, that were doing restructuring efforts," he said.

After that, the collaborative effort created a framework that ended up being the Partnership for Lebanon. The initial activities centered on reconstruction efforts mainly in the South, which became the first work stream (response and relief) of five, including connecting communities through online centers, workforce training, job creation and ICT infrastructure. This framework came about in January 2007 and in general comprises socio-economic efforts to put the

country on the path of economic growth.

"The main focus is to establish public-private partnerships (PPPs) to work on replicable models and initiatives for whenever we disengage we want the local community to be on a path of sustainability for whatever initiative we started," Akiki explained.

The Partnership focused on the most pressing need for businesses in Lebanon – ICT infrastructure. "ICT infrastructure is critical and we engaged initially with some tactical moves. The Internet Exchange Forum and the International Inter-

Telecom Kuwait

Kuwait, one of the smallest states in Gulf, turned into a place where telecom evolution and growth blossomed.

First it started with MTC, which in 2007 rebranded itself into Zain. The company's CEO Saad Albarrak has big plans, claiming that Kuwait's #1 operator will "by 2010 be one of the top 10 operators in the world."

In 1999, Wataniya entered Kuwaiti market as the second mobile operator, 51% of whose shares were later on bought by Qatar's Qtel.

When the two operators started in Kuwait, the government held a 25% share in each. Later on this policy was abolished and Zain (MTC) and Wataniya truly moved into the private sector.

In 2007 the Kuwaiti government announced the start of a bid for a third license in the market. Saudi telecom operator STC won the license and is expected to start its operations in June 2008.

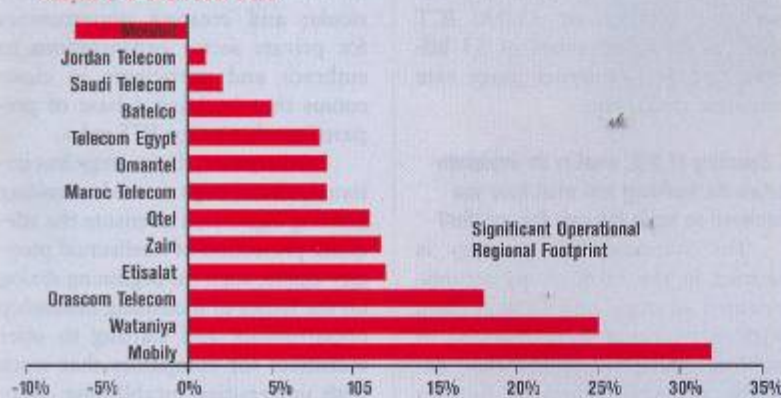
With all that progress, after the expansion of Zain in Middle East and Africa, and its future perspective to further expand in the region, without forgetting the expansion of Wataniya's operations in the region, and the entrance of a third player in the Kuwaiti market ... the telecom revolution in Kuwait is facing a massive obstacle.

The Kuwaiti government is delaying the establishment of a regulator in Kuwait. This means that for the time being the operators are the ones responsible for all the rules and regulations in the telecom sector.

Another major problem that Kuwaiti operators need to solve is that of the international calls license. Again, the Kuwaiti government refuses to sell the license of international calls to both operators, and for that reason, big companies show reluctance in investing in Kuwait and choosing it as a location for their business in GCC.

Thus, while the rest of the region is living the ICT and telecom revolution, Kuwait is falling behind.

Analysts EPS CAGR 2007-2009



Source: Adapted from EFG Hermes 2007; Box Aileen analysis

net gateway came about as initiatives—the country had a “small pipe” coming in for internet, in layman’s terms,” said Akiki. The upgrade required higher technology routers, which Cisco donated to Ogero, the state-run fixed-line telecommunications provider and they are currently being implemented as part of a larger project.

The Partnership worked on the Beirut Internet Exchange (Beirut IX) to keep local ISPs in the country. The presence of an Internet Ex-

change Point (IXP) redirects the traffic into Lebanon instead of sending it on expensive international leased lines. By having traffic move through local bandwidth, end users will connect faster to the local web-server, while lowering the costs for ISPs. “The Internet Exchange Point allows us to save money and time. The Exchange Point is more important when transferring video or other large files – speed becomes even more of an issue.”

The Partnership is also assisting the Telecommunications Regulatory Authority (TRA) and officials on the national broadband strategy initiative, which focuses on the whole infrastructure of the country with the vision that five or ten years down the road everyone has access to high bandwidth to help businesses compete regionally and globally. “We have gathered experts that we have globally that have done it in other countries and advising on regulatory policy and the business case of what it would take to do this. We have an advisor with an investment banking background who has worked for two or three months to develop a model on the business case. We have also advised on the network architecture for the fiber optic core then later expanded to wireless, DSL, and other technology,” explained Akiki.

The Partnership presented its full report to the TRA in January of this year at a stake holder’s workshop on how to go about bringing broadband to the country and all of the issues surrounding it. The workshop included professional leaders across many sectors, from broadcasting to hospital administrators who presented their views on how broadband would improve their work. The TRA has taken about 80% of the Partnership’s recommendations into their plan for issuing licenses next year, according to Akiki.

“We see our role not as a traditional consultant as someone who simply delivers a report. We are here to see what it would take to put a real program in place and make it happen,” said Akiki. The next step for the Partnership is to get more parties involved at the public, private and NGO levels.

Akiki concluded, “What we are trying to do is set the priority where ICT is at the top. In every funding discussion and priority set in any department it should be at the top.”