

Telecom THEORY OF EVOLUTION

Growing pains abound, but Lebanon's telecoms sector slowly comes of age

Telecommunications in Lebanon has come to embody the fault line along which Lebanese business and government split. While the people who use the communications networks try to progress and join the information age, the sector has lain dormant for years because of both publicly-owned, ineffective infrastructure, and political scuffles over who should control Lebanon's most profitable public service. In 2011 the plates on either side of this fault shifted, sending economic shockwaves, both positive and negative, throughout the economy.

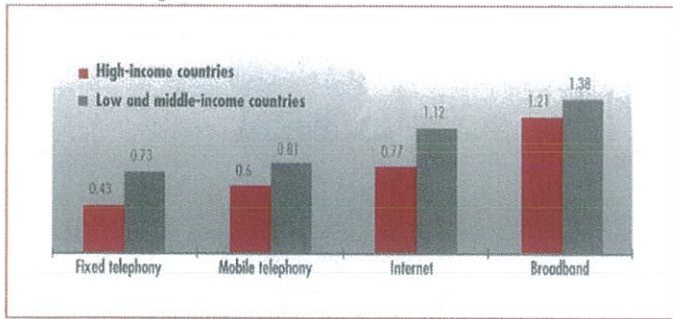
It all started in January when the then-caretaker Telecommunications Minister Charbel Nahas announced that third generation mobile Internet (3G) would be introduced to the country. 3G technology is a means of incorporating high-speed Internet with mobile devices such as smartphones or using a 'dongle' to enable users to access the service on their computers the way they currently use other wireless Internet products, such as the pervasive Mobi and Wise Box. In September, Nahas (by then labor minister) promised speeds av-

eraging 7 megabits per second (Mbps) and up to 21 Mbps. That would equate to 27 times faster than the speed available at the time via a digital subscriber line (DSL), 70 times faster than those available using the general packet radio service and 500 times faster than those available to ordinary cell phone subscribers, according to Nahas.

The initial deadline set by the previous minister was missed. But by mid-November both of Lebanon's mobile networks had introduced the service to the public. Even so, the average speed of 7 Mbps was not to be.

"It is a work in progress," said Claude Bassil, general manager of MTC Touch, one of Lebanon's two mobile telephone operators, owned by the Kuwaiti telecoms giant Zain. "I cannot promise you that the wireless transmission network, meaning the microwaves, will be capable of providing the maximum capacity [21 Mbps] that the sites can handle," he said in an interview with EXECUTIVE. Bassil admitted that it will take a year for the network to reach the promised speeds because the transmission networks between the cell towers that correspond with phones

Growth impact of telecommunications*



*Percent of GDP increase due to 10 percent increase in penetration
Source: World bank

and the Internet network are not optimized.

In the interim, mobile operators will have to connect to existing fiber-optic cables, a process that will take months, according to Bassil. Even when that happens, without a complete fiber-optic network installed in the country — something only the government is legally allowed to do — the full potential of 3G will not be reached.

Ogero and Ministry of Telecoms

The 3G project was made possible by an undersea Internet cable dubbed the 'India-Middle East-Western Europe 3' (IMEWE3), which has finally been opened up to Lebanon. It was originally been scheduled to come online in March 2010.

The IMEWE3 cable has a total capacity, shared between the many countries connected, of 3.84 terabytes per second. Lebanon's allocation is 120 gigabits per second (Gbps), up from around 2 Gbps before the IMEWE3 opened up, with the potential to be upgraded to some 300 Gbps at a later stage. The problem with the cable was, perhaps predictably, politics.

Abdulmenaim Youssef, the head of Lebanon's publicly-owned fixed line operator Ogero, refused to hand over administration of the cable to Minister Nahas in 2011. Ogero is financially and administratively independent of the ministry and has, for the past several years, been at loggerheads with telecommunications ministers, who have been members of the Free Patriotic Movement, which opposes Youssef. Conveniently, Youssef also occupies the post in the ministry that is supposed to oversee Ogero, something also granted by a previous cabinet headed by the opposition. Speaking to EXECUTIVE in September, he argued that this is not a conflict of interest because the

ministry has annulled all contracts with the company because of a dispute over the way invoicing and receipts were conducted; this, however, was not always the case.

According to Youssef, Ogero was appointed to carry out negotiations on the IMEWE3 project by the Council of Ministers. The ministry rejects this as they claim that 'Ogero Telecom' — the company listed on the contract with IMEWE3 consortium — was never a commercial company and thus control of the cable should have been returned to the ministry. Even so, Youssef said that while the cable may have been ready for operations in December 2010, a commercial agreement had to be worked out by Ogero in Marseille (where the cable ends) to transfer data from there to the rest of the world, something that was completed in May.

Youssef, who in the past was close to the current opposition and is now believed to be supported by Prime Minister Najib Mikati, is in charge of doling out the necessary international capacity to companies such as service providers MIC1, MIC2, the digital signal processors (DSPs) and the Internet service providers (ISPs) at the telecom ministry. This is done by distributing 2 Mbps bandwidth packages to those who request them.

The ministry recently decreased the price of such packages from \$2,700 to \$420, ostensibly to facilitate the expected consumption increase and sell them to private sector providers. According to the current telecom minister's advisor Firas Abi Nassif, 10 Gbps of extra capacity have already been opened up through the IMEWE3 cable. This freed up a major bottleneck in Lebanon's Internet infrastructure and allowed for the telecom minister to announce a new pricing and capacity structure that would be implemented on October 1.

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Fixed and constant problems

The date came with mixed results. Some people benefited from the increase while others were still waiting as EXECUTIVE went to print. The reasons for the delay are many and technical, but the heart of the matter is that, while the ministry decides to implement, Ogero actually carries out the implementation. The ongoing row between the two government bodies has in effect left people waiting and the promises unfulfilled.

Habib Torbey, president of the private sector Lebanese Telecommunications Association (LTA),

explained that many of the problems are related to the transmission network between cabinet offices — equipment in each neighborhood that connects users to the system. “The users that the [Internet Service Provider] has put on the Ogero [infrastructure] have a problem and this is where things get stuck,” he said. “We see a huge delay in the upgrade and we don’t have a lot of visibility as to when this upgrade will occur. Even when it happens, it’s up to 1 Mbps. They are not giving us 2 Mbps and 4 Mbps.”

“Every few days they upgrade four or five [cabinet offices],” he said, adding that he estimated the upgrade to be around 25 percent complete.

Based on current rates, Torbey estimated it will take around six months for the private sector to be let into all the cabinet offices. Private sector entities have only been allowed into more cabinet offices since November 2010. According to a statement issued by Minister of Telecommunications Nicholas Sehnaoui, the process aims “to break the grapple hold over the private sector by a political group represented by people in the [ministry’s] administration,” a clear reference to Ogero and Youssef, whom the minister has not met with since taking office.

The problems between the two sides also manifested themselves in a lack of modems for new Internet subscriptions and call cards for pay-phones because of the dispute over Ogero’s bud-

et, which comes through the ministry. The minister has now found a way to issue both through the postal office but, if history is anything to go by, the row seems far from resolved.

The structure

The telecoms industry is still the only public service that is partially privatized, but only on the retail end. This is because the law that is supposed to govern the sector is not fully applied, resulting in a market landscape where the regulator, the Telecom Regulatory Authority (TRA), cannot fulfill its prerogatives or be financially sustainable because it cannot sell the infrastructure licenses that the private sector seeks. Thus, at the end of the day, the TRA and the private sector remain dependent on the ministry, as do public finances. In February 2012 a new board of the TRA will have to be appointed by the cabinet, something that took five years the first (and last) time around.

Give me my cash cow

By August the revenues of the telecom ministry had reached \$961 million and the finance ministry’s telecom revenues are predicted to hit \$1.2 billion this year, even after it pays off all its contracts and dues. Making sure that the ministry keeps raking in the money for Lebanon’s cash-strapped government has been the driving force

Public vs private sectors

Topic of comparison	State-owned operators	
	MoT and Ogero fixed broadband services	MIC1 and MIC2, managed by Alfa and MTC. Planning 3G services
Cost of Internet feed for provider	Less than \$100 (2.048 Mbps)	Less than \$100 (2.048 Mbps)
Site rental cost	N/A	Fully subsidized and paid for by voice service
DSL account setup fees	0	N/A
Subscriber base	800,000	2.7 million
License duration	Indefinite	N/A (They don’t have a 3G license)
Services permitted by license	Voice local and international	Voice local and international, SMS, GPRS, etc.
Site availability	DSLAMs in 171 exchanges	1800 GSM sites
ADSL subscribers	200,000	N/A
ISPs interconnected with DSLAMs*	Cyberia, IDM, Terranet, Moscanet	N/A
Licensed RF spectrum for mobile broadband	N/A	TRA has not licensed any spectrum for 3G services
Frequency propagation coverage	N/A	3G on 900 MHz or 2.1 GHz has better coverage vs. DSP services on 2.5 GHz, so fewer base stations and less investment will be needed

*DSLAM is a piece of equipment that allows telephone lines to make faster connections to the Internet. Each operator will typically install one DSLAM per Cabinet Office.

Source: Lebanese Telecommunications Association

behind sky-high prices for telecom services.

Now there has been an agreement between the finance minister and the private sector to keep government revenue stable in order to decrease prices. "Basically what they agreed with us is that they can reduce their prices, and we are for it," said Finance Minister Mohamad Safadi in an interview with EXECUTIVE. "In the end we feel that the revenues are not going to be less and there is a very big chance that they will [rise]... because of increased usage. The intention is to open the market [to the private sector] at the end of the day."

What that will require is that the minister issues his 'general policy' so that the TRA can exercise its right to issue long-term licenses to the private sector, which can then start investing in long-gestation infrastructure projects and bring prices down. The law also stipulates the formation of a corporatized company called Liban Telecom that would replace Ogero and would be able to set prices and standards according to business realities and circumstances.

If this does not happen, the progression of government-run 3G, the inclusion of a new fiber-optic backbone due to arrive in September 2012 and a large discrepancy in operating costs due to government-imposed measures (such as a 20 percent revenue share) will likely box-out the private sector because they will not be able to compete.

One company, Cedarcom, jointly owned by Minister of State Marwan Kheireddine and the son of a former telecom minister, has already submitted a case in Lebanon's highest court over the government's 3G project because they claim it will destroy their business. The court already ruled that the government had to stop 3G for one month in 2011 to adhere to a request for information. Now the 3G project is back on and the clock is ticking. Other private sector companies are also worried but are looking for a compromise in the form of a Mobile Virtual Network Operator (MVNO) contract, an industry term for a company in agreement with the owners of a telecom asset that performs services ranging from complete resale to merely offering back office services. LTA's Torbey confirmed that he was still in negotiations but refused to comment on the level of progress. In the end, no matter what the outcome of the case or the MVNO, if the law is not applied, the direction the telecom industry takes in 2012 will likely remain subject to the political winds of change rather than any plotted economic course.

"I sincerely hope that we put new policies and regulations in place to allow the private sector to play," said Bassil. "The private sector needs to play a lot in this area and the infrastructure is coming. We are not pretending it's up to scratch, but it's coming."

Licensed DSPs (6 operators)	Privately owned operators Licensed ISPs (17 operators)
N/A	\$420 (2.048 Mbps)
About \$800/site average	N/A
LL 62,000 per ADSL line	LL 62,000 per ADSL line
80,000	N/A
Yearly renewed interim transitory license since 2002	N/A
ADSL, wireless broadband on wholesale basis, VoIP prohibited	ADSL, wireless broadband and Internet services on retail basis. VoIP prohibited
DSLAMs in 35 exchanges. 400 wireless sites	Access to DSP DSL in 35 sites, access to Ogero DSL in 171 sites
40,000	40,000
Each DSP is connected to 1 ISP, with an exception of 1 DSP connected to 2 ISPs	Each ISP is connected to Ogero's ADSL. Some ISPs are connected to one other DSP
1.9 & 2.5 GHz since 2004 from MoT and on interim basis since 2007 from TRA	N/A
Worse coverage on 2.5 GHz than on 900 MHz or 2.1 GHz. DSPs will require more Base Stations than MIC1 and MIC2 for similar coverage, meaning higher capital and operating costs	N/A