



IMAD TARABAY is the chairman and CEO of Cedarcom

The Internet: South Korean elation vs. Lebanese humiliation

By Imad Tarabay

invented the "0" and algebra, and the Lebanese were the first to introduce GSM — the world's most widely used mobile phone network — in the Middle East. Yet today they suffer from the loudest, slowest and most expensive Internet services in the world. The question is: what happened in between?

The Koreans succeeded on three fronts: policy, demand and supply. Pre-2007, Korea had conflicts in policy and regulation because the Ministry of Information and Communications, the Korea Communications Commission, the Korea Broadcasting Commission and the Fair Trading Commission regulated the industry. They realized that four separate regulating entities could not agree on common goals, so they consolidated into two entities: the Korea Broadcasting and Communications Commission, which independently regulates the communications industry, and oversees television, radio, telecommunications and Internet services, and the Fair Trading Commission, which regulates industry-wide competition. This created a "regulator" for telecoms and a "protector of fair competition" throughout the industry.

The results were palpable: a telecommunications policy liberalizing entry and competition was initiated, 10,400 schools were connected to the Internet and there was a convergence of services between voice and data, enabling video phones, video conferencing, Video on Demand, voice over IP (VoIP), Mobile VoIP, fixed-to-mobile convergence and so on and so forth.

This only happened because the quality of service policies was enforced, which introduced various broadband access technologies and ubiquitous service

coverage. They permitted competition at all levels, gave security for investment in their infrastructure through fair competition and gave access to students to fast Internet in their schools and universities.

How not to do it

When we take the flight back to Lebanon we understand why we have the slowest Internet in the world. To make a long story short: In 2002 there was a vision to reform telecommunications in Lebanon. Parliament passed Telecom Law 431, which transferred the regulatory role from the Ministry of Telecom (MoT) to the "independent" Telecom Regulatory Authority (TRA). In 2007 the TRA was established with the mission of licensing, regulating and ensuring fair competition in the market. The TRA granted licenses for frequency allocations to Alfa, MTC, Ogero, the Lebanese Army, Electricité du Liban and private data operators. But four years later they haven't managed to issue a single long-term license to any operator and as a consequence have failed to bring any investments to the sector. They also remain financially dependent on the Ministry of Telecom (MoT).

The power struggle is naturally tilted in the favor of the financier, the MoT, which slapped the TRA around last year and kept its employees unpaid for four consecutive months.

The MoT keeps its hands on permits of equipment imports, sells Internet capacity in partnership with the state-owned and operated Ogero and taxes private operators 10,000 percent: the ministry, through Ogero, buys a 2 Mbps line for less than \$30 and sells it to Internet service providers (ISP) for \$3,000.

Take a 10 hour flight east from Lebanon and you will find yourself in the most Internet-enabled country in the world: South Korea. The country has been labeled as the most connected in the world for years now, with an average connection speed of 39 Megabits per second (with that speed, you can download a 10 Megabyte YouTube video in less than 2 seconds). Lebanon lies at the other end of the spectrum, ranked last among 186 countries, with an average connection speed of 450 kilobits per second.

In comparing the Korean success story to that of Lebanon's own failed telecommunications network, it is easy to get an idea of why the Lebanese hardly progress economically and instead reminisce over past achievements. We have heard them all before: Arabs

Through this and other unfair practices Ogero has gained control of 80 percent of the digital subscriber line (DSL) market, and kept private operators paying direct and indirect taxes of up to 60 percent while they are subject to yearly short-term licenses.

Private sector data operators and Internet providers face the threat of closure due to unfair competition from "unlicensed" 3G services provided by Alfa and MTC. Let's not look at the legality of their operation and their dubious adherence to the Telecom Law, but instead focus on unfair competition and its drastic effects on the industry and the consumer.

Alfa and MTC already have GSM networks, and the overlay of new 3G networks will have limited incremental operational cost, because the costs associated with antenna site rentals and human resources are already covered for by the GSM services. In Law 431, and following international best practice, operators are prohibited from cross-subsidizing the cost of a service with the earnings from another one.

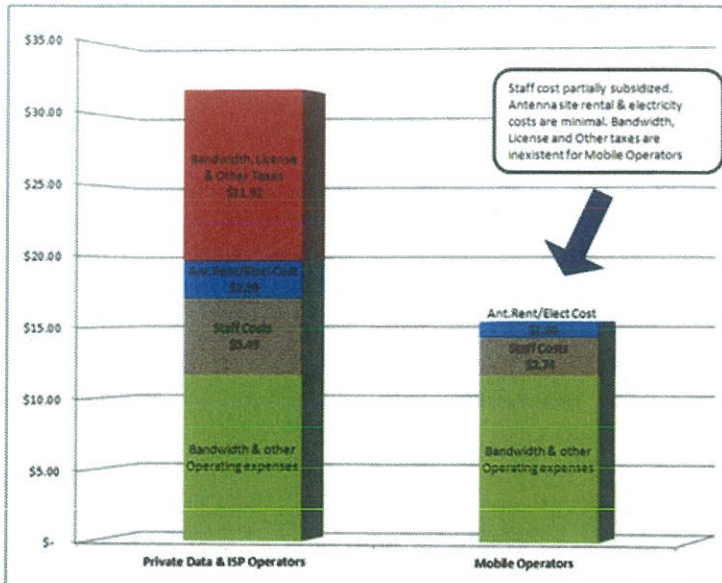
Alfa and MTC are privileged to subsidize the human resource cost, antenna rental space and electricity cost (already they pay rental cost for the GSM sites) and to pay for bandwidth at the same cost that the Ministry buys these lines for. In comparison with private operators, Alfa and MTC are saved from paying the equivalent of \$12 per subscription of license fees or license taxes, while ISPs pay 100 times the bandwidth cost and have to pay for their staff.

Each private Data Operator and ISP subscriber pays around \$12, or 27 percent, in taxes on a \$45 Internet connection every month. All data operators combined pay around \$5.2 million in taxes annually.

It would be better for everyone were the government to level the taxation in line with Alfa and MTC. That tax reduction would be passed through to the consumer, and they would be able to get an account for \$33 per month.

The popular yet dangerous sentiment that private operators face the threat of closure due to unfair competition is not exactly correct; the taxation im-

Comparative monthly costs to provide a subscriber connection in Lebanon



Comparative cost of Internet provision: South Korea vs. Lebanon

| Service | South Korea | Lebanon* |
|-------------------------------|-------------|-------------|
| 100 Mbps home connection | \$30.50 | \$150,100 |
| 155 Mbps corporate connection | \$15.50 | \$228,200 |
| 1 Gbps corporate connection | \$51.90 | \$1,501,000 |
| 2.5 Gbps corporate connection | \$107.30 | \$3,752,500 |

Source: Cedarcom

*Extrapolated from current rates if bandwidth were available

balance, which amounts to roughly \$16 per account per month, and what it brings as a cost advantage to Alfa and MTC, not competition *per se*, is what is impeding the free telecom market. In other words, Alfa and MTC can sell the same internet account speed and quality at around \$16 dollars less. The result of such an environment could be the closure of private operators.

If the telecom sector is "nationalized" due to unfair competition, it is the consumer who loses most, as there is nothing to prevent monopoly operators from raising prices or offering low quality services.

A problem of policy

In 2008, the Minister of Telecoms had a clear vision of updating Lebanon's telecommunications. After consulting with more than 150 telecommunications executives for over four months, in May 2009 Minister Gebran Bassil published a clear policy paper that advocated for fair

competition and called for investments in the sector. All operators applauded this policy and called for its immediate implementation. Strangely, caretaker Minister of Telecommunications Charbel Nahas scrapped it, leaving the country with highly-taxed Internet services, unfair competition and monopolistic tendencies.

Going back to the Korean example, a simple comparison shows what a liberal telecommunications policy and solid infrastructure leads to; Koreans can buy a 100 megabit home connection for as little as \$30 per month. The same connection in Lebanon, were it available, would cost at current rates roughly \$150,000.

The Lebanese have the will and the knowledge for great progress in the telecommunications sector. The government must provide the incentives for investment and innovation and protection from unfair competition. In South Korea, the change started with policy and in Lebanon it will have to as well. 