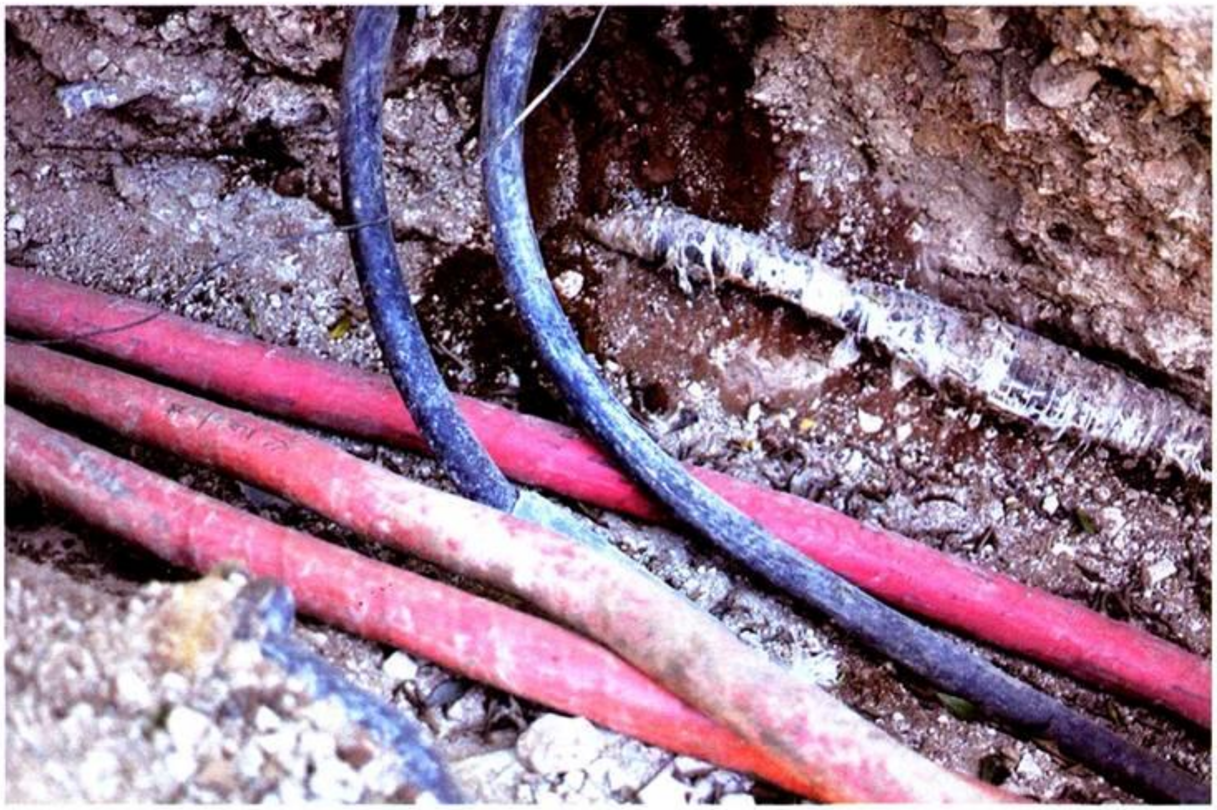
Executive

Internet unchained

Years late, users will soon begin benefiting from the full capacity of the IMEWE cable *By Matt Nash*



It could have happened years ago. In July 2011 — after a nearly seven-month delay — Lebanon 'lit up' a submarine fiber optic cable that brought the county much-needed internet capacity. Before the India-Middle East-Western Europe (IMEWE) cable went live, the internet came to Lebanon in a trickle. After, it was supposed to be a flood — a promise that will come closer to realization on July 1.

Theoretically, the IMEWE should have benefited end users in two ways: significantly faster internet speeds and much higher capacity, reflected in monthly download limits. Neither benefit really materialized.

Download speeds in most of 2011 were around 500 kilobits per second, according to US-based Ookla, which monitors global internet speeds. Throughout most of that year, Lebanon was either dead last or among the countries with the slowest global download speeds. With IMEWE operating, the speed began to pick up.

Today, Lebanon ranks 175 out of 192 countries on Ookla's index with an average download speed of 2.52 megabits per second (Mb/s) — five times faster than in 2011. That said, the global average download speed is 18.6 Mb/s.

PRICE FIXING

On the capacity side, government policy stood between users and the massive amounts of monthly downloading the IMEWE made possible. When then-Minister of Telecommunications Nicolas Sehnaoui announced new, post-IMEWE internet offers (the state essentially controls such things) monthly download limits rose far less than they could have.

For example, the lowest priced package prior to the IMEWE cost $16 excluding VAT and had a monthly 2 gigabyte (GB) limit, split between uploading and downloading. The same package post-IMEWE had a 4 GB limit. There was no unlimited package available among the packages on offer, and the largest limit was set at 40 GB for the most expensive package, costing $149.25 per month.

Beginning July 1, the lowest priced package (still at $16 per month excluding VAT) will have a 40 GB limit and a speed of up to 2 Mb/s (up from 1 Mb/s) while an unlimited package with the same connection speed will be on offer for $50 per month, excluding VAT.

While end users grumbled about the low capacity limits, the charges they paid for excess uses were lucrative for Ogero — the state-owned operator of Lebanon's fixed-line phone network, and the gatekeeper of the country's international internet capacity, which passes its profits to the state treasury.

Around 93 percent of Ogero's customers are on the cheapest two packages at $16 and $25.3, the company's Information Technology Director, Toufic Chebaro, tells EXECUTIVE . Their monthly overcharges, he says, account for 35 percent of Ogero's revenues.

No one EXECUTIVE spoke with would give exact figures on how many customers Ogero has, but Chebaro says all told, around 300,000 households in Lebanon have broadband connections.

This figure includes Ogero — which has the most customers, although Chebaro doesn't give a number for the company's market share — as well as the private sector internet service providers (ISPs) such as IDM, Terranet and Sodetel.

Both Chebaro and Khaldoun Farhat, Terranet's CEO, say most internet customers subscribe to the cheapest packages and frequently pay a little extra every month for exceeding their capacity limits.

"This [revenue stream] will be interrupted," Chebaro says, quickly adding that according to "many simulations" on the impact new packages will have on Ogero's bottom line, "if you look one year down the road, we will have similar revenues."

"The loss is really negligible," he says, refusing to give exact figures.

A PROFITABLE, UNEVEN PLAYING FIELD

Private sector ISPs are singing a different tune. "We're worried as an ISP that our margin will be totally eroded," says Maroun Chammas, chairman and general manager of IDM.

By law, the new internet packages approved by Lebanon's cabinet only apply to Ogero. But although private ISPs are allowed to set whatever prices they like, to remain competitive they often try to either match or undercut Ogero's prices. They say that, like Ogero, around 90 percent of their customers subscribe to the two cheapest packages.

Under the new pricing scheme, the second cheapest package after the $16, 40GB option, of which Ogero's Chebaro says 26 percent of customers subscribe, will see the same connection speed increase, and a capacity rise from 10 GB to 50 GB along with a price hike from $25 per month to $33.

Speaking of the capacity increase for the lowest priced package, Terranet's Farhat complains, "Our capacity cost hasn't gone down 10 times, and our overhead hasn't gone down 10 times."

While it's true capacity costs for ISPs will not fall in lockstep with the increase in capacity to end users, costs will go down when the new packages go into effect. Currently, ISPs lease capacity from Ogero at a monthly rate of $430 per E1, an approximately 2 Mb/s connection. The price of an E1 will drop to $230 in July, but Farhat says E1 costs represent only 30 percent of Terranet's operating expenses.

Ogero's Chebaro argues that ISPs are simply complaining for the sake of it. He says that, in addition to the drop in E1 prices, port fees will be cut in half, from some $11 per user per month to about $5. ISPs pay port fees when customers must use an Ogero platform to connect to the internet, which is the case in many parts of the country. "We've relaxed the constraint they had," Chebaro says.

AS EXECUTIVE PREPARED TO ASK YOUSSEF QUESTIONS, HE INTERRUPTED TO SAY HE DOESN'T "KNOW ANYTHING"

Chammas and Farhat do not dispute that they will still make a profit with the new packages, they simply argue they will be earning less as they must provide both higher speeds and greater capacity.

Farhat complains that, as a state owned company, Ogero "has no cost accounting," adding, "my guess is we have to adapt. We have to show profit."

Both ISP executives say their main hope is drawing in more customers, but Chebaro is confident that with the new packages, Ogero's market share will increase.

OUTSTANDING ISSUES

The private sector is also worried Ogero will continue stalling when it comes to giving them E1s, which they will need to give customers faster speeds and more capacity.

Terranet's Farhat says his company hasn't received more E1s since December 2012.

One source of the delay is Ogero's general director, Abdel Moneim Youssef, who is also the director general of operations and maintenance at the Ministry of Telecommunications. To receive an E1, private ISPs must first get permission from the ministry before Ogero will lease it. That permission comes via Youssef.

Notoriously media shy, Youssef refused to give EXECUTIVE a full interview, but Telecommunications Minister Boutros Harb arranged for EXECUTIVE to meet him.

As EXECUTIVE prepared to ask Youssef questions, he interrupted to say he doesn't "know anything," pointing EXECUTIVE toward Chebaro. EXECUTIVE did ask about the E1 situation and why private ISPs cannot get this international capacity.

"They don't need it," Youssef says.

The private sector disagrees, and further argues it should be allowed to install equipment in more central offices around the country. The central offices are basically hubs connecting end users to the national network, if they are Ogero customers, or to the ISPs' networks. There are some 300 central offices.

Ogero has equipment in nearly 200, Chebaro says. He says the private sector is in 80, but Farhat says ISPs are only present in 71, adding that in around half of those, the equipment is not yet functioning. EXECUTIVE could not independently verify either claim.

Harb says all of these issues should be resolved immediately and blames problems between the private sector and the Ogero–Ministry of Telecommunications team on his predecessors. Since 2008, telecommunications ministers have been members or allies of the Free Patriotic Movement, an opponent of Harb's March 14 coalition.

WILL SPEEDS REALLY JUMP?

The new packages promise connection speeds starting at 2 Mb/s and going as high as over 8 Mb/s, according to a press conference the ministry held in late May. For around 30 percent of the 300,000 households with fixed line broadband connections, such speeds are not even possible.

After years of delay, Lebanon finally has all of its central offices connected by fiber optic cables, Chebaro says. This means the country now has a network backbone capable of ultra-high speeds. The project, announced in October 2010, was initially valued at $40 million.

However, both Harb and Chebaro say the work, carried out by France's Alcatel-Lucent and Lebanon's Consolidated Engineering and Trading, was not done properly in all areas of the country, particularly the far north and far south. Harb says the companies will redo the work at no extra cost to the state — which he says ended up paying $52 million for the project.

Chebaro is not so optimistic. The companies may find "it's not worth" redoing work already done and opt to pay penalties instead, he says.

WHAT ABOUT MOBILE REVENUES?

Revenues from mobile phone users are a significant contributor to the Lebanese treasury. In 2013 the telecom sector was the third largest state money-earner, according to the Ministry of Finance. The state owns the actual networks while Egypt's Orascom (Alfa) and Kuwait's Zain (touch) manage them on the state's behalf. As with the internet, the government sets mobile phone prices, and in June prices took a dip.

For prepaid customers (those who buy recharge cards, paying for mobile phone service before using it), the per-minute cost of a call fell from $0.36 to $0.25, excluding the 10 percent VAT. Data compiled for the Ministry of Telecommunications by Dubai-based Delta Partners show that the new rate is still higher than the MENA average of $0.16 per minute. That said, some still fear it will have a serious impact on the treasury.

For postpaid customers (those who pay a monthly bill after they've used the service), the per-minute price of a call stayed the same at $0.11 — the MENA average for postpaid calls, according to Delta Partner's numbers. However, customers used to pay $15 monthly simply for having the line.

"It was a tax," says Gilbert Najjar, head of the Owner Supervisory Board, a part of the Ministry of Telecoms that oversees the mobile network managers. Now postpaid users will get 60 free minutes of talk time for their $15.

Asked if the price cuts and free minutes will hurt revenues, Najjar says there will be a short-term hit, but the ministry estimates that the state will actually make more in the next 12 months than it did in the previous 12 months.

For example, he says, on average in the MENA region, prepaid mobile phone users talk 100 minutes per month. In Lebanon, it's 62 minutes. The ministry estimates that people will talk more and that Lebanon's mobile penetration rate of 88 percent will jump — Najjar says the ministry expects 11 percent more prepaid users and 12 percent more postpaid users in the next year. More users, combined with anticipated increases in talk time, should bring the state $73 million more with the new prices, he claims.

While all of the central offices are now connected via fiber optics, Chebaro says there "may be some deficiencies" because the companies that laid the lines did not respect all of the technical specifications — such as the depth of burial for cables — stipulated in their contracts.

Copper wires connecting the central offices to users' homes, however, are the real speed killers.

"Distance is our enemy," Harb says. Copper can deliver speeds up to 8 Mb/s if the wire is short. Once a copper wire is stretched several kilometers between a central office and an end user's home, however, the speed can be as slow as 1990s dial-up connections.

THE COMPANIES MAY FIND "IT'S NOT WORTH" REDOING WORK ALREADY DONE AND OPT TO PAY PENALTIES INSTEAD

As noted above, Chebaro says around 30 percent of households with fixed-line broadband connections are simply too far from their central office to reach speeds of 2 Mb/s. Chebaro says there are possible solutions to this problem that don't involve laying fiber cables to each individual building — a project Harb would like to see happen eventually, but which could cost up to $1 billion, he says.

Asked if there are plans to implement any of the possible solutions he mentioned, Chebaro says, "When we say there are plans, that means we're ready to launch it. That's not the case."

"Now, hopefully, plans will materialize," Chebaro adds.