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UN ICT Task Force

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Western Asia Preparatory Conference for the World
Summit on the Information Society (WSIS)
Beirut, 4-6 February 2003

PARTNERSHIP INITIATIVES FOR REGIONAL INTEGRATION

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03-0089

Western Asia Preparatory Conference for WSIS

Partnership Initiatives for Regional Integration

Ahmed El Oteify
Vice President, Business Development
National Telecommunications Corporation

Beirut, Feb 2003

Agenda

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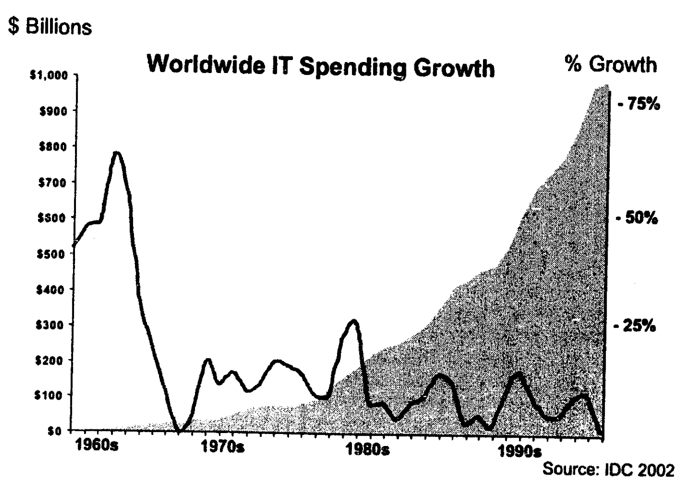
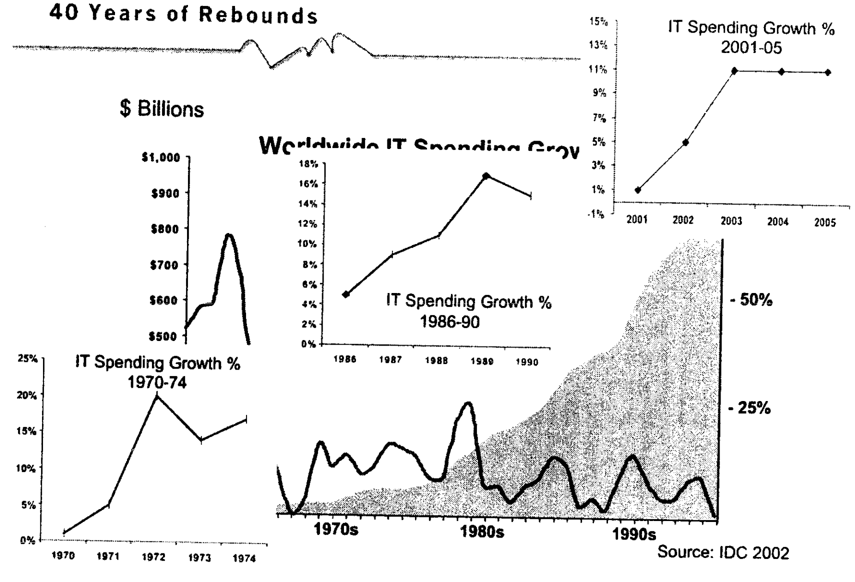
- Review of Current World Market Trends
- ICT Status in The Arab World
- Current Challenges
- New Model for Partnership
- Roles of Different Stake Holders
- Status of Partnership, Successful Examples
- Proposed Initiatives
  - Content, Connectivity & Consolidation

40 Years of Rebounds

40 Years of IT

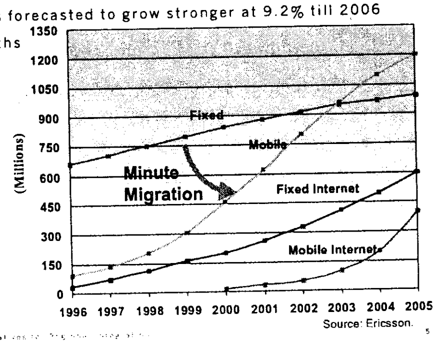


40 Years of Rebounds



Worldwide Telecommunications Growth

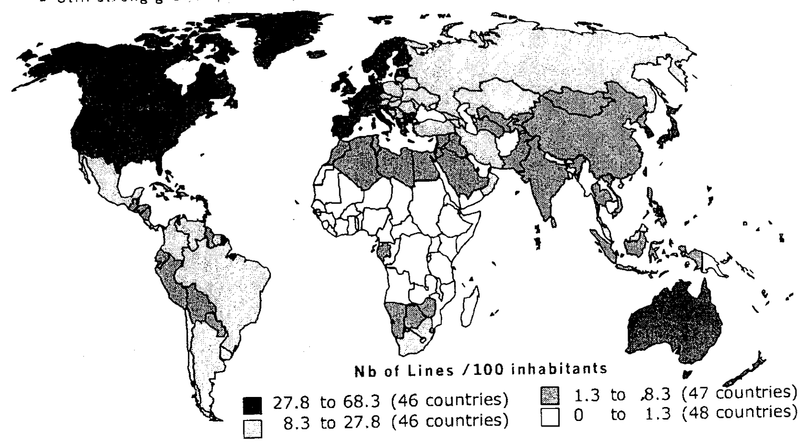
- The market exploded from 1999 - 2001 fuelled by the need to upgrade the current infrastructure to manage the exploding data traffic and Mobile growth.
- Effected by the over valued 3G licenses, and over investment in datacom networks, the market is currently facing a sever down turn.
- The market is going through a consolidation and restructuring phase.
- Despite that telecom services market is forecasted to grow stronger at 9.2% till 2006
- Recovery is expected after 14-18 months



Source: Ericsson.

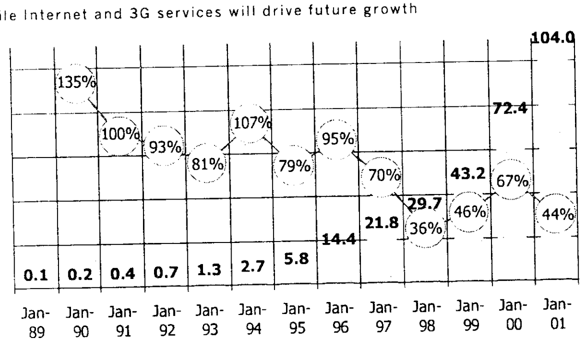
Worldwide Fixed Telephone Density

- Still strong growth potential, as telephones is becoming the new information access point



Internet Explosion will Continue to be a Major Driver for Growth

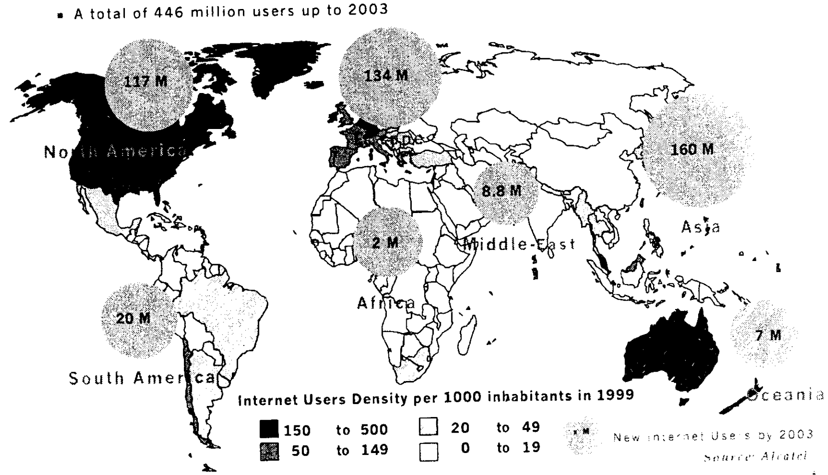
- The internet is experiencing a phenomenal growth.
- We are evolving into a web centric world.
- Internet is becoming the major exchange media/forum
- Mobile Internet and 3G services will drive future growth



Source: ITU, adapted from Internet Software Consortium <www.isc.org>.

Still Far More Growth Ahead

- A total of 446 million users up to 2003



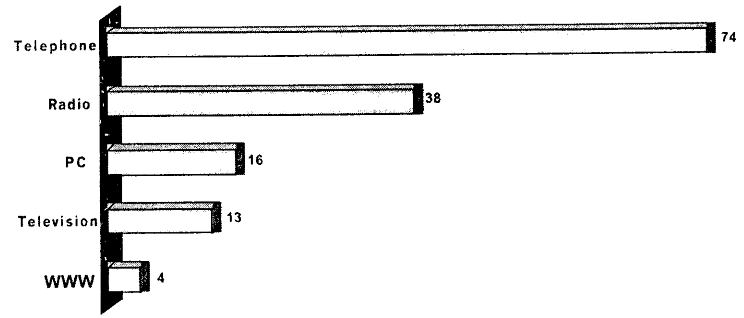
Source: Alcatel

Worldwide ICT Market Trends

With an Unprecedented Rate of Diffusion

- The internet is experiencing a phenomenal growth of 150+%.

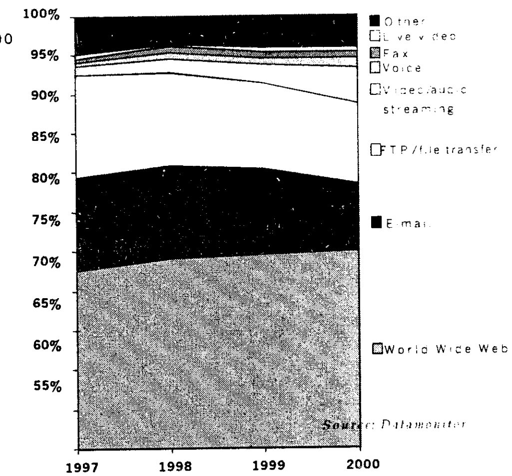
Years it took to reach 50 million users



Worldwide ICT Market Trends

World-wide Internet Traffic by Application

- Web and Video increased tremendously from 1997-2000

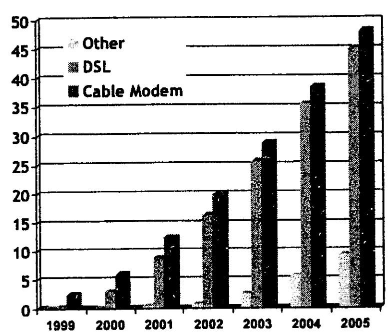


Worldwide ICT Market Trends

Internet is Migrating to Broadband

Total Broadband Installations

- DSL
- Cable Modem
- Fiber to the Home
- 2 way Direct Broadcast Satellite
- Fixed Wireless
- Power Line Telecommunications



Source : Strategy Analytics, July 2001

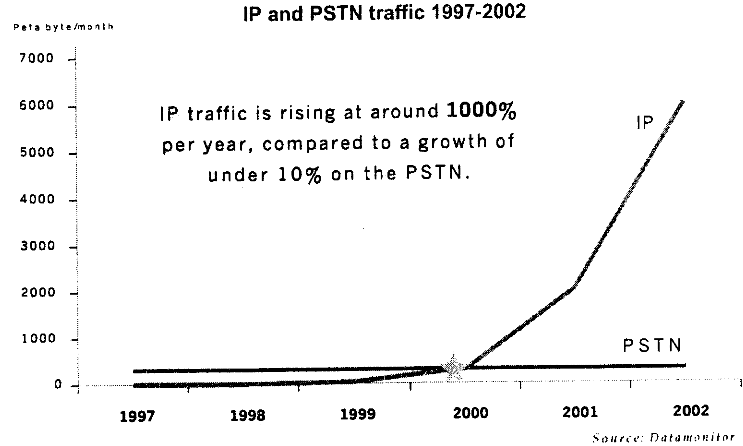
A total of 102 million households in US and Europe will have Broadband access by 2005

Worldwide ICT Market Trends

IP/@ driving forces: IP Protocol

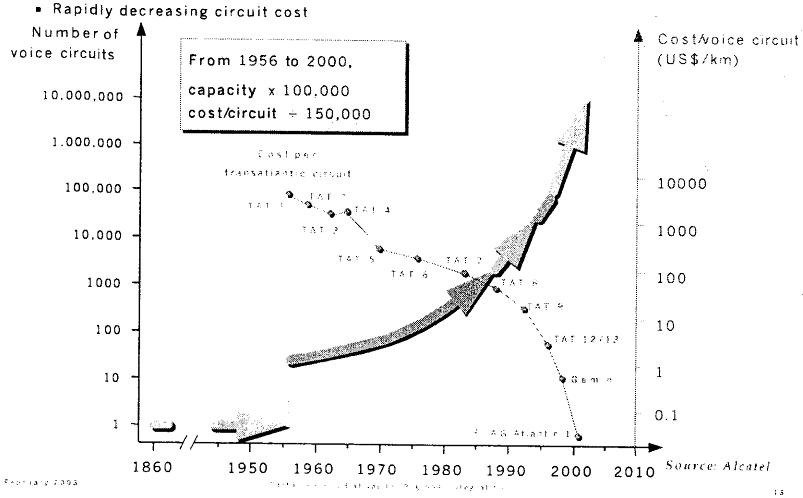
- Cross Atlantic Traffic: IP exceeded PSTN beginning 99

IP and PSTN traffic 1997-2002



IP/@ driving forces: Technology

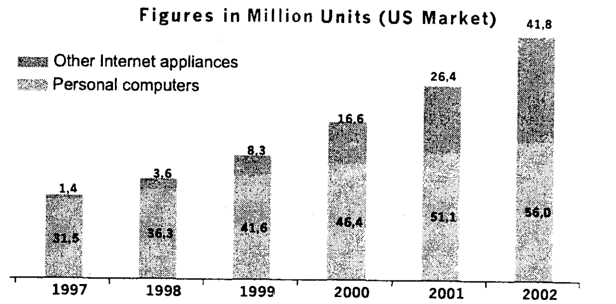
- Rapidly decreasing circuit cost



Source: Alcatel

IP/@ driving forces: Terminals

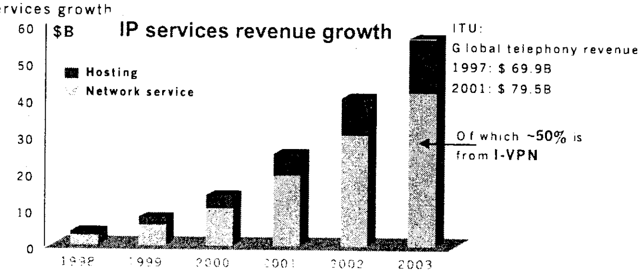
- A New Market for Internet applications supported by ... other than PC's
- @ application services and PC's
- New UMTS access devices with on line video



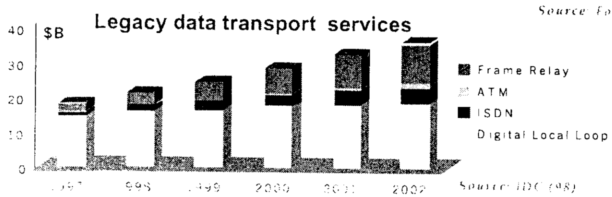
Source: IDC

IP/@ driving forces: Applications

- Public data services growth



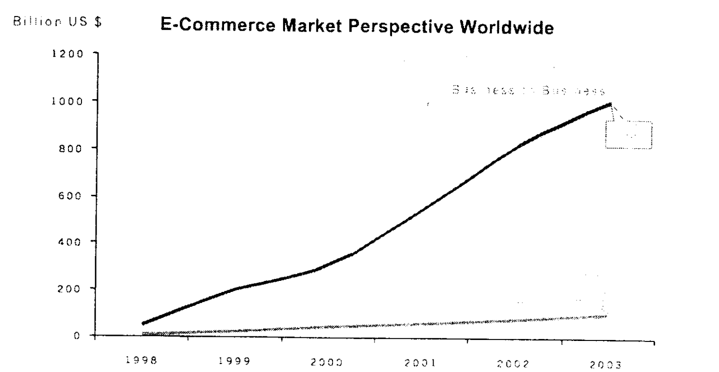
Source: Forrester (Feb '99)



Source: IDC ('98)

IP/@ driving forces: Business Networks

- Ecommerce the killer application



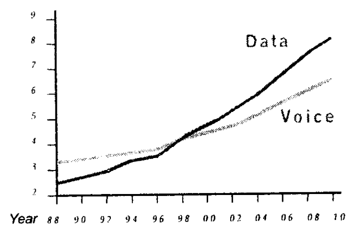
Source: Visa IDC

Worldwide ICT Market Trends

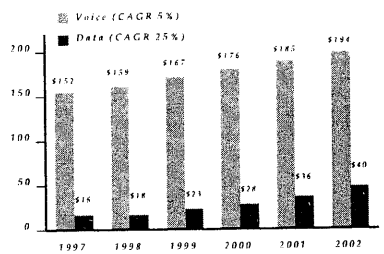
Voice is Still Leading the Economic Model

- Data traffic explodes and drives bandwidth demand, but…

Today's operator revenues are coming from voice



Data and voice traffic evolution
US long distance



US voice and data service revenues
(million dollars)

Source: the Yankee Group, Dec 8

Worldwide ICT Market Trends

But the Future is Still Ahead

Infrastructure was the world focus today

Content in the Next Big Challenge !

Worldwide ICT Market Trends

Conclusion

- Fall of CLECs and Return to Good Old Operators
- Emergence of Global Players (Vodaphone)
- 3G Licenses Left Major Operators Heavily Debted
- Major operators are going into a consolidation phase
- Recovery is expected in 14-18 months
- World ICT Recession Could be an Opportunity for Developing Countries

The Window of Opportunity Will Not Last Forever !

Worldwide ICT Market Trends

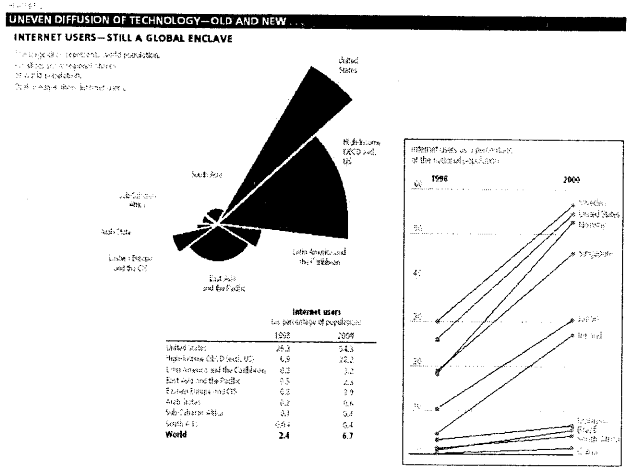
Growth is still there

Projected Annual Growth Rates by Region (1999-2006)

Asia/Pacific	9.5%
Central/Eastern Europe	9.4%
Latin America	11.2%
Middle East/Africa	12.7%
North America	9.3%
Western Europe	6.8%
Average	9.2%

Source: Gartner, Inc.

Digital Divide



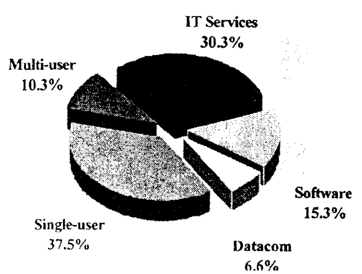
Arab States: Telecommunications Status

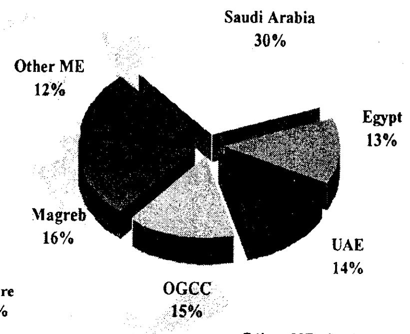
- 22 million Fixed Lines
- Mobile Subscribers
  Estimated at 15.7 million in 2001
- 3 million Internet Users
- 1 million Paid Internet Account
- 4.5 million PC
- Telecom Equipment Market reached
  $ 4.1 billion in 2001
- Broadband introduced in 6 countries

	PSTN	GSM	Internet Accounts
Algeria			
Bahrain	25%	43%	3.84%
Egypt	10%	6%	0.18%
Iraq			
Jordan	13%	16%	0.96%
Kuwait	21%	42%	7.59%
Lebanon	22%	20%	3.19%
Libya			
Morocco	5%	16%	0.15%
Oman	9%	13%	1.28%
Palestine			
Qatar	27%	29%	2.2%
Saudi Arabia	15%	12%	2%
Sudan			
Syria	11%	1%	0.17%
Tunisia	9%	0.6%	0.3%
U.A.E.	32%	58%	7.6%
Yemen			
Average	4.2%		

*Figures by end of 2001
Source: Arab Advisors Group

Arab States: Country Market Comparison of IT Spending MENA, 2001





MENA Total = $5.06 billion

Maghreb: Morocco, Algeria, Tunisia, Libya, Sudan, Mauritania

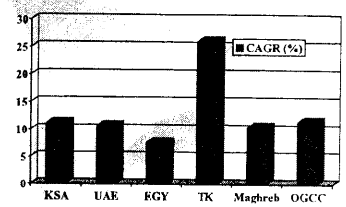
Other ME: Syria, Lebanon, Jordan, Iraq, Iran, Yemen

Source: IDC, 2002

Arab States: IT Spending Growth Trends in MENA, 2000-2002

- Despite Q4 2001 Slowdown IT Demand in Gulf Countries Remains Strong. Pick-up in Q1 2002
- Egypt Only Market to Contract in Size in 2001 - Economic Problems
- Spending in Maghreb also Slows After Strong 2000
- Demand in Rest of ME Reflects Stability of Region - Anticipate Significant Growth in the Long Term

Country	2000	2001	2002
Egypt	725.99	658.98	637.42
Saudi Arabia	1,440.11	1,531.73	1,835.73
UAE	645.32	689.75	771.43
Magreb	740.30	817.46	913.60
OGCC	655.46	756.09	862.83
RoME	624.52	598.59	711.56
Total	4,831.71	5,052.60	5,732.56



IT Spending Forecast CAGR in Select MENA Countries & Turkey, 2001-2006

Source: IDC, 2002

Arab States: Internet Growth

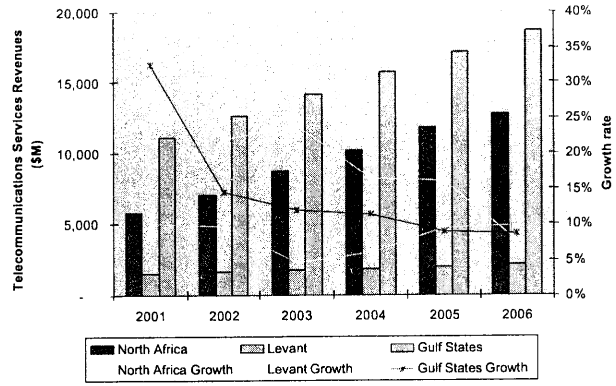
- The region is embarking on real efforts to realise networked societies
- Internet users are expected to reach at least 15.8 million in 2005

	Internet Users (K users)										%CAGR
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2000-05
Algeria		5	14	53	82	158	246	355	474	587	50.01
Bahrain		21	33	44	66	78	98	108	140	239	30.87
Egypt	30	55	120	250	450	617	838	1510	2663	3942	55.50
Iraq					13	17	21	62	206	660	141.48
Jordan		25	61	100	127	140	187	268	384	515	32.90
Kuwait		4	50	67	89	115	203	327	477	632	49.04
Lebanon		5	57	89	140	187	262	384	515	633	35.45
Libya					8	20	34	49	63	77	62.98
Morocco		10.8	20.3	45.0	267	393	578	741.5	906.7	1,029.2	31.67
Oman		1	59	64	70	84	110	139	207	280	32.30
Qatar		0	10	32	43	58	76	133	215	314	49.72
Saudi Arabia			28	374	555	1,366	2,242	3,039	3,668	4,124	55.79
Sudan					28	35	50	68	97	123	34.66
Syria		2	5	3	27	30	56	85	130	163	45.58
Tunisia	2.5	18	40	100	167	222	393	578	841	1060	45.72
U.A.E.		2	237	304	414	506	702	971	1,106	1,318	26.47
Yemen					14	30	50	68	97	123	57.28
Total		149	735	1,526	2,560	4,056	6,145	8,886	12,190	15,820	44.31

Source: Our estimates based on: ITU, Country governments, Arab AdvisorsGroup, Pyramid Research

Arab States: Telecoms Network Services

Sub-regional Performance

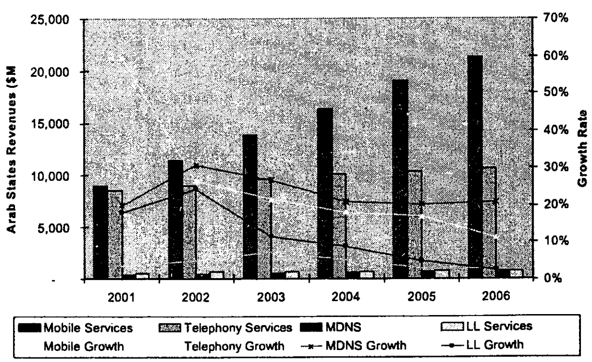


Note: Only end-user revenues & connections measured. These figures exclude Internet access & broadband access end-user revenues

Source: IDC, 2002

Arab States: Service Projections

Performance Varies



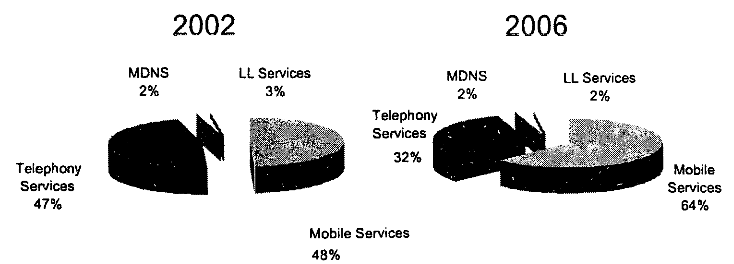
Note: Telephony Services include PSTN & ISDN end-user revenues; mobile services include 1G to 3G services; MDNS include X.25, FR/ATM, IP VPN, & other managed data services; LL includes analog & digital end-user revenues.

Source: IDC, 2002

Arab States: Evolution of Revenue Mix

Telephony Market share shrinking

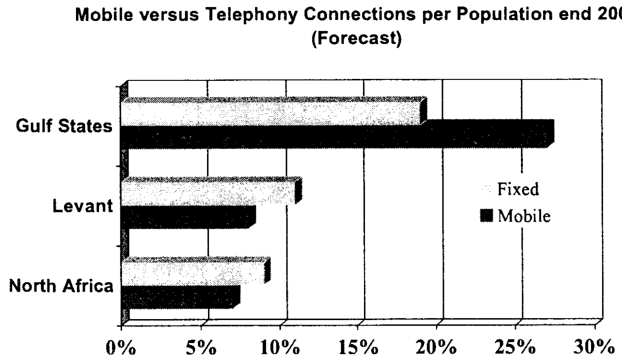
- Mobile will become the leading revenue generator for the sector
- Traditional fixed line telephony becomes less significant



Source: IDC, 2002

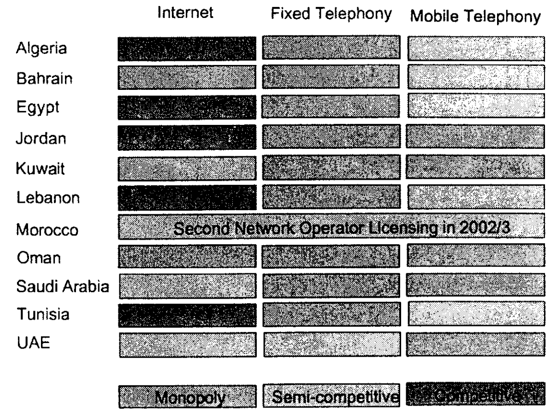
Arab States: Mobile versus Telephony Connections

Mobile Substitution in full swing

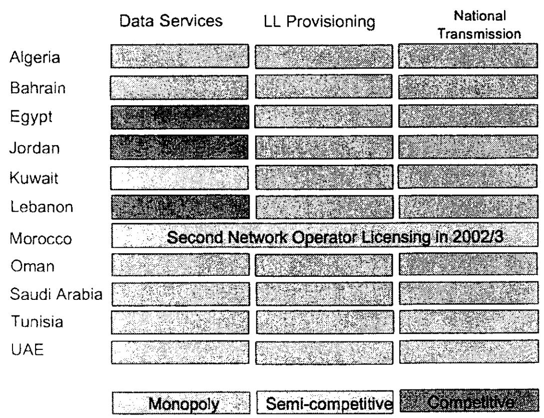


Source: IDC, 2002

Arab States: Competitive Landscape, 2002



Arab States: Data Services Competitive Landscape, 2002



Source: IDC, 2002

Opportunities & Threats for Network Services Providers

Threats

- Mobile Substitution will rapidly erode traditional voice telephony revenues
- Settlement rate reform has forced incoming ILD revenues down
- Outgoing ILD Revenues have grown marginally in response to tariff reductions

Opportunities

- MDNS revenues are on the rise
- Internet call revenue is booming with increased Internet penetration
- An increasing demand for higher bandwidth LL indicates growing demand for datacoms & internet access

ICT Status in the Arab Middle East

Conclusion

Large Growth Potential

- *Telecom Equipment market increased from $2.1 in 1997 to $4.1 billion in 2001 and still growing*
- *Telecom Service Market more than doubled in the same period*
- *Major growth areas:*

Broad Band services — *Interactive Entertainment*

Local Content — *3G mobile services*

E-commerce — *Education*

- *IT market is estimated at 5.06 billion in 2001 growing in some countries at GAGR of 35%*
- *IT market is growing at an average of 12% despite current world recession*

	Hardware	Software	Services	Total
2001	1746	140	1300	3186
2002	2001	156	1443	3600
2003	2262	171	1552	3985

IT market in Arab Middle East except Maghreb

Source: HP, based on IDC research

ICT Status in the Arab Middle East

Conclusion

- **Small Fragmented Markets**
- **Delayed liberalization**
- **Weak Industry**
- **Lack of Harmonization: Countries in Various Stages of Development**
  - **Growing Economies: Moderate Penetration, High Potential**
  - **Saturated Economies: High Penetration, Moderate Potential**
  - **Troubled Economies: Low Penetration, High Potential**
  - **Less Developed Economies: Low Penetration, Low Potential**
- **Rise of Regional Operators, Orascom & Batelco**
- **Erosion of International Revenues and VOIP is Increasing Pressure on Incumbents**
- **High Demand for Internet Bandwidth**

Current Challenges

Need to evolve into a Networked Economy

- *Connectivity*
- *Utility creation*
- *Content development*
- *Business to business e-commerce*
- *Business to consumer e-commerce*
- *Multimedia applications*

What Are The Building Blocks ?

	Telecommunication Continuum
· *Technical infrastructure*	*Digitizing/Creating Content*
· *Legal and financial infrastructure*	*Enabling E-Payment/Transaction*
· *Business environment*	*Empowering People*
· *Social and cultural Infrastructure*	*Creating the Culture*
	Leveraging Existing Regulations

Current Challenges

What Are The Challenges ?

- *PC Penetration*
- *Familiarity Barriers*
- *Locally concentrated look*
- *Fragmentation of the market*
- *Language Barrier*
- *Penetration of Plastics cards*
- *Deregulating the telecom markets*

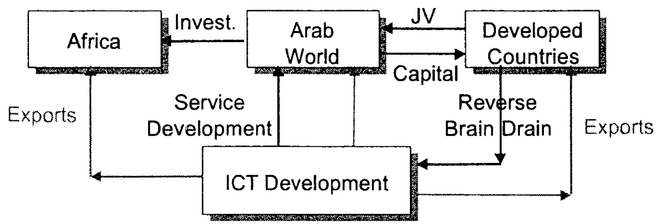
WTO Agreement is Due on 2005

New Model for Partnership

A New Thinking and Approach is Required

- Globalisation – Specialisation, critical mass
- Pan Arab Multinationals
- Distribution of production
- Africa – Investment & Market
- West – buy your market

Developing a Regional Partnership Model



New Model for Partnership

Private Public Partnership

- *Private sector:*
  - *Capital + Mergers to create strong companies*
- *Incumbents*
  - *Open to new thinking*
- Governments
  - *Reduce Telecom Tarrifs*
  - *Reduce Customs Barriers*
  - *Allow Free Flow of Funds*
  - *Develop Broadband and Services initiatives*
  - *Liberisation of Services*

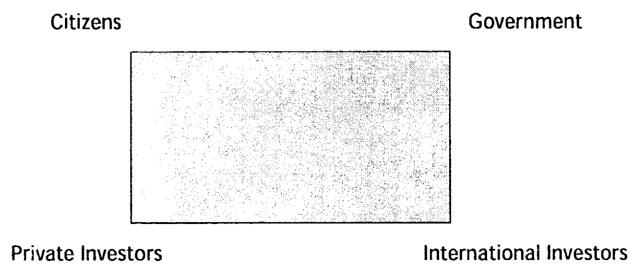
Recommended Programs & Priorities

Development of ICT policies
Help in regulatory transformation
Creation of universal funds
Companies restructuring and integration
Develop local capacities
Promote regional integration

Roles of Different Stake Holders

Problem Definition

- Develop a deregulation and privatisation roadmap for the Telecommunication Sector balancing the interested of different stake holders



Roles of Different Stake Holders

What Government Wants ?

- Maximise revenue from licensing and privatisation process ⇒ Delay Deregulation
- Speed development process ⇒ Attract foreign investments
- Increase social welfare ⇒ Universal Service
- Increase exports ⇒ Develop competitive local industry

What Citizen Wants ?

- Better service quality ⇒ Increase Competition
- Lower cost services ⇒ Increase competition
- Increase wealth

What Private Investor Wants ?

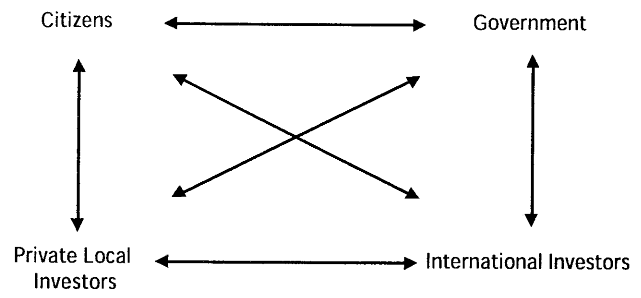
- Maximise profits ⇒ High service prices
- Protect Markets

What International Investor Wants ?

- Speed deregulation process ⇒ Kill local industry
- Maximise profits ⇒ Increase service prices

Roles of Different Stake Holders

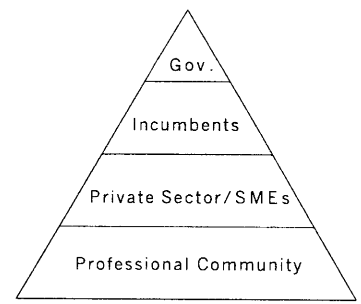
Conflicting Interests



Roles of Different Stake Holders

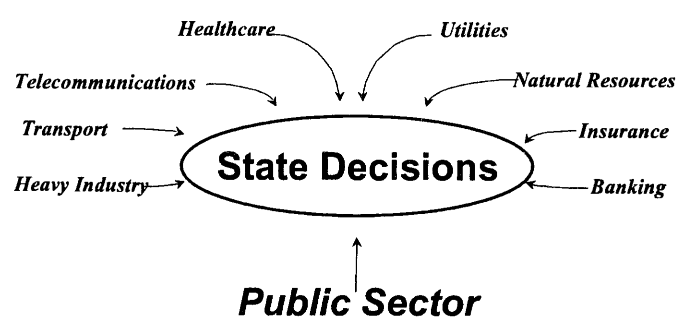
Concerns

- Government
  - Migration to information Society
  - Creating of universal service
- Operators
  - Liberisation
  - Restructuring and transformation
  - 3G Migration
- Common Concerns
  - Arabic Content
  - Connectivity
  - World Trade Agreement



Roles of Different Stake Holders

Key Role of the State in ICT Markets



Government Accounts for 25% to 60% of IT Spending in Most MENA Countries

Status of Partnership, Successful Examples

Batelco
- Build a regional network of ISPs
- Operation in Egypt, Kuwait, Saudi Arabia & Jordan

Sakhr
- Successful model of utilising Human Resource Capacities of Egypt
- Major S/W development center for Arabisation and S/W applications
- Activities ranging from developing Arabic applications to research in linguistics, voice recognition, search engines, web development.
- First Arabic web browser, Arabising of Palm Pilot OS, first automatic translator & Arabic character recognition software
- No. of developers and research teams 350 to grow to 500 in two years

Orascom
- Creating a regional Mobile Operator
- 3.5 million subscribers in 2002
- Expected to reach 7-10 million in 2003
- Successful cooperation example in Tunisia

Arab Sat
- Cooperation among incumbents in the Arab Middle East

Tijary
- Trying to build a Pan Arab Market Place

Achieving Regional Integration

Mergers and Acquisition is an option

Drivers
- WTO and Deregulation
- Creating economies of scale
- Building regional operators
- Attack instead of react
- Cost reduction and synergies sychronisation

Hipothetical Example

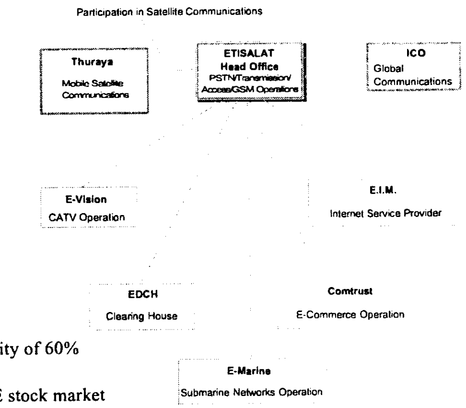
Telecom Egypt & Etisalat

Promotion Mechanisms

Pre	⇒	Professional & Business Associations (ABIFCT)
During	⇒	Arab Fund for Integration and Development
	Feasibility, integration studies, joint projects, employee exchange	
After	⇒	Organisation and employee training

Etisalat Profile

Established in 1976



- The UAE Government holds a majority of 60%
- Prominent UAE nationals hold 40%.
- Etisalat shares are traded on the UAE stock market
- Market value of US$ 8.27 bn
- Etisalat is ranked No. 2 in 1999 (No.1 in 1998) among the Gulf's leading listed companies.

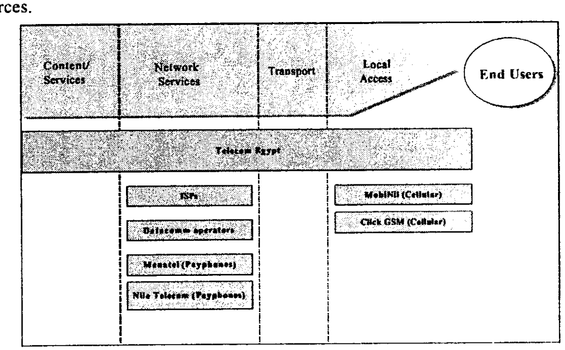
Etisalat Profile

	1994	1995	1996	1997	1998	1999	2000	2001	CAGR
Revenues MUS$	789	875	1000	1125	1380	1686	2040		
Profits				505	548	537	613		
%				**44.8**	**39.7**	**31**	**30**		

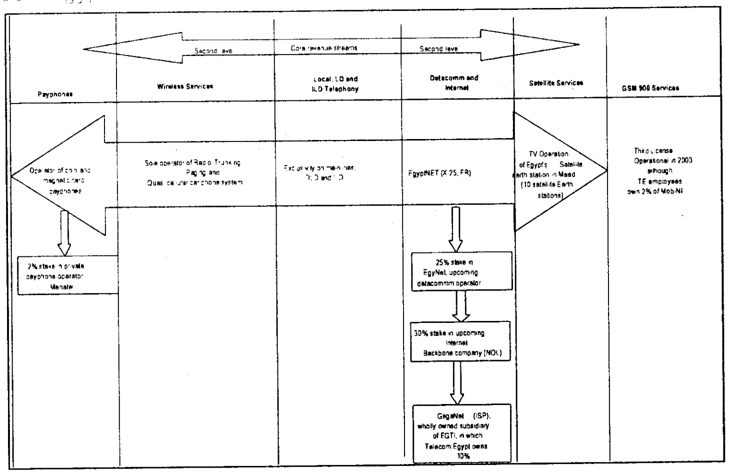
	1994	1995	1996	1997	1998	1999	2000	2001	CAGR
Main Lines in Service K	615	672	738	835	915	[illegible]	1020		
Local Exchange Capacity	726	775	858	990	1055	1120			
Teledensity	28.5	29.1	32.7	35.1	39	42.7			
Mobile subscribers K	92	129	194	314	493	830	1428		
Public Payphones K	7.5	12.1	16.8	21.9	26	30			
Pager Subscribers K	182	216	247	262	255	250			
ISDN Channels K	0.87	1.4	1.8	5	18.6	30			
ISDN Subscribers K	0.44	0.7	0.91	2.5	9.3	15			
Personal Computers K	96	115	160	200	250	300			
Internet Sunscribers K			10	27	66	127	209		

- World class operator
- Saturated market
- External Investments not very successful (Sudatel & Zinzibar)
- Competition pressures from DIC
- Shortage of Human resources
- Sofisitacted managment.

Telecom Egypt Profile
- 100 % ownership by the Egyptian Government
- Partialy Deregulated Market
- Largest Operator in the Arab Midlle East (8.2 million lines)
- High Growth Potential (market forecast to reach $3.5 billion in 2005)
- Market valuation of US$ 4-8 bn
- Ubandant Human Resources.



Telecom Egypt : Domain of Activities



Telecom Egypt : Strategic Objectives

Maintain Dominant Market Position in Voice Telephony

Build out and Modernise the Fixed Line Network

Build IP Based Data Network

Enter the Mobile Market as a Third Operator in 2002

Retain and Capitalise on Major Corporate Customer Base

Introduce New Products and Value Added Services

Sustain Revenue and Earning Growth

Expand and Improve Sales and Marketing Effort

Improve Productivity and Operational Efficiency

Telecom Egypt : Challenges

- Privatisation ⇒ Need to change management and restructuring
- Increase revenues/line ⇒ Sell more value added services, tariff adjustment
- Enhance quality of service ⇒ Subcontracting of operations & maintenance
- Continue to decrease international service tariffs ⇒ Risk of reduced revenues
- Increased data traffic ⇒ Network upgrade requires investments
- Develop an open business model to benefit from other operators experiences
  ⇒ Management Contracts Move to BOT
- Increased competition from various new operators (Egynet, Nile on Line, Mobile)
- The market for basic voice services will be deregulated in 3 years (VOIP)
  ⇒ Residential tariff adjustment put pressure on Revenue

Constraints

- Responsibility for the universal service provisioning
- Will remain the major provider for basic voice services
- Unbundling of services to allow competition for access providers
- Major role in access provisioning for Internet & High Speed Data
- Strategic Partner for 3rd mobile license

Telecom Egypt : Profile

	1996	1997	1998	1999	2000	H2000	2001	CAGR
Revenues MUS$	1302	1369	1456	1305	1668	883	1428	
Profits Before Tax	365	421	420	446	461	267	409	
%	28	30.1	28.8	34	27	30.2	28.6	

	1994	1995	1996	1997	1998	1999	2000	2001	2002	CAGR
Main Lines in Service K	2,586	2,870	3,238	3,708	4,700	5,700	6,650	7,550	8,400	
Teledensity			4.47	4.85	5.34	5.95	7.43	8.84	10.1	
Mobile subscribers K			27	83	177	868	1,676	2,670	4,282	
Public Payphones K						4	20	35	50	
Pager Subscribers	21.25	28.27	33.69	38.99	28.80	28.75	28.27	27.47	26.62	
ISDN Subscribers							1300	2000	3500	
Personal Computers K		280	350	440	572	700	850	960	1240	
Internet Sunscribers K			0.69	6.86	39.20	63.22	83.75	105.	N/A	

- High pontential market ($ 3.5 Billion in 2005)
- Ample Human resources
- Concentration on local market
- Decrease of profitability (estimated at LE 350-400 million in 2002)
- Limited investment capacity due to shortage of foreign resources
- Increased competition (legal and illegal)
- Inability to attract strategic investor with reasonable terms
- International recovery is expected from 14 -18 months
- Restructuring program is very slow

Proposed Initiatives - Consolidation

Telecom Egypt : Proposed Action Plan

- Limited local IPO (10-20% trench in local market in 2003)
  Only to Egyptians (insures distribution of wealth)
- Considering regional merger or equity swapping with a leading regional operator
- 3rd license should be a 2.5 or 3G license
- WLL project worth reviving (requires major breakthrough)

Regulatory

- Licensing of second operator is an option worth considering
- Revenue sharing model for 3G (no up-front license fee)
- Building the Universal Fund

Proposed Initiatives - Consolidation

Building a Regional Operator

Synergies Between The Two Companies
- Strategic Fit
- Complementing Service Offering
- Etisalat can give management know and product know how
- TE can compensate for shortage of human resources
- Etisalat could act as the Strategic Partner for 3rd mobile license

Common Threats
- Local Competition and WTO liberalisation of services
- Need to expand

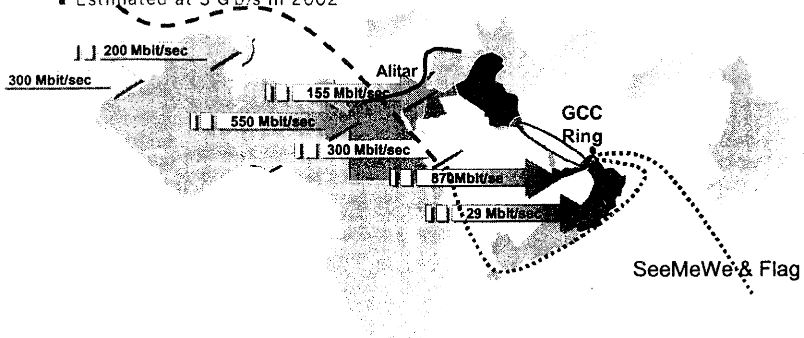
Benefit to Both Sides
- Increased market valuation
- React to regional opportunities

Proposed Scenarios
- Strategic Alliance
- Form Joint Investment Company
- Equity Swap
- Full Merge

Proposed Initiatives - Connectivity

International Internet Bandwidth and Connectivity

- International Internet Bandwidth Capacity Doubles Every Year
- From 870 Mb/s in 2000 to 1.7 Gb/s in 2001
- Estimated at 3 Gb/s in 2002



Proposed Initiatives - Connectivity

Large Bandwidth Demand

Drivers
- Increased Internet Penetration
- Increased Broadband Penetration
- Migration to rich content portals
- Need for real time streaming and Applicati

Year	Users (000)	Bandwidth/User Kbit/sec NB	BB	Broadband %	Total Bandwidth Mbit/sec
2000	2,560	0.04			870
2001	4,056	0.05			1,700
2002	6,145	0.06		1	3,100
2003	8,886	3	384	3	16,028
2004	12,190	4	384	10	51,198
2005	15,820	5	384	25	131,504

Limitations

Capacity Shortge
- Sea Mee Wee 3 — 8 x 2.5 = 20 Gbit/sec
- Flag — 10 Gbit/sec
  Upgrade 40 Gbit/sec

High Cost
- Cross Atlantic STM1 — less than $3000/month
- New projects STM1 — $ 6000-8000/month

Proposed Initiatives - Connectivity

Communication Over Electrical Power Grid

Why ?

- Electrical Power Grid Extending from Egypt to Turkey
- North Africa Grid soon to be finished (cross over Libya)
- Under water power cable project from Morocco to Spain
- 4 12 Pairs Single Mode Fiber Optical Cables are in place in most countries for Command and control (550kv & 220 kv grid)
- Minimal investments (add drop multiplexers and switching layers)
- Demand Driven Growth
- Central command and control center agreed on in Egypt
- Already connected to Europe
- Can use other tapings from Egypt and Tunisia
- Offers a bridge to Africa (Comtel)
- Can have multiple redundancy tapings (Turkey, Egypt, Tunisia, Morocco)
- Will help create cheap media for internet traffic in the Arab Middle East

How ?

- Funding for initial feasibility study
- Proposal to the Telecommunication Council of the Arab League
- Joint committee with the Council of Ministers of Electricity

Proposed Initiatives - Content

Arabic Content Development Center

Drivers

- Convergence of media and internet
- Cultural and identity preservation
- Content drives internet demand
- Dot com business models failure
- ISP revenues weak to support such activity
- Lots of government effort for preservation need coMmercialisation
- Content is not and Operators Business
- Digital Rights and Management Issues are not Clear
- Help Small and Medium Enterprises Survive

Recommended

- Arab Operators would finance the center (2% of International Bandwidth Cost)
- Arab Broadband Forum is taking the initiative
- Need Cooperation form Operators
- Provide equity finance and grants for content providers and developers

Conclusion

Need To build Regional Communication and Service Industries

Drivers

- Market Fragmentation
- Deregulation and Competition
- National Security
- Cultural Identity
- Buy back assets

Inhibitors

- Immature thinking
- Slow decision making
- Natural Resistance to change
- Mistrust
- Reactive culture

Limited Window of Opportunity

- International Operators will be back 18 - 24 months
- WTO and Deregulation Count Down
- Markets slow down