

## **The Process of Changing Jordan's Telecommunications Market**

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I am very pleased to address you this afternoon on a subject that has particular resonance in Jordan today, "The Process of Changing the Telecommunications Market". As I prepared my remarks, I thought it would certainly be much more relevant to dwell on the challenges facing Jordan's transformation process at present and in the near future without going into any real detail as to what has transpired to date in this exercise.

Transforming the telecommunications environment in Jordan began in 1995 with the passage of a new Law that led to several important developments, most notably the separation of operation from regulation, a common first step in the liberalization of telecom environments. This was followed by the incorporation of the incumbent telecom provider into a new entity, the Jordan Telecommunications Company. The Law also established a Regulator, the Telecommunications Regulatory Commission or TRC. While the Company began to divest itself of some of its old statist clothes, the TRC began the process of regulating an increasing number of players, including the country's first privately owned GSM mobile operator.

This first phase came to an end in the year 2000 with the sale of 40% of the Company to a strategic investor (a consortium led by France Telecom) and the licensing of a second mobile operator, fully owned by Jordan Telecom. In this second phase, our liberalization process was designed to bring first-world capital and expertise to our fixed-line operator, and make Jordanian consumers the beneficiaries of competition in the mobile, GSM service.

In its first year, Jordan Telecom, which will continue to enjoy monopoly status until December 31, 2004, became a modern operator, having completed the digitization of its entire network, rolling out DSL connections and unifying tariffs over a countrywide accessible data communications network. The financial picture for the company remains profitable and healthy, and investment continues to be made to enhance the company's operations and services. Tariff rebalancing measures continue and revenues shall be

further boosted as new value added services are rolled out. Company employment has grown while quality and knowledge of human resources improved. More remains, however, to improve the company's general customer satisfaction levels.

In mobile services, where a duopoly exists until December 2003, our hopes for the benefits of competition have emphatically been realized through dramatic price reductions and an equally dramatic expansion from roughly 100,000 subscribers in 2000, to 750,000 today and counting. We have become confirmed believers in competition. But this was probably a given, a characteristic of the phenomenon of mobile telephony all over the world. However, we maintain that there is also a social aspect to this phenomenon that we must not underestimate, a magic that makes even those people with limited incomes most willing to sacrifice sizeable portions of their incomes for. I would not hesitate to question the ultimate utility of it all in a country with a per-capita income as low as \$1,500.

**Today**, almost seven years later, I would suggest that we have entered phase three of our liberalization process. Without minimizing the accomplishments of the earlier phases, I would also suggest that the real work of transforming our telecommunications market into one that is able, open, competitive and receptive to investment has just begun.

Already we see the broad outlines, as well as the fault lines developing in the sector. Let me set out for you the milestones and the challenges we see ahead, as well as the steps we have taken, or will take, to meet these challenges.

The first of the milestones is an Initial Public Offering (IPO) of Jordan Telecom, with its plan currently under preparation. The agreement with the strategic investor calls for an offering sometime in the two-year window between January 2002 and January 2004. We are now in that window, and our Government, owner of 51% of the shares, will lead the process.

As important as this exercise is, it does not come without its challenges. Interests of the different stakeholders, even within government itself, may not necessarily converge and at times may find themselves at odds. Balancing between maximizing

share value at a time of generally declining valuations, stock market impact, and the attraction of a fully competitive environment becomes a trying exercise, the former reflecting an attitude unencumbered by provisions designed to make competition in the Sector attractive.

In much of the developing world, the offering of shares in a telecommunications provider is typically the flagship of the emerging stock market. The Ministry of Telecommunications, normally responsible for overseeing sectoral growth, must be aware of the impact of the offering on the Sector as a whole, and the long-term health of that Sector must be its foremost consideration. Put simply, my vision of the future does not include a Company that has become so dominant and entrenched in its position as to reflect a barrier for entry to new entrants.

A second imminent milestone for Jordan is the liberalization of the mobile market at the end of 2003. We recently signed an agreement with the American Trade Development Agency, or TDA, to assist us in preparing for the licensing of additional provider(s) of mobile services including, possibly, 3rd generation services. We have an open mind on the kind of mobile environment we will want beginning in 2004, taking into account Jordan's economic situation, the experience to date in mobile telephony, and the propensity of our population to consume mobile services. I should mention that the 3rd generation is not a foregone conclusion, although I would say that we are very interested in mobile devices as potential low-cost access devices to the World Wide Web and, so, to our e-Government services.

Here we can learn lessons from the developed world. It is clear that 3G license fees will ultimately be borne by the consumer and we should ask ourselves whether we want the Finnish or the German model in Jordan. Do we give away the spectrum or charge whatever the market will bear? Or, do we choose something in between? A larger question has to do with the usefulness to our population of mobile access to the Internet. On the one hand, in a country where PC usage is very low, it might facilitate access to e-Government services, assuming that we can make services available, in Arabic, in a usable and affordable way to Jordanian subscribers. In addition, our experience with the mobile GSM service suggests that the amount of economic activity it has stimulated is substantial, in the form not only of investments by the providers and in

the jobs they create, but also in opportunities for smaller businesses selling telephones, prepaid cards, and incidental services. In addition, the returns to the treasury in the form of sales and income taxes have grown to make the Telecom Sector an important part of the country's economy.

But there is a cautionary note here. We have already seen that people are willing to make sacrifices to own and use mobile phones. If there has been no real increase in economic activity, but only a substitution of one activity for another, this may not be an unmitigated good. In addition, the countries that are leaders in planning for 3rd generation service have per capita GDPs among the highest in the world. In the long term we in Jordan may not be able to afford cartoons and jingles, however much they may appeal to the Japanese. We hope that the TDA study will help address answer these questions in a relevant way.

The third important milestone is the full liberalization of the fixed-line service at the end of 2004. Here, the same considerations apply as with the mobile. We must plan early to ensure that whatever new services are licensed will be ready to roll out on January 1, 2005. We are preparing ourselves for such an eventuality. But, here, we probably have a greater challenge than with the mobile service. In the first place, mobile telephones are often *replacing* the fixed line elsewhere in the world. In many countries, fixed-line tele-density is actually dropping as subscribers migrate to mobile. In Jordan, with a tele-density of about 14%, we don't see a plateau having necessarily been reached as yet, though this represents 70% of households, making the threshold lower than in the developed world. This has serious implications for our attempts to attract new entrants into the fixed-line service. It is therefore our challenge to find a way to ensure that monopoly in the fixed line is not the only option on that date.

In addition to the above, Jordan faces another series of challenges, but those do not have identifiable deadlines or clear outlines. Instead, they have to do with establishing and organising the roles of the various players in the sector, such as the cabinet, MoICT, MoF, TRC, the courts, and the operators.

In the past year we have worked diligently to establish the policy and regulatory framework that will prepare us for the third phase in the sector's transformation. First, we

prepared an amended Telecom law to the Act of 1995. By 2000, we felt that the Law had done what we wanted but it was time to move ahead. We did so by drafting amendments to the Law that would replace the part-time Board of the TRC, chaired by the Minister of Telecommunications, with a full-time five-member Commission that is independent of Government. The amended Law will bring responsibility for policy in the expanded ICT sector into a new ICT Ministry and will finally organize the management of the country's spectrum under the responsibility of the Regulator.

We believe that a more independent Regulator, a ministerial focus on the entire ICT sector, and clear identification of responsibility for spectrum will send the right message to investors. So, we have taken the legal steps to strengthen the policy and regulatory framework in Jordan. But, frankly speaking, that is not enough. The real work lies ahead of us as we begin the process of institutionalizing the changes in the Law. And as we undertake that process, the players I mentioned above are independently taking actions to stake out their positions in a set of relationships that remain to be worked out in practice. Let me be more specific.

The Ministry of Telecommunications has taken the lead in preparing the changes to the Law. But ministries propose and lawmakers dispose. In the absence of a sitting parliament, the Cabinet is responsible for approving the amended Law, which will be issued as a temporary Law until passed by the full Parliament. But as the Telecom Sector gains dominance, so do the interests of the providers. You may be sure they have brought their concerns to the attention of the Cabinet. While we expected the Law to be passed last September, discussion of a provision dealing with the right of one provider to disconnect service from another has held up approval until this time. My suggestion here is that, as the issues of competition grow in number and complexity, so do the attempts by the competitors to influence the outcome. We are certain that the outcome will be a Law that will stand the test of international best practice, and not only with regard to this provision. But the process has not been easy, and the issues are only getting more complicated.

In keeping with liberal practice, everyone in Jordan agrees that we have to strengthen the Regulator, and not only in the technical disciplines. More importantly, our aim must be to create a body that is recognized by all concerned as a strong, proactive

authority in the Sector. Again to be frank, that situation does not exist today. The lack of a systematic regulatory regime – and here I refer to *regulations* that complement and give effect to the Law - has meant that issues are not settled, but tend to drag on without resolution. The time has passed when the relatively *ad-hoc* process of regulation can be effective in Jordan. We must move resolutely to draft and put into effect this regulatory regime, as a priority, a task we intend to undertake this year.

Another issue of contention in the maturing process of transformation deals with the jurisdiction of the courts. We recognize that courts are being asked in some instances to rule on matters that we believe to be within the jurisdiction of the Regulator, especially in matters of technical nature. We are concerned that a precedent be set that it is the Regulator, and not the court system, that manages the Sector in Jordan, and we seek to provide for this in the law based on best practices in more developed countries.

Finally, we have the **operators** in the Sector, several of whom wield significant market power, which at times may be cause for concern to policy makers and regulators alike. Arrayed against this power *must be* that of the policy-maker and Regulator. They must be vigilant to ensure that whatever influence is exercised falls within the boundaries of the Law, shareholders agreements, license agreements, regulatory rulings, and the interests of the consumers. This is an ongoing process, and it will continue regardless of the experience of the Regulator or the strength of the regulatory regime. But let me suggest that it is particularly difficult in the circumstance – such as in Jordan – where there is a monopoly provider. That is to say, the existence of a monopoly is not an issue. Let me be frank and say that there was a clear trade-off when the investment was made – the more that was paid for the monopoly, the longer it could be expected to last. Let me also say that we have entered into an agreement with a world-class provider and we fully intend to respect that agreement – any decision not to do so would send precisely the wrong message to future investors.

But, having said this, is the policy and regulatory environment in Jordan now clear for the next three years? Can I as a Minister go to sleep and wake on January 1, 2005 when new arrangements in the Sector must come into effect? The answer is self-evident. It is clear that the challenges that I have listed above will continue over the next several years, while we move to establish the framework that will ultimately guide a fully

liberalized Sector. We may be able to look forward to a phase four that will begin in 2005. But it remains our responsibility to complete the work in phase three that began a year ago. This will be perhaps the most difficult and the most challenging of all the times we will face in the Sector. Our work is really just beginning. Under the new Law I will no longer be Chairman of the TRC, but my policy-making responsibilities will be even greater. As I indicated above, my vision is to take steps – in concert with all stakeholders in the Sector – to create an open and vibrant ICT Sector in 2005, capable of playing its rightful role in the economy of the country.

As a first step, I intend to work to ensure that every player in the Sector is aware of its proper role. Ideally, the new **MoiCT** will prepare overall policy, for endorsement by the Cabinet. The responsibility for implementing that policy will be a strengthened and invigorated **Regulator**, whose jurisdiction and competence are accepted by all concerned. The **operators**, whether dominant or new entrants, shall be protected by a regulatory framework that creates a level-playing field for all. Within this framework they shall be free to compete and, in so doing, provide improved services at better prices to Jordanian consumers. Finally, the **courts** will be available as a last resort to all concerned when matters of national concern cannot otherwise be addressed or when any of the above players steps out of its rightful role as defined in the Law. That is my vision for the Sector.

Thank you.