U. S. TRADE AND DEVELOPMENT AGENCY

EXECUTIVE SUMMARY

Jordan Wireless Sector Market Liberalization Technical Assistance

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U.S. Firm: Decision/Analysis Partners
Main Contact Name: Bernard Markowitz, Managing Director
Current Phone: 703-255-1101
Fax: 703-255-3312
Email: info@decisionanalysis.net

Project Sponsor: Ministry of Information and Communiications Technology of the Hashemite Kingdom of Jordan
Main Contact Name: Eng. Afram Jamil, Advisor
Current Phone: 962-6-582-1644
Fax: 962-6-585-1305

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1 Executive Summary

The United States Trade and Development Agency (USTDA) has commissioned decision/analysis partners, DETECON USA and Al Jidara Investment Services to conduct a Wireless Liberalization Study for the Ministry of Information and Communications Technology (MoICT) of the Hashemite Kingdom of Jordan.

The purpose of this study is to assess the competitiveness of mobile telecommunications in Jordan and to evaluate policy options for further liberalizing the mobile sector in accordance with Jordan's commitments to the World Trade Organization (WTO). The exclusivity period for both incumbent operators is set to expire on December 31, 2003.

Our study of the Jordanian market, subscriber demand, competition to date, potential new service offerings, and technological developments worldwide suggests the following:

- The current mobile market in Jordan is competitive, as evidenced by the sharp rise in the mobile penetration rate over the last 18 months, but the cost of owning a mobile phone continues to represent a high proportion of the average income.

- There are more mobile phones than fixed lines in Jordan. Mobile service is becoming a necessity for businesses, consumers, trades people and the self-employed.

- The corporate market is not well served by the incumbent GSM operators, creating artificial limits on the deployment of e-commerce applications.

- The internet adoption rate in Jordan has hit a ceiling, threatening the government's strategy of developing a knowledge-based economy.

- Most Internet Service Providers (ISPs) in Jordan today are unprofitable. As the industry consolidates, the survivors will require a wireless network alternative to the fixed telephone network in order to profitably extend their customer base.

- Demand for 3rd generation (3G) mobile services will develop slowly in Jordan, driven by small transaction-based services rather than "killer applications".

- Mobile operators provide one of the few national distribution channels for delivering value-added e-content to large, captive customer bases.

- 3G services can be delivered on both GSM 1800 networks (1710 MHz-1880 MHz) and 3G/UMTS networks (1900 MHz-2170 MHz). Operators are likely to deploy 3G services in the GSM 1800 band first because of lower infrastructure costs.

- The penetration rate for mobile services is expected to peak in the next 10 years at 45-50% of the population.

- Financial modeling of the mobile sector over the next 20 years shows that a third operator can be successful in the Jordanian market given the right business plan, a deep-pocketed investor, a clear differentiation strategy, strong knowledge of the Jordanian market, and the ability to integrate mobility, data and voice applications into a seamless network.

- We do not believe that the Jordanian market can support a fourth mobile operator in the current economic climate.

- A proactive Telecommunications Regulatory Commission, intent on keeping a level playing field for all, is essential to the success of a third operator.

- Government receipts from revenue sharing, gross sales tax and corporate income tax, *taken as a whole,* will not change significantly with three operators instead of two. The drop in the average revenue per user, as a result of competition, will be made up by an increase in the number of mobile subscribers.

- The upfront value of the third mobile license will be curtailed by three factors: (1) the existing revenue share agreement with the government, currently set at 10%; (2) tough conditions in the global telecom sector, which will limit the number of potential bidders; and (3) an already competitive mobile market in Jordan.

- The introduction of a third operator will stimulate economic growth via productivity gains tied to the increased affordability and widespread adoption of mobile services

As a result of these findings, we recommend the following:

- The Government of Jordan should follow through on its WTO commitment to liberalize the telecom sector and license a third mobile operator to begin service at the conclusion of the current exclusivity period.
- Three licenses for 3rd generation mobile services, combining both GSM 1800 and 3G spectrum, should be offered to the incumbent mobile operators as well as to a new entrant.
- The new entrant should be selected via a beauty contest, in order to increase the chances of attracting qualified bidders in this difficult global investment climate. However, the choice of selection procedures is secondary to the goal of attracting a third operator. The path of least resistance should be followed if strong voices within government express a preference for one alternative over another.
- A financial institution will need to be hired to determine a fair market value for the combined GSM 1800/3G spectrum in the current investment climate.

The market for mobile services in Jordan has shown tremendous growth since the introduction of a second operator in 2000. These trends are encouraging, as many studies have shown a strong correlation between economic development and the consumption of telecom services.

The introduction of a third operator can only further enhance this trend by improving the availability of ubiquitous, affordable and innovative mobile services to the greatest number of Jordanians. This strategy will help Jordan continue to position itself as an economic and business hub in the region.

However, the success of the third operator is by no means guaranteed. The government can create favorable conditions for attracting foreign direct investments in the telecom sector, in compliance with its WTO commitment. However, as with any open economy, it is the marketplace that will ultimately determine whether the third operator succeeds in Jordan.