Israel and PA Need to Open Palestinian Telecom Sector to Competition

Ramallah, February 13, 2008 -- The World Bank released today a report on the Palestinian telecommunications sector.

According to the report, opening up the Palestinian telecommunications sector to competition will have far reaching effects throughout the economy. Improved efficiency brought about through competition will reduce the cost of doing business in all sectors, lower the cost or telecommunications services to consumers and help increase government revenues. In addition, by developing the capacity to regulate the largest monopoly in West Bank and Gaza (WBG) and spur competition in the telecommunications market, the PA will help develop its ability to provide a better regulatory environment for the entire economy.

Almost all legal telecommunications services in WBG are provided the PalTel group, which includes the only authorized mobile operator, the only fixed line provider and supplier of internet capacity. Without competitors, PalTel effectively operates as a monopoly, only challenged by Israeli providers. Though according the Oslo accords they are not allowed to provide services to the WBG population, it is conservatively estimated Israeli operators account for 20 percent of the market. Recently a second mobile operator, Wataniya, has been issued a license and promises to introduce competition into the market. However, while Israel has in principal agreed to release frequencies for Wataniya, so far they have not done so. The World Bank estimates that this delay will cost the fiscally strapped PA $13 million in the first year and $28 million in the second year of delay. The delay also means that the PA has not yet received the $355 million sale price and Wataniya has made little of the badly needed $600 million in investment it has promised.

In addition to the lack of frequencies, it is difficult for new operators to enter the market or for existing ones to expand because of restrictions on importing equipment or establishing required infrastructure in area C of the West Bank . For example, Jawal was compelled to host part of its mobile switches in London because Israeli customs did not allow the importation of necessary equipment. Jawal has also indicated that it has made dozens of requests to erect towers and other infrastructure in Area C but has not received permission. This has forced Jawal to put up more towers than they otherwise would need in Area A and has also resulted lower service quality.

Because, other operators have not been able to enter the market, the Paltel Group has been able to consolidate its market power. It is a privately owned, vertically integrated network whose dominance is expressed both in terms of high market share in all relevant market segments (most of them controlled as a monopoly), and being the only company able to operate in a wide range of segments. The Palestinian Ministry of Telecommunications and Information Technologies (MTIT) is now in the process of awarding new full operator licenses for data and voice over Internet protocol (VoIP) services. These licenses will significantly improve the competitive landscape in WBG, by introducing competition in voice and data infrastructure and services. While, there are moves to increase competition, MTIT has been slow to build capacity to effectively regulate the market. Allowing a second mobile operator to enter would hasten this development, which would provide an effective model for regulation in the rest of the Palestinian economy.

After thoroughly reviewing the telecommunications sector in West Bank and Gaza, the World Bank recommends the following actions:

(a) *Introduce full competition* . To enable effective competition, the following measures are crucial:

(i) to release frequencies for the second mobile operator, Wataniya.
(ii) PA to implement the policy announced by MTIT to issue new licenses in the data sector.
(iii) PA to issue frequencies crucial for the attribution of wireless data licenses (e.g., Wi-Max).
(iv) PA to regulate and monitor anticompetitive behavior and the concentration of monopoly power in PalTel;

(b) *Promote technical cooperation between Israeli and Palestinian technical teams.* The existing conflict hurt the work of the Joint Technical Committee (JTC) and the implementation of the provisions under the telecommunications sections of the Oslo Agreement. The structured negotiations mechanism of the JTC should be supported and encouraged, including by arranging for predictable meetings of the body. Issues include Israel allowing Palestinian telecommunications firms to smoothly import equipment and emplace necessary infrastructure in all areas of the country. Given the demographics and the geography of the area covered, it is not possible to create hard boundaries to prevent complete access to the Palestinian market by operators not formally licensed by MTIT. While operators not licensed by MTIT should not market their services in the Palestinian territories, it is still necessary to pursue market-based practical arrangements such as revenue sharing arrangements with the licensed operators to formalize any spill-over entry and compensate for paid license fees.

(c) S*trengthen MTIT's institutional, regulatory and enforcement capacity and create a regulatory unit within MTIT, which will be transferred to an independent telecommunications regulatory authority at a future date.* New regulations are under preparation and MTIT has published draft interconnection guidelines. MTIT is working on a new telecommunications law which aims to introduce a telecommunications regulatory authority. MTIT should create a unit within the MTIT to regulate the sector until an independent telecommunications regulatory authority is established. MTIT should receive additional resources to tackle the regulatory priorities that any ministry faces during the introduction of competition, including other aspects of interconnection regulation (e.g., dispute resolution; interconnection costing); enforcement; licensing; spectrum management and monitoring; number portability. A top priority is to introduce a body of competition law and regulation, and establish ways of monitoring and sanctioning anticompetitive behavior.

(d) *Improve tax collection and governance* . Effective competition between telecommunications operators can provide strong and reliable short-term and long-term fiscal gains. The PA should implement a more transparent system for generating and collecting tax revenues. Improvements in tax collection, as well as an agreement on how to tax the revenues generated by Israeli operators serving Arab customers in the West Bank, is desirable.

(e) *Increase the overall transparency and improve the governance of the sector.* This includes: determining the exact legal status of the various subsidiaries of

PalTel group; clarifying the priority between rights under the licenses and government guidelines and implementing industrial cost accounting.

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