



Strategic and Retail Market Review

Press Conference

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- Draft Statement on the Strategic and Retail Market Review released on Thursday 28 February for four week consultation on timing

- TRA is detailing a comprehensive package of proportionate regulatory measures that will:
 - further promote competition and the interest of users;
 - open new investment opportunities and facilitate the growth of the sector;
 - give Batelco more flexibility to compete within appropriate safeguards;
 - support the achievement of the objectives of the Second National Telecommunications Plan;
 - contribute to the economic development strategy of the country.

Market

Liberalisation (1)

Since liberalisation of the telecommunications sector in 2003, 63 companies have been issued licences with 17 actively selling commercial services

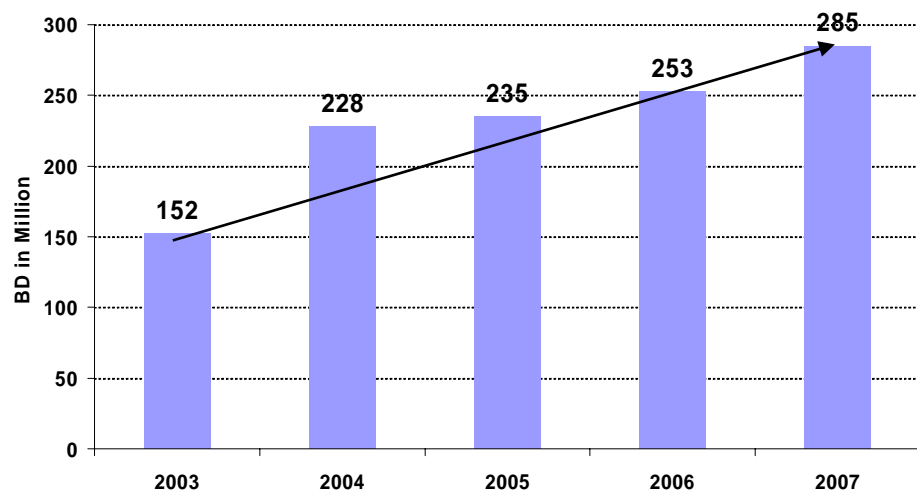
	Operator Name	National Fixed	International Calls	Mobile	Internet	Leased line	Other data services ¹
1	2Connect	√	√		√	√	√
2	ANIS		√				
3	Batelco	√	√	√	√	√	√
4	BT Solutions LTD						√
5	Business Communication Networks		√				
6	Etisalcom		√			√	
7	Fakhro IT Services		√				
8	Fastelco (TeleGulf)		√				
9	Kalaam Telecom		√		√	√	
10	Light Speed						√
11	Mena Telecom		√		√		
12	Northstar		√				
13	Nuetel Communications	√	√		√		
14	Orbit		√		√		
15	Swiftel International		√				
16	Viacloud		√				
17	Zain (Bahrain)		√	√	√		
	Total	3	15	2	7	4	4

Market Liberalisation (2)

- Consumers are being presented with an increased choice of provider not only for their voice calls but also for internet access
- Liberalisation has benefited Bahrain
 - Increased employment
 - Increased choice
 - Decrease in certain charges

Growth in revenues and employees in the telecom sector

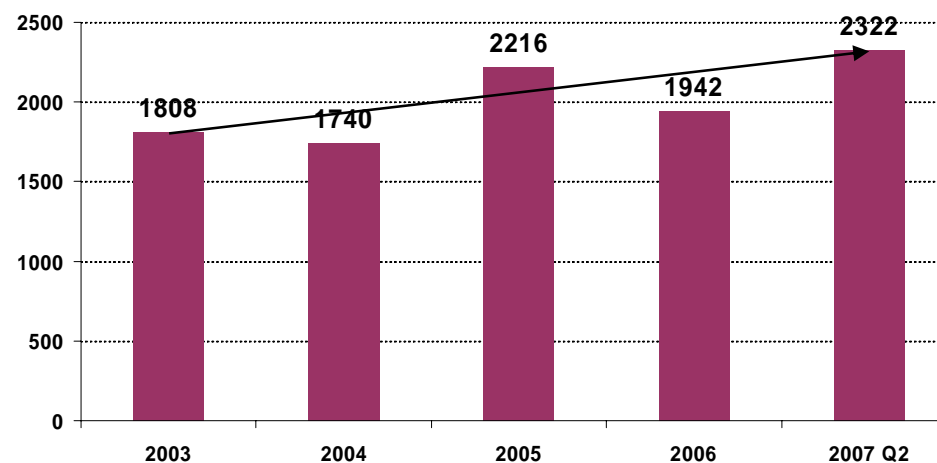
Growth in the telecommunications sector revenues (2003 - 2007)



13% Growth in the revenues in 2007

87% growth from 2003 level at time of liberalisation

Number of employees in the telecommunications operators (2003 - 2007 Q2)

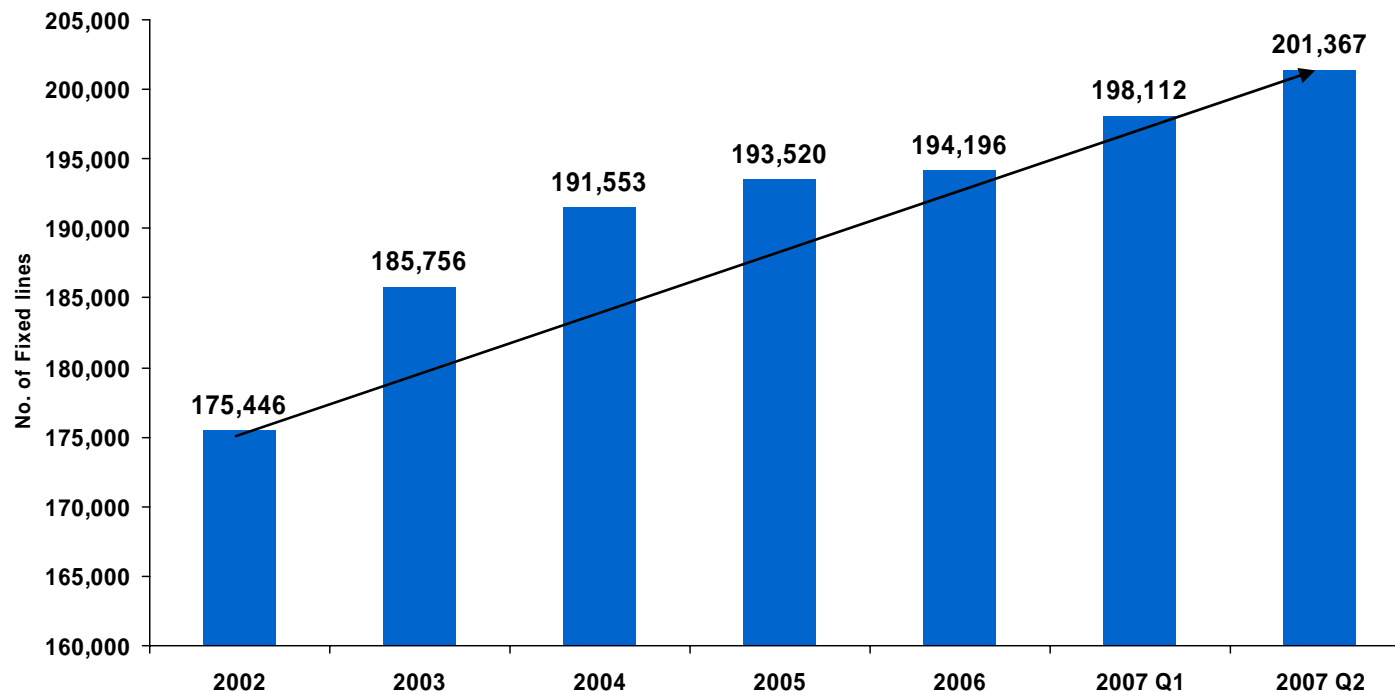


19% growth in the number of employees between 2006 and 2007 Q2

28% growth since liberalisation

Number of Telephone Lines (Res. and Bus.) in the Kingdom of Bahrain (2002 – 2007 Q1)

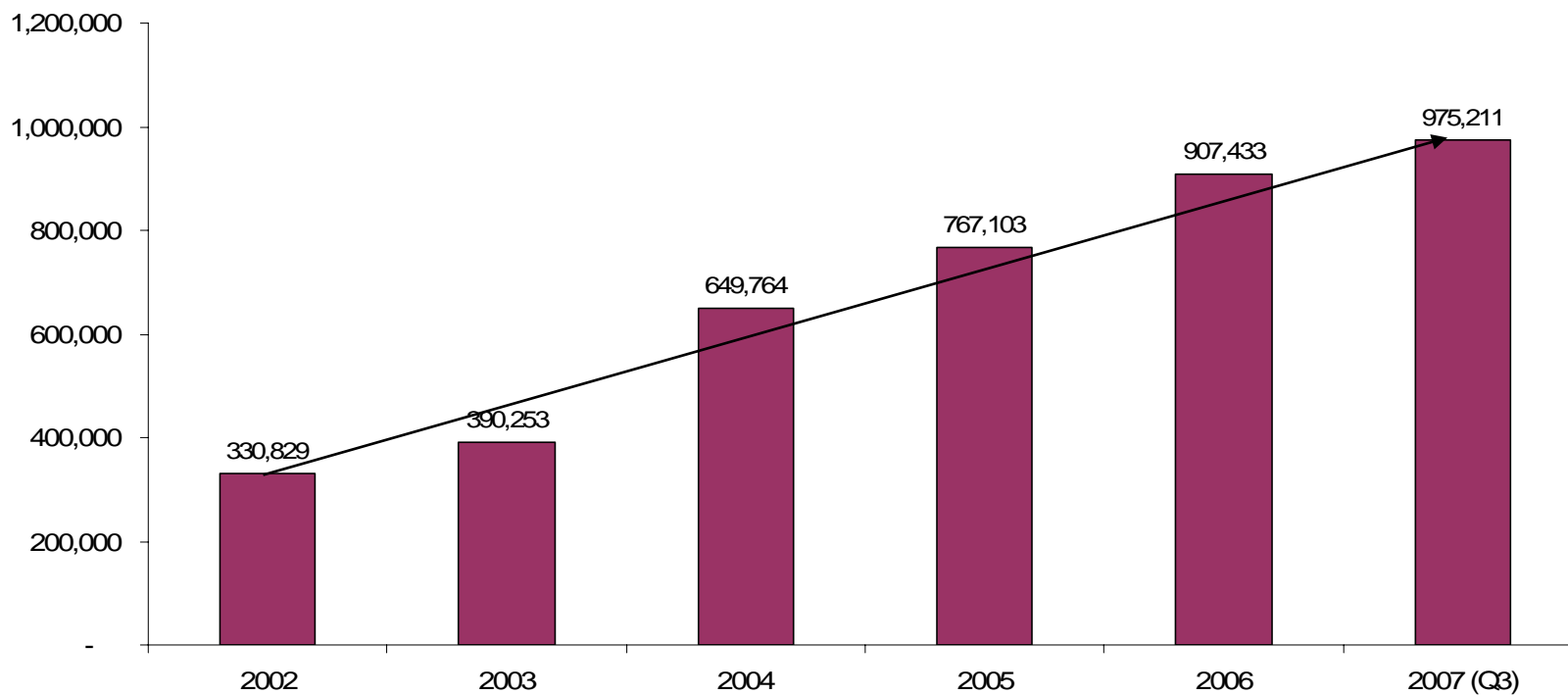
c15% growth in fixed lines



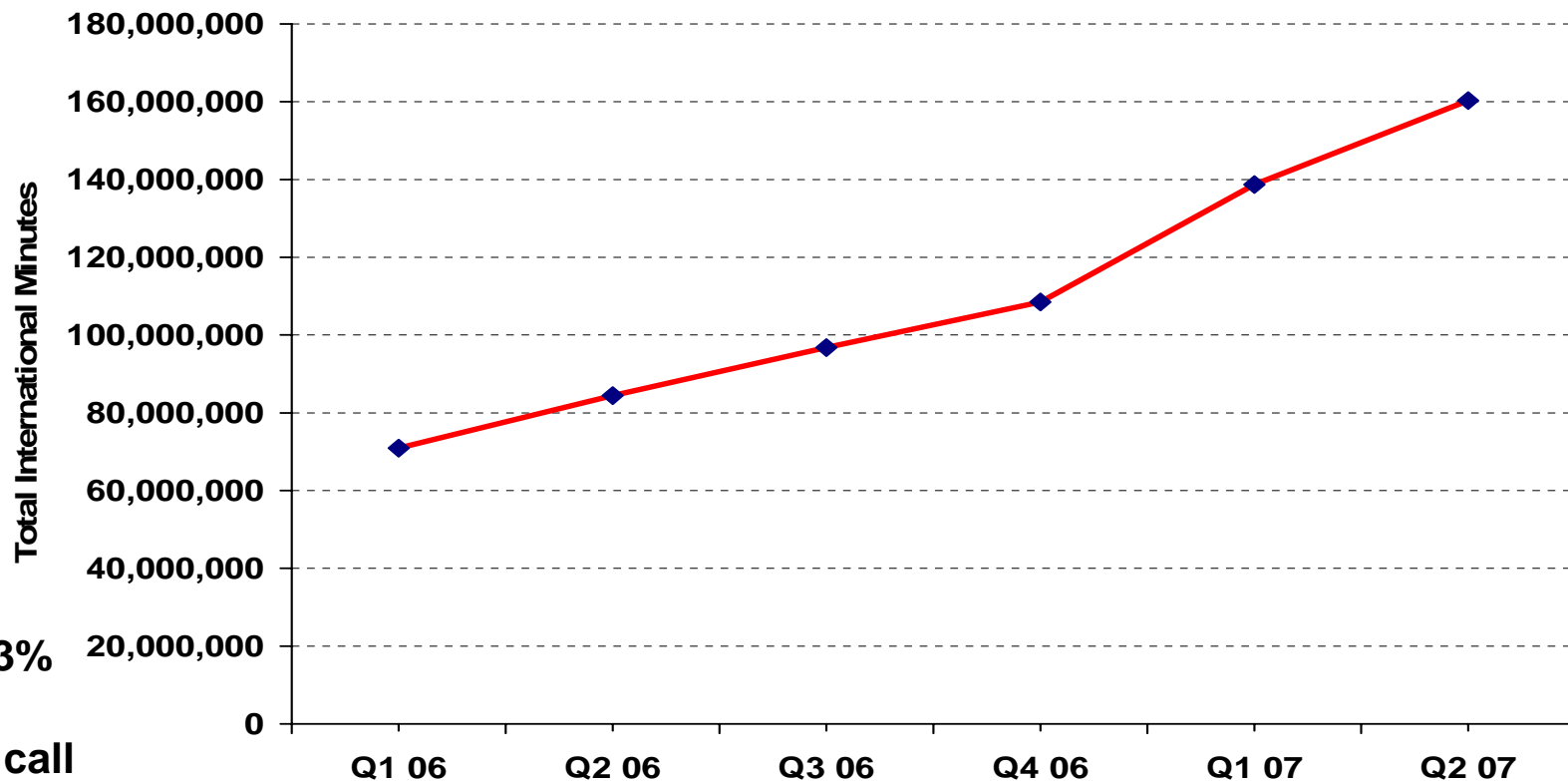


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Mobile subscribers Growth in Kingdom of Bahrain (2002 - 2006)



90% Growth in the international outgoing minutes between Q2 2006 to Q2 2007



Average of 53% drop in international call charges (2004 to 2007 Q2)

Preparing for the future

- Forecast is for continued growth:
- Government estimates (Dec. 2007) on population have changed from c760,000 to c1.1 million the adjustment has taken into consideration the actual number of expatriate workers who have entered the country
- Forecast is for continued growth in population – c 6%
- Over \$ 11 billion of new development is under way in Bahrain with buildings of new offices and new residential homes. All will need state of the art communications – electronic highways
- Government initiatives on ICT Policy and eGovernment
- Bahrain economy grew in 2007 by 6.7% - forecast is continued growth
- Batelco's revenues grew in Bahrain by 7% in 2007
- The market grew in total by 13% with the new players taking nearly half of the market growth
- Telecommunications services have to support future growth

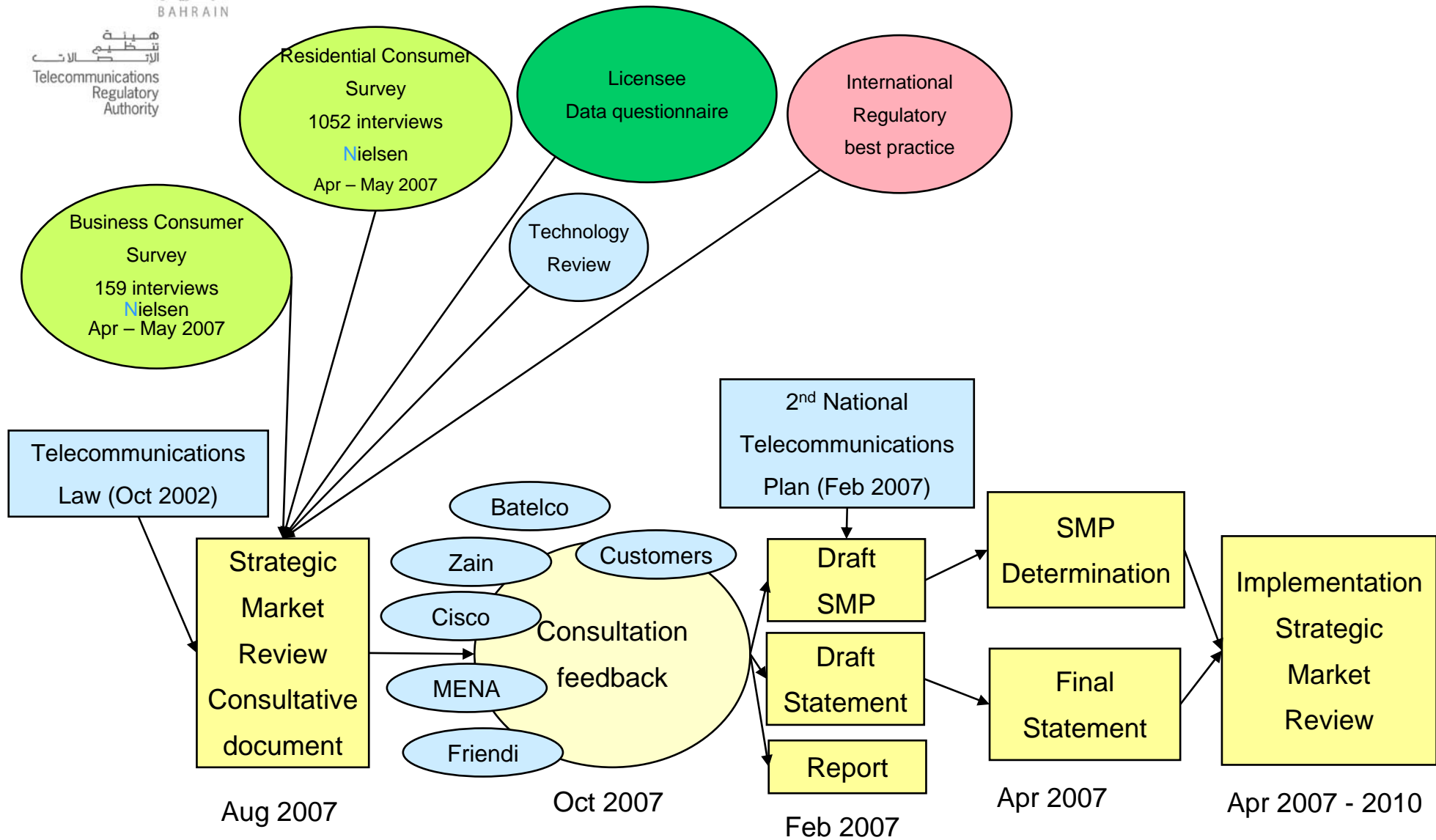
Regulatory activities in hand

- Review of Batelco Reference Offer:
 - Improvements in product descriptions (e.g. Bitstream)
 - Decrease in prices (e.g. duct sharing)
 - Availability of Leased Lines
- Review of Spectrum Pricing
- TRA coordinating planning applications and interface to Central Planning Unit (CPU) for new infrastructure deployment
 - Operators are planning to lay new cables to businesses and international routes
- Review of New Developments to decide upon how best to balance encouragement of investment and safeguarding consumer choice
- Benchmarking of tariffs throughout the Arab World – to better understand how Bahrain compares
- Quality of Service Regulation – to support consumer choice
- SMS Roaming Regulation – to inform consumers and support decrease in roaming charges

The Strategic and Retail Market Review

- Key objectives of the Review were to:
 - Establish what if any are the deficiencies in market development
 - Decide upon corrective measures
 - Establish where the market is working
 - Decide where regulatory measures can be relaxed
 - Removing artificial barriers to market development
 - Fulfil direction set by Law and National Telecommunications Plan
- TRA applied a framework consistent with best practice:
 - Market definition
 - competition assessment
 - definition of appropriate regulatory measures

Strategic Review Process

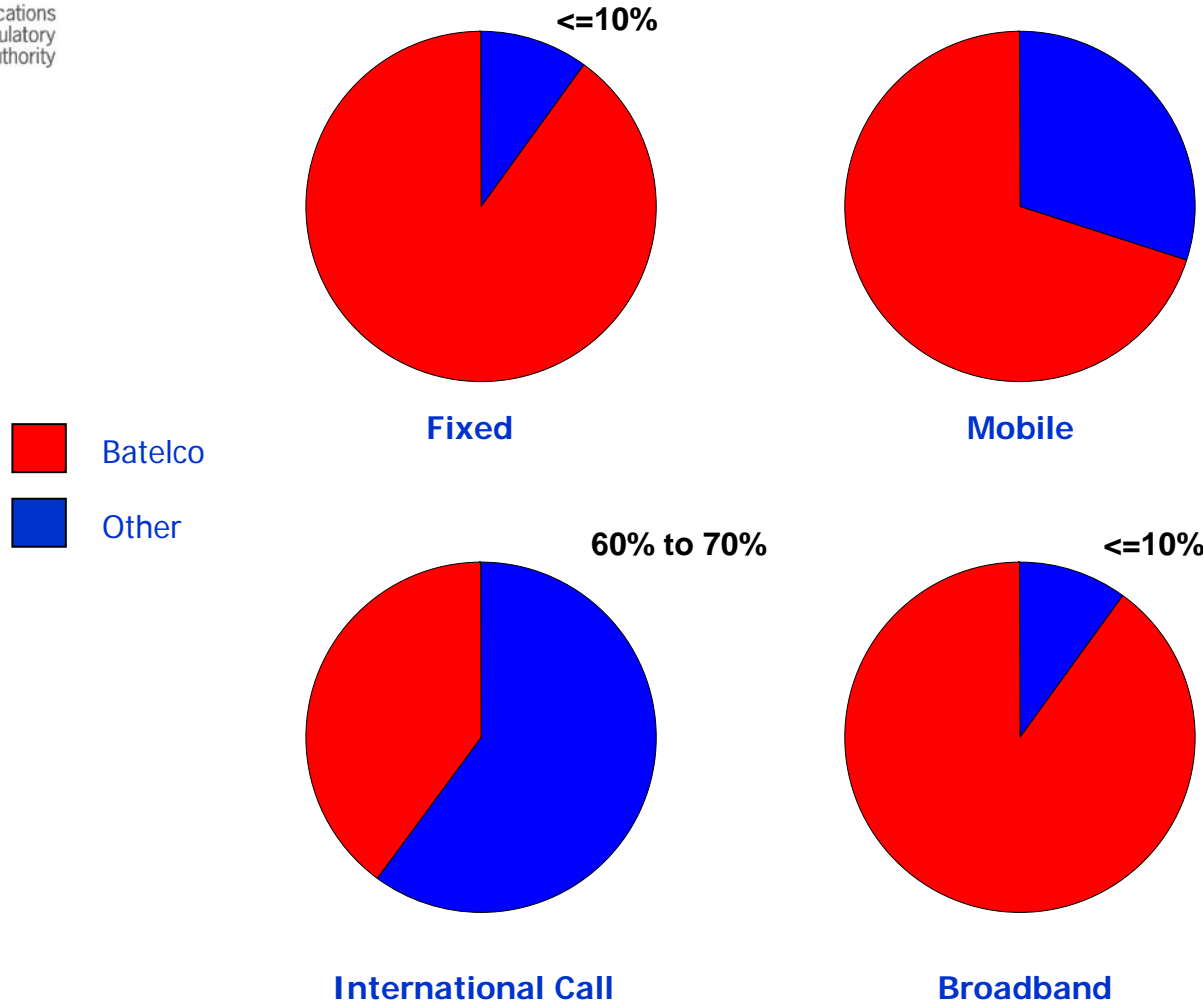


2nd National Telecommunications Plan – TRA has a duty to:

- further promote competition and open market entry in the interest of users by removing and/or minimizing barriers to entry and expansion in the telecommunications market;
- take measures to promote competition and ensure that wholesale products, including infrastructure sharing, are available and appropriately priced;
- design and implement appropriate regulatory instruments where competition is not sufficient; and
- protect vulnerable users whilst moving to a pricing structure that better reflects the cost of providing services.

Approximation of Market Shares

The following pie charts present approximated market share ranges for selected high level markets



30%
Zain public statement

Our collective challenge is to achieve a growing telecommunications market in order to achieve a win-win position with sustainable competition and a strong national player - Batelco

Review defined 7 markets

Only 1 retail market considered to be competitive in some markets

Retail Market	Definition	SMP – insufficient competition
1	Fixed access narrowband connections markets: - 1a: For residential customers; - 1b: For non-residential customers.	Batelco holds SMP
2	Domestic calls originating on fixed lines markets: - 2a: For residential customers; - 2b: For non-residential customers.	Batelco holds SMP
3	Fixed originated international calls markets: - 3a: to Zone 1 countries (GCC); - 3b: to Zone 2 countries (South Asian countries) - 3c: to Zone 3 countries (USA, Australia, UK, etc); and - 3d: to Zone 4 countries (rest of the world) Mobile originated international calls markets: - 3e: to Zone 1 countries (GCC); - 3f: to Zone 2 countries (South Asian countries) - 3g: to Zone 3 countries (USA, Australia, UK, etc); and - 3h: to Zone 4 countries (rest of the world)	3a and 3c: Batelco holds SMP Other markets: No SMP
4	Mobile services (excluding international calls)	N/A
5	Broadband internet access from a fixed location	Batelco holds SMP
6	Dial-up internet access from a fixed location	Batelco holds SMP
7	Leased line services (domestic and international leased lines)	Batelco holds SMP

SMP Determination Issued for consultation

9 Key Regulatory measures: retail regulation

1. Removal of tariff approval:

- For mobile services (linked to 2, 5 & 8)
- Fixed originated international calls to Zone 2 and Zone 4 countries

1. Expected effect:

- Greater flexibility for Batelco to compete
- Compliance cost savings to Batelco
- More intense competition and ultimately lower prices and better services for consumers

2. Reform of retail regulation regime:

- For fixed services, leased lines and internet services
- Replacement of tariff approval by notification (objective is same day) with ex ante rules (no undue discrimination, no price squeeze, no predatory pricing, no abusive bundling and no excessive pricing)
- Multi-year price control / rebalancing plan
- Consideration of elapse time charging
- Low user scheme
- Monitoring of representative consumers baskets of services
- Safeguard caps on a few services

2. Expected effect:

Increased economic efficiency through:

- Better targeted regulatory instruments
- Greater pricing flexibility and ability to compete within appropriate safeguards
- Improved market entry signals by aligning prices with underlying costs
- Protection of consumers
- Lower compliance cost

Regulatory measures: wholesale regulation

3. Local loop unbundling:

- On an exchange-by-exchange basis where demand exists (Complementary offering to existing products e.g. bitstream & Wholesale DSL) (Section 40 (5) Telecoms Law 1 July 2004)

4. Carrier selection:

- Including improvement to the current carrier-pre-selection process

3. Expected effect:

- Economic efficiency gains by enabling further competition at the retail level, especially for business users and broadband customers
- Put pressure on broadband prices and services to business customers.
- Allow greater product differentiation by access seekers

4. Expected effect:

- Allow customers to select the least cost route according to destination dialled
- Savings for customers

Regulatory measures: measures to remove entry restrictions and to strengthen competition

5. Award of a 3rd Mobile network operator Licence:

- Sec. 39 (b) 1 at the discretion of TRA
- Through competitive and transparent process

5. Expected effect:

- Greater competition and economic efficiency gains
- Bring further prices reductions and innovative offerings

6. Removal of mobility restrictions for New Fixed Wireless services licenses:

- On the 17 November 2010 (ITU date)

6. Expected effect:

- Wider range of innovative offered
- Better used of spectrum

7. Number portability (fixed and mobile):

- Sec. 40 (2) – when TRA determines sufficient demand
- Implementation based on cost effective solution

7. Expected effect:

- Consumers will be able to retain their phone number and switching provider
- Potential cost savings accrued to consumers that switch
- Benefits to all customers that correspond to price reductions, greater services range and efficiency gains from increased competitive pressures

Regulatory measures: measures to remove entry restrictions and to strengthen competition

8. Competition guidelines:

- Explain how TRA will implement competition provisions of the Law and licenses

8. Expected effect:

- Will provide market players with greater certainty with regards to the process for assessing anti-competitive complaints and the type of behaviour that may breach relevant provisions

9. Data collection and dissemination:

- Collection and publication of market data
- Consumer survey
- Tariff comparator

9. Expected effect:

- Regulator, new and existing licensed operators, as well as relevant stakeholders are better informed
- Support and facilitate the development and implementation of effective and proportionate regulation

Regulatory measures market-by-market

Regulatory measures	Retail Market														
	1	2	3								4	5	6	7	
	Fixed access narrowband connections (residential and non-residential)	Domestic calls originating on fixed lines (residential and non-residential)	Fixed originated international calls:				Mobile originated international calls:				Mobile services (excl. international calls)	Broadband internet access from a fixed location	Dial-up internet access from a fixed location	Leased line services	
3a: to Zone 1			3b: to Zone 2	3c: to Zone 3	3d: to Zone 4	3e: to Zone 1	3f: to Zone 2	3g: to Zone 3	3h: to Zone 4						
Batelco holds significant market power												n/a			
Removal of tariff approval process															
Reform of retail regulation regime															
Local loop unbundling															
Carrier selection															
3rd Mobile Network Operator															
Removal of mobility restrictions for NFWS licenses															
Number portability															
Data collection and dissemination															
Competition guidelines															

Zone 1: GCC countries;

Zone 2: South Asian countries: Bangladesh, India, Pakistan, the Philippines and Sri Lanka;

Zone 3: Australia, Canada, France, Germany, Greece, Italy, Iran, New Zealand, Thailand, UK, USA, and Yemen;

Zone 4: rest of the world.

Indicative timetable

		2008				2009				2010			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Removal of tariff approval process		■										
2	Reform of retail regulation regime		■										
3	Local Loop Unbundling (LLU)			■									
4	Carrier Selection			■									
5	Award of 3 rd Mobile Network Operator License (MNO)		■			■							
6	Removal of mobility restrictions for NWFS licenses											■	
7	Number portability (Fixed and Mobile)		■										
8	Data collection and dissemination		■		■		■		■		■		■
9	Competition guidelines		■										

- Consultation on SMP Determination – 30th March
- Consultation on Draft Statement in terms of time line only – 30th March
- Issue Consultative study on Number Portability implementation
- Commence drafting of Tender rules for 3rd MNO
- Consultation on Unified Licence
- Consultation on implementation of other specific measures e.g. competition guidelines and LLU

- The market is growing
 - Revenues grew by 13% in 2007
 - 19% growth in the number of employees between 2006 and 2007 Q2
 - Number of fixed lines grew from 194K in 2006 to 201K in 2007 Q2
- But competition is not developing as expected
- Underlying Prices have not fallen in mobile market
- Price controls are cumbersome and greater flexibility is required but with safeguards
- The proposed measures will assist in increasing welfare (value for money, choice, quality, functionality, availability) through:
 - Support growth in demand
 - Increased investment in services
 - Increased competitive supply
 - Further growth of the market
 - Further enhance Bahrain as a commercial base

- We are close to the end of a long review process
- Thanks to all stakeholders for their involvement and in particular to the TRA Team
- The second phase of liberalisation of the market aligning with the 2nd National Telecommunications Plan
- The TRA proposed package of regulatory measures is:
 - **Good for the consumer**
 - **Good for the industry**
 - **Good for the economy**
 - **Good for Bahrain**
 - **Win – Win**