



CALMER WATERS

Iraq's telecoms sector appears to be entering a more stable phase

Iraq's telecoms sector has often appeared in news headlines for the wrong reasons in the past few years, with a perceived lack of effective regulation adding confusion to a market in need of stability.

But the past year has seen significant improvement, with strong growth from the country's three mobile operators Zain Iraq, Asiacell and Korek, and a sense that regulation is slowly starting to improve.

Ismail Patel, an analyst covering broadband and wireless in the Middle East at Informa Telecoms and Media, says that Iraq stands as an "intriguing market" with "opportunities and weaknesses that are quite distinct from neighbouring telecoms markets".

Iraq's telecoms sector remains dominated by mobile, mainly owing to a weak fixed-line sector that relies on poor copper infrastructure and fixed-wireless technologies including CDMA.

According to figures from Informa, Zain Iraq remains the country's market leader with over 12.4 million subscriptions. Qtel-owned Asiacell has 8.7 million subscriptions, and Korek Telecom, which leads in Kurdistan, has about 3 million customers.

"All operators have now diversified geographically, with Korek operating in central and southern Iraq since 2010, and Zain and Asiacell moving into Kurdistan earlier this year. As of end-3Q11, Informa puts mobile penetration of the population in Iraq at 74.03%," Patel says.

The mobile operators have invested heavily in the past year. Most recently, Zain Iraq outsourced the management of its network to Ericsson in a five-year deal worth \$650 million.

In September, Korek said that it had hired Ericsson to upgrade its network and make it LTE-ready, while in August, Asiacell said that it had expanded its mobile voice and data cover-

age in the Sulaimaniya region in Northern Iraq by deploying solar-powered cell-sites that use satellite backhaul.

In the first quarter of 2011, Iraq's telecom

IN PROFILE: IRAQ

GSM operators: Asiacell, Zain Iraq, Korek

Regulator: CMC

Population: 30.4m

GDP: 82.15bn (2010)





◉ Omar Barzanji: GSM operators must implement national roaming.

“There is no interconnect platform to ensure that there is an adequate and precise method of billing among the operators”

Omar Barzanji

sector managed to attract foreign investment when France Telecom and Agility announced a plan to acquire a 44% stake in Korek Telecom, Iraq's third operator, for a combined sum of about \$295 million, plus \$285 million in loans.

Emad Makiya, CEO, Zain Iraq, says that the market has grown by an “encouraging” 12% in total revenues and about 7% in the total number of subscribers in 2011. He adds that the figures also indicate a growth in usage per subscriber compared to 2010.

Makiya is also optimistic about growth in Kurdistan, which represents a relatively new area of operation for Zain. “We expect to have faster growth in the northern regions in 2012,” he says. “Our plan is to double our network coverage in Kurdistan. Zain brand is attracting the youth with the variety of products and services.”

As head of the country's biggest operator, Makiya also has a clear view of the many

challenges faced by telcos in Iraq. A lack of consistent power and a lack of fibre backbone are among the chief problems. An inefficient banking system and a weak regulator add to the burden of the operators.

Regulatory climate

Until recently, Iraq's telecom operators had been generally scathing about the country's regulatory climate, although this now appears to be changing. While the regulator, the CMC, remains without a head and appears to have little authority, operators and analysts appear to agree that the regulatory environment is slowly improving.

“Our observation is that the regulatory environment is gaining more professionalism and maturity,” says Emad Makiya. “However, allocating 3G spectrum is still facing unjustified delays. The regulatory climate should be conditioned according to market needs and to incentivise economic growth.” Makiya adds that increasing taxes and spectrum fees only make it more difficult for the telcos to reduce service costs to the public.

Patel adds that a new communications statute is expected to be enforced in 2012, allowing for “more regulatory efficiency” in the development of the telecoms sector.

“As of yet, the CMC (Communications and Media Commission) relies on ancient pre-2003 legislation,” Patel says. “The regulatory environment overall has been weak in the past decade, with unlicensed fixed-wireless operators all over the country.”

The CMC's “multiple failures” in the past year included its imposition of IPOs on the operators without having scrutinised the readiness of the Iraqi bourse to take such large listings, and its failure to make progress on the mobile broadband front, according to Patel.

However, with grid electricity only available on a “two hours on, four hours off” basis in most of Iraq, Omar Barzanji, CEO of telecom infrastructure specialist



◉ Emad Makiya: A fourth licence would damage the market.

Technology Partners, says that a shortage of power remains “first on the list” of problems that operators face in Iraq.

Another area of concern for the telcos is the MoC's plan to launch a fourth mobile operator in Iraq in 2012. The existing GSM operators argue that there is no need for a fourth operator, which will simply serve to erode their ability to gain a return on the investments they are making in the market. “The fourth licence will be catastrophic if licence conditions are relaxed. This will affect the future of mobile telecommunications services in the country,” Makiya says.

Informa's Patel adds that a decision on the fourth licence is expected in 2012. “The licence of the fourth mobile operating licence is expected to fetch US\$2 billion for the government. The ownership structure has been set out as follows: 40% operator; 35% public; 25% Iraqi MoC,” he says.

Speaking at a conference in Dubai in October 2011, Mohammed Tawfeq Allawi, Iraq's Minister of Communications, said that the fourth operator would definitely be launched, partly because it was too late to reverse the decision.

Interestingly, the MoC does have some support for the fourth licence. Barzanji believes that a fourth operator could help to inject greater competition into the market. Indeed, Barzanji points to a number of failings from the three GSM operators, including a lack of

74%

Mobile penetration rate in Iraq, according to Informa Telecoms & Media estimate

roaming and interconnect between the three networks.

“We still don’t have nationwide roaming because they [operators] are refusing to offer roaming amongst themselves. [...] The other thing is interconnect. There is no interconnect platform to ensure that there is an adequate and precise method of billing among the operators, and that doesn’t exist among the operators today.”

While Barzanji admits this is down to weak regulation, he adds that general poor network quality is also due to a lack of investment from the operators, and that additional competition could help to rectify this.

Patel also offers some defence of the regulator. “It can be stated that this is the result of a relatively young regulator and a nascent market, and regulation is expected to improve year by year,” he says.

Kenneth Kriel, CTO at Technology Partners, also sees some limited improvement in terms of regulation. He says that the current Minister of Communication has assisted in “facilitating a lot of the regulatory aspects” which appears to be improving the situation.

“We are seeing the role of the MoC greatly improving and balancing out the regulatory framework especially in the vacuum of a good leader at the CMC,” he says.



◉ Ismail Patel says Iraq has unique opportunities and challenges.

24.1M

Total number of GSM subscribers in Iraq, according to Informa Telecoms & Media

Mobile broadband

As one of the MEA region’s last country’s to have 3G services, it is understandable that Iraq’s operators often feel frustrated.

The issue of the delayed 3G spec-

trum allocation has long been a thorn in the side of the operators, and there remains significant confusion about when the problem will be resolved. But it now looks increasingly likely that 2012 will be the year that Iraq gets a taste of mobile broadband.

Makiya says that he is optimistic that 2012 will see “the birth of broadband services” in Iraq. Patel also expects to see 3G services become a reality in 2012. “The monopoly GSM possesses on the market is expected to be broken in 2012 with 3G licences hot on topic,” he says. “Zain has negotiated with the regulator as to how and when it proposes to auction the 3G licences, which will inevitably fuel mobile broadband consumption in the country.”

In terms of general sentiment, Iraq’s telcoms sector is also giving plenty of room for optimism. Indeed, as the security situation continues to improve in Iraq, so business and investment confidence is also rising.

Barzanji points to an “increased level of investment across the board” from the Ministry of Communications and its companies including Iraq Telecommunication and Post Company (ITPC) and the State Company for Internet Services, as well as from the private operators.

Barzanji adds that there is also an increase in cooperation between the government and private sector, with an increase in private public partnerships between government and the private operators.

He adds that there is also significant growth in demand for telecoms equipment and services from oil and gas companies. “They are committed to spend billions over the next 10 years and that is driving demand for ICT, whether it is IT or telecommunications,” he says. There is also growth in general industry in Iraq, he adds. ◉

CDMA PERSPECTIVE

With an absence of 3G operators and poor fixed-line infrastructure in Iraq, CDMA operators have picked up much of the slack. One of the leading CDMA players, Kalimat Telecom, now has about 350,000 subscribers and experienced growth of about 43% in the past year, according to CEO, Wilson Varghese.

“Competition is going down as we have dominated the market. We have a greater customer loyalty and churn is at the lowest.”

As with the GSM operators, power supply is challenge, but Varghese is looking to tackle the issue by trialing a solar-powered based station, designed by an arm of its parent company, Trade Links.

Varghese says that he remains optimistic about 2012. “In the first quarter of 2012 Kalimat will be covering all of Iraq,” he says. “This will make the operation a seamless national level.” Kalimat is introducing a variety of VAS such as K Money, K Cloud, K Store, and K Club, Varghese adds.

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◉ Wilson Varghese: Kalimat has dominated the CDMA market.