



Konrad
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The Lebanese Center for Policy Studies



Privatization and State Regulation: The Telecommunication Sector

Workshop Report

July 12, 2000, Beirut, Lebanon

Introduction

Divided into four panels, the workshop featured six presentations which addressed the process and strategy of privatization in its current status and in light of the recently adopted privatization law. The presentations also focused on the institutional requirements and the economic and social impacts of privatizing telecommunications in Lebanon. The speakers included experts, economists, minister advisors, and was inaugurated by the minister of Post and Telecommunications, Dr. Issam Naaman. The minister's keynote speech was followed by the welcoming remarks of Dr. Salim Nasr, the LCPS general director, and Mr. Olaf Köndgen, Konrad Adenauer's Resident Representative for Jordan and Lebanon.

In his keynote speech, Minister Naaman presented three goals for the telecommunication sector. The first, being the passing of a draft law which will completely privatize the sector by the year 2002. The second, being the organization of state regulation by inducing competitiveness and creating an independent six-member regulatory body, and the third goal being the founding of a company that would establish a national operator. Dr. Nasr stressed the importance of privatization whose implementation he stated has now become a national concern. In his turn and after a word of farewell, Mr. Köndgen whose mission as Resident Representative will end in September introduced the conference participants to his successor Mr. Gregor Meiering. Regarding privatization, he stated that privatizing the telecommunication sector was a vital issue within the framework of the ongoing economic process in Lebanon.

Panel One:

The first session featured a presentation by Economic Consultant Dr. Kamal Shehadi and was chaired by Dr. Antoine Haddad, Development Expert for Tanmia Group. The paper was entitled: **The Government's Privatization Strategy**. Shehadi stressed the fact that a delay in the privatization process would have serious implications on the Lebanese economy, since it is the engine that will set in motion virtuous cycles of growth, and will increase employment and thus reduce public debt. Moreover, he asserted that a privatization law was needed in Lebanon to authorize and organize a transparent and competitive privatization program. In addition, he presented four guidelines for the government to follow and these include: a clear policy for the development of the sector, the creation of an independent regulatory body, the insuring of financial and administrative independence of the regulatory organism, and finally proceeding with the administrative reform endeavor.

Director of the Institute of Money and Banking at the American University of Beirut, Dr. Samir Makdessi criticized some of the aspects stated in Shehadi's presentation. Although he supported the idea of a privatization program he expressed some reservations regarding its implementation and the regulatory body that would supervise the whole process. He also stressed that privatization is a means to an end and not an end by itself, thus emphasizing that the reduction of public debt would be a by-product of privatization.

Panel Two:

The second panel focused on designing a viable regulatory framework and encompassed a presentation on: **Institutional Constraints of a Regulatory Body** presented by Mr. Sami Atallah, economic researcher and the LCPS, and Mr. Marwan Saqr, a lawyer. The panel was chaired by political analyst, Dr. Raghid El-Solh. The speakers examined the attributes that must be embedded in the Telecommunication regulatory body. First, they based their argument that for privatization to be successful, it must be complemented with competition and regulation. They stressed that regulation is of utmost importance since it limits monopolistic behavior and it encourages investments by limiting political interference. For regulation to be effective, the speakers argued that the regulatory body must be entrusted with four criteria. One, it must have significant authority and power to do its job. Two, it must be independent from the ministry. Third, it must have autonomy in recruiting its staff and in generating revenue, and fourth, it must be accountable. Having these criteria will insure the development of the sector. The speakers also presented an assessment of the draft law that establishes the regulatory body in Lebanon based on these four criteria. In conclusion they analyzed the institutional impediments that may face the regulatory body particularly with the ministry of Post and Telecommunication and the judicial authority.

Panel Three:

The third panel focused on the case of the mobile sector, and was chaired by Dr. Wassim Chahine, Dean of Business School at Lebanese American University. It featured two presentations. The first was presented by Economic Consultant, Dr. Charbel Nahas and was entitled: **Economic Lessons from the Lebanese Cellular Experience**. Dr. Nahas denounced the negligence in the way data and figures are manipulated in the country. The overall economic conclusion of this "sour" experience is far from good. The investments done by cellular operators were important. But we have reached, according to Nahas, a paradoxical situation whereby the amount of users of the fixed telephone service in accordance with the population, is inferior to the international average, when the contrary can be said about the cellular service. As such, the cellular experience lacks many necessities such as competition, a regulatory authority, market liberalization... these concepts should be the basis for a successful privatization program in Lebanon.

The second presentation entitled, **Institutional Lessons from the Lebanese Cellular Experience** was presented by lawyer, Mr. Bechara Hatem. He, among others, stressed the importance of the existence of a regulatory body to supervise the privatization process. Mr. Hatem also mentioned the problematic question of services and prices. Prices he stated are not "disciplined" in the contracts except by a ceiling price, with non-governmental intervention. He thus suggested the need to have a specific organism to control the prices, since the committee mentioned in the contract has unjustifiably refrained from all meetings for a very long time. He said that one important prerequisite for such an independent body is a modern telecommunication law that will pave the way to competitiveness.

Panel Four:

The fourth and last session revolved around the economic and social impacts of privatizing the telecommunication sector and was chaired by Dr. Kamal Hamdan, General Manager of the Consultation and Research Institute. The panel consisted of two presentations. The first one on **Fiscal and Macro Impact of Privatization** was presented by Mr. Marwan Barakat, head of the Economic Unit Analysis at Banque Audi. According to Barakat, debt and deficit ratios have reached alarming levels relative to the size of the domestic economy. Therefore, time consumption has become very costly at all levels, and particularly for the treasury. Given this situation, privatization he stated is a means to disrupt the vicious circle of accumulated deficits, which burden the economy with catastrophic consequences. Privatization he stated will allow for contracting the debt, lowering servicing and reducing deficit. He said that beyond the direct impact on government finances, the reduction of the government role in public services increases competitiveness and efficiency, generating productivity gains in addition to promoting investment and GDP growth. The privatization of telecommunications is believed to be the most attractive public venue for private investors as well as give a big boost to the Beirut stock exchange. Barakat also mentioned the fact that competitiveness, efficiency and the increasing investments would counterbalance a decrease in government control. He finally gave a SWOT perspective, which proved very encouraging for the implementation of the privatization process with minimal risks.

The second paper on **Labor Impact of Privatization** was presented by Dr. Joey Ghaleb, the principal economic researcher at LCPS. In his presentation, Dr. Ghaleb attempted to shed some light on the labor impact of privatizing the Lebanese telecom sector by trying to answer some key questions such as: what is the labor impact if the fixed line telecommunication service is privatized in Lebanon? Will there be a social crisis, are the implications over-stressed? What is the cost of labor adjustments, are there alternative/parallel solutions besides early retirement, and can the Lebanese government afford the associated compensation?. He gave an overview of the telecom sector worldwide and in Lebanon, followed by an outline of a few recent experiences with privatization in the country. He stated that the telecom sector is an important source of state revenue, but necessitates for its potential growth a competent, active and skilled labor force. He highlighted the fact that the consequences of privatization on salaries and other labor implications would be positive, reflected by higher wages, new jobs, and higher productivity on the long run. The study showed that, and in the most generous compensation package, financing the cost of labor adjustments in Lebanon (for example, early retirement for redundant employees) is feasible and the total amount needed is actually insignificant. Dr. Ghaleb concluded that the benefits of privatization outweigh the negative labor implications.

Closing Remarks

In his closing remarks, Dr. Nasr thanked the workshop speakers and guests for their valuable participation. He also announced that the presentations would soon be published in a workshop proceeding report, which will be widely distributed.