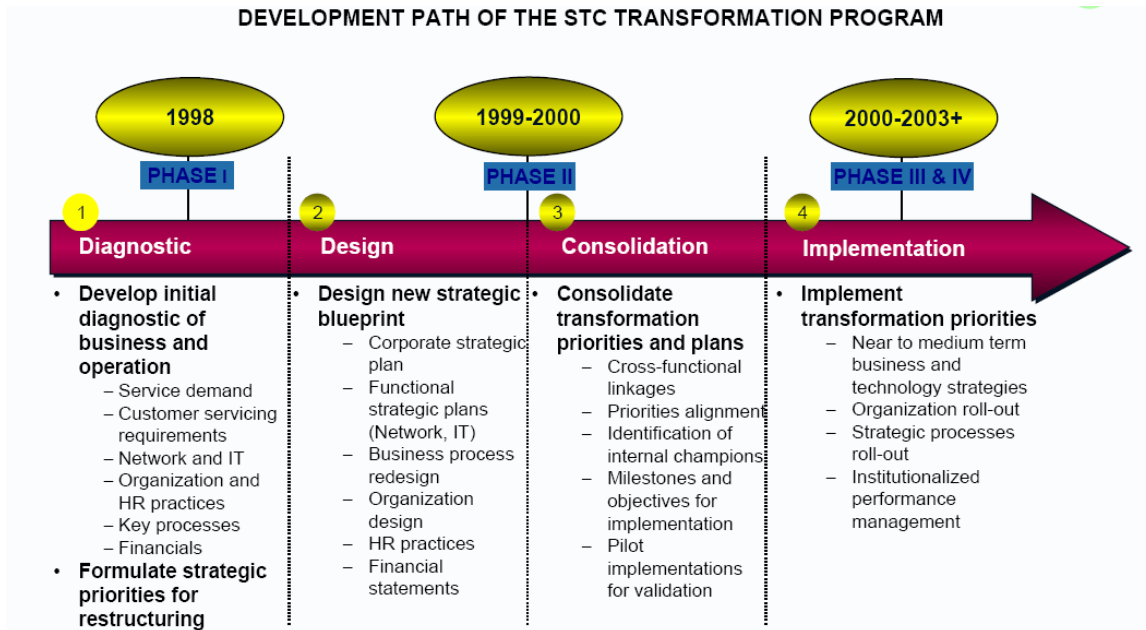


Saudi Arabia

Telecommunications Regulatory and Business Environment

Privatization and Deregulation

In 1998, the Saudi government announced its intention to deregulate the telecommunications industry and formed the Saudi Telecommunications Company (STC) (<http://www.stc.com.sa>). The following plan was established for the development of the organization.¹



In 2001, the Saudi Communications Commission (SCC) (<http://www.scc.gov.sa>) was created to act as the regulatory authority, integrated with the Communications Ministry. In addition, data services are regulated by the King Abdulaziz City for Science & Technology (KACST) (<http://www.kacst.edu.sa>). KACST is primarily responsible for data services (such as the granting of ISP licenses), whereas the SCC is responsible for voice and infrastructure services currently provided by STC.

As new service areas are opened to competition, there are a number of policy alternatives that could be adopted. The most likely is that there would be a regulatory authority assigned to grant operating licenses, as seen in the 2003 decision to grant 4 licenses for

¹ The source of this graphic is from a presentation by Khalid Abdullah Al Molhem, President of STC, delivered in April 2002 at the Understanding E-Government conference.

VSAT (digital fixed satellite services for high speed internet access). For some data and converged services, it could alternatively be decided that these services fall under current licenses held by ISPs. There are currently 21 licensed ISPs in Saudi Arabia, and new licenses are not currently being granted in order to encourage consolidation of the market (30 licenses were originally granted).

At the beginning of 2003, 30% of STC was offered publicly through an oversubscribed IPO, marking a key milestone in the privatization of the Saudi telecom industry. In a March 2003 interview, Abdul Rahman Abdulaziz Tuwaijri, secretary-general of Saudi Arabia's supreme economic council, said "Our privatization strategy emphasizes something that is very important: competitiveness. You cannot really privatize without opening the market. Changing from a government-sector monopoly to a private-sector monopoly is not what we're going to do. Next year, STC will be open to competition. To encourage competition, you need strong anti-trust laws."

It is very important to monitor which services will be opened to competition over the next few years, and to understand where new services fit within the overall regulatory structure. They may be addressed explicitly in the deregulation strategy, included within another set of services, or overlooked entirely, creating temporary loopholes which might be exploitable.

One of the consequences of the government's policy to open new services to competition through the granting of licenses is to greatly increase the risk incurred by new applicants. A large scale example of this phenomenon can be seen in the granting of 3G wireless licenses in Europe, which required companies to make substantial outlays in order to acquire licenses for services with no guaranteed revenue. In order to qualify for a license that would permit a new venture to offer services, it would require significant investment in establishing the new company, not to mention the cost and complexity of the application process itself. This investment would be necessary not only to qualify for a license, but to be able to compete successfully with other license holders and to build market share quickly once it is possible to offer services.