DBA Update

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Informal meeting, David Butcher with former ministerial colleague and WTO Director-General Rt. Hon. Mike Moore

Articles:

- *Telecoms for Internet Age*
- *Mongolia Telecom Hub*
- *Other Projects*
- *Iraq Energy Sector*

Telecoms: for the Internet Age

Structural Regulation

In 2001, **DBA** and Guinness Gallagher International (GGI) advised the Cambodians they could simplify regulation, increase competition and reduce the need for capital, by requiring telecom companies to share facilities.

We proposed wholesale and retail parts of the telecom sector should be in different organisations. New entrants would have open access to infrastructure and lower costs.

DBA showed this separation of "hardware" and "software" in telecoms creates shareholder value as well as greatly simplifying regulation and cutting costs. World Bank comment on **DBA's** ideas noted this was an innovative approach.

Growing Trend

The World trend is now in this direction:

- PCCW Hong Kong offered network services to competitors,
- 3G operators sought the right to share facilities to cut their costs,
- BT split wholesale (network) and retail (services) to simplify regulation,
- Telstra is Open Access following regulatory pressure, and new laws made Telecom NZ follow BT's model.

In 2004 the Government of Mongolia (GoM) picked **DBA** and GGI to support its privatisation of its remaining telecom shares. In 2005, Parliament adopted structural regulation for telecoms and many other sectors.

Alex Wilson, Shaan Stevens and John Third in Sukhbaatar Square, Ulaanbaatar in 2004 at the beginning of the privatisation project

David Butcher samples life in the Mongolian countryside

Mongolia – Potential Telecoms Hub

Strategic Location

Mongolia is located between Russia's undeveloped consumer market and massive natural resources and China's huge population, demand for resources and up to date manufacturing base.

Mongolia is potentially a hub - a new communications corridor between the two giants. Telecoms play a vital role.

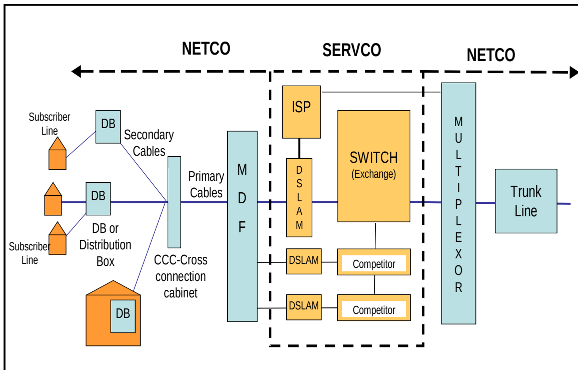
The GoM still owns much of the telecoms network. This hardware is subject to a 20-year lease to Mongolia Telecom (MT), a joint-venture between the government and Korea Telecom (KT). The restrictive lease blocked previous efforts to sell the GoM's shares.

"Telecom companies are two businesses: services and infrastructure. A service business realises about 5 times annual earnings when sold. An infrastructure business realises about 15 times earnings. Put the two together and the service risks drive the multiple closer to 5 to 1."

David Butcher said, "Our team identified that the GoM's MT shares would be more valuable if hardware and software were in separate entities. Open access would also facilitate a telecoms hub."

As one World banker put it: "With open access networks Mongolia will be a World leader when Internet switching comes in. Its network will be a platform for competition not a barrier."

Open access infrastructure will make it a communications hub in North Asia. Sharing is wise for a country with large area and small population."



Telecom Structural Separation

Wholesale (netco) and Retail (servco) are structurally separated in different organisations. New competitors can enter the sector by sharing the netco facilities. Provided they are institutionally separate, Netco does not mind which data it carries. Separation also simplifies regulation. Origination, transmission and termination – the main issues in interconnection disputes are all in different organisations.

"with DBA in charge, you have a safe pair of hands on the job."

David Butcher with Hon Speaker of the Bangladesh Parliament, Barrister Muhammad Jamiruddin Sircar MP

DB Presentation to the CAREC Countries Electricity Regulation Seminar July 2005

Rwanda: Telecom Regulation

DBA was selected to review Rwanda's telecoms policy and regulation; it has excellent infrastructure and coverage: two wireless broadband networks, but is expensive, because of the MTN mobile near monopoly. Rwanda is another example where sharing network hardware will reduce costs.

MTN House Kigali Rwanda

For additional information about David Butcher and Associates, please visit www.dba.org.nz, or write to david@dba.org.nz

Other Projects

Bangladesh: Parliament

In 2002, David led a review of the UNDP Bangladesh Parliamentary Reform Project. In 2004, he made the first of several interventions in its support. David addressed seminars of MPs and Committee Chairmen aimed to enhance the role of MPs in Parliament.

The basic problem is the lack of accountability of party leaders to MPs and party members. In Bangladesh's patrimonial society, leaders gain power and loyalty through patronage. Parties are two clans playing out a family feud at the expense of the nation.

Individual MPs are trying to do a good job. The UNDP Project has increased the influence of committees and helped reform the rules of the Parliament's operation. However, political violence and an inability of the leaders to talk to each other has reduced its effectiveness.

Iraq Electricity Review

In 2004, the UK Government wanted to prioritise its assistance to the Iraqi power sector and asked **DBA** to review the position of Iraq's electricity industry.

DBA's principal finding was that in a period when Iraq's population increased by 10 million the late dictator built 18 palaces, but not one power generator. With the new freedom to import electrical goods, demand has exploded.

Central Asia: Electricity Regulatory Reform

DBA's David Butcher joined Aashish Mehta of the Asian Development Bank (ADB) to study why the Central Asian republics failed to engage in beneficial electricity trading.

Their research showed that national power prices are so distorted there is nothing to gain from trading. They suggested a focus on fixing this.

A further insight resulted in a change of ADB policy. Unless power distributors collect money from consumers, distribution cannot pay for power and privatisation cannot work. It is necessary to reform distribution first, not generation.

These findings were presented to the inaugural meeting of the CAREC members electricity regulators forum in Beijing in July 2005. The Forum coincided with publication of the study report "Electricity Sectors in CAREC Countries - a diagnostic review of regulatory approaches and challenges.

Iraq's fuel sector is similar. Its oil refineries are so inefficient, partly processed oil (mazoot) is exported to be hydrocracked into useful fuels. These exports make only enough to cover imports of motor spirit.

The oil sector does not even have the ability to compress gas for the power sector. Iraq needs a 2000 MW power station every year for 7 years to catch up with neighbouring Kuwait.

Iraqi Energy Sector

Iraq will require massive energy investment. Security and finance are the two factors holding it back. It needs 2000 MW every year for 7 years to catch up with neighbouring Kuwait. The chart, right, show sector energy flows. The absence of gas compressors means generators use dirty and polluting mazoot in thermal stations, not clean gas. The gas is flared and wasted.