



Iraq's Reconstruction Contracts: Telecommunications

Efforts to reconstruct and reorganize Iraq's oil industry have attracted most observers' attention, given the role that oil plays in Iraq's economy. Recently, another sector has begun to draw attention: telecommunications. Following the oil industry, telecommunications may present the most lucrative opportunities for foreign investors in Iraq. According to the Madar Research Group, Iraq is set to spend close to \$6.4 billion annually on information and communication technology by 2008.¹

In late July the Coalition Provisional Authority (CPA) announced a Request for Proposals (RFP)² to provide mobile phone services for 24 months to three Iraqi regions covering the country. Originally the CPA implied that it would stave off telecommunications reconstruction for a future Iraqi government. Nevertheless, it has become clearer for the CPA that reconstruction of telecommunications is urgent.

A Lucrative Prospect

The speed with which mobile networks can be established compared to landlines makes these wireless contracts far more valuable in developing states and post-conflict situations. Author of *The New Iraq*, Joseph Braude estimates a least one billion USD will be needed over the next several years just to rehabilitate landlines.³ Moreover, market penetration of wireless networks in developing and post-conflict states is well-established. According to Stephen Pentland, a specialist with Spectrum Strategy Consultants, “Western operators’ rule of thumb is that you need one million customers to make it worthwhile to run your own network.” To reach the one million subscriber benchmark, penetration in Iraq would have to be just 6%. In Bahrain and Kuwait, penetration levels are nearly 60%.⁴ The Madar Research Group points out that Iraq is set to spend close to \$6.4 billion annually on information and communication technology by 2008, which implies triple growth rates for mobile communications.⁵ David Leech, communications director for Iraq’s Ministry of Transportation and Communications, said the current wireless telecommunication RFP could be worth US\$80 million-US\$200 million, depending on the number of subscribers.⁶

Concerns about the CPA Request for Proposal

While the rapid restoration of basic services is important for Iraq’s recovery, it is equally important that the terms of competition are fair and are not designed to lock out bidders from non-Coalition countries. There are concerns that the terms of the RFP will preference U.S. companies, lock out both Iraqi and non-Coalition providers, leave Iraqis out of the selection and oversight process, and potentially leave Iraq with a mobile phone system that is incompatible with that used in the past, as well as in use by its neighbors.

The tender is for an emergency mobile phone network to cover the shortfall of telecommunication capabilities over the next two years. Other companies may compete to establish alternative mobile networks once the term of the contract ends. Nevertheless, this RFP represents a significant investment by operators and offers them the advantage of a head start. It may also discourage other companies from attempting to install technologies different from the one that the RFP chooses. Controversy centers around the following points:

The absence of Iraqis from the design, evaluation, and oversight of the tender.

An explicit goal of the U.S.'s involvement in the reconstruction of Iraq is state-building. Building a capable domestic authority means, among other things, preparing people to run competitive tenders, award and negotiate contracts, and supervise their implementation. The RFP states that licenses will be awarded by the CPA based on its assessment of best value. There is no indication in the RFP that Iraqis will participate in the evaluation of bids and oversight of licensees. Iraqis are unlikely to recognize the legitimacy of this contract and to take ownership of its results, if they do not feel they were included in the process.

The Openness of Tender Opportunities - the CPA's conditions have seemingly disadvantaged European and Middle Eastern bidders.

- ▶ The RFP prohibits the participation of firms with more than 10% state ownership (originally 5%) of any single bidding company. This requirement bars many major European, Asian, and Middle Eastern firms, whose governments maintain an interest in the company. While companies that exceed this limit may join a consortium whose total state ownership is less than 10%, this circumvention means that the operators will have only a percentage of a larger bidding entity. Some of the major firms which would be barred from bidding under this restriction, unless they join a consortium in which state ownership is reduced to 10%, include:
 - a. Orange (France)
 - b. T-Mobile (Germany)
 - c. Telefonica Moviles (Spain)
 - d. KPN (Netherlands)
 - e. NTT DoCoMo (Japan)
 - f. Batelco (Bahrain)
 - g. MTC-Vodafone (Kuwait)
 - h. Etisalat (UAE)

- ▶ Bidders are asked to submit up to five previous contracts. If the scoring matrix rewards experience with multiple contracts, this may favor U.S. bidders, who are more accustomed to providing services on a sub-national basis. While there are European, Asian and Middle Eastern companies who successfully compete outside of their home markets, such as Telenor, Telia, and Telecom Malaysia, many operate in markets providing complete national service. As a result, non-U.S. firms that have only one contract to provide national service will be scored lower in the tender process. U.S. companies, that can more easily amass multiple contracts through their sub-national service offerings, will be favored.

- ▶ Observers have expressed concern over the lack of information about the composition of the three person evaluation committee. The Iraqi Telecommunications and Postal Company (ITPC), which has operated the country's communications system in the past, will not be allowed to bid nor to participate in the RFP evaluation process.⁸ Neither is it clear whether any Iraqis or representatives from outside the CPA will have a role to play in selection.

Incentives to partner with Iraqi firms have been left out.

Iraq's previous regulations on telecommunications licenses required that foreign investors allocate 51% of their projects in Iraq to Iraqi entities. Under the current RFP, there is no requirement that companies have a local partner or sub-contract to Iraqi firms. The waiver was defended by the CPA as the only way to bring in foreign telecoms investors, who would otherwise be reluctant to commit an investment for such a short duration.⁹ While the CPA has used its broad powers to override Iraqi legislation in the past, this is the first time it had used them so decisively to influence the climate for foreign investment.

Most likely, Iraqi sub-contractors will be chosen, especially given their low cost of labor. However, by not specifying the inclusion of Iraqi firms or rewarding bids with significant indigenous participation, the CPA has limited the opportunity for Iraqi firms to participate and benefit from the reconstruction process. This omission undermines the CPA goal of creating opportunities for Iraqi businesses, local "buy-in" for private sector initiatives, and trust in the good intentions of the Authority.

One company that will be out of the loop is the Iraqi Telecommunications and Postal Company (ITPC), the current state communications monopoly. Although its infrastructure will be used by the winning companies, it cannot itself bid. Plans to expand its network will have to be put on hold until the term of the RFP expires.

Controversy over Technology Choices

There has also been controversy over the technology which would be installed. There are two competing and generally incompatible network options:

- ▶ GSM (Global System Mobile communication) which is standard for much of the world including Iraq and the Middle East. According to the GSM Association, the technology covers 70% of the world's subscribers-863 million people. GSM would provide the most obvious choice for roaming services considering the reliance of Iraq's neighbors on GSM. U.S. firms (Motorola and Nortel) are also capable of working with GSM technology.

- ▶ CDMA (Code Division Multiple Access) which is the standard U.S. network technology, and is used primarily in city or regional networks. It is predominantly used in the Americas, South Korea, and China. With 154 million subscribers, it has 12% of the world's wireless customers, according to the CDMA Development Group. CDMA is considered more suitable for delivering broadband and third generation wireless services, but would require significant upgrading from second generation networks.

The possibility of a CDMA network in Iraq has riled many European and Middle Eastern firms eyeing the lucrative contract. All Iraq's neighbors have deployed GSM networks, which allow roaming for subscribers without changing handsets. CDMA would make the Iraqi system incompatible with other regional systems' roaming services, and would require dual mode handsets, which are costly. GSM proponents point to the technology's wider usage and the greater availability of terminal and infrastructure vendors for GSM technology. Critics also fear that CDMA deployment would make the Iraqi telecommunications sector dependant on U.S. technology for years to come, even though the RFP states a two-year service award. Iraq's mobile telecommunications networks will then be up to a sovereign Iraqi government to either continue or re-award. If CDMA networking is already in place a technological changeover to GSM may be less attractive to investors and would impose an additional cost on Iraqi consumers.

The implementation of CDMA technology is preferred by U.S. companies.¹⁰ They argue that the new generation of CDMA is overcoming roaming barriers and is becoming increasingly operable across technologies. They also point to its greater compatibility with third generation wireless technology. However, installing the new CDMA technology requires significant upgrades of equipment-costs which would be passed down to the Iraqi consumer.

Ambiguity of RFP requirements

Companies have also expressed concern over the ambiguity and lack of information necessary to prepare a proposal. Precise requirements for coverage, service quality and subscriber packages are not adequately provided, in the view of one telecommunications consulting company. The Financial Times quotes one member from a bidding consortium who describes the tender process as "opaque, unrealistic and technically incompetent."¹¹ This ambiguity may lead to a simplistic evaluation matrix and scoring, leaving opportunities for less qualified bidders to achieve high scores.

Although digital maps and some Iraqi infrastructure information is offered, in consideration of the circumstances of post war Iraq and the difficulty of bidders to perform radio planning and site surveys, little supporting information is given for bidders to submit a credible tender and business plan. Uncertainties of taxation, import duties and import restrictions have further complicated bidders' submittals. In this environment of uncertainty, backing (formal or informal) from the CPA or an export credit agency would be invaluable for any bidder in understanding and mitigating risks.

Short-term, these conditions favor the introduction of U.S. firms into the Iraqi telecommunications market. The high cost-bidders are required to provide a \$30 million USD performance bond and high risk of such a short term contract will likely deter investors without strong U.S. and CPA support. If U.S. companies dominate in telecommunications services, this will lend credence to Iraqi cynicism regarding the economic motives for U.S. intervention in Iraq.

Long-term, telecommunication systems are widely regarded as strategic state assets and complete foreign ownership could pose problems in the future. Economic reforms implemented by the CPA without the participation of Iraqi firms, and which involve substantial rewards for foreign firms could easily be rejected by a successor government looking to establish its authority. To avoid stalling of reforms or re-nationalization, it is important that any measure to privatize enterprises or service provision create local ownership by giving Iraqis an opportunity to participate in these changes.

Iraq's Recent Telecommunications History

The French firm, Alcatel, established much of Iraq's current phone system in the 1980's. In 2001, Alcatel began work on a \$75 million USD contract for an international telephone system linking Baghdad with central and southern provinces as well as repairing existing telephone links and exchanges for 28,000 lines.¹²

The most current contract (\$28 million) was awarded in 2001 to a Chinese firm, Huawei Technologies under the Oil for Food program to provide service for 25,000 users. This operation came into conflict with U.N. sanctions when Huawei was accused of installing fiber optic cables for Iraq's air defenses.¹³ The contract has been passed on to China National Technology Import, whose progress with the project is unknown. The UN reports that Turkish companies have also performed telecommunications work.

Current Wireless Service

The mobile telecommunications networks of Iraq are in disarray in certain areas and non-existent in others due to the punitive effects of twelve years of sanctions and damages un-repaired after the 1st Gulf War. Therefore there is a need for an entirely new and modern system. At the moment, there are four existing wireless services with around 100,000 subscribers providing local service in specific areas:

- ▶ *Three GSM providers operating in Kurdish areas.* These services function as a walkie-talkie system.¹⁴ They are expected to continue providing services with the existing boundaries and license terms but will not expand further.¹⁵
- ▶ *MCI operates the Baghdad GSM network.* MCI was awarded a six-month contract to provide service for U.S. personnel and aid workers with an anticipated 10,000 users covered by 19 cell towers. The award, \$45 million USD, was granted by the Department of Defense and was similar to deals MCI received in Haiti and Afghanistan. MCI is a subsidiary of Worldcom, which declared bankruptcy in July 2002 in the wake of a Securities and Exchange Commission investigation into its accounting practices.
- ▶ *MTC-Vodafone.* MTC-Vodafone provides a GSM network service based around Basra in the south which is run by a consortium based in Kuwait. The license in Iraq was granted in June by the Joint Communications Authority Board of Iraq and the Ministry of Defense of the United Kingdom for security and reconstruction efforts.
- ▶ *Batelco - Bahrain Telecommunications Co.* Batelco spent \$5 million USD setting up a GSM network covertly, without a license from the CPA.¹⁶ This action represented a breach of CPA order 11 and the firm was recently asked to stop service. In its brief operating period, the network handled 8,000 calls the first two days. London-based Cable and Wireless is a 20% shareholder providing technical support to the Batelco project. Cable and Wireless has strong connections to the U.K. defense establishment. Chairman of the company, Richard Laphorne, is a former British Aerospace finance director. Lord Robertson of Port Ellen, who is the Secretary-General of NATO and was former Defense Minister, is planning to join as deputy chairman in February 2004. Bernard Gray, an executive of the company, is one of Lord Robertson's former advisers. Batelco has implied that it will seek to provide service irrespective of the current tendering process. While there is no policy which would imply that Batelco could be granted permission to do this, a precedent could be drawn from the three local Kurdish services currently operating in northern Iraq and expected to continue providing service following the introduction of a CPA-titled regional provider.

Specifics of the CPA RFP

1. Each applicant will bid for two regions;
2. Each license will be for 24 months;
3. Licensees will be required to provide a \$30 million USD performance bond, which is a promissory note from a financial institution guaranteeing payment of the amount in case of breach of contract;
4. Licenses will be issued following an assessment of best value undertaken by the CPA and based on the proposals received. Evaluation, according to the RFP's Statement of Objectives will be on:
 - ▶ Technical grounds: including geographical service coverage, system capacity, and quality of service;
 - ▶ Management: including speed of delivery (build-out), ability to deliver, bidder past performance and financial soundness of bidder and project financing;
 - ▶ Cost of use to the subscriber;
5. Bid information can be found at <http://cpa-iraq.org> under the business information section.
6. General information on telecommunications is provided at <http://cpa-iraq.org/ministries/transportation.html>
7. There is no stated technology preference.

Regions covered by RFP licenses

Region	Governorates covered	Estimated population of major cities in region
South East	Al Basrah, Al Muthanna, Dhi Qar, Maysan, An Najaf, Babil, Karbala, Wassit, Al Qadisuyah	5.3 million
Central	Baghdad, Diyala,, Al Anbar,	6.9 million
North	Erbil, As Sulaymaniyah, At Ta min, Dahuk, Ninawa Salah ad Din	4.4 million

Source: http://www.cpa-iraq.org/ministries/mobile_objectives2.pdf

Recommendations

1. Include Iraqi experts into the decision making process for reconstruction contracts.

In a recently published report presented to the Senate Committee on Foreign Relations, the Center for Strategic and International Studies (CSIS) emphasized that Iraqi ownership over the reconstruction process is critical to the success of the occupation. “Iraqi ownership of the rebuilding process must be expanded at national, provincial, and local levels. At the national level ensuring success of the newly formed Iraqi Governing Council is crucial.”¹⁷

The Governing Council has been established with a rotating nine-member presidency and has begun the process of assigning ministers as well as engaging the wider international community. The Council and relevant ministries should be invited to nominate a panel of independent experts to participate in the design, evaluation, and oversight of tenders for the reconstruction of Iraq, particularly when such contracts may commit Iraq to long-term decisions. A representative appointed by the Governing Council should be invited to have a vote on the telecommunications RFP evaluation committee.

Moreover, the composition of RFP evaluation committees should be made more transparent. No information has been made available about the composition of the evaluation committee, and rumors have circulated that it will be limited to U.S. representatives, with some British influence. For the results of tenders to be deemed legitimate, it is necessary that the public see that Iraqis are involved in decision-making.

2. Provide opportunities for the participation of Iraqi firms in the reconstruction process

The cessation of Iraqi laws regarding trade, finance and international investment are logical and often necessary if the CPA is to expedite Iraq’s rehabilitation and lay the groundwork for an open market economy. However, such actions need to recognize that Iraqi firms represent the future engine of Iraqi growth and economic diversification. In evaluating RFPs, preference should be given to bidders who plan to work with Iraqi partners or to hire Iraqi sub-contractors.

3. Create an even playing field for both U.S. and non-U.S. firms in the tendering process.

The U.S. has stated its view that nations who were unwilling to take military action against the Hussein regime would be frozen out of lucrative reconstruction contracts. While that policy may provide short-term benefits for U.S. firms, it may end up costing U.S. taxpayers more if other countries retaliate by refusing U.S. requests to contribute aid. Contracts that appear to favor U.S. firms also lend credence to cynicism about U.S. motives for going to war. Arbitrary requirements that shut out non-Coalition bidders should be kept out of RFP requirements.

Conclusion

Since establishing its authority, the CPA has taken several decisions which are rapidly transforming the Iraqi economy from state control to a free market system. It is important to remember that economic transitions occur over prolonged periods and often fail when public ownership over the process is lacking. Iraq has already experienced a prolonged economic downturn, with an estimated 60% unemployment rate and below average industrial output.¹⁸ The sustainability of economic reforms will remain vulnerable if public acceptance of the process is lacking. Examples from the East European transitions demonstrate how dangerous partial transition or stalled reforms can be for a state's long-term recovery.¹⁹

While Iraq requires decisive action to speed its recovery, that need must be balanced with prudence knowing that any reforms enacted today will have to be implemented by an Iraqi successor government. If the Iraqi public and the Iraqi civil service are not involved in the shaping of economic reform policies, it is unlikely that they will commit to implementing them once the Coalition government dissolves. This would be the worst case scenario for a future Iraq: rejection of those democratic and economic freedoms the CPA and the U.S. have been so keen to install after returning sovereignty to Iraq.

Notes

- 1 "Iraq to spend over six billion dollars on IT development." *Al-Bawaba*. July 7, 2003.
- 2 http://www.cpa-iraq.org/ministries/mobile_phones.html
- 3 Joseph Braude. *The New Iraq: Rebuilding the Country for Its People, the Middle East, and the World*. Basic Books. March 2003.
- 4 Dan Sabbagh. "Mobile Phone Battle Breaks out in Iraq." *The Times* (London). July 26, 2003.
- 5 "Iraq to spend over six billion dollars on IT development." *Al-Bawaba*. July 7, 2003.
- 6 Shafika Mattar. "U.S.-led administration seeks bids for three wireless phone networks in Iraq." *Associated Press*, August 1, 2003.
- 7 <http://news.bbc.co.uk/2/hi/business/3114591.stm>
- 8 "ITPC Takes Back Seat in Tender Process," *Iraq Today*, August 21, 2003.
- 9 Joshua Chaffin and Charles Clover. "Investment rules waived on Iraqi projects: Mobile Telephone Licences." *Financial Times* (London) July 18, 2003.
- 10 In March 2003, Congressman Issa (R) of California began calling for the usage of CDMA technology in Iraq. He petitioned a letter to the Department of Defense (DoD) and USAID signed by 30 congressmen requesting that any U.S. taxpayer-funded mobile contracts be awarded to CDMA networks only, which preferences U.S. firms. Issa argued that reconstruction contracts should not benefit German and French firms and should be used to provide jobs for Americans. Congressman Issa's bill would not stop private companies from installing GSM in Iraq, but would prevent U.S. money from funding implementation of the competing technology. To note, Congressman Issa is a recipient of campaign funding from Qualcomm, the company that pioneered the CDMA technology. http://www.issa.house.gov/newsroom_press_detail.asp?serial=101
- 11 John Dizard. "Iraqis Say they are in the Dark Over Rebuilding Plans," *Financial Times*, August 25, 2003.
- 12 Simon Romero. "Looking Beyond a War in Iraq." *New York Times*. February 17, 2003.
- 13 <http://www.hatiftelecom.com/news/iraq.html>
- 14 Simon Romero. "Looking Beyond a War in Iraq." *New York Times*. February 17, 2003.
- 15 http://www.cpa-iraq.org/pressreleases/Mobile_competitionQandA.html
- 16 "Company Building Wireless Network in Baghdad without Administrator's Permission." *The Bulletin's Frontrunner*, July 24, 2003.
- 17 "Iraq's Post-conflict Reconstruction." *CSIS*. July 17, 2003.
- 18 "Iraq's idle employed." *Seattle Post Intelligencer*. August 5 2003.
- 19 Hellman, Joel. "Winners Take All." *World Politics*. January, 1998.

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Iraq Revenue Watch monitors Iraq's oil industry to ensure that it is managed with the highest standards of transparency and that the benefits of national oil wealth flow to the people of Iraq. Iraq Revenue Watch complements existing Open Society Institute initiatives that monitor revenues produced by the extractive industries.

In many parts of the world, the lack of proper stewardship over oil resources has resulted in corruption, the continued impoverishment of populations, and abuses of political power. By prompting governments to tackle these problems early, the Open Society Institute hopes to help Iraq avoid this plight.

The Open Society Institute currently supports a recently launched initiative, Caspian Revenue Watch, which monitors the development of oil production in the Caspian basin. The goal is to promote transparency, accountability, and public oversight in the management of oil and natural gas revenues.

Iraq faces even greater challenges than the Caspian region. If Iraq is to become an open, democratic society it will need to develop transparent accountable institutions for ensuring honest management of oil revenues.

There is an urgent need for Iraq Revenue Watch given the current occupied status of the country. The Coalition Provisional Authority and the Iraqi Governing Council should establish rules that ensure complete transparency regarding Iraqi oil revenues. So doing will foster a stable, democratic Iraq, and will protect the Coalition Provisional Authority from charges of misappropriation during this period of trusteeship over Iraq's reconstruction.

The **Open Society Institute**, a private operating and grantmaking foundation based in New York City, implements a range of initiatives throughout the world to promote open society by shaping government policy and supporting education, media, public health, and human and women's rights, as well as social, legal, and economic reform.

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