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Telecoms in the Kingdom of Saudi Arabia — An Overview

Sector Profile

The Kingdom of Saudi Arabia has the largest information communication and technology market in the Middle East by both capital volume and spending.[1] It is dominated by the Saudi Telecom Company ("**STC**"), Mobily and Zain, though new entrants to the market in the form of Mobile Virtual Network Operators ("**MVNOs**") have begun to create additional competition. With 53 million subscribers to mobile phone services and a penetration rate of approximately 165%,[2] competition in the industry is already fierce, but the demand for services is growing. It is a market quickly becoming one of the most coveted by local and international companies. In consideration of this, we outline in this article the Government entities, regulators and legal framework that underpin the sector and observe how the sector has been liberalised and is continuing to grow.

Who are the Key Government Entities and Regulators?

Ministry of Communications and Information Technology

The Ministry of Communications and Information Technology is the Government body that oversees all information and communication technology in the Kingdom. It is responsible for planning and implementing the Government's policies and strategies for the telecoms sector.

Communications and Information Technology Commission

The Communications and Information Technology Commission ("**CITC**") is an independent Government agency with separate legal standing and financial and administrative independence. The CITC is responsible for licensing companies wishing to provide telecom and IT services in the Kingdom and for managing tariffs, content filtering and quality control. The CITC achieves this, in part, through hosting firewalls that block access to websites deemed offensive under the stringent censorship rules. The CITC's objectives, as set out under the Telecom Act, are to:

'provide advanced, sufficient and affordable communications services; creating the proper climate to encourage fair competition; utilising frequencies efficiently, transferring telecommunications technology and keeping breast with its developments and realising clarity and transparency in processes procedures, in addition to achieving the principles of equality and non-discrimination and protecting the public interest as well as the interests of users and investors.'[3]

Council of Ministers

The Council of Ministers (the "**Council**") must sanction the granting of any licence under the Telecom Act.

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[1]   Source: http://www.budde.com.au/Research/Saudi-Arabia-Telecoms-Mobile-and-Broadband.html.

[2]   Source: Ministry of Communications and Information Technology – 'ICT Indicators in K.S.A' (figures as of the end of 2015).

[3]   Source: http://www.citc.gov.sa/en/aboutus/areasofwork/Pages/default.aspx.

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What is the Legal Framework?

The Telecom Act (2001)

The Telecom Act sets out the legal basis for telecommunications regulation and structure in the Kingdom. It outlines, for example, that:

- all telecoms services must be provided through joint-stock companies that place their stock for public subscription (Art. 4);

- all licences, issued by the CITC, are subject to the approval of the Council of Ministers (Art. 5); and

- no one operator may be dominant or prevent, restrict or distort competition (Art. 24).

The Telecoms Act Bylaws (2002)

The bylaws, which were issued by Ministerial resolution, are supplementary legislation which support the Telecom Act and outline the specific decisions and practices for regulation of the sector by the CITC. Chapter 2, for example, sets out the CITC's general approach, rules and procedures for the process of licensing telecommunications services. This includes:

- the types of licences which may be issued—individual and class (Art. 11);

- the licensing process and criteria (to achieve the regulatory objectives of the Act) (Art. 13);

- the comparative evaluation process (to determine which applicant, on a financial and technical basis, is best placed to satisfy user demand) (Art 15.1); and

- the process for conducting an auction (where each applicant will provide evidence of financial and technical ability) (Art.16).

CITC Ordinance

The CITC Ordinance, issued pursuant to a Council of Ministers resolution, formally establishes the CITC as having legal standing and defines the CITC's functions, governance and financing.

Data Protection

Although the Telecom Act outlines sanctions for breaches of privacy in the telecoms sector, there is no general data protection in the Kingdom. In the absence of this, the courts will apply Shariah law concepts, which provide that an individual will be compensated if they suffer loss as a result of the disclosure of their personal information by another party.

Key Players

Fixed Broadband

STC and GO Telecom are the two fixed telecommunication licensed entities in the Kingdom.

Mobile

STC, Mobily and Zain Saudi Arabia are the three long-established mobile network operators, who launched their commercial 4G long-term evolution ("**LTE**") broadband services in 2011 and now compete for LTE subscribers.

Virgin Mobile Saudi Arabia and Lebara Saudi Arabia entered the Kingdom's telecoms market as MVNOs in 2012. They are licensed by the CITC as wireless communications providers, but do not own the network infrastructure over which they provide their services.

Recent Trends

Liberalisation of the Telecoms Sector

The telecoms sector has been undergoing a privatisation program to liberalise the market since 1998. Fundamental to this program was the introduction of the three MNVOs who, since launching, have become well established—Virgin Mobile Saudi Arabia reached one million subscribers in 2015. Lebara Saudi Arabia have also announced a partnership with Huawei to provide MVNE services to other telecoms operators within the Kingdom.

In light of Saudi Vision 2030 and the National Transformation Program 2020, the Kingdom's telecoms market is expected to continue growing alongside the demand for digital services.

A Need to Develop Broadband Infrastructure

Recently, the fixed broadband services segment (historically led by STC) has experienced an increase in the use of new fiber connectivity in areas such as Riyadh, Jeddah, Mecca, Medina and Dammam. For instance, in 2013, the Agile Optical Network was completed, creating a "fiber backbone" for the Kingdom. However, the Kingdom's telecoms infrastructure must continue to expand to meet the demand for digital services. Further investment in high-speed infrastructure will be a strategic priority in the Kingdom, and we expect to see international interest in such projects.

Competition a Challenge to Mobile Entry

As many residents of the Kingdom are living in areas where fixed telephony is not feasible, mobile use is dominant. This, coupled with the Kingdom's youth demographic profile, creates an environment for continually growing data use. Key players such as STC, Zain and Mobily are looking to expand their services to develop triple or quad-play offerings for customers by bundling services, in an effort to fend off the MVNOs. The mobile market will likely be characterised by fierce competition over the coming years, which may deter investors until the market has stabilised.

Government Policy

The Government views the growth of telecoms in the Kingdom as a national priority. Growth in telecoms and IT spending is expected to continue to be supported in the budget, with investment in infrastructure and high tech projects driven by strong demand for smartphones and high-speed networks. It is hoped that Government investment in the technology sector will create further investment and job opportunities.

More recently, the Government has begun to promote technology start-ups. Venture capital funds (including Alkhabeer Capital, Mobily Ventures, STC Ventures and a Government tech start-up fund) have launched off the back of Government encouragement.[4]

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[4]   Source: Ministry of Communications and Information Technology – 'ICT Indicators in K.S.A'

It is hoped that the focus of Government policy on telecoms will be a key driver in advancing telecoms and broadband services across the Kingdom. There is clearly momentum behind the sector that investors should seek to capitalise on where they can.

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