CULLEN
INTERNATIONAL

ELECTRONIC COMMUNICATIONS IN SOUTH EAST EUROPE. FACTSHEET

December 2011

This report provides an overview of the electronic communications sector in the South East Europe.

Drawing from Cullen International's data collection and research in the Enlargement countries[1], it presents an overview of the electronic communications sector in eight countries: Albania, Bosnia & Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia (FYROM), Montenegro, Serbia, Kosovo (under UNSCR 1244) and Turkey.

Comparative data for the European Union and selected member states provided in this report are based on the Digital Agenda Scoreboard 2011 published by the European Commission[2].

[1] Monitoring of Electronic Communications in the Enlargement Countries – an observatory carried out by Cullen International on behalf of the European Commission. See http://www.cullen-international.com/other-services/studies.htm

[2] http://ec.europa.eu/information_society/digital-agenda/scoreboard/library/index_en.htm

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LIST OF ABBREVIATED COUNTRY CODES

Enlargement countries and EU member states mentioned in the report

Country	Code	Comments
Albania	AL	–
Bosnia & Herzegovina	BA	Bosnia & Herzegovina comprises two parts: • The Federation of Bosnia & Herzegovina • Republika Srpska A separate federal district of Brčko belongs to both.
Bulgaria	BG	–
Croatia	HR	–
Hungary	HU	–
Montenegro	ME	–
The former Yugoslav Republic of Macedonia (FYROM)	MK	The constitutional name is the Republic of Macedonia, though it is not recognised under this name by some countries. The EU refers to it by the provisional reference under which it was admitted to the United Nations: "the Former Yugoslav Republic of Macedonia". This does not prejudge the outcome of the negotiations on the name of the country that are underway. The country code "MK" is used by ISO and some other organisations.
Romania	RO	–
Serbia	RS	–
Kosovo (under UNSCR 1244)	XK	Under United Nations Security Council Resolution 1244 of 1999, the administration of Kosovo has been carried out by the UN without involvement of the government of Serbia.[3] On February 17, 2008 the Kosovo Assembly, elected in December 2007, adopted a resolution declaring Kosovo to be independent. On February 18, 2008 the EU Council took note of that resolution stating that member states would decide, in accordance with their national practices and international law, on their relations with Kosovo.[4] Kosovo does not have an officially assigned ISO 3166 code. The code "XK" is used by Eurostat and some other organisations.[5]
Slovenia	SI	–
Turkey	TR	–

[3] http://www.un.org/Docs/scres/1999/sc99.htm
[4] http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressdata/en/gena/98818.pdf
[5] See, for example, Eurostat Pocketbook on candidate and potential candidate countries, 2008 edition, March 18, 2008. http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-PF-08-001/EN/KS-PF-08-001-EN.PDF

I. ECONOMIC OUTLOOK

In the period from 2000 to 2007 GDP growth in constant prices was considerably higher in most of the enlargement countries in the SEE region than in the EU. Most of them have achieved 5–7% annual GDP growth during that period which was more than double of the average 2.2% growth in the EU.

The unprecedented economic crisis which gathered pace in autumn 2008 has affected the EU and all enlargement countries. In 2009, the gross domestic product (GDP) decreased by 4.2% in the EU-27. Revised forecasts by the International Monetary Fund (IMF) released in September 2011 (Figure 1) suggest a shrinking in real GDP for most of the SEE region in 2009. The exceptions are Albania and Kosovo, whose economies are reported to grow in 2009 by 3.3% and 2.9%, respectively. Croatia, Turkey and Montenegro are reported to have been worst hit in 2009. Negative GDP growth was also reported in 2009 in Bulgaria (-5.5%) and Romania (-7.1%).

Complete financial data for 2010 is not yet available but there have been clear signs of a recovery, particularly in Turkey, reporting 8.9% real growth in GDP already in 2010, and forecast to grow by 6.6% in 2011.[6]

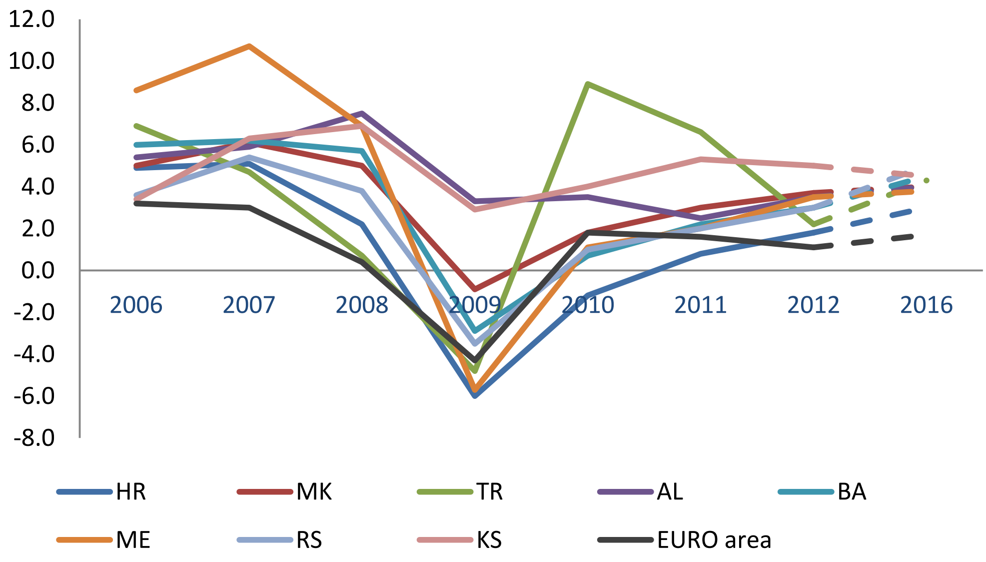


Figure 1 – GDP 2006-2010 year-on-year growth and forecasts for 2011–2012 (Source: IMF)

GDP per capita in Purchasing Power Parities (PPPs) in the SEE countries is shown in Figure 2 below. In most of the SEE countries GDP per capita was lower than that of the EU in 2009 but had risen steadily over recent years. Croatia, Montenegro and Turkey registered GDP per capita between 30% and 60% below the EU average, while Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Serbia were between 60% and 80% below the EU average.

[6] http://www.imf.org/external/pubs/ft/weo/2011/02/pdf/text.pdf

Figure 2 – GDP per capita in PPPs in 2009 (source: Eurostat)

II. MARKET & INVESTMENT OVERVIEW

In contrast to its decline in 2009, in 2010 the electronic communications market in the eight SEE countries grew to a total value of €15.7bn. This represents a year-on-year increase of 2.9%.

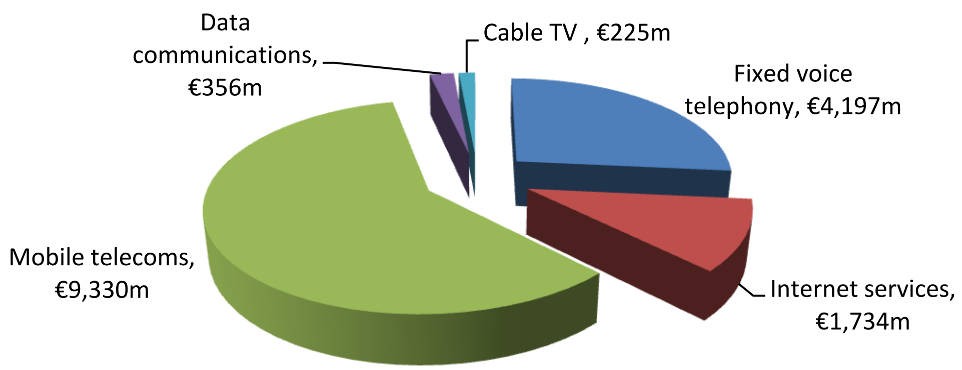


Figure 3 – Electronic communications market revenue share by service category in 2010

Although almost 60% of the market is represented by mobile services, internet and cable television services were the fastest growing service categories in 2010.

Internet service revenues accounted for 13% of electronic communications revenues in Croatia and 11.5% in Turkey in 2010. Cable TV, meanwhile, accounted for 6.3% in Bosnia Herzegovina and 5.9% in Serbia (cable TV revenue figures were not available for Albania).

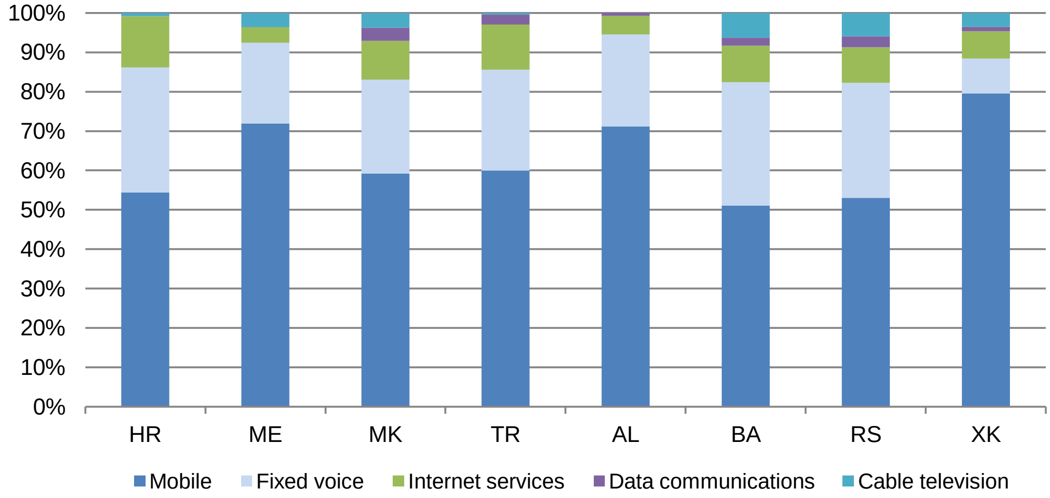


Figure 4 – Electronic communications: percentage of revenue by service category by country in 2010

Overall investment in electronic communications in the eight SEE countries was €2.9bn in 2010. Turkey accounts for over 70% of the total. From 2009 overall investment fell by 17%, based on the available data[7]. In Croatia there were significant declines in investment in internet services (-34.4%) and in mobile telephony (-30.5%). These were set against an 80% rise in investment in cable TV, albeit starting from a far lower base. An apparent halving of investment in mobile telephony in Turkey from 2009 to 2010 is explained by a huge spike in investment in 2009 in 3G networks and services following the issuing of 3G licences in the country.

Serbia recorded an increase in investment in all areas, notably in internet services (82%) and in cable TV (59.4%), as well as in mobile telephony (€17.3m in absolute terms, equivalent to a 13.1% rise).

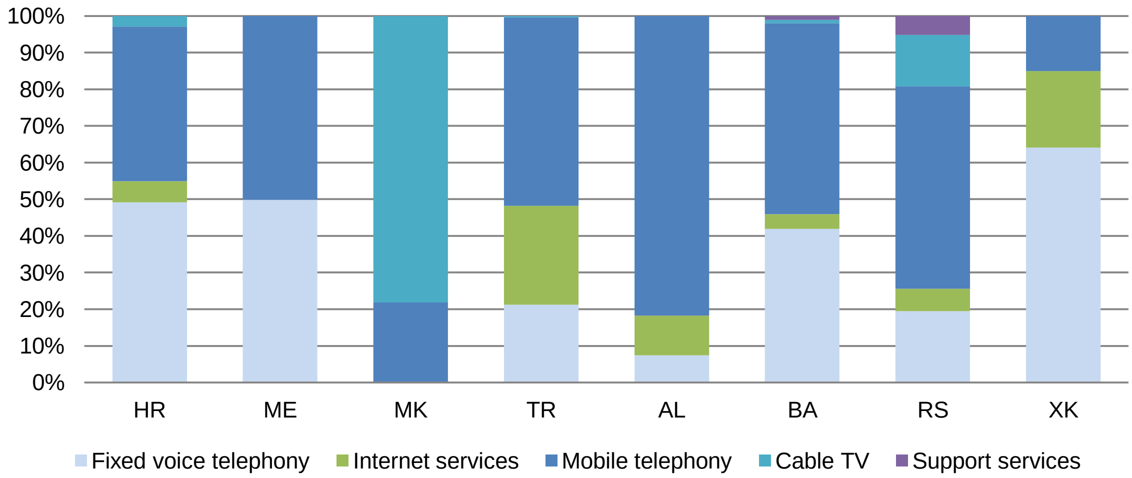


Figure 5 – Investment in electronic communications by country by service category, year 2010 (€)

The official EU-27 investment statistics are not yet available for 2010. The latest data published by the European Commission relate to 2009. The Commission reports an average fall in investment from 2008 to 2009 by 15.2%. The Central and Eastern European member states reported above average decreases, including Slovenia (-47.2%), Romania (-36.7%), and Bulgaria (-30.2%).

[7] Data on the level of investment in internet services in Turkey, including in both broadband infrastructure and in internet services, is available only for 2010.

III. SOUTH EAST EUROPEAN ELECTRONIC COMMUNICATIONS MARKETS

A. Fixed telephony services

The total number of fixed telephone lines in the region is falling, as a result of continued fixed-to-mobile substitution, and stood at 22.95m at end-2010. At the end of 2010 the average fixed line penetration rate for the eight countries was 24.1%, although there are significant variations, ranging from 42% penetration in Serbia and 40% in Croatia, which are close to the 40% EU average, to just 5% in Kosovo.

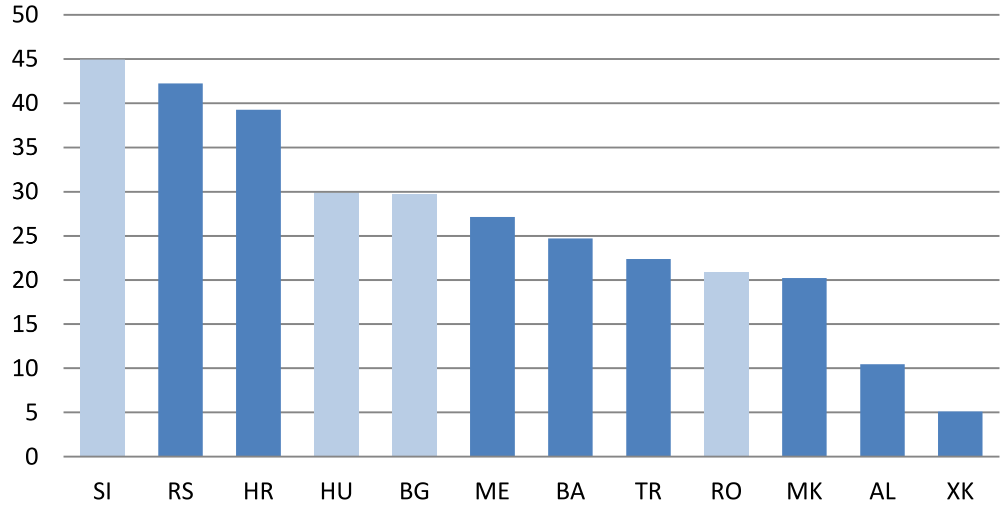


Figure 6 – Fixed lines per 100 population, 2010 (EU member states data: source ITU)

Despite the uptake of VoIP services in some countries, the continued dominance of the incumbents in voice services is clear, and with the only exception of Croatia it is considerably above the EU average, as is shown in Figure 7 below.

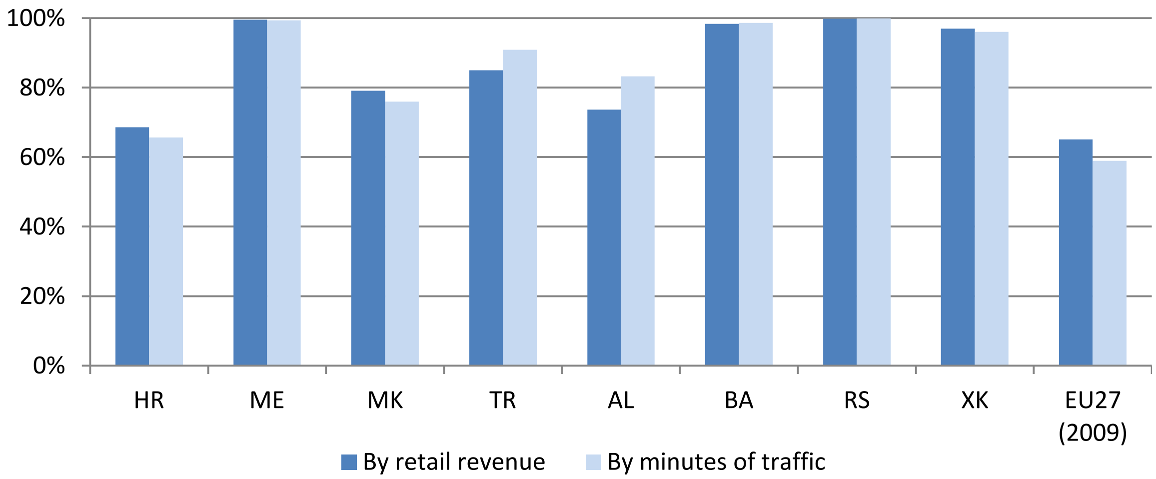


Figure 7 – Incumbent operators' overall market shares in fixed voice telephony, Dec. 2010 (%)

In the former Yugoslav Republic of Macedonia, significant growth in the number of fixed lines provided by alternative operators in 2010 was fuelled in particular by the cable operators. Three major cable operators offer access to fixed telephony services and there is also a trend for smaller cable networks to rent their networks to other (bigger) operators that have been notified as providers of fixed telephony services.

B. Mobile services

The total number of mobile subscriptions across the eight enlargement countries in the region remained fairly constant in 2010 at approximately 89 million. The penetration rate for Montenegro remains the highest but statistics are artificially inflated by the large numbers of prepaid subscriptions that are bought by tourists but remain active for only a limited period. In Albania and Serbia mobile penetration is also higher than the EU average.

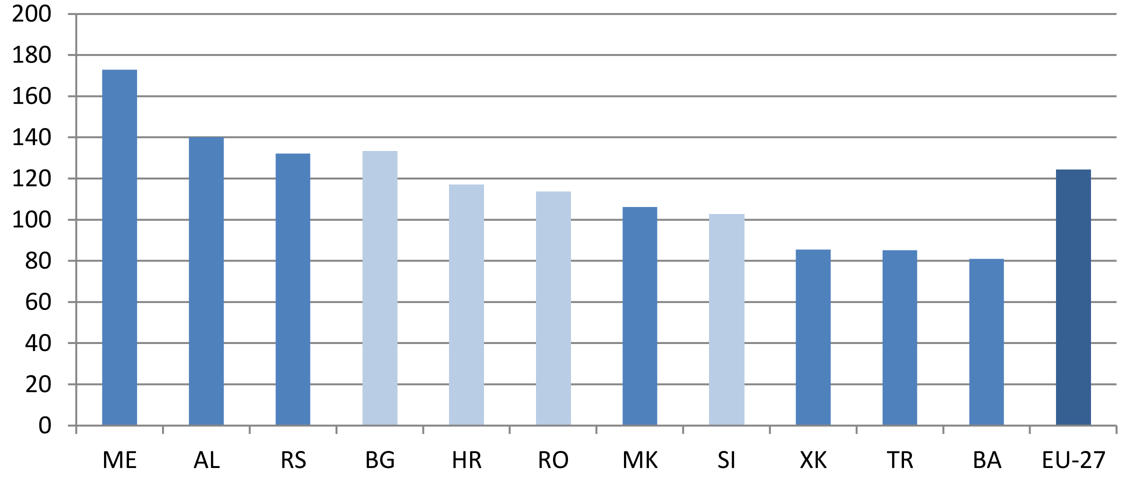


Figure 8 – Mobile subscriptions per 100 population, Dec. 2010

Competition has been effectively implemented in all mobile markets – with the exception of Kosovo there are at least three active network operators licensed in each country. In Albania there are four licensed mobile network operators, while in Kosovo in addition to two mobile network operators there are two service providers (MVNOs) using networks of both respective mobile operators. The market shares of the third-placed operators have risen slowly but surely in 2010, and in Turkey Avea has broken the 20% barrier in terms of revenue market share.

C. Fixed broadband

The fixed broadband market is growing in the region, and total number of fixed broadband connections reached 9.67m at the end of 2010.

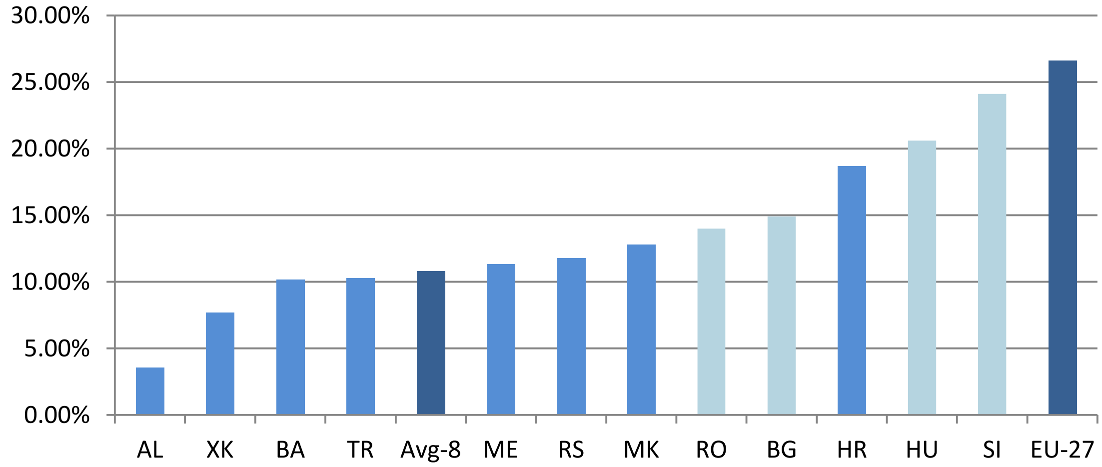


Figure 9 – Fixed broadband penetration rate, Jan. 2011

The average fixed broadband penetration rate for the eight enlargement countries reached 10.8% in 2010, with an increase of 22.5% from 2009.

Figure 10 below shows fixed broadband penetration and growth rates from 2010 to 2011. Most countries in the SEE region, along with other « emerging » economies, present above average growth rates against a penetration still below the EU average.

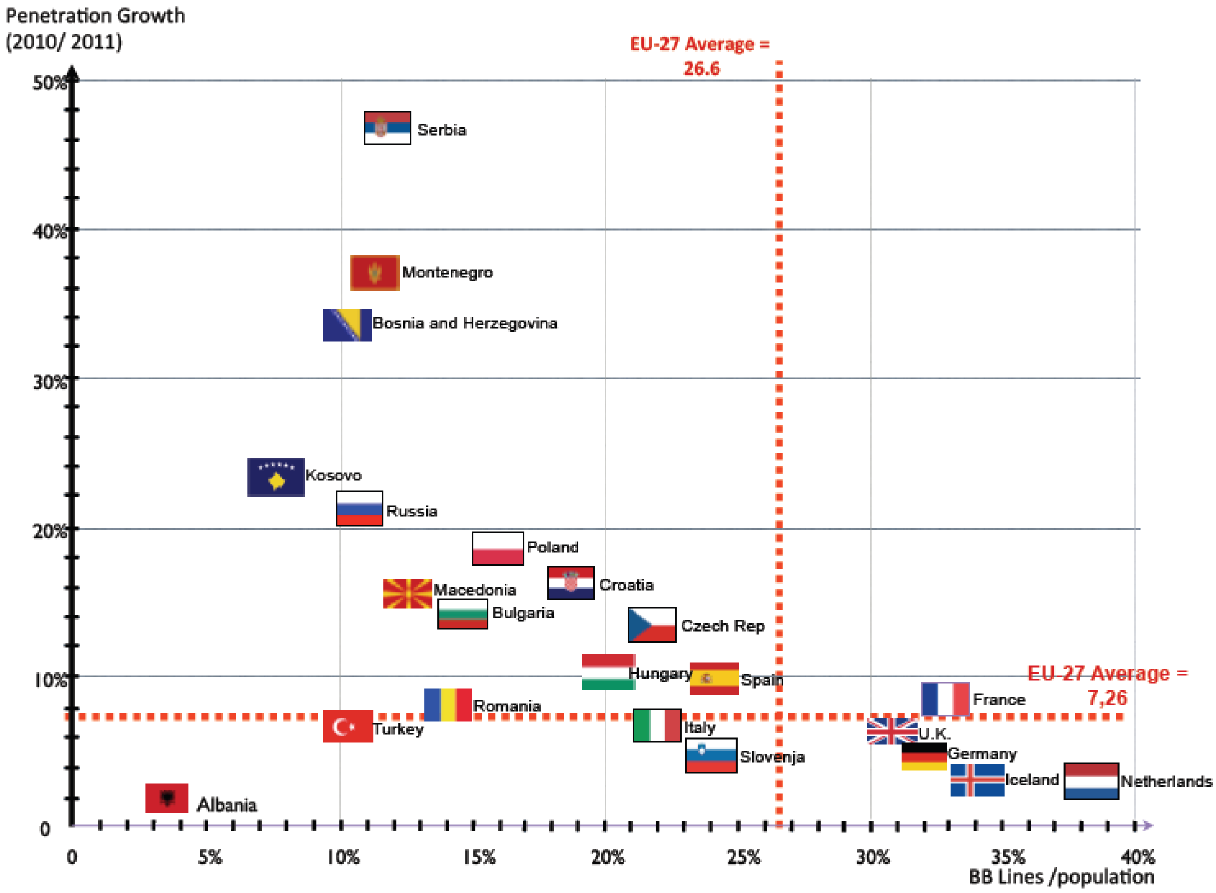


Figure 10 – Fixed broadband penetration rate, Jan. 2011

By far the majority of fixed broadband connections in the eight enlargement countries are based on xDSL.

In Albania and Bosnia Herzegovina, alternative operators are using their own xDSL networks, while in Serbia and Turkey alternative operators providing xDSL are almost entirely dependent on bitstream services.

In Croatia, most alternative xDSL operators are using full LLU, while in FYROM alternative operators compete via resale and full LLU lines to provide xDSL connections.

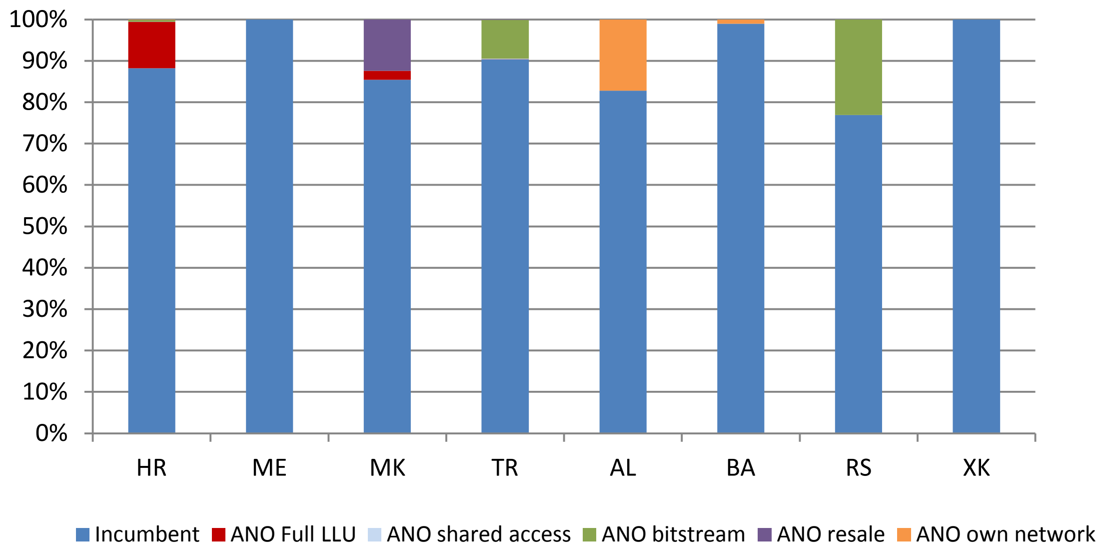


Figure 11 – xDSL lines by type of access

The broadband market generally remains dominated by the fixed incumbent operator in countries where xDSL is the main access technology but fibre and cable are making inroads in some markets.

In Albania the incumbent is rolling out fibre-to-the-node (FTTN) and the incumbent's fibre connections account for more than 90% of the fibre connections shown for Albania in the figure below. Albania's alternative operators, on the other hand, rely on their own xDSL or cable networks. Where cable is making the strongest inroads into the broadband market, growth is being driven by alternative operators.

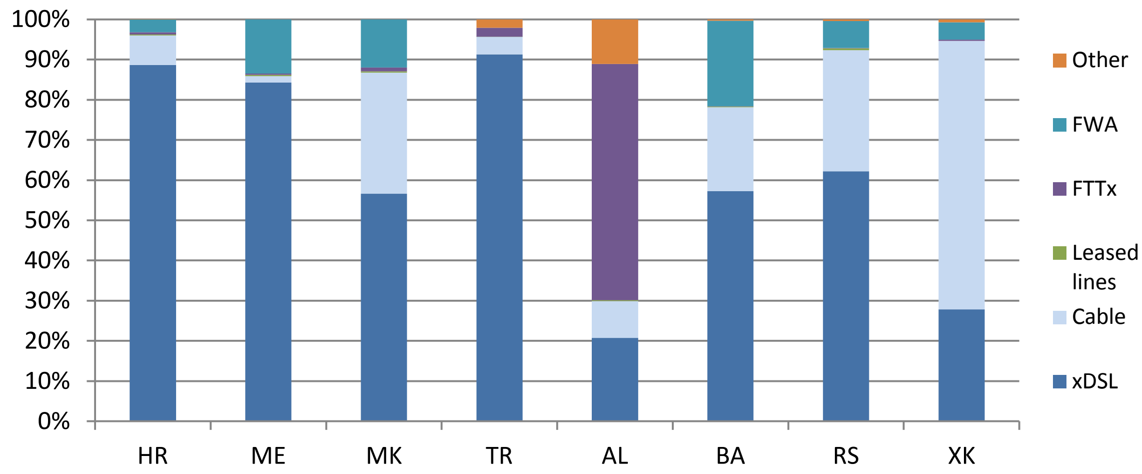


Figure 12 – Fixed retail broadband connections by technology

When it comes to the distribution of retail broadband lines by download speeds, users in Turkey have by far the fastest connections, with the majority buying connections of at least 8 Mbps. In Kosovo, Montenegro and Bosnia Herzegovina, on the other hand, more than two-thirds of users have access only to speeds of less than 2 Mbps.

In Turkey, both the incumbent, Turk Telekom (via DSL) and alternative operator Turkcell-superonline (FTTH) are offering retail broadband connections with advertised speeds up to 100 Mbps.

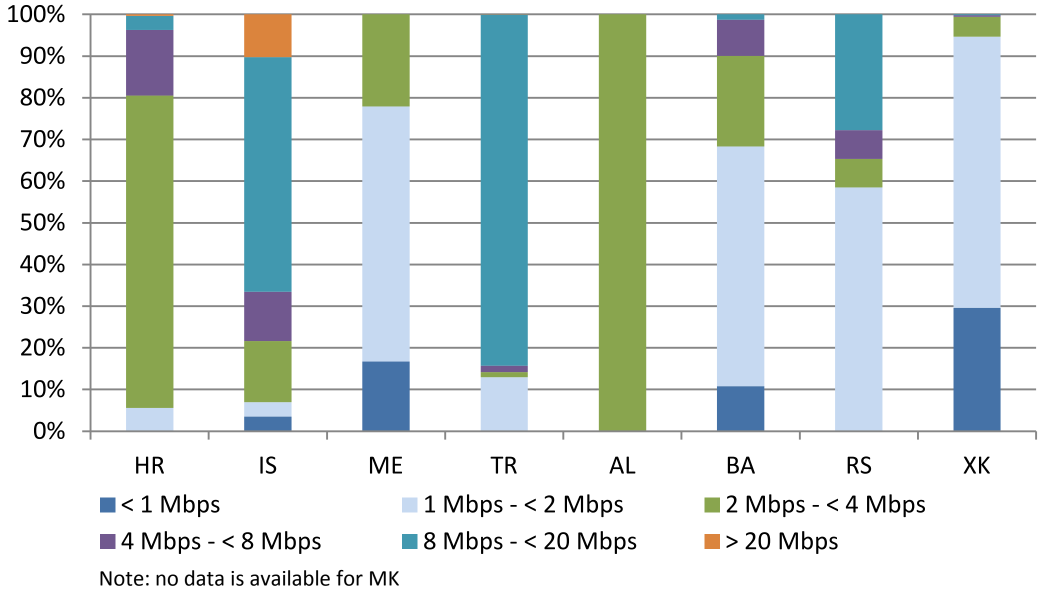


Figure 13 – Distribution of retail broadband lines by download speeds, Dec. 2010

D. Mobile broadband

The mobile broadband market is one of the most dynamic segments of the electronic communications sector and the penetration rate of dedicated 3G mobile datacards/modems has doubled in less than a year in most markets.

In Croatia the penetration of such dedicated 3G data devices is now above the EU average, while in Montenegro the penetration increased from 3.4% to 5.5% over the course of 2010.

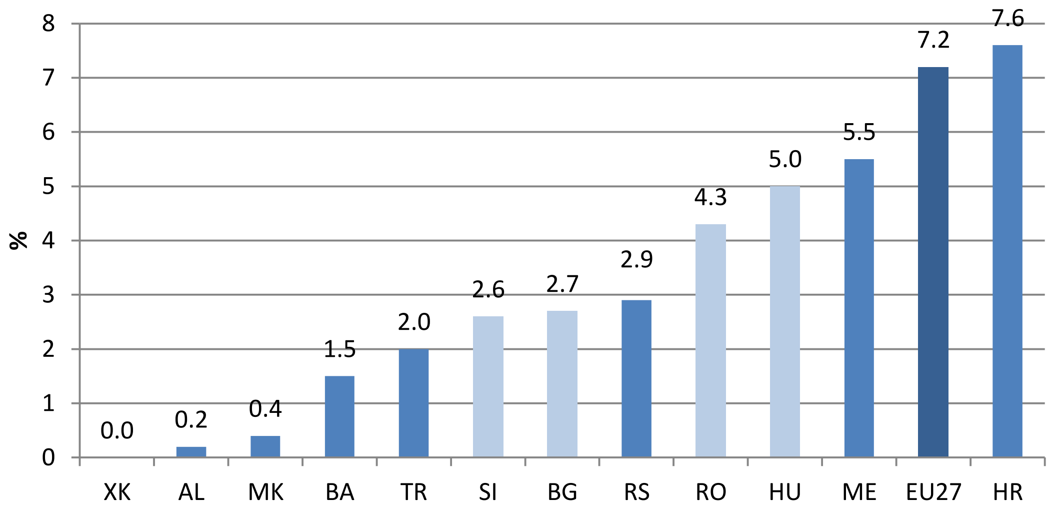


Figure 14 – Dedicated datacards/wireless modems per 100 population, Dec. 2010

IV. ANNEX

A. State ownership of telecommunications operators

In most counties, telecommunications operators, up until recently, were state-owned and state-operated. However, from the late 1990s onward countries began to sell at least part of their stake in incumbent operators to private investors or corporations. Ownership profiles of incumbent operators have changed significantly as a result of these privatisation efforts.

Even when these operators have been privatised, in some cases, special powers are retained by the state through the holding of so-called ‘golden-shares’. These special powers may be granted in different ways, generally legal or statutory. In practice, they may also be used to prevent takeovers (‘anti-takeover pills’).

The table below provides information about state ownership and the control of fixed and mobile telecommunications operators in the eight enlargement countries compared with others in the region.

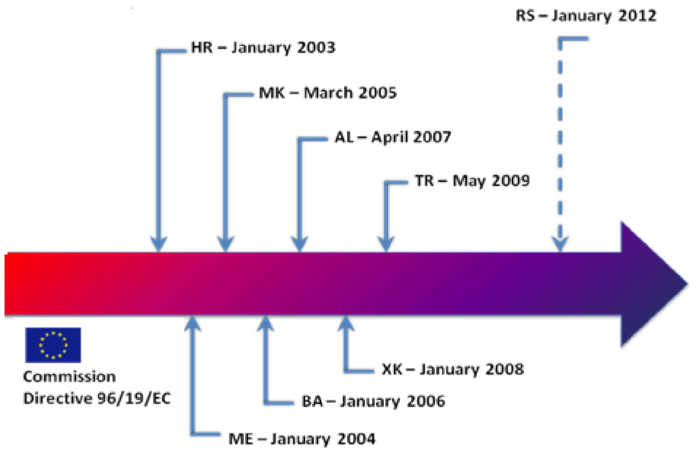
In Romania the state has still a relevant stake in Romtelecom (45.99%) while control is held by the Greek incumbent OTE (54.01%). The Bulgarian incumbent is fully private, and is currently controlled by an equity investor. The Greek government currently holds 10% of OTE’s stock, and Deutsche Telekom controls the company with 30% of shares. The state interest in Telekom Slovenije is 52.54%.

Country	Name of operator	State shareholding	Golden share	Government unit responsible for ownership functions
Albania	Albtelecom sh.a (with Eagle Mobile)	24%		Ministry of Economy, Trade and Energy
Bosnia & Herzegovina	BH Telecom d.d. Sarajevo	90%	-	Federation of B&H
	Telekom Srpske a.d. Banja Luka	-	-	-
	Hrvatske telekomunikacije d.d. Mostar	50.1%	-	Federation of B&H
Bulgaria	-	-		-
Croatia	-	-	-	-
FYROM	A.D. Makedonski Telekom	34.81%	Yes	Ministry of Finance
Greece	OTE	10%	-	Ministry of Finance
Kosovo (UNSCR 1244)	PTK (Post and Telecommunications Enterprise of Kosovo)	100%	-	Ministry of Economic Development
Montenegro	-	-	-	-
Romania	Romtelecom	45.99%	-	Ministry of Communications and Information Society
Serbia	Telekom Srbija a.d.	80%	Yes	Ministry of Finance
Slovenia	Telekom Slovenije	52.54% directly 21.61% indirectly through the state funds SOD and KAD	-	Ministry of Finance
Turkey	Türk Telekomünikasyon A.Ş.	30%	Yes	Undersecretariat of Treasury
	Türsat A.Ş.	100%	-	Undersecretariat of Treasury
	Avea İletişim Hizmetleri A.Ş.	24.4%	-	Undersecretariat of Treasury

B. Services and networks liberalisation

The liberalisation of telecommunications markets in South Eeast Europe is evolving at different speeds. In some countries it was a complex process stretched over several years with a step-by-step approach starting from data services and moving into specific segments of voice telephony networks and services.

As illustrated in the Table below, by now all the countries covered in this study have liberalised electronic communications networks and services, with the exception of public fixed voice telephony networks and services in Serbia that will be fully opened to competition on January 1, 2012.



Country	Liberalisation of public fixed voice telephony networks and services			Liberalisation of data networks and services	
	Local	Domestic long distance	International	Services	Networks
Albania	Rural areas: Feb. 1998 Urban areas: April 2007, through regional licences	July 2003	January 2005	1998	1998
Bosnia & Herzegovina	July 1, 2002	July 1, 2002	January 1, 2006	July 1, 2002	July 1, 2002
Croatia	January 1, 2003	January 1, 2003	January 1, 2003	1995	January 1, 2003
FYROM	March 2005	March 2005	March 2005	February 1998	April 2000
Kosovo (UNSCR 1244)	May 2003	May 2003	January 2008	May 2003	January 2008
Montenegro	January 1, 2004	January 1, 2004	January 1, 2004	January 1, 2004	January 1, 2004
Serbia	Formally liberalised from June 9, 2005 Full liberalisation foreseen from January 2012			National – April 2003 International – June 2005	June 9, 2005
Turkey	May 10, 2009	May 17, 2004	May 17, 2004	December 26, 2003	March 6, 2006

C. Control of fixed and mobile operators by foreign investors

The table below shows shareholding of foreign investors in selected Central, Eastern and South Eastern European countries.

Deutsche Telekom (DT) holds shares in some CEE countries through OTE or Magyar Telekom. DT owns 30% of OTE's shares, but controls OTE and fully consolidates it under the agreement between DT and the Greek government.

Country	Deutsche Telekom	OTE/ Cosmote	France Télécom / Orange	Liberty Global / UPC	Tele2 (Sweden)	Telekom Austria	Telekom Slovenije	Telenor	Telekom Srbija	Vodafone	Oger Telecom	GTS Central Europe	Mid Europa Partners	Pine-bridge Invest-ments
AL		AMC (97.21% Cosmote)					Primo 75%			Vodafone 100%				
BA							ANEKS 100%		Telekom Srpske 65%					
BG		Cosmo Bulgaria Mobile (Globul) 100%				Mobiltel 100% Spectrum Net 100% Megalan Network 80%								BTC 13% (blocking minority)
HR	T-HT (incl. T-Mobile) 51%				Tele2 100%	VIPnet 100%								
HU	Magyar Telekom 59.21%			UPC Hungary 100%				Telenor (formerly Pannon) 100%		Vodafone 100%		GTS-Datanet 100%	Invitel 100%	
ME	Crnogorski Telekom (76.53% Magyar Telekom)							Telenor 100% (Promonte)	M:tel 51%					
MK	Makedonski Telekom *(51% Magyar Telekom)* 30.2% T-Mobile MK *(100% Makedonski Telekom)*					VIP 100%	One (Cosmofon and On.Net) 100%							

Country	Deutsche Telekom	OTE/ Cosmote	France Télécom / Orange	Liberty Global / UPC	Tele2 (Sweden)	Telekom Austria	Telekom Slovenije	Telenor	Telekom Srbija	Vodafone	Oger Telecom	GTS Central Europe	Mid Europa Partners	Pine-bridge Invest-ments
RO	Combridge 59.21% *(100% Magyar Telekom)*	Romtele-com 54% Cosmote Romania 86.2% Telemobil (Zapp) 100%	Orange Romania 100%	UPC Romania 100%		Jetstream 100%				Vodafone Romania 100%		GTS Telecom 100%		
RS		Telekom Srbija 20%				VIP 100%		Telenor 100%					SBB controlling stake (undisclosed)	
SI						Simobil 100%	Telekom Slovenije/Mobitel 100%						Telemach 100%	
TR										Vodafone (Telsim) 100%	Türk Telecom 55% Avea *(81% TT)* 44.55%			
XK							IPKO 93.11%							

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Clos Lucien Outers 11-21/1
1160 Brussels, Belgium

Rue Saint Jean 6
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