CULLEN INTERNATIONAL

Monitoring electronic communications and information society services in Enlargement countries

Veronica Bocarova, Cullen International – 22 October 2012

Monitoring project scope 2011-2014

Potential candidate countries

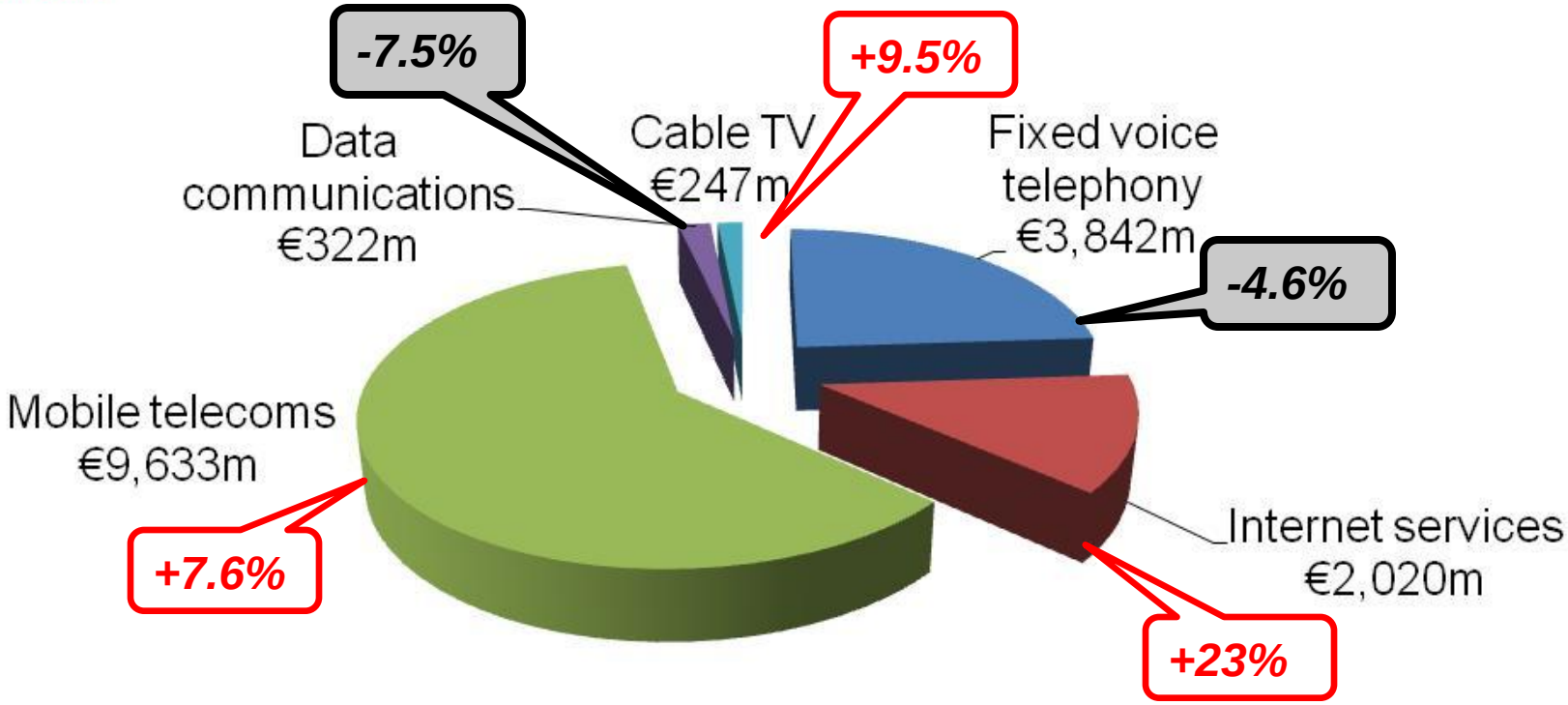
Candidate countries

Acceding country

Outline

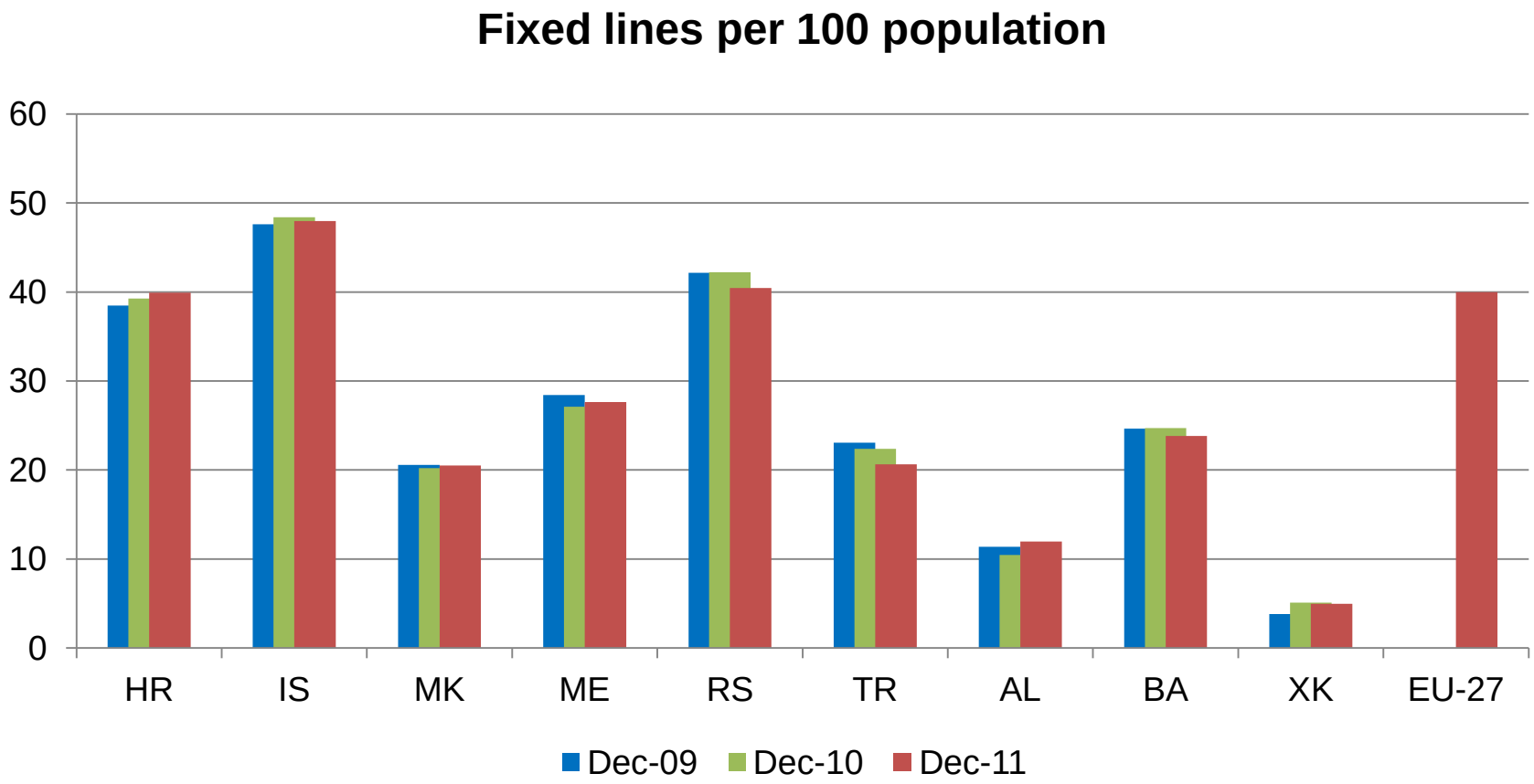
- Market overview
- Liberalisation of telecom markets
- Legal and institutional framework
- Competitive safeguards
- Market analyses
- Radio spectrum

Electronic communications market overview



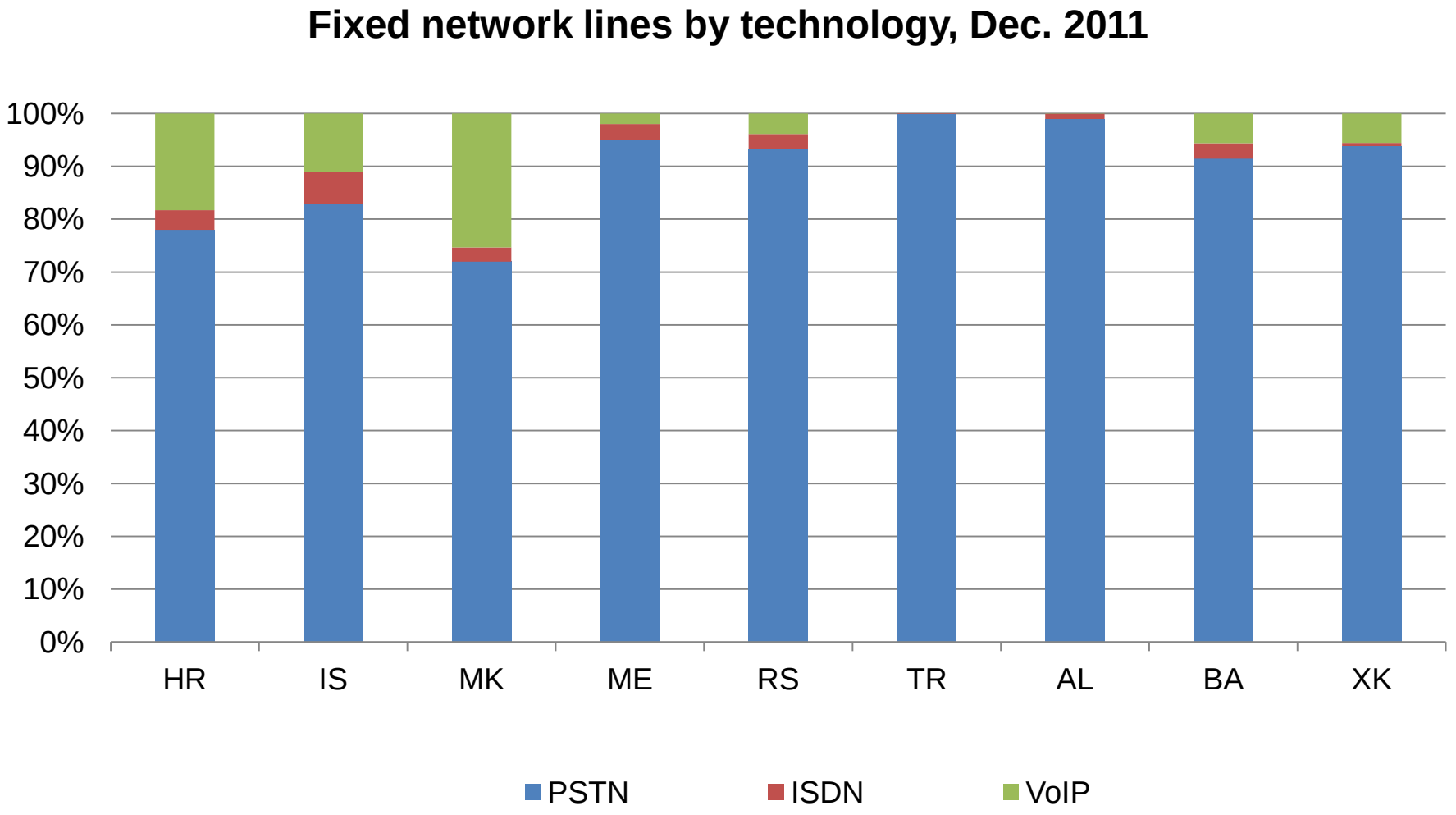
- Sector revenue in 2011 was **€16.1bn**
- **5.7%** growth from €15.2bn in 2010
- Mobile services – 60%, fixed telephony – 24%, Internet – 12.6%
- Telecom investment in 2011 was **€2.45bn** – **15.2%** of revenue

Fixed telephony



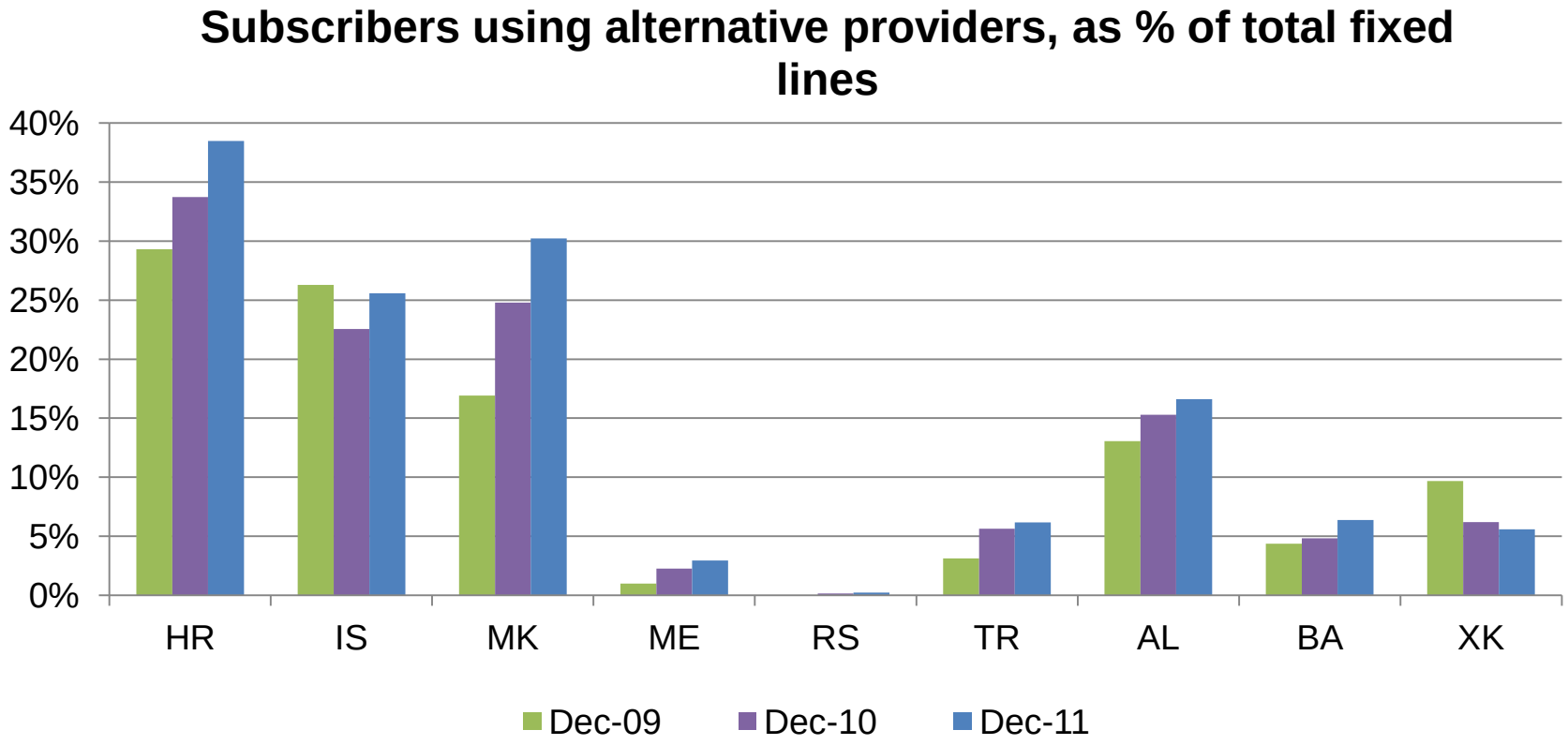
- Declining in Turkey and Serbia, mainly due to mobile substitution
- Croatia and Serbia are comparable with the EU average, Iceland is above
- Albania and Kosovo have very low penetration

Fixed telephony



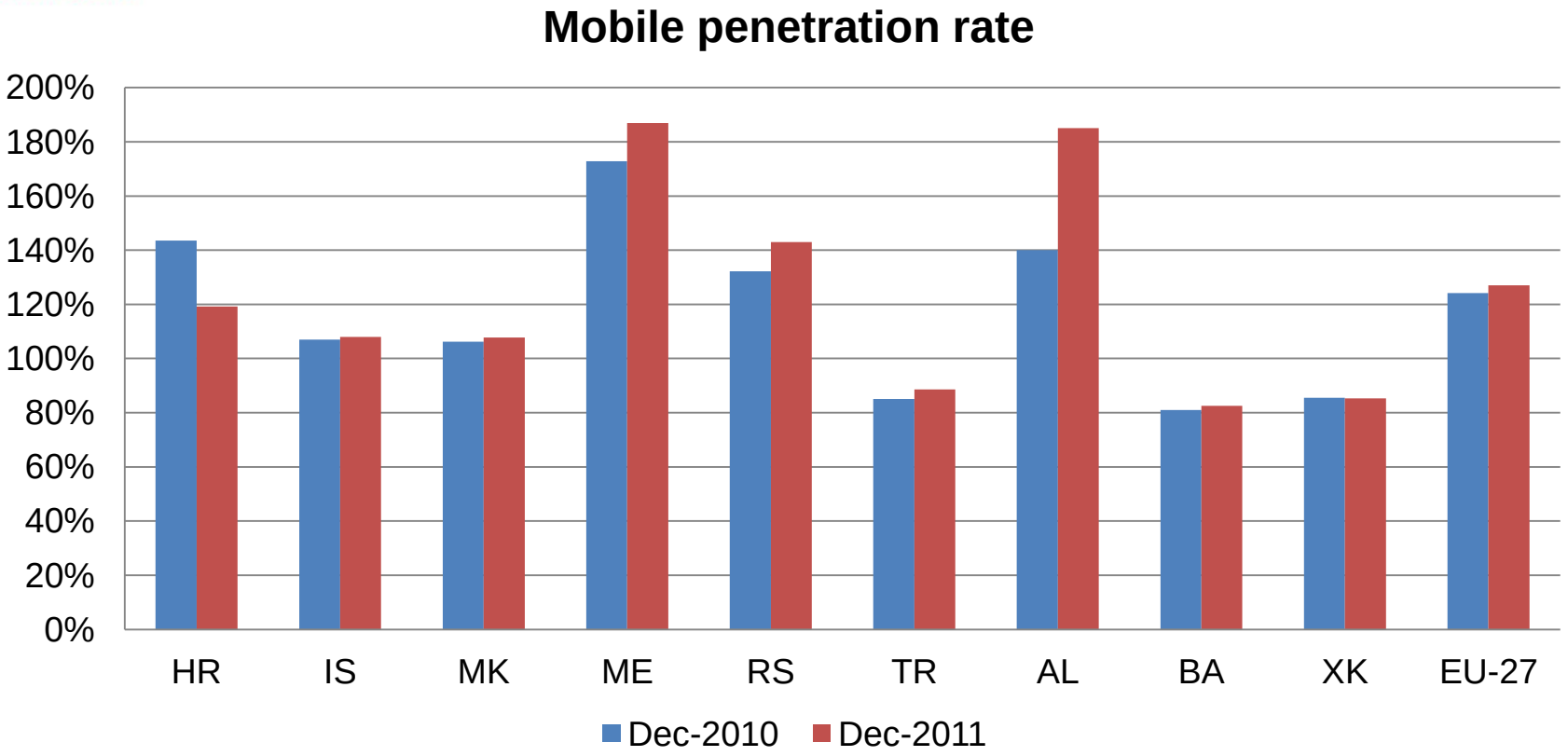
TR: number of VoIP lines not reported

Fixed telephony



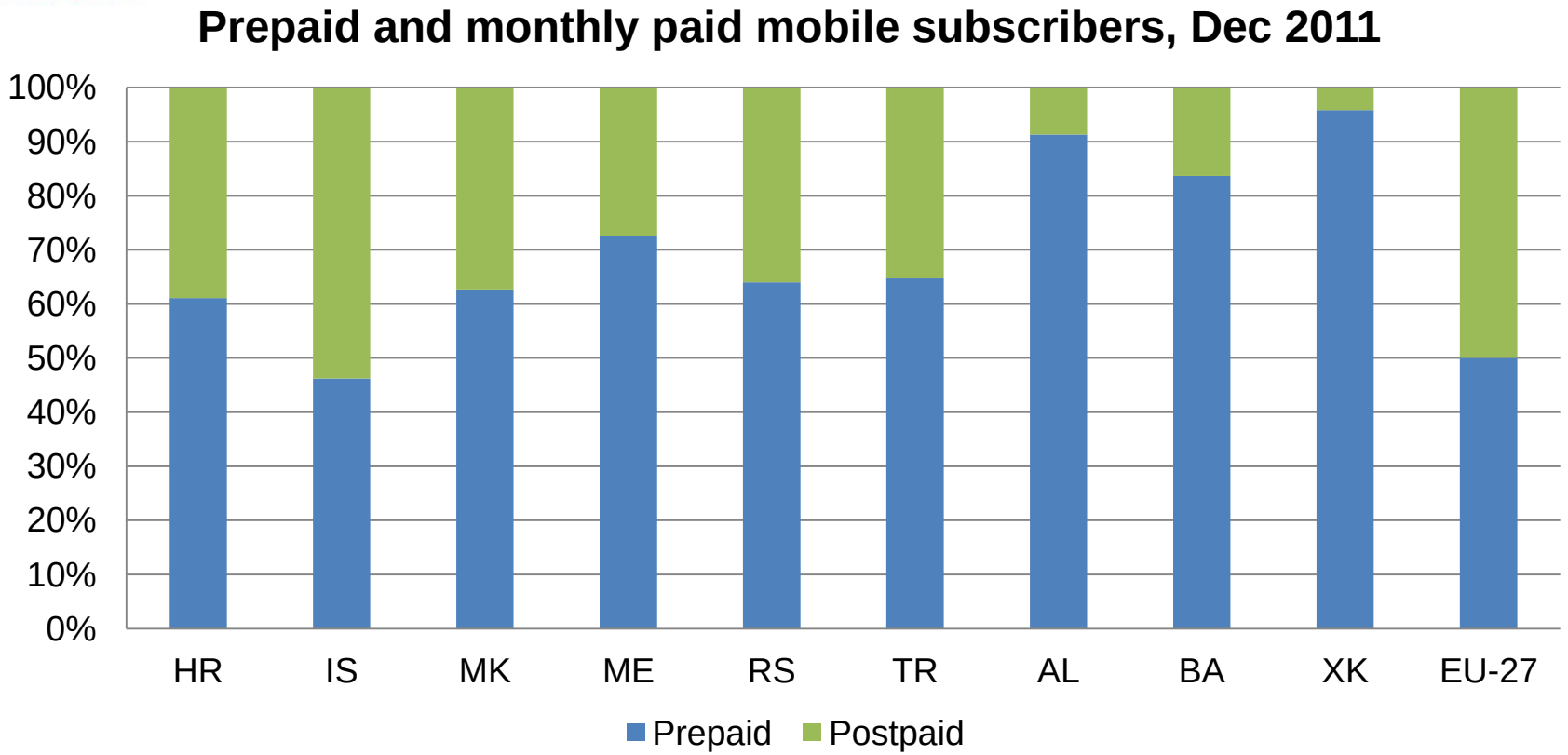
- Significant growth in Macedonia: CS/CPS, WLR, direct access via cable
- Albania: figures to refer to subscribers using prepaid calling cards
- Serbia: fixed voice telephony market fully opened to competition in 2012

Mobile telephony



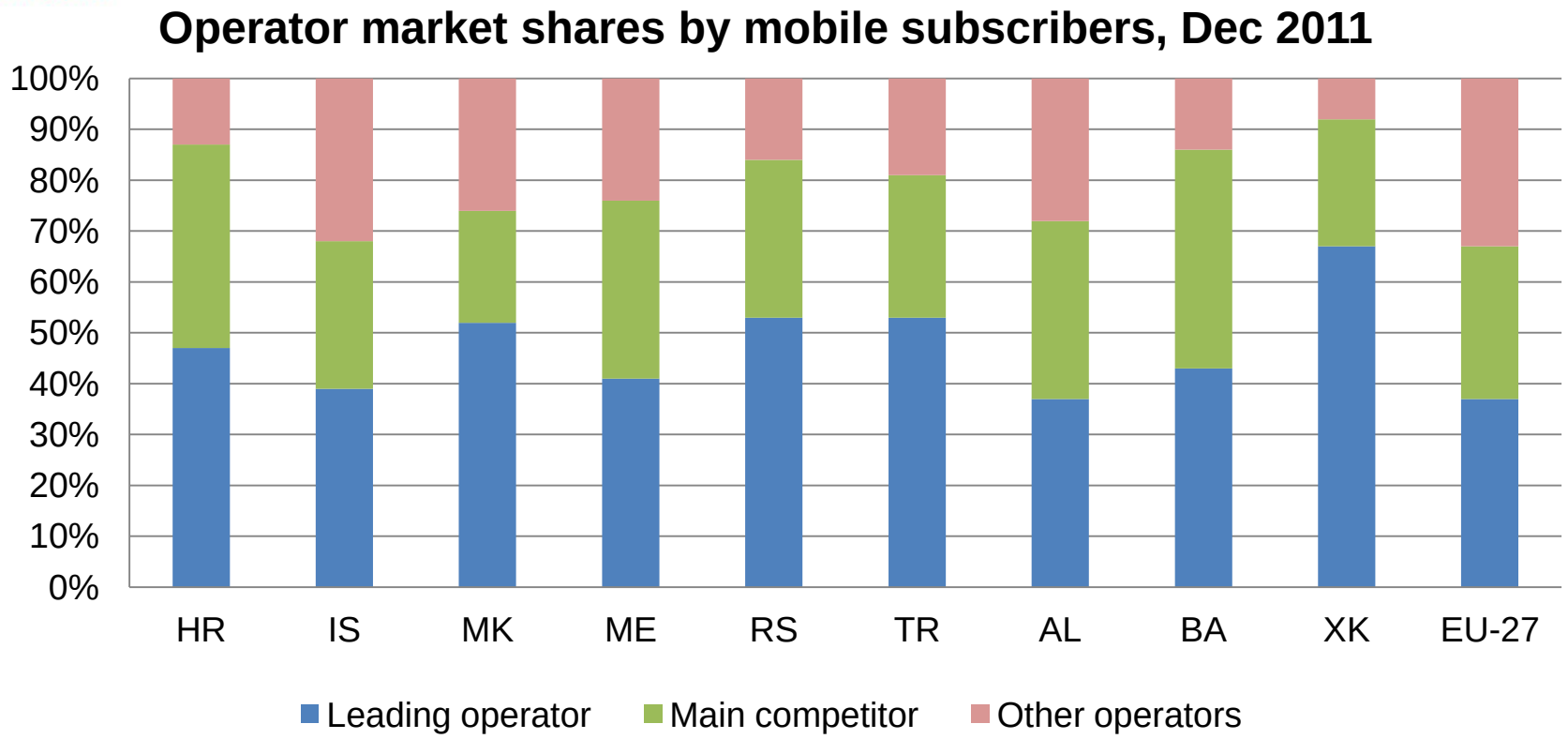
- Significant growth in Albania: fuelled by market entry of the fourth MNO
- Croatia: reduction in 2011 is explained by introduction of 3-month rule
- Total of 92.4m mobile subscribers at end-2011 – **95.6%** penetration

Mobile telephony



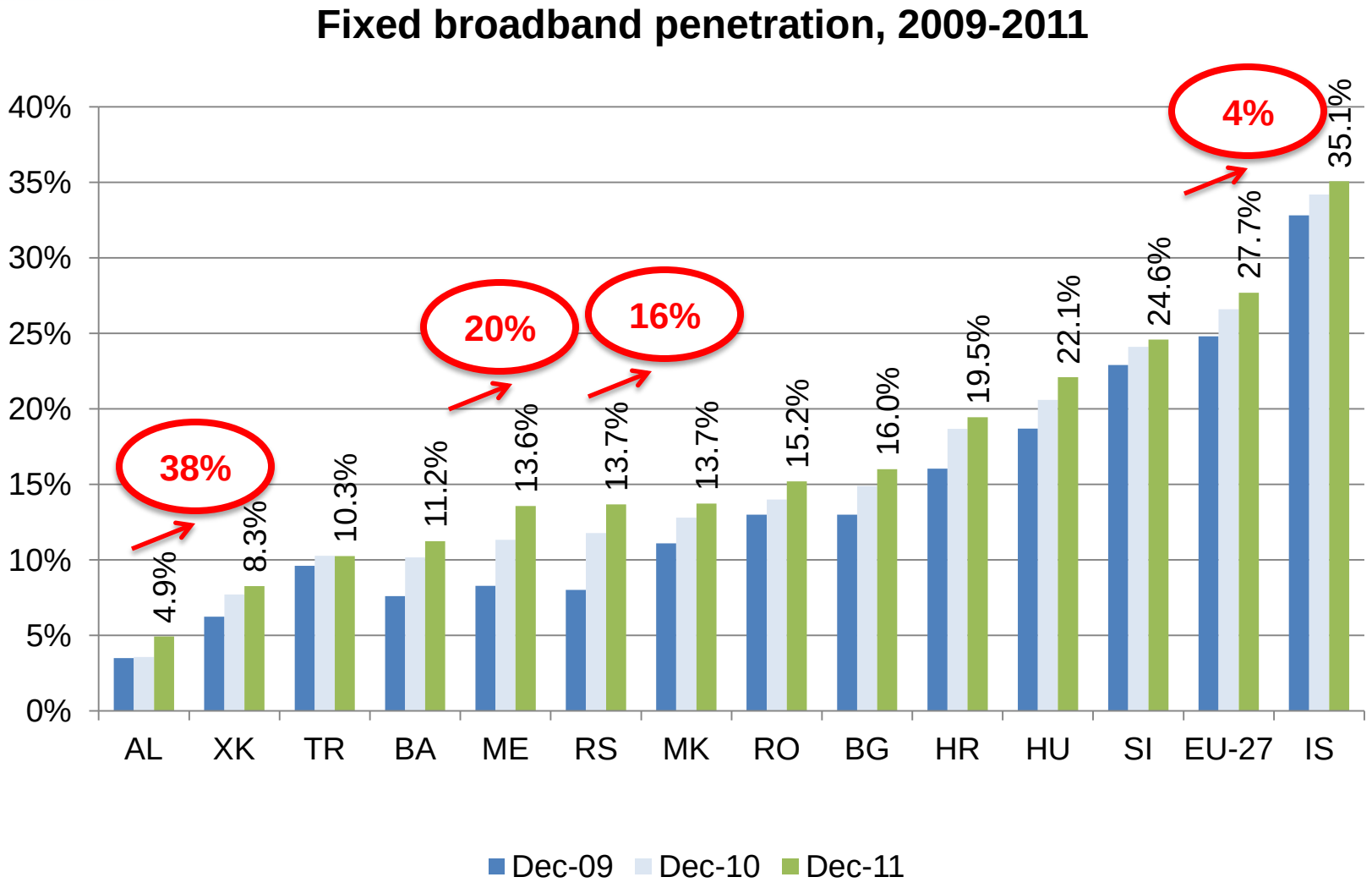
- Except Kosovo, Bosnia & Herzegovina and Montenegro, the number of postpaid is increasing
- Particularly strong increase in postpaid in 2011 observed in Serbia

Mobile telephony

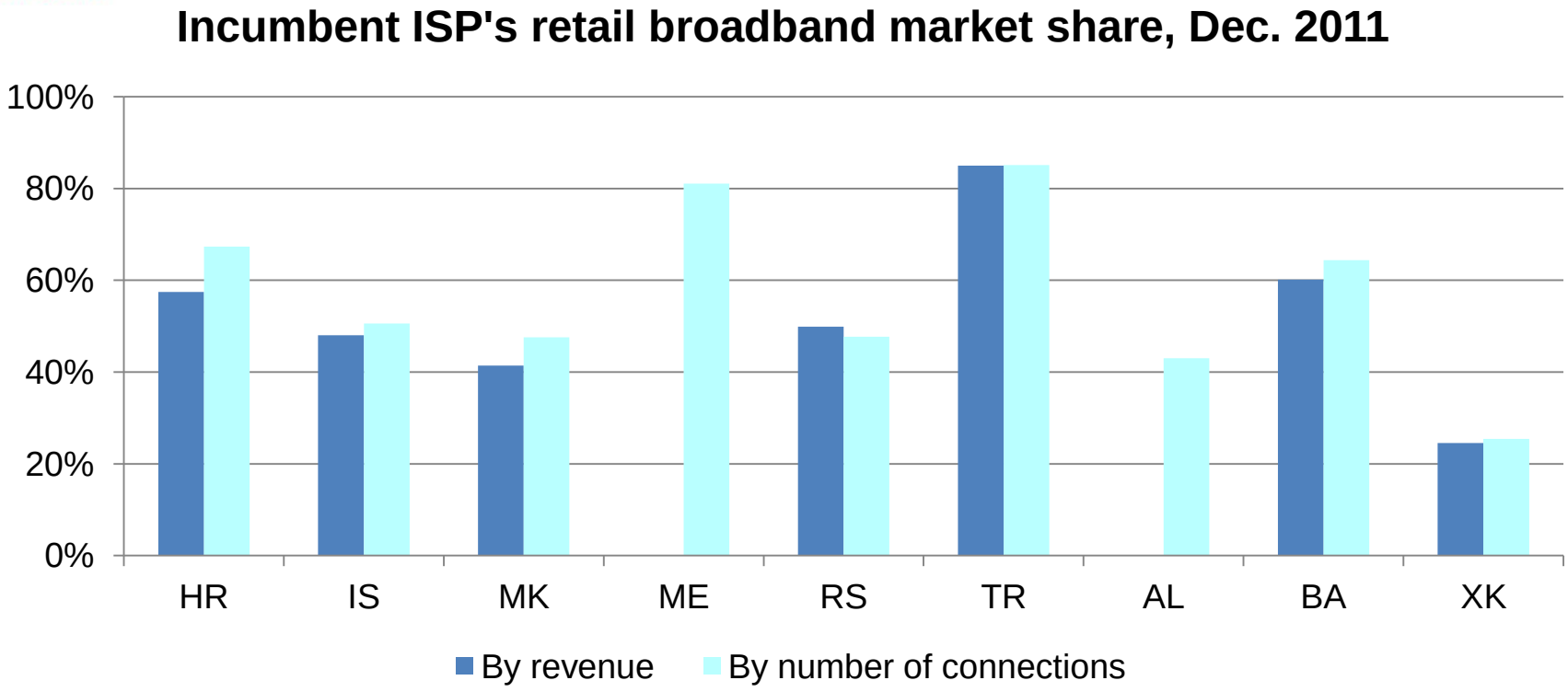


- 3 mobile operators in six countries, 4 in Iceland and Albania, 2 in Kosovo
- Active MVNOs in Iceland and Kosovo
- Increasing market shares of third-placed MNOs: Macedonia and Iceland (above 25%), Albania (above 20%)

Fixed broadband

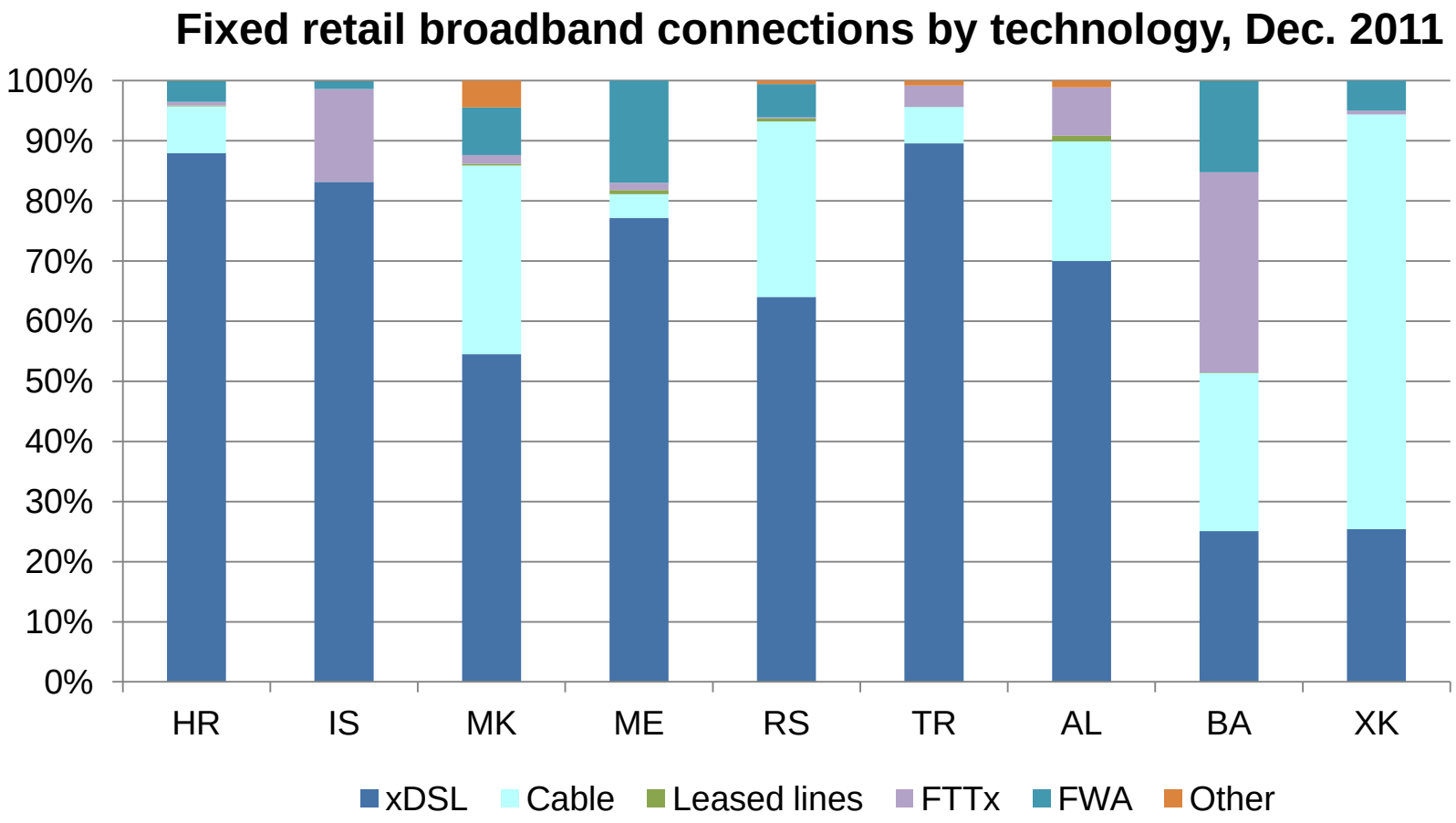


Fixed broadband



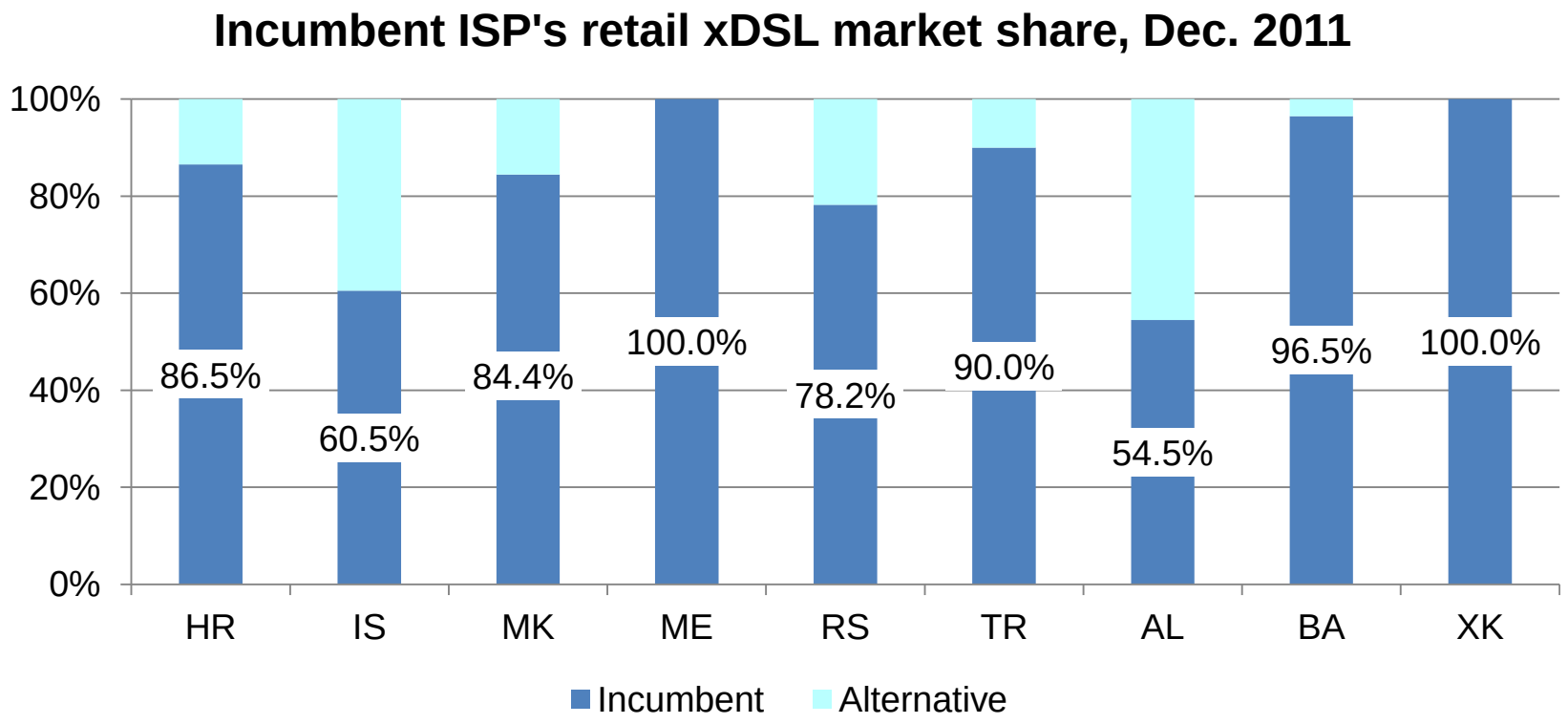
- Incumbent retains more than 40% market share everywhere except Kosovo
- In Iceland, Macedonia, Serbia and Albania incumbents' market shares comparable to the EU average of 43.3% (by connections)
- In Turkey, the incumbent's TTNet has 85% market share

Fixed broadband



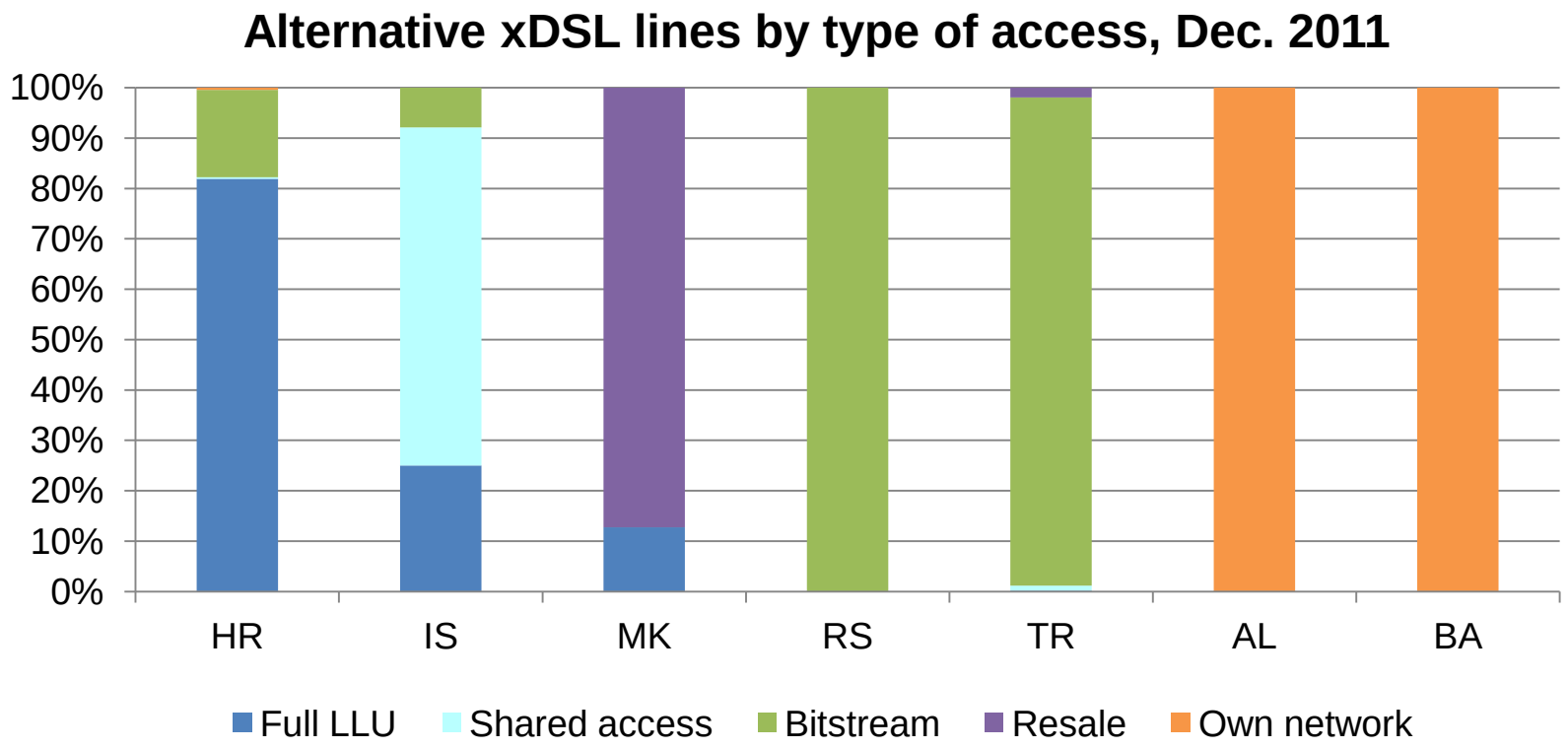
In the EU, xDSL lines represent 75.9% of all broadband lines, followed by cable connections with 16.7%

Fixed broadband



- Incumbent retains more than 60% market share everywhere except Albania
- In Albania and Bosnia & Herzegovina alternative providers use own xDSL infrastructure
- No competitive xDSL offerings in Montenegro and Kosovo

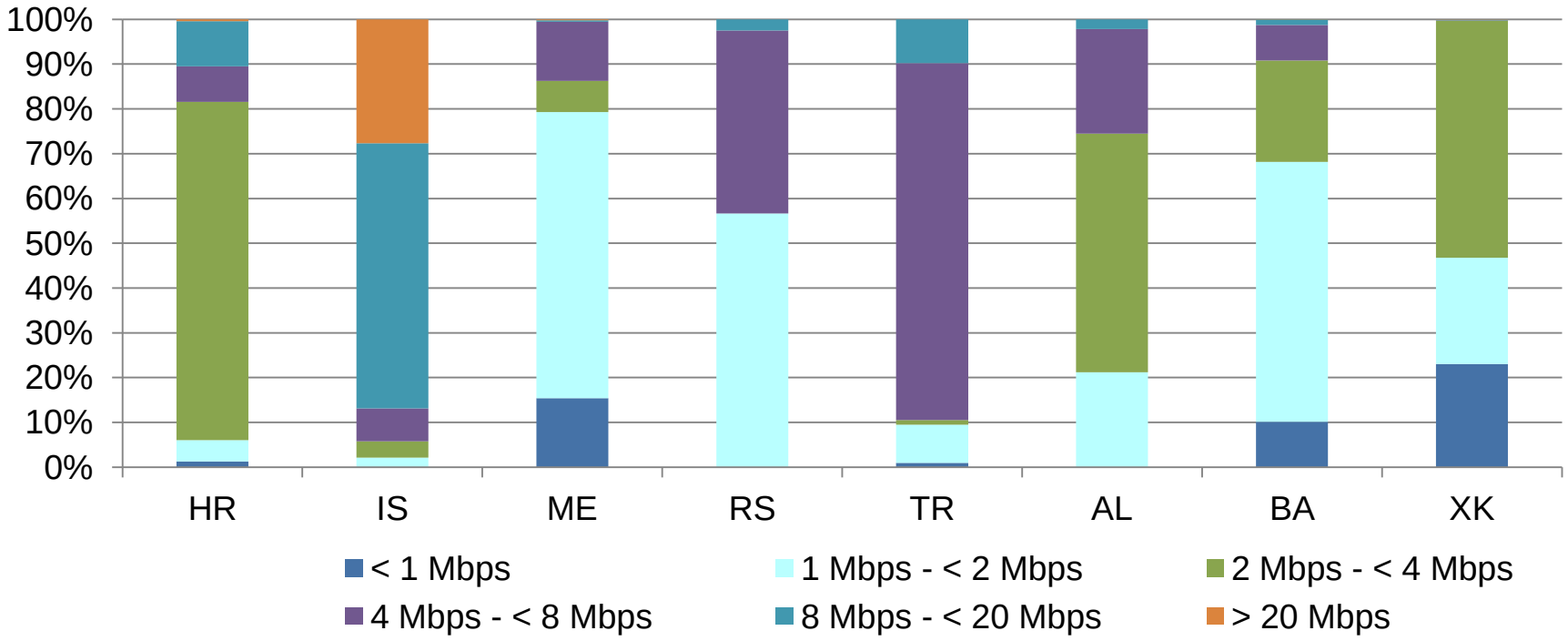
Fixed broadband



- Resale is the main form of wholesale access in Macedonia
- Bitstream prevails in Serbia and Turkey
- LLU is mainly used in Croatia and Iceland

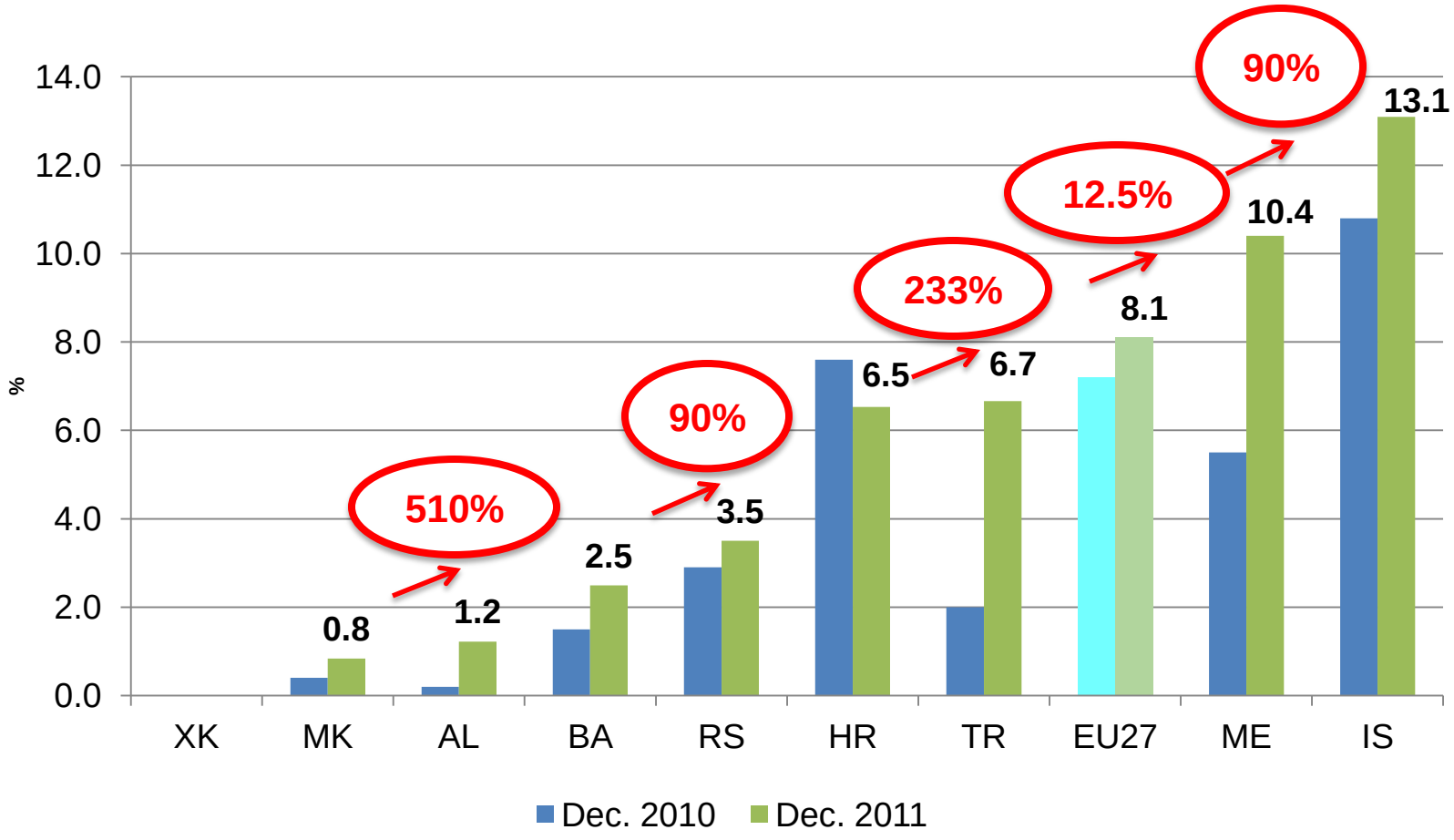
Fixed broadband

Distribution of retail broadband lines by download speeds, Dec. 2011

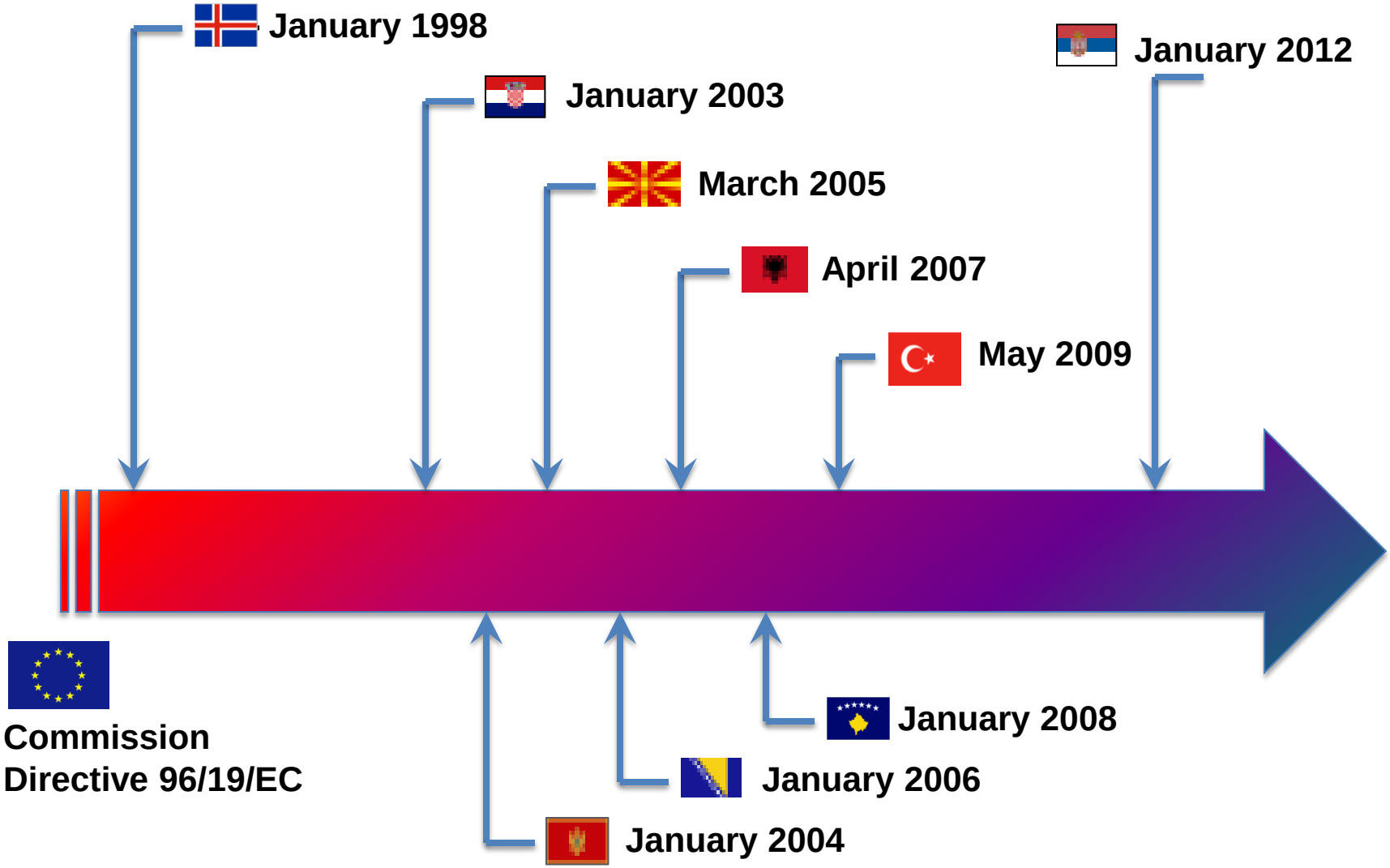


- No data available for Macedonia
- Fastest connections in Iceland: 30% above 20 Mbps, 90% above 8 Mbps
- In Turkey, about 80% lines are between 4 Mbps and 8 Mbps
- In the remaining countries, most connections below 4 Mbps

Mobile broadband



Full liberalisation of telecom markets



EU regulatory framework

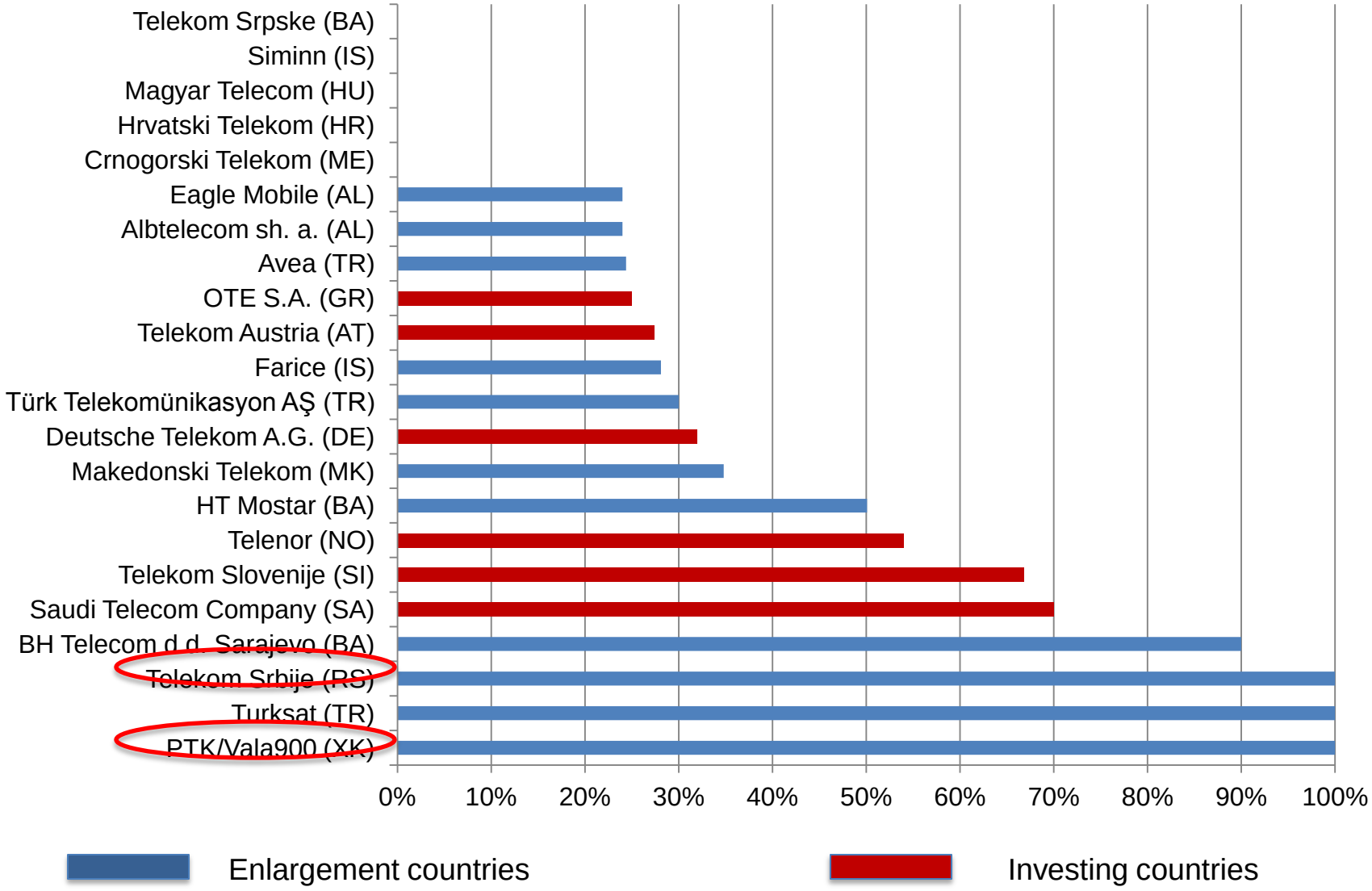
Implementation in the Enlargement countries

- **2009 framework**
  - Croatia – adopted in July 2011
  - Kosovo* – adopted on October 12, 2012, pending presidential approval
  - Albania – draft legislation before national parliament – adoption planned for October 24, 2012
  - Iceland – draft legislation before national parliament
  - Montenegro – consultation on draft legislation opened in September 2012

- **2003 framework**
  - Effective in Macedonia (2005), Turkey (2008) and Serbia (2010)

- **1998 framework**
  - Bosnia & Herzegovina

State ownership in telecom



State ownership in telecom

- No state ownership:
  - Croatia
  - Montenegro

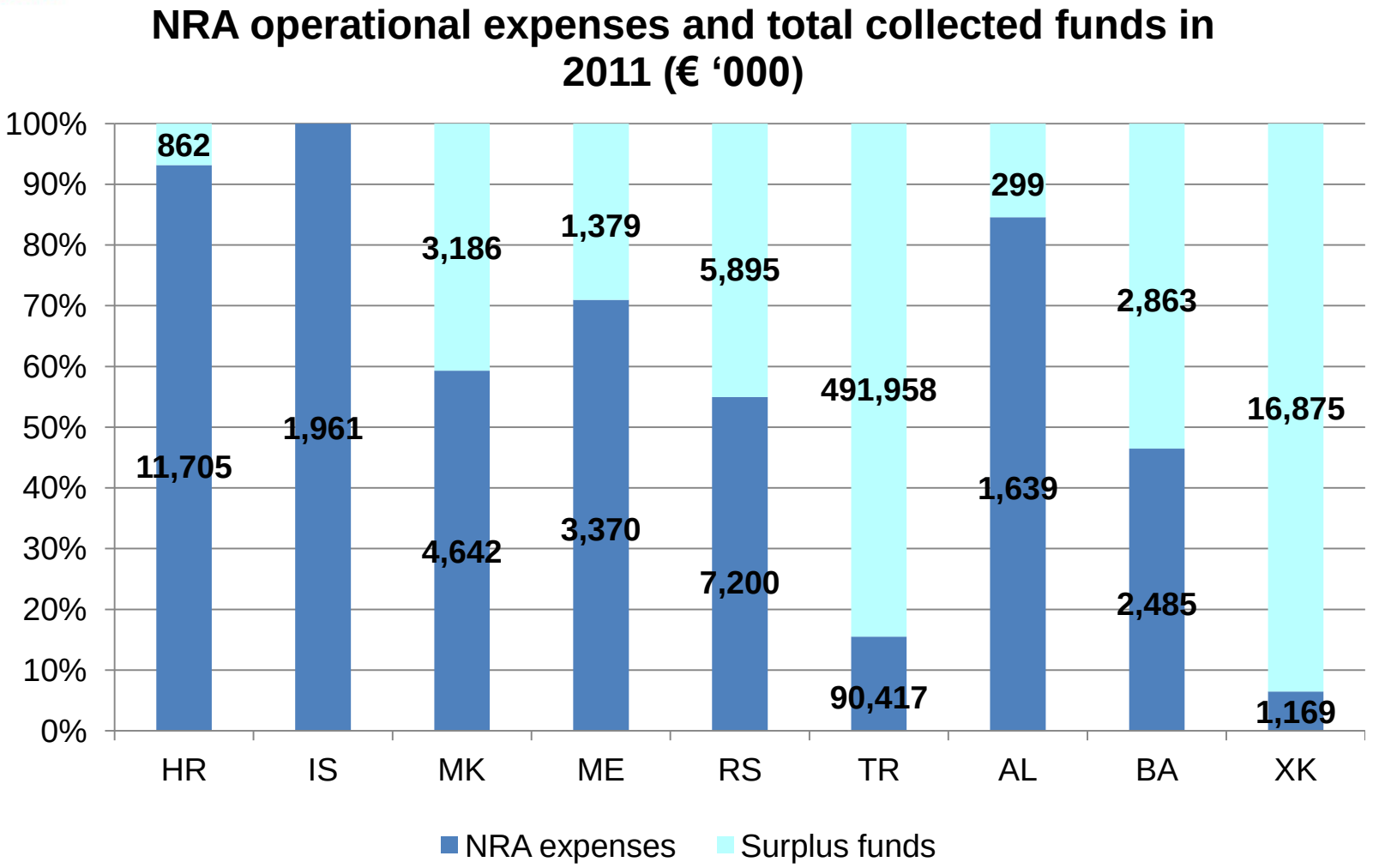
- Over 50% state ownership: Bosnia and Herzegovina (two of the three incumebents), Serbia, Kosovo*
- Golden shares: Macedonia, Turkey and Serbia

- Recent privatisation re-launch: Kosovo
- Buyout of OTE 20% stake in Telekom Srbija in Serbia, following the failed privatisation attempt in 2011

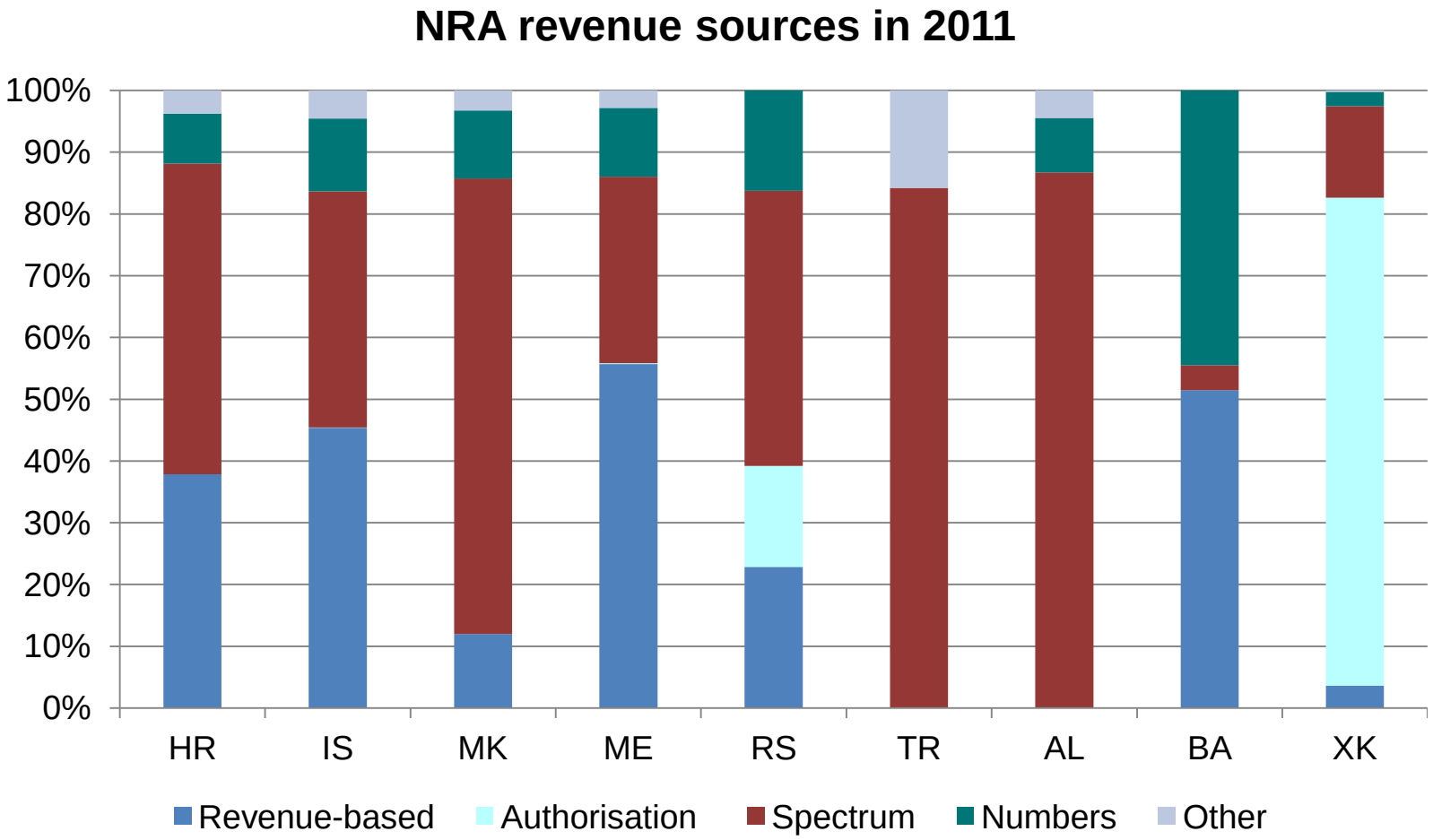
NRA independence and resources

- Several issues are assessed
  - National context and institutional development
  - Adequate financial and human resources of NRA – Article 3 Framework Directive
  - Objective, transparent and proportionate administrative charges – at minimum level necessary to cover NRA administrative costs – Article 12 Authorisation Directive
- NRA revenue versus NRA operational expenses
- Different rules on allocation of the surplus NRA funds

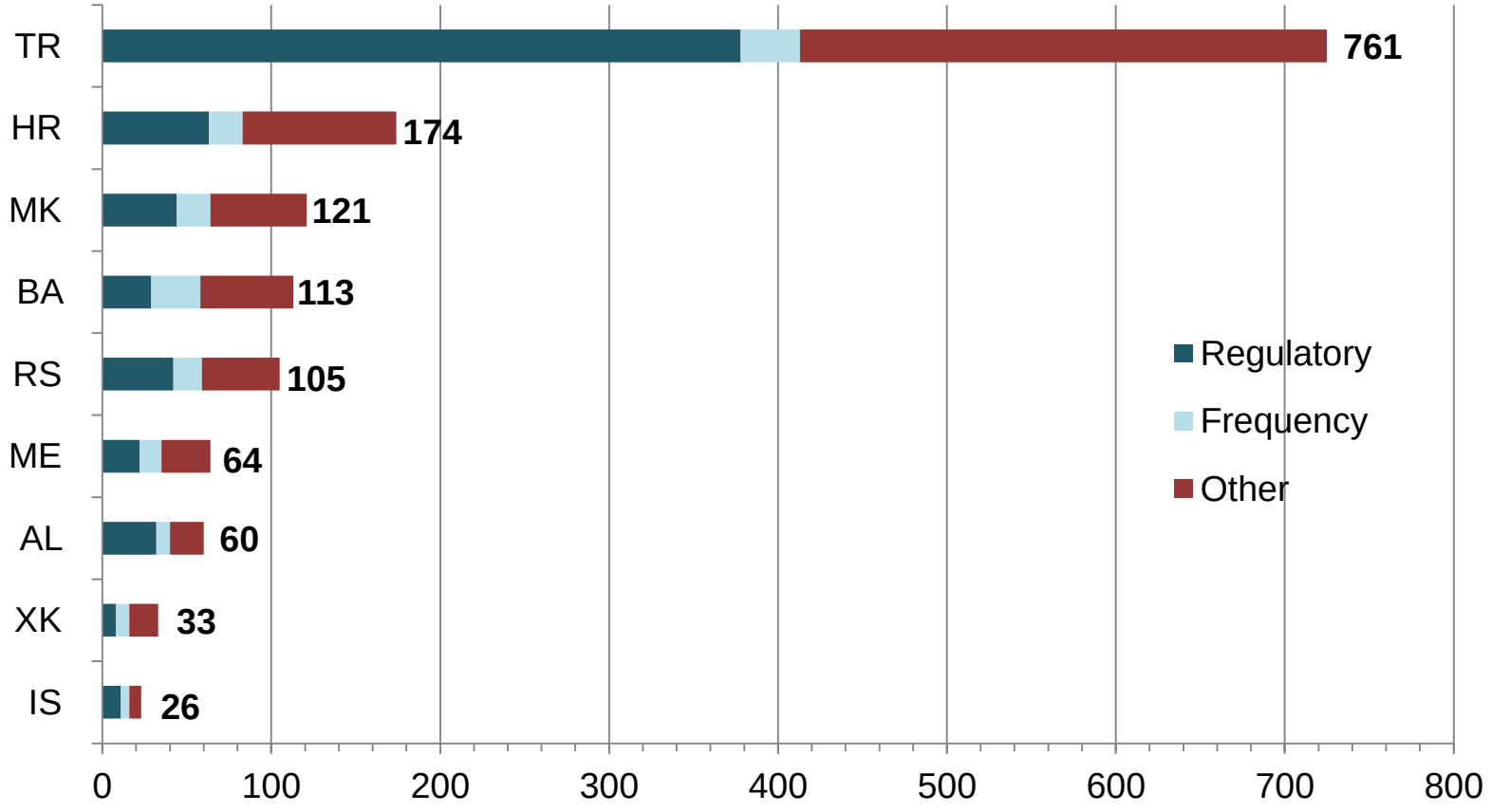
NRA financial resources



NRA financial resources



NRA human resources in 2011



Staff increases in 2011: Croatia, Serbia (regulatory), Turkey (frequency), Iceland (CERT)

NRA human resources – salaries and budget approval

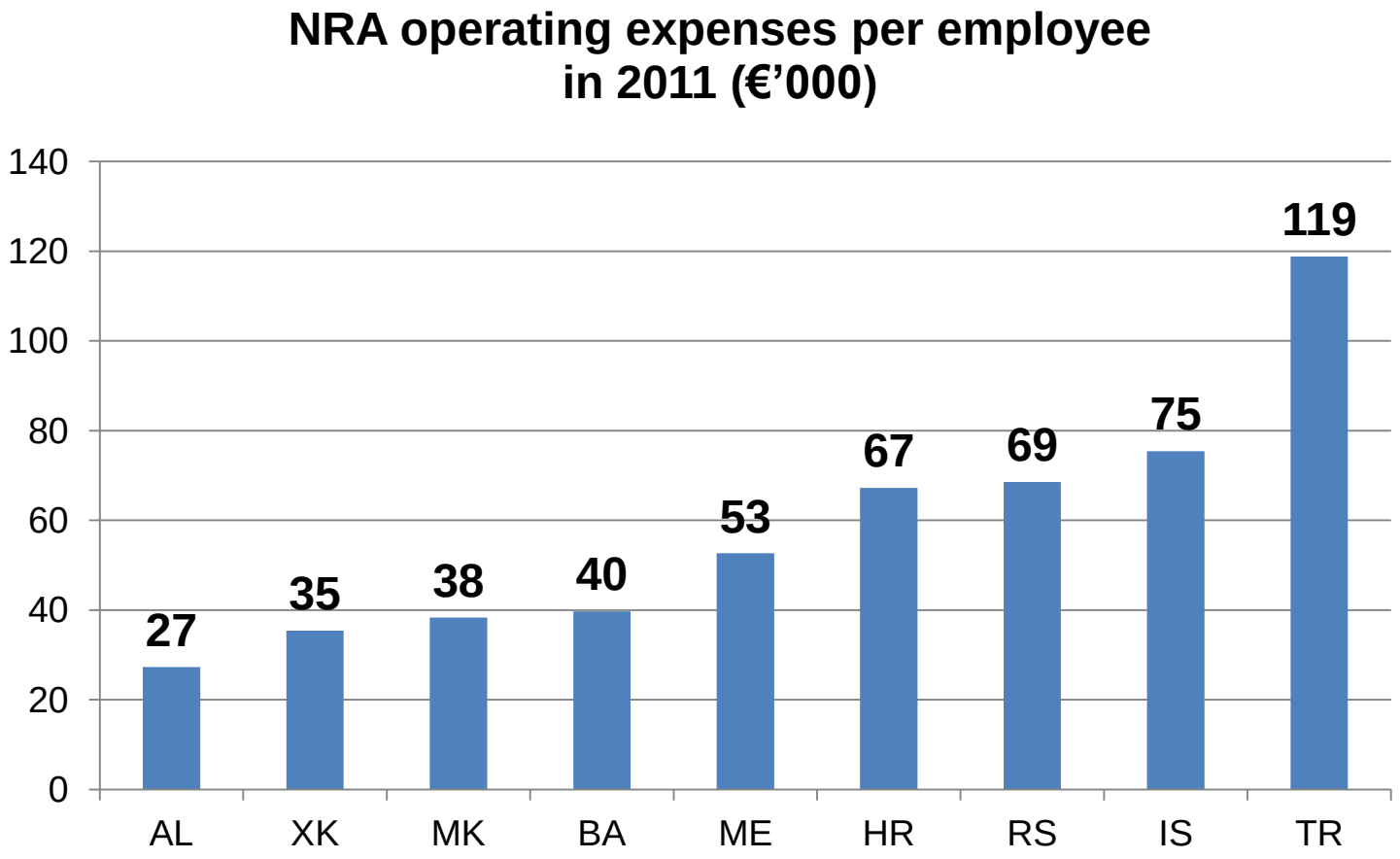
	Salary restrictions	Budget approval
HR	No legal restrictions	**Government**
IS	No legal restrictions (trade union contracts)	**Government (*)**
MK	No legal restrictions	**Parliament**
ME	No legal restrictions	**Parliament**
RS	**Civil servant pay scale (Oct. 2012)**	**Government (*)**
TR	**Civil servant pay scale (Nov. 2011)**	**Parliament**
AL	**Civil servant pay scale**	**Government**
BA	**Civil servant pay scale**	**Government**
XK	**Civil servant pay scale**	**Government (*)**

(*) as part of state budget

NRA financial resources

- In Croatia, Macedonia, Montenegro – NRAs are allowed to transfer surplus funds to next year budget
- In Turkey, ¾ of surplus funds transferred to state budget and ¼ to the Universal Service fund managed by State treasury
- In Albania, Bosnia & Herzegovina, Serbia and Kosovo* – surplus funds are transferred to state budget
- In Serbia, the Law on cinematography requires NRA to transfer 10% of gross revenue to State Cinema Centre
- In Iceland, the NRA revenue goes to the state budget and is reallocated annually in the state budget process to the NRA
- Recent legislative changes in Serbia and Kosovo* turn NRAs into state budgetary entities without independent budget

NRA financial resources



Telecom-specific taxes

	Purpose and duration	Levied on operators or end-users?	Tax calculation and applicable rates
HR	Anti-recession measures Aug. 1, 2009 – Jan. 1, 2012 Feb. 1, 2012 – July 1, 2012	Mobile operators	6% applied to operator's gross revenues on invoiced mobile SMS, MMS and voice services including roaming services
RS	Anti-recession measures June 1, 2009 – Jan. 1, 2011	Mobile telephony users	10% applied to voice calls, SMS and MMS and data transfers
TR	Special Communications Tax Introduced in 1999 to finance public works required to respond to the damage caused by an earthquake	Mobile and fixed telephony and Internet users	The tax base is the same as for VAT: Fixed services: 15% Mobile services: 25% Internet (fixed and mobile): 5% Additional taxes applied to connection, wireless usage and handsets

Competitive safeguards - overview

	HR	IS	ME	MK	RS	TR	AL	BA	XK
CS/CPS	✔	✔	✔	✔	✘	✔	✘	✔	✘
Fixed NP	✔	✔	✔	✔	✘	✔	✘	✔	✘
Mobile NP	✔	✔	✔	✔	✔	✔	✔	✘	✘
Fixed RIO	✔	✔	✔	✔	✔	✔	✔	✔	✔
RUO	✔	✔	✔	✔	✔	✔	✔	✔	✘
Wholesale broadband access	✔	✔	✔	✔	✔	✔	✘	✘	✘
Wholesale line rental	✔	✔	✔	✔	✘	✔	✘	✘	✘
Mobile RIO	✔	✘	✔	✔	✔	✔	✔	✔	✘
National roaming	✔	✔	✔	✔	✔	✔	✔	✔	✘
MVNO/SP access	✔	✔	✔	✔	✘	✔	✔	✔	✔

✔ - available/regulated ✘ - not available

Market analyses framework

- Seven countries adopted regulations based on the EU guidelines and competition law principles and have completed at least one round of market analyses
  - Iceland, Turkey, Albania, Macedonia, Montenegro – 2003 EC recommendation on relevant markets
  - Croatia, Serbia – 2007 EC recommendation
  - And three criteria test for additional markets...
- Bosnia & Herzegovina and Kosovo have recently aligned their regulatory regimes and started their first analyses of relevant markets

Market analyses – Croatia

- First round analysis completed
- Completed in November 2011:
  - Wholesale terminating segments of leased lines (M6/2007)
  - Wholesale trunk segments of leased lines (M14/2003) for non-competitive routes
- Completed in March 2012:
  Retail broadband access and ***closely related*** transmission of Pay TV - used to regulate bundled services

Market analyses – Iceland

- First round analysis completed for all markets
- Second round market analysis completed for wholesale mobile access and call origination (M15/2003) – deregulated in March 2012
- Third round analysis completed wholesale mobile call termination (M7/2007) in January 2012
  - MVNO designated as SMP
  - Glide path until Jan. 1, 2013

Market analyses – Macedonia

- New round market analysis is under way
  - September 2010 decision identifies 13 relevant markets
  - Wholesale SMS termination market – analysis completed in May 2011
  - Third round analysis of wholesale mobile call termination (M7/2003) completed in May 2012 – transition to pure BU-LRIC and glide path until September 2014, reaching ***MKD 0.9 (1.46 €cents)***
  - Second round analysis of wholesale infrastructure access and wholesale broadband access (M4-5/2007) in progress – expected in 2013

Market analyses – Montenegro

- First round market analysis completed
- Seven relevant markets finalised in November 2010
- Further markets analysis completed in December 2011
  - retail call services (M3 - 6/2003)
  - wholesale mobile access and call origination (M15/2003)
  - wholesale trunk segments of leased lines (M14/2003)
  - wholesale broadcasting transmission (M18/2003)

Market analyses – Turkey

- Second round market analysis completed in 2010
- From September 2011, termination of mobile calls originating abroad no longer regulated and not part of RIO
- ICTA decided on October 3, 2011 to exclude fibre from market analysis for the next five years or until the percentage of fibre-based subscriptions reaches the 25% of all fixed broadband subscriptions
- ICTA also requested Turk Telekom to comply with its commitments made to ICTA in August 2010 to provide wholesale resale and bitstream services over its fibre network on non-discriminatory terms and to notify ICTA of the tariffs for these services before they become operational

Market analyses – Albania

- Second round market analysis completed
  - SMP found in all 16 analysed markets of EC 2003 recommendation
  - Additional market for wholesale SMS termination analysed in October 2011
- Third round market analysis
  - Wholesale mobile access and call origination (M15/2003) – deregulated in July 2012
  - Wholesale mobile call termination – completed on July 20, 2012: SMP designation of Plus, glide path until September 2015, reaching ***ALL 4.57 (3.25 €cents),*** termination of calls originating abroad no longer regulated

Market analyses – Serbia

- First round market analysis completed in November 2011
  - Analysed markets correspond to seven markets of EC 2007 recommendation
  - Additional markets for retail distribution of media content and retail fixed telephony services (M3-6/2007)
  - Implementation of regulatory obligations in progress

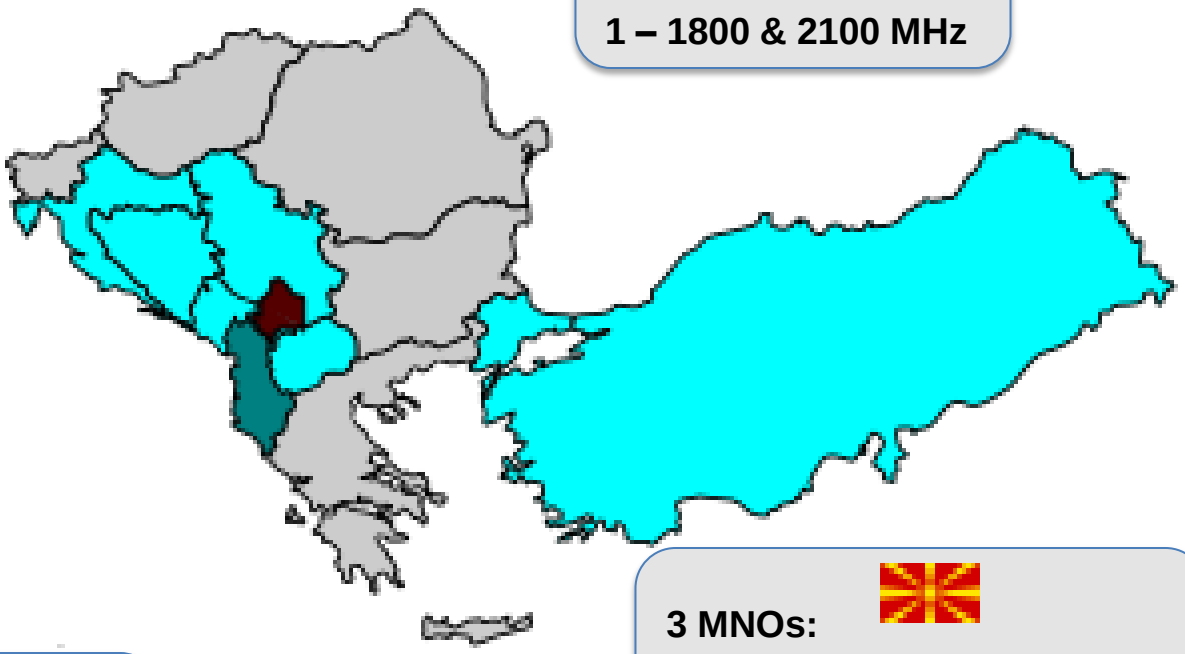
Market analyses – Bosnia & Herzegovina

- New regulation on market analysis based on the EU guidelines adopted in October 2011
- Preliminary market analyses carried out
  - wholesale fixed call termination (M3/2007)
  - wholesale mobile call termination (M7/2007)
  - wholesale infrastructure and wholesale broadband access (M4-5/2007)

Market analyses – Kosovo*

- Regulation on market analysis adopted in December 2010 based on 16 relevant markets of EC 2003 recommendation
- First analysis of fixed telephony and access markets (M1-6, 8-10, 11/2003) finalised in February 2012
- Analysis of wholesale market for call termination on individual mobile networks (M16/2003) is in progress

Mobile spectrum assignments



3 MNOs:
2 – 900 & 2100 MHz
1 – 1800 & 2100 MHz

3 MNOs:
900 & 1800 & 2100 MHz

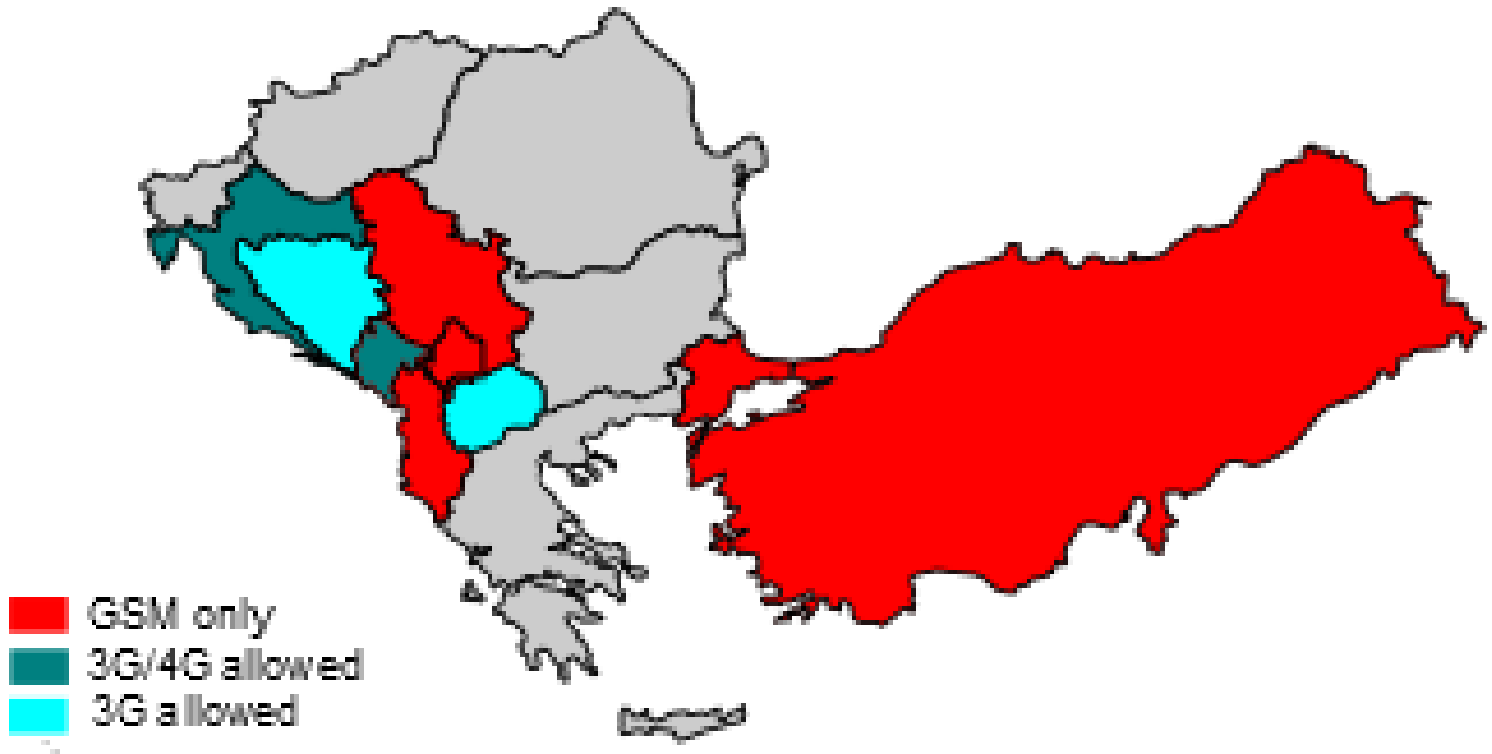
3 MNOs:
1 – 900 & 1800 & 2100 MHz
1 – 900 & 2100 MHz
1 – 900 & 1800 MHz

4 MNOs:
3 – 900 & 1800 & 2100 MHz
2 – 900 & 1800 MHz

2 MNOs:
2 – 900 &1800 MHz

Ongoing award procedures: 2100 MHz (Albania), 800 MHz (Croatia, Macedonia)

Refarming of 2G spectrum for 3G/4G

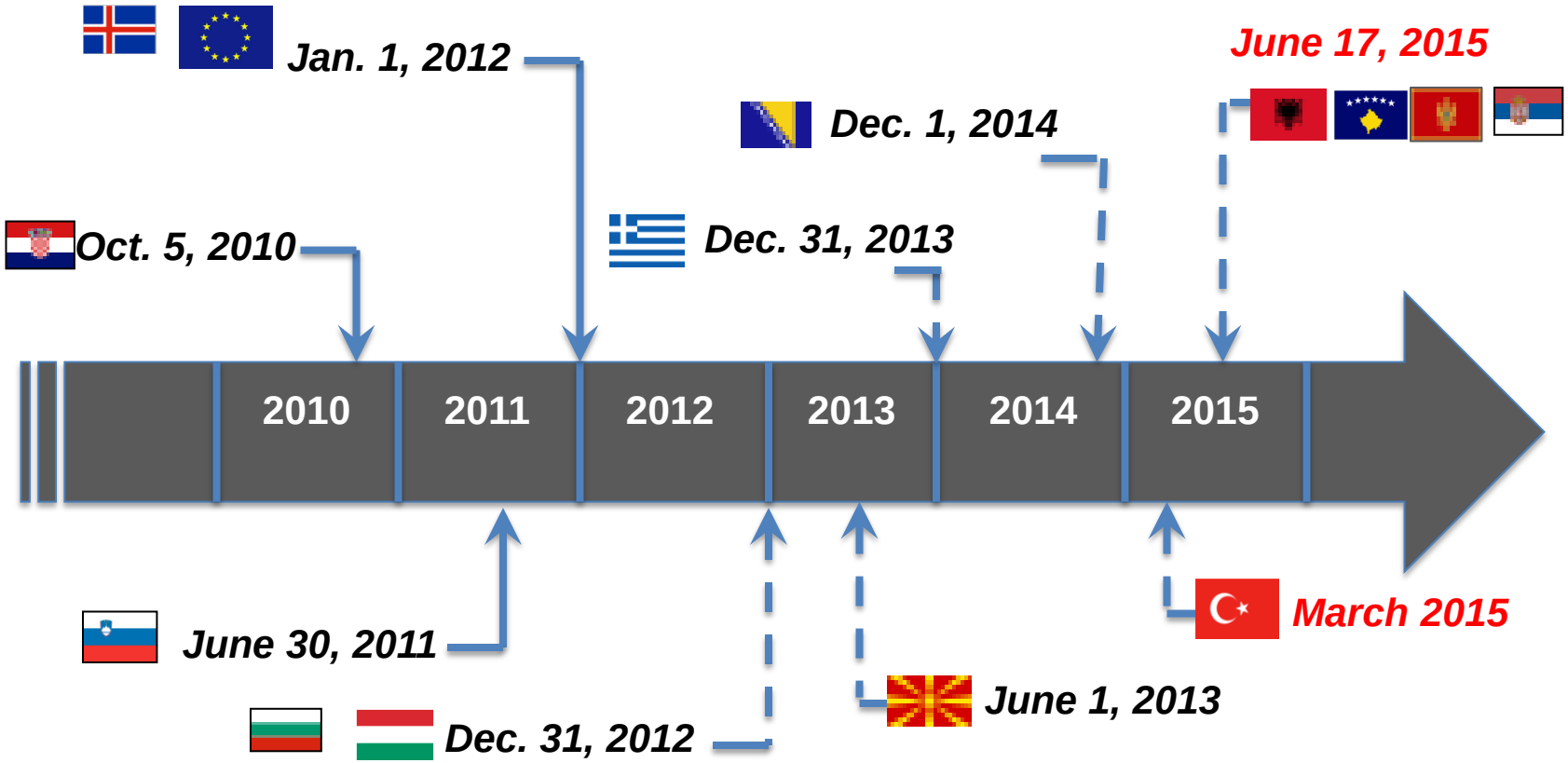


Digital dividend - 800 MHz mobile broadband

EU RSPP

To carry out authorisation process for wireless BB by Jan. 1, 2013

Analogue switch-off dates:



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