

Development of the Competition in the Macedonian Telephone Market

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Abstract — In this paper we present the development of competition in the telephone market in the Republic of Macedonia. There are separate analyses for both fixed and mobile telephony segments. Regulatory changes that happened in these last years in the telecommunications sector and the market entry of private investors have improved the quality of networks, enlarged the service offering and reduced the price of the services.

Keywords — Competition, fixed telephony, mobile telephony, monopoly, operator, subscribers, pricing

I. INTRODUCTION

THE competition in the telecommunications market, in all its parts and all over the world, is becoming bigger, although, there are significant differences in the different telecommunication services and different national telecommunication markets as well.

Republic of Macedonia is one of the last European countries when the liberalization of the telecommunications is in question. Its strategic determination for European Union (EU) membership has strengthened the need for harmonization of its legal framework in the area of telecommunications, with the EU regulations.

Structural reforms of the telecommunications sector and the market entry of private investors, in particular telecommunications operators from Western Europe, have improved the quality of networks and enlarged the service offering

This work consists of two parts. There are separate reviews for the fixed telephony market and the mobile telephony market in Macedonia, although, lately, the boundary between these two markets is more and more vague.

Digital convergence made it possible for the same players on the market to offer different telecommunication services which is confirmed in the Macedonian case too.

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II. DEVELOPMENT OF THE COMPETITION IN THE FIXED TELEPHONY

The only company that offered telephone services in Macedonia until the 90s was PTT Makedonija. The company was owned by the state which also owned the complete telephone network. At the end of 1996, the Government of the Republic of Macedonia made a decision to divide PTT Makedonija into two new companies: AD Makedonski Telekomunikacii (MT) and AD Makedonski Posti, for telephone and postal services, respectively. In this period, as a result of its monopolistic position at the market of fixed telephony and the high prices of the telephone services, the Macedonian national operator AD Makedonski Telekomunikacii accomplished extremely successful financial results.

The first important step towards liberalization of the telecommunication market was the passing of The Telecommunications Law in 1998. With this law, the conditions for the privatization of MT were fulfilled, the exclusive rights and the range and terms of providing a universal telecommunication service were defined. It was decided that all telecommunication activities should be carried out by concession and by concluding concession agreements with the Minister of Transport and Communications. The Law on telecommunications provided for a regulatory organ to be formed - a Directorate for Telecommunications, that will function as a part of the Ministry of Transport and Communications. The Directorate for Telecommunications started functioning in November 2000.

Makedonski Telekomunikacii was privatized in January 2000 when Macedonian Government sold the controlling stakes to the Hungarian telecom operator MATAV making it the dominating owner of the sole national telecom operator. Nowadays, MATAV is known as Magyar Telecom and is a part of the Deutsche Telecom Group. According to the concessionary agreement, Makedonski Telekomunikacii was given the exclusive rights to fixed telephony in Macedonia up to the end of 2005.

In the period after the privatization, when Makedonski Telekomunikacii had complete monopoly over the market of fixed telephony, its work was strictly directed towards keeping the already existing traffic and users base, as well as correctly positioning the fixed telephony with the mobile. MATAV didn't fulfill completely its obligations from the act of sale about investment in the network modernization. Its investments, which were only third of the planned, evoked the teledensity raise from 25% in 2000 to maximum 30,4% in 2004 (Figures 1 and 2). [1]

The telco then undid much of its good work by announcing plans to raise the cost of fixed telephony services from 1 July 2004.

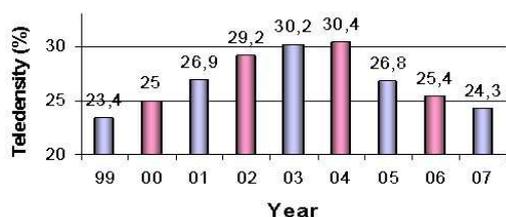


Fig. 1. Teledensity 1999-2007 [1]

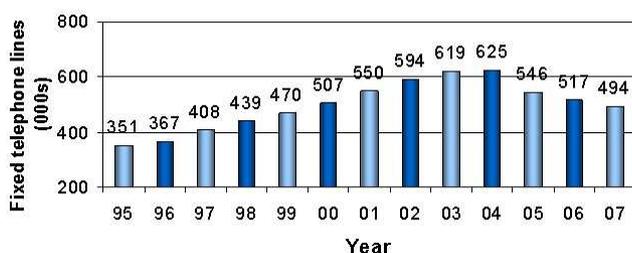


Fig. 2. Fixed telephone lines 1995-2007 [1]

In April 2004, the Government of the Republic of Macedonia and the European Commission signed an Agreement for Association and Stabilization according to which Macedonia was obliged to reconcile its Telecommunications Law with the laws of the EU and to provide liberalization of the telecommunication market within one year. As a result, the Law on Telecommunications was amended and the duration of the monopolistic rights of MT was shortened by a year, i.e. by the end of 2004. Thus, from the beginning of 2005 the telecommunication market in Macedonia was officially open for new operators, providers of fixed telephony services, and for building and operating with the telecommunication infrastructure. However, the real competition and the benefit from it will be absent for much longer for the Macedonian users.

In March 2005, the new Law on Communication Services was passed which was supposed to regulate the communication area completely. The law was supposed to provide liberalization and competition in all the segments of the telecommunication market; indiscriminate terms for accessing the PSTN network for the new operators and service providers; objective criteria and reasonable prices for interconnection and leased lines; providing universal service with a compulsory minimal package of services; protection of the users of the telecommunication services; formation of an independent regulatory body (an Agency) for telecommunications, and other issues connected to the complete organization of the telecommunication sector. [2]

In accordance with the Law on Electronic Communications, The Directorate for Telecommunications transformed into the Agency for Electronic Communications (AEC) as an independent regulatory body. The Agency for Electronic Communications began its work in July 2005 and the Directorate for Telecommunications ceased to exist.

The Law on Electronic Communications provided number portability in a situation when the subscriber is changing the operator, as well as a possibility to provide

access to the subscription line for the other operators and providers of communication services. The concession agreements, according to the Law on Electronic Communications, do not exist as a legal document. Instead of a concession the fixed operators should be registered and the mobile ones notified in the Agency for Electronic Communications.

The arrival of new market entrants was anything but smooth, and in November 2005 the government was accused of lacking the political will to introduce competition. European Commission officials said the country risked breaching the Stabilisation and Association Agreement signed in 2001, which called on it to open up the market by June 2004, and that its failure to comply could be seen as an indication that it did not have the capability or political will to meet the requirements.

One year after the passing of the Law on Electronic Communications there were around 20 companies registered in the AEC for providing services in the fixed telephony, but they were not able to start working due to the delay of the by-laws which were supposed to regulate the technical issues of the liberalization of the market. Officials from the European Union (EU) conducted an investigation into whether Macedonia was fulfilling its obligations for liberalisation sector in February 2006. EU experts examined complaints made by would-be alternative operators that the state and the telecoms ministry was illegally protecting MT's monopoly and deliberately obstructing competition. It was perceived that the state was attempting to stall the process by arguing that new operators could not enter the market until concession agreements of fixed and mobile operators were synchronised with the new telecoms law. Although the government was required to administer this by December 2005, it was not until February 2006 that a consulting firm was chosen to oversee the process.

With matters weighing heavily on the government ahead of EU entry talks, Macedonia managed to speed up the interconnection agreement process, if not actually to finalise the synchronisation process vis a vis concession agreements. The AEC published interconnection prices for new operators wishing to gain access to the incumbent's fixed line network in Q1 2006 and although the incumbent was less than impressed with the watchdog's rates, arguing that they are too low, the ministry dismissed its concerns saying that it could file a complaint if it wished but it would not postpone the implementation of interconnection agreements. On.Net finally signed an interconnection agreement on 15 November 2006, and that was the first reference interconnection deal since liberalisation took place.

Many companies that offered an alternative to international and long-distance calls occurred during 2006. The prices to their services were 30-60% lower as compared to the MT's prices. The competition in the local calls was still non-existent and the main reason for that, according to the potential candidates, were the high prices for interconnection with the MT's network set by the AEC. After the EU criticism, AEC decided to lower the prices for interconnection in March 2007, but for the registered firms they were still really high.

According to the Law on Electronic Telecommunications, The Ministry of Transport and Communications was obliged to make a National strategy for development of the electronic communications with the informational technologies (NSECIT). The strategy was legislated in March 2007. Starting with a strategic determination for future membership of Republic of Macedonia in the European Union, it emphasizes the need for constant coordination of the legal frame of the electronic communications with the EU regulation. Among other things NSECIT contains: a strategy for Universal service; analysis for the need of the functional/structural separation of the incumbent operator; a strategy for incorporating the country in the world trend of digital convergence. [3]

After two years of announcements, in May 2008, Ontel, the second fixed operator in Macedonia officially started working. Ontel derived from On.Net internet provider which became property of Slovenia Telecom Group in 2006. Except for the assumed package of services in domestic and international long-distance calls (Table 1) for the first time offered local telephone calls as a competition to the dominating operator MT. The prices of its services are considerably lower than those of MT, and the most important, Ontel offered a free connection and free calls to other Ontel users (included in the monthly fee). Ontel works with its own telephone exchanges, but uses the MT's network infrastructure.

TABLE 1: FIXED TELEPHONE LINES BY OPERATOR (000s) [1] [4]

Operator	1998	1999	2000	2001	2002
MT	439	471	507	538	560

Operator	2003	2004	2005	2006	2007
T-Home (MT)	619	626	546	517	492
Ontel (OnNet)	0	0	0	0	2

In May 2008, Makedonski Telekomunikacii accepted the global T-banner, thus becoming part of the largest telecommunication family in the world. Therefore, two users brands started functioning under the global T brand: the fixed operator T-Home and the mobile operator T-Mobile. After the re-branding, T-Home offered new packages of services in the fixed telephony for residential and business users with various tariff models, packages for fixed telephony and ADSL internet access, and the introduction of the triple-play services (fixed telephony, internet and IPTV) in the near future was announced.

In June 2008, Cosmofon, the second largest mobile operator in Macedonia, started offering fixed telephone services under the Allo banner. The company is offering fixed telephony services through its broadband network which covers 99.8% of the population.

Beside the three largest fixed operators mentioned, some WiMax and cable operators started offering fixed telephone services in the form of VoIP telephony. In July 2008 cable operator Telekabel along with Austrian partner Aicall has announced plans to enter the domestic fixed telephony market.

III. DEVELOPMENT OF THE COMPETITION IN THE MOBILE TELEPHONY

The first Macedonian public mobile network Mobimak started working in September 1996. Mobimak was at that time a part of the state-owned company PTT-Makedonija. The initial capacity of the network was 25.000 subscribers. At the beginning there was a lot of interest despite the enormous prices for a connection (2.350 DM) and the expensive telephone impulses. Mobile telephony was spreading more and more and the number of subscribers was growing. The mobile network was constantly being upgraded, thus getting more coverage over the territory of Macedonia with GSM signal.

In 2000, MT was privatized and Mobimak became the property of the Hungarian telecom operator MATAV. The penetration of the mobile telephony at that time was 6-7%.

The privatization of the company and the idea of the government to invite to tender for a second mobile operator resulted in a change of the policy of Mobimak. Then, an aggressive step followed on the market with intensive marketing campaigns, promotion of new services and products, expansion of the existent sales network, installation of new telephone exchanges and fall of the prices of the mobile telephone services. In June 2000, the pre-paid service was introduced for the first time, which was widely accepted by the Macedonian users and is to be the most credited for the popularization of the mobile telephones in Macedonia. In 2001, Mobimak had 53.000 new users, and the total number of mobile telephone users was 150.000. [1] In July 2001 Mobimak was separated from MT and started functioning as an independent legal subject.

According to the Telecommunications Law from 1998, the mobile telephone market was regulatory defined as a competitive market. The Government was supposed to invite to tender for a second mobile operator when the market conditions for this occur. The strong rise of the mobile telephony and the financial results of the only mobile operator were the reason for the Government to be accused of protecting the Mobimak monopoly position.

In November 2001, the Greek telecom, OTE, has acquired the second mobile phone operator licence in Macedonia. In the next two years, the new operator didn't start with commercial transactions because of the building of its network and the disagreements about the prices for interconnection with the MT and Mobimak networks. The first public call through its network, which was named Cosmofon, was realized in May 2003. In June, the new tariff models and a few new services were presented. Cosmofon's lower prices constrained Mobimak to reduce its prices to match. Besides the price war, the two operators offered different packages of services and the users had the opportunity to choose the most suitable package for them. There were free calls, free sms, special business offers, option to call few numbers at lower rates, family packages etc.

In July 2006, the mobile operator Mobimak was re-branded into T-Mobile.

In March 2007, a license was issued to VIP Operator as a third mobile operator in Macedonia. VIP started with commercial transactions in September 2007, only six

months after receiving the license. VIP is the property of Mobilcom Austria Group. The first few months VIP used the T-Mobile network. VIP Operator caused considerable corrections in the other two operators' prices even in the first week of its official start. The arrival of VIP appears to have had the desired effect. The mobile telephone users were finally able to feel the benefits of the real competition on the market. VIP Operator launched a number of campaigns to boost its subscriber base in the first three months of 2008. In May 2008, VIP Operator announced it had signed a strategic partnership agreement with UK mobile giant Vodafone, under which the two firms will jointly market new products and services in the country. The UK group signed an exclusive deal with VIP Operator to provide it with new handsets and access to Vodafone's international roaming network.

TABLE 2: MOBILE CELLULAR SUBSCRIBERS BY OPERATOR (000s) [4]

Operator	Jun 2006	Dec 2006	Jun 2007	Dec 2007	Jun 2008
T-Mobile (Mobimak)	891	945	1002	1213	1251
Cosmofon	433	473	516	593	640
Vip Operator	0	0	0	141	209

In October 2007, the market received its first mobile virtual network operator (MVNO) in the shape of Frog Mobile, piggy-backing on Cosmofon's network.

One of the more important changes regarding the competition on the market in Macedonia happened in May 2008, when Deutsche Telecom bought the controlling stakes of the Greek OTE, which in Macedonian terms means that both T-Mobile and Cosmofon have got the same owner. T-Mobile owns 59,85% and Cosmofon 30,15%, or the two largest operators together own 90% of the mobile telephony market in Macedonia by June 2008. (Table 2, Figure 3).

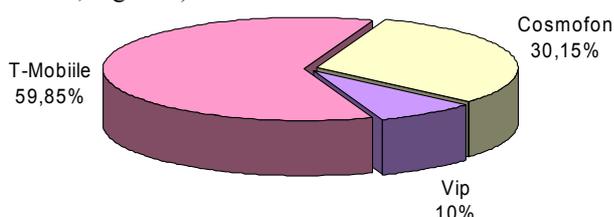


Fig. 3. Mobile operator market share (Date: June 2008) [4]

According to the Law on Competition Protection, every formation of a group or the taking over of companies bigger than 40% of the market is a precondition for a new monopoly. After the official entry of Deutsche Telecom in OTE, the Committee on Competition Protection had the task to state their opinion within 90 days regarding the newly created monopoly. Presumably, Deutsche Telecom will have to sell one of the two operators, and that will probably be the smaller operator Cosmofon. It is expected the interest in the Cosmofon sale to be enormous, considering the fact that the operator not only has strongly developed subscribers network in the mobile telephony but also has more and more progress in the fixed telephony. Besides, Cosmofon has the only license for 3G technology that started being used in September 2008.

IV. CONCLUSION

As a result of the liberalization of the market, the telecommunication sector in Macedonia is developing with the pace of the development of the rest of the world.

Considering the development of the telecommunication services, especially the mobile telephony, the broadband internet and the various ways of sending messages and transfer of data, the lowering of their prices and getting closer to the mass market, there is little space for the usage of the voice fixed telephony, separately, without the accompanying services. Macedonia also follows this global trend of decreasing in the use of the fixed telephony. In the near future we will be discussing telephony without making the distinction of fixed and mobile telephony. The borderline will disappear quickly, especially with the family users, because of the new possibilities of the mobile technologies.

The Number Portability service will have a very significant role at the telephony market in Macedonia. It will be key in the instigation for more competition among the operators, because, usually, Macedonian users don't like changing their mobile phone number. This passiveness is shown in the telecommunication market survey by Strategic Marketing and Media Research according to which in 2007 a high 82% of the mobile phone users have declared that they haven't changed their mobile operator. [5] The Number Portability service started being applied in September 2008. The possibility for the user to keep the phone number makes it easier to decide on the most suitable package from the various offers by the operators.

The changes that happened in these last years are just the beginning of the revolution in the mobile telephony. The expectations of the telecommunication experts are that in 2009 the penetration of the mobile telephony in Macedonia will reach 100% as a result of the cheapening of the services. The operators' battle will be directed mainly toward gaining business users as much as possible. Besides, the operators with enticing packages of offers will activate even those users that were prepaid users. In 2007, only 17% of the total population that use mobile phones were postpaid users, and 83% were prepaid users. [1]

An even stronger competition is expected in the next period, in the Macedonian market and generally in the world. Consequently, the quality of the offered services will improve additionally, which will lead to further lowering the price of the services. The time will show which of the new companies will win a larger part of the Macedonian telephone market.

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