International Center for Economic Growth
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THE EXPECTED EFFECTS OF EU ACCESSION ON THE TELECOMMUNICATION SECTOR OF THE VISEGRÁD COUNTRIES

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1. Introduction

This paper[1] summarizes the main findings of the four country (Czech Republic, Hungary, Poland, Slovakia) studies, concentrating on the common trends that characterize the four accession countries, but focusing also at the major differences.

The telecommunication sector is one of the leading sectors of Western-European countries. At the same time it is still regarded as the industry of tomorrow, that is why the eEurope programme has been launched in the European Union. Because of its role in the economy and EU, the development of this sector is an important topic for the Visegrad countries during the accession period. Since the time of joining the Union comes closer, it would be of great importance to look at the current situation of this segment of the economy.

During our research we focused on the four Visegrád countries and in this summary paper we concentrate on the similarities in the telecom markets of Hungary, Poland, Slovakia and the Czech Republic. This essay is organised as follows: in section one we regard the size and the significance of the sector; in section two, three and four we examine the fixed line-, the mobile- and the internet market; finally we summarise our impressions.

2. The telecom sector

The telecom sector plays an important role in the economy of the Visegrád countries. Its size reaches 3% of the GDP in every country. In Hungary, it adds up 3 – 3.3% of total GDP while volume indices indicated a 7% growth of the segment in 2001. GDP in that year grew 5.2%, so dynamics in the communication sector was higher than overall. That was the case in the recent years as well and is supposed to continue. What is more, the communication and IT sector accounted for 5% in that year's total investment.

In the Czech Republic the value of the sector is nearing EUR 2.1 billon, which means that it accounts for about 3% of the GDP, like in Hungary. The growth of it exceeds the total GDP growth just like in Hungary, but that is a common trend in the V4 countries anyway. In Poland it plays a bit more significant role, 4.4% of GDP, while in Slovakia the telecom sector is again at about a 3.3% level.

Like the size of the market, another common characteristic feature is the regulation of the telecom sector, i.e. the existence and competence of an independent regulatory authority. The establishment of such an institution is a duty of all candidate countries. The task of such an authority is to survey and ensure the free market

[1] Summary of the Studies on the Telecommunication Sector prepared for the AMCHAM-ICEG European Center Conference on Expected Effects of the EU Accession on the Visegrád Countries, March 20-21, 2003, Budapest

mechanism. All four countries created such institutions e.g. the Regulatory Authority in the Czech Republic or the Communications Authority of Hungary.

Today these authorities are far from being independent. In fact, they have only limited power in each Visegrád country. In Hungary for example, the regulatory framework meets the EU standards in many fields. However, the authority has limited power to enforce interests and it is very vulnerable to the lobbying power of the Hungarian telecom. Though the Communications Authority is independent of the government in its operation and financing as well, this independence is not realized in practice.

The Czech Regulatory Authority is even further from the formal independence. The chairman is appointed by Government and it is now financed from the state budget, which is a common problem in all four countries (and is in contradiction with the aquis). That makes it susceptible to political influence.

In Slovakia specific activities of the sector are regulated by Telecommunication Act. The problem of this act is the absence of clear legal provisions and their implementation in praxis concerning new players coming to the market and as a regulatory body to solve or influence disputes positively and effectively in time.

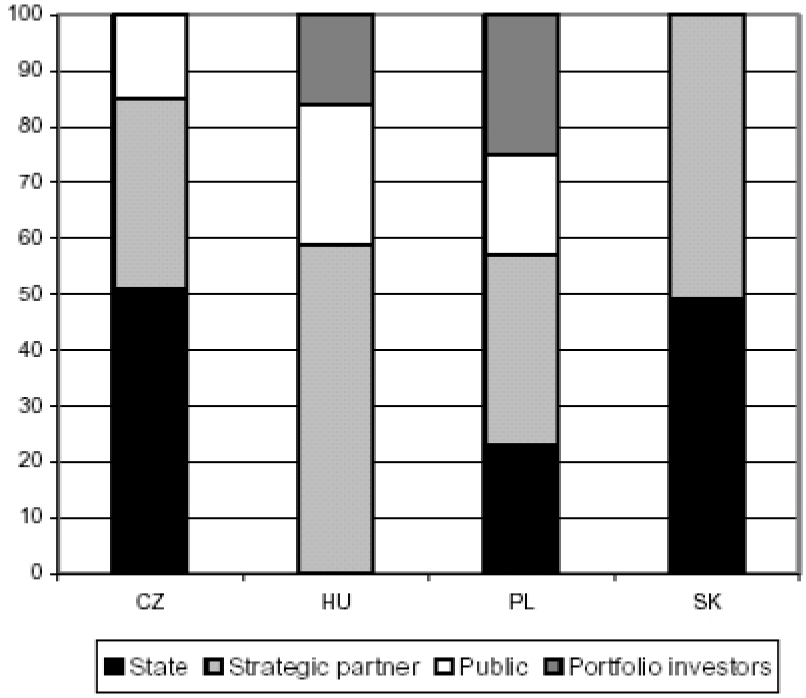
In case of Poland there is a more serious problem. We can talk here about the lost decade of liberalization during which effective actions of the regulations have been stopped in favour of the incumbent operator. Polish government is just planning to invent a new regulation in accordance with EU rules. This new act had been expected to come out on 1st January 2003, then it was postponed to 1st March 2003. Now it is difficult to predict when the amendment will be approved by the Parliament.

3. Fixed – line market

The fixed – line sector looks similar not only in the V4 countries, but in the EU as well. It is dominated by the former state – owned company (nowadays incumbent operator) which has an established network and a relatively stable amount of consumers. With these advantages it can answer to every challenge coming from potential competitors on the traditional phone call market, so it is very difficult to create competition. That is why the incumbent operators could preserve their position. Their share on the market reaches about 50%.

The incumbent operators hold their dominant position in the V4 countries, thanks to their lobbying power and the lack in the regulation as mentioned before. They have all been fully or partly privatised during the last decade, i.e. besides the state property there is a strategic partner (e. g. Deutsche Telekom in case of MATÁV, the Hungarian incumbent). Chart 1 shows the ownership structure of the incumbent operators in the V4:

Chart 1.



Source: The expected effects of the EU accession on Visegrád countries
Markéta Zichová

The Hungarian Government has privatised its stake in Matáv early (in 1993) and in this case Deutsche Telekom remained the main shareholder. DT is the strategic partner in the Slovakian incumbent, Slovak Telecom as well.

Since the incumbent operator is so dominant in this market, only a little competition has been formed. This means, that on the traditional fixed-line market there's only one real competitor in the whole region, that is Vivendi in Hungary. However, because of the current problems of its mother company, the company has been sold to a consortium formed by AIG and GMT. The incumbent operators and Vivendi are providing complex services from phone calls to data services etc.

With 70 – 80% coverage there are practically no new customers in the traditional voice transmitting services sector, that is why the new companies concentrate on market niche opportunities like data transmission or company services. On the Czech market for example the revenues of alternative carriers come in the 80:20 ratio, which means that 80% of their revenues come from services offered to companies and only 20% is constituted by residential market revenues. There exists a similar trend in the other V4 countries as well.

The unfinished liberalization of the market is characteristic of all these countries. Local loop unbundling is expected in the Czech Republic this year. Usual the alternative operators are not interested in local loops and competition will not be intensified. Slovakian telecom market has been liberalized only since the beginning of 2003. In Hungary the liberalization has already been finished, but the residential fixed-line market will undergo minor changes. Competition can only be expected in the segments of long-distance and international calls.

Poland is a special case in this respect. Segments of the market are being liberalized (last action was on 1st January 2003, international telephony services were liberalized) while there was a boom on the supply side. 63 independent operators were granted a license during that period. At the end of 2002, the alternative operators reached 9% of the market. The consultants estimate that TP S.A. (the Polish incumbent) will lose even 40% of its international calls market. The speciality of the Polish market is given by the poorly developed infrastructure. There is a high need for investment especially in rural areas and small towns, but none of the operators is able to incur such high costs. A chance for success would be the participation of the state.

4. Mobile market

The mobile telephony market is a very young sector and the product of the last decade in the advanced countries as well. Because of its recentness there had been no traditions in the V4 countries either, which means no monopolistic position of a state-owned company (like the incumbent company in the past). The evolution of the sector has brought a real competition even when the other segments of the market were not liberalized.

That is the reason why this sector is regarded as the competitive side of the telecom market. In every accession country there are three operators. According to several experts, there is no need for more of them anyway. As usual, the biggest player on the four analysed mobile markets is in the hand of the incumbent operator and is probably the most important and profitable part of its portfolio. Furthermore, a common feature is that the formation of the supply side of the market was rather an evolutionary process. The first company which appeared was usually the subsidiary of the incumbent, the main competitor started operating a little later. The third and smallest actor stepped in the sector usually at the turn of the new millennium.

In the Czech market there are three mobile carriers operating. The first one, Eurotel started to offer mobile service in 1992, and is nowadays the first carrier in the Czech Republic. It was followed by Radiomobil, that started to operate in 1996, and last but not least there is Cesky Mobil, which began to offer its services in the year 2000. These three companies are competing on a market with revenues of about EUR 1.1 billion. The penetration of the market reached 76% in the last year (in comparison with 68% in 2001), which was the second highest among the candidate countries. UMTS licenses were granted to the two biggest operators (Eurotel and Radiomobil). The deadline for launching 3G services is set for 2005.

In Poland about 36% of Poles use mobile telephony. According to estimations an the end of 2002 fixed telephone lines increased to 11 million 968 thousand while the number or mobile subscribers reached 13 million 980 thousand. It is supposed that by the end of 2003 the mobile telephony penetration will rise to about 45% and fixed telephony to 32%, so there will be a significant difference between the two sectors, which is a trend for the whole region. There are also three firms operating: Polska Telefonia Cyfrowa is the leader of the market with about 4.91 million subscribers, followed by Polkomtel with 4.5 million clients and the third is Centertel with 4.48 million subscribers. The total saturation of the market will be reached at the 70% level, which is estimated to happen in the years 2007 – 2008.

In Hungary the market leader is Westel (whose main shareholder is the incumbent, MATÁV), with a market share of 49.4%, followed by Pannon GSM at 38.1% and the third is Vodafone with 12.5%. There is a fourth, but insignificant analogue provider, Westel 450 with a marginal market share. Vodafone is expected to augment its market share up to 22%, but this will not affect the current market situation, so it will still remain the third. Last year the market penetration reached 67.6%, which is expected to exceed 85% in the following 5 years. UMTS licences have not been granted yet, but these three firms are expected to compete for them.

In Slovakia GSM services have been provided since 1997 by two operators. One is Eurotel Bratislava that started to provide services in 1991 with NMT – 450. It has a 45% share on the relevant market and is owned by the incumbent (Slovak Telecom – 51%) and Atlantic West B.V. The other is Orange with a 55% market share. It has been operating since 1997 and is owned by France Telecom (64%) and the Slovak Republic (36%). In January the mobile penetration reached 54%, which, could be developed, indeed.

Highly developed mobile services are characteristic of the mobile market of the region. Mobile companies in every analysed country are operating on the highest level and have very up to date services and system on the GSM level. For example in Hungary Westel was the first provider world-wide to introduce the commercial MMS service and in many cases developments are even ahead of T – Mobile, the mobile subsidiary of DT. Vodafone has simply implemented the entire international services of the company, while the quality service of Pannon GSM is also among the best of the world.

As mentioned before the penetration is very high in all of the four countries. It moves on a scale from 76% (Czech Republic) to 45% (Poland). This means that the cards have already been shuffled and no new entries can be forecasted even after joining the EU. The mobile operators are using the GSM system, UMTS services will not start before 2005, which is in accordance with the Western-European situation. The licences for that service were only granted in the Czech Republic, Hungary is planning to do it in the next one or two years, so is Slovakia and Poland.

The mobile market is a significant one within the telecommunication as well. It exceeded the size of the fixed-line market in each accession country. Fixed-line market is expected to stay at the current 30 – 35% level, while the mobile market is still growing rapidly. This was explained by analysts with the underdeveloped fixed-line market during early nineties. But this market segment is already highly developed one and it is loosing ground because this is a global trend, and the accession countries simply approach in this respect Western-Europe.

5. Internet market

The Internet market is the most special sector in the telecom market of the V4. While these countries are among the leading ones in mobile communication and firms operate on world standards, there is considerable underdevelopment on the Internet side. Neither the infrastructure nor the demand is sufficient for a well functioning Internet market. Because of the relatively low standard of living and purchasing power, the demand for Internet in the V4 countries is very low. Furthermore, the prices of the service providers are reaching the European level, while effective demand is not.

In Hungary the Internet market is likely to undergo a significant development in the next years, especially after the accession. In 2002 less than 20% of the households had an Internet access with 4% broadband, which is quite low. The supposed growth in the sector may totally reshape market shares, while MATÁV is expected to maintain its domination of the associated infrastructure. Axelero, the ISP of MATÁV has a 43% share in the dial-up market at present. This is just like in the EU where incumbent operators have strong positions in the ISP market as well. The key question currently is who will be able to reach and stabilize the market share above 10%.

Almost exactly the same situation is observed in the Czech Republic. Although the number of citizens connected to the Internet is growing fast (418 448 in 2000 and 1 256 664 in 2001), the prices are still high and the penetration is far under the EU standards.

In Slovakia the penetration is at about 15% which is still low but higher than in Hungary, for example. The main problem is the price level: during the last three years the price level for Internet connection increased continuously, while in Europe the inverse trend was typical. There is a technical handicap as well as Slovakia was the last among the candidate countries where high-speed Internet access was not commercially provided. Incumbent operator was forced to stop projects on ADSL services by the Antimonopoly Office and Internet access via cable network is only in preparation.

In Poland the number of Internet users is also around 10%, it increased from 3.6 million to 5.2 million during the last year. As long as prices remain at their current levels (they are close to those of Finland and France), no significant development is expected.

Internet penetration is much higher nowadays in the EU than in the V4 countries. 40% of the households living in the European Union are being connected to the Internet. This is a part of a plan to make EU the most competitive region in the world by 2010. This plan is based on information society, was launched in 2000 and is called eEurope. In the following two years the penetration rose from 18% to the already mentioned 40% in average. The only country under 30% is Greece where the market was opened particularly late.

To catch up with the EU all four Visegrád countries have tried to implement the eEurope plan and launched their own national plans. Such a plan is for example the eEurope Hungary. These plans try to influence both the supply and the demand side of the market in order to reduce prices and increase demand. In Hungary the improvement of residential Internet penetration plays a central role among the short-term measures implemented by the government. There will be a government subsidised price reduction, but gross monthly fees will still remain high. But the government is committed, which is proved by the fact that thirty thousand teachers, civil servants, judges and prosecutors shall have unlimited access to the Internet subsidised by the Ministry of Informatics and Communications.

The effect of these plans is at least questionable. To reach the Western-European 40% penetration ratio seems impossible under these conditions. It is hindered by the insufficient infrastructure, the lack of regulatory framework and the high prices compared to family incomes. It is also difficult, because the eEurope plan could start from 18% average penetration level, which is far above the 10% of the V4 countries. Several experts hope for the time after the accession when the increased competition could lead to a fall in interconnection charges.

6. Summary

Experts hope in connection with joining the EU mostly for growing competition and falling prices. These are the main problems of the telecommunication market of these four Visegrad countries. But absence of competition is not typical in every sector of the market. As mentioned before, the mobile communication market is a very well developed one reaching world standards.

There are more problems with the incumbent operators on the fixed-line market, stemming from their monopolistic position and ability to influence not only the market, but the regulatory authorities as well. There are no changes expected on the residential market, the incumbent will retain its leading position. The appearance of new European capital is expected in form of portfolio investments and not through invention of new providers. On the data transmitting and commercial market as well as on the international phone calls market further and very intensive competition is supposed, which could bring new entrants for the market as well as the strengthening of current providers. The radical decrease of prices and charges is also expected since they are currently above the average level in the EU.

On the Internet market there will be a price decrease as well, partly because of the entrance of new operators and partly because of the direct government action. It is true that the market needs to be stimulated but it needs fresh capital as well, which could come after the accession. Anyway, decreasing charges and further income growth may lead to increasing demand in the following four – six years.

The four Visegrád countries have been performing well during the accession period. They have mostly implemented the EU regulations and seem to be prepared for the accession. Simultaneously there are still some shortcomings, especially on the regulation side and its reform will be the main task for the following year. The telecom market is expected to make a further step in its evolution. Prices are supposed to decrease in each market segment and providers will compete on quality instead of quantity, especially in the mobile market.

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