Telecommunications Market Review

April - September 2002

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1 Developments

1.1 Market Developments

The period that is being reported in this first edition of the MCA's Telecommunications Market Review is the period April to October 2002.

The fixed telephony services market in Malta compared quite favourably to the EU average in June 2002, with regards to fixed lines per inhabitant. There was a minor decrease in outgoing call minutes to mobiles in the first half of 2002 in comparison to the second half of 2001, of 1.4%. The same period showed a fall of 12.2% in international call minutes.

The mobile telephony services market has grown steadily in terms of the number of subscribers in the past year. The average monthly revenue per user (ARPU) stood slightly lower in the third quarter of 2002 than in the same period in the previous year. With regards to outgoing call minutes there was an increase of 23.3% in the year in comparison. On average, each subscriber was making 11.1% less outgoing call minutes in the third quarter of 2002 than in the same quarter in 2001. The most significant change in the mobile telephony market occurred in SMS levels, which increased by 71.1% between the third quarter of 2001 and the same quarter in 2002.

Cable television subscriptions showed an increase of 6.5% in the year between October 2001 and October 2002. Between the second and third quarter of 2002, average revenue per subscriber fell by 5.4%.

Regarding fixed telephony tariffs, in December 2001the rate for a local three-minute call at peak time was amongst the highest in comparison to other European countries. The rate of a similar call during off-peak periods was higher than in any country in the European Union. One of the reasons for this is the pulse system that is used for charging, whereas nearly all the EU countries have per-second or per-minute charging systems.

International fixed call charges in Malta are substantially higher than in the European Union. A comparison of rates for three-minute calls to an adjacent country shows that the cost in Malta during peak time is more than twice the cost in any country in the European Union.

During the same period, Malta's residential line rental was the lowest when compared to the countries in the European Union, whilst the business line rental was close to the average of these countries.

Mobile-to-mobile usage tariffs in Malta compared to other countries within the EU are cheaper in respect of prepaid but amongst the highest in terms of post-paid tariffs.

1.2 Regulatory Developments

The MCA has, during the period under review, initiated a number of consultative processes and has subsequently published a number of decisions during the months of April to October 2002. These decisions form part of a structured plan of action in the implementation of a regulatory framework suitable to a post liberalisation environment subsequent to 1st January 2003.

The Consultation Paper on **Universal Telecommunications Service** was published in March 2002. The paper proposed a re-definition of Universal Service Obligations previously regulated by the 1998 regime.

The Decision Notice on **Itemised Billing** published in May 2002, defined the basic level of itemised billing that should be made available to all subscribers (on an opt-in basis) free of charge by all telephony services operators in Malta. This decision has been appealed by Maltacom plc with the Telecommunications Appeals Board and the Civil Courts of Justice.

In June 2002 following an extensive consultative process on the subject of "**Dominant Market Position in Telecommunications**", the MCA designated three operators as having a Dominant Market Position as follows: Maltacom plc in the fixed telephony services market, Vodafone Malta Ltd in the mobile telephony services market, Melita Cable plc in the cable television services market. The designation of DMP status and evaluation criteria will be reviewed by the MCA on an annual basis or at shorter intervals. The DMP determination criteria will also be reviewed regularly.

The Consultation Paper on a **Price Control Review** published in June discussed the development of a price control policy which promotes the interests of consumers and users of telecommunications services, stimulates competition, and encourages efficiency on the part of the providers of such services. A Decision Notice on Price Control was published on the 2nd January 2003.

In the Consultative Document on **Directory Information Services**, the MCA sought views on how the directory services market in Malta can be improved. The Report on Consultation and Decision on Directory Information Services, published in July 2002, directed that operators might levy a fee for subscribers opting for ex-directory status, and that operators shall offer listed and ex-directory options.

The Decision Notice and Report on Consultation on the **Implementation of Cost Based Accounting Systems for the Telecommunications Sector**, published in July 2002, following the February consultative document, directed operators to implement cost based accounting systems based on an FAC (Historic) methodology.

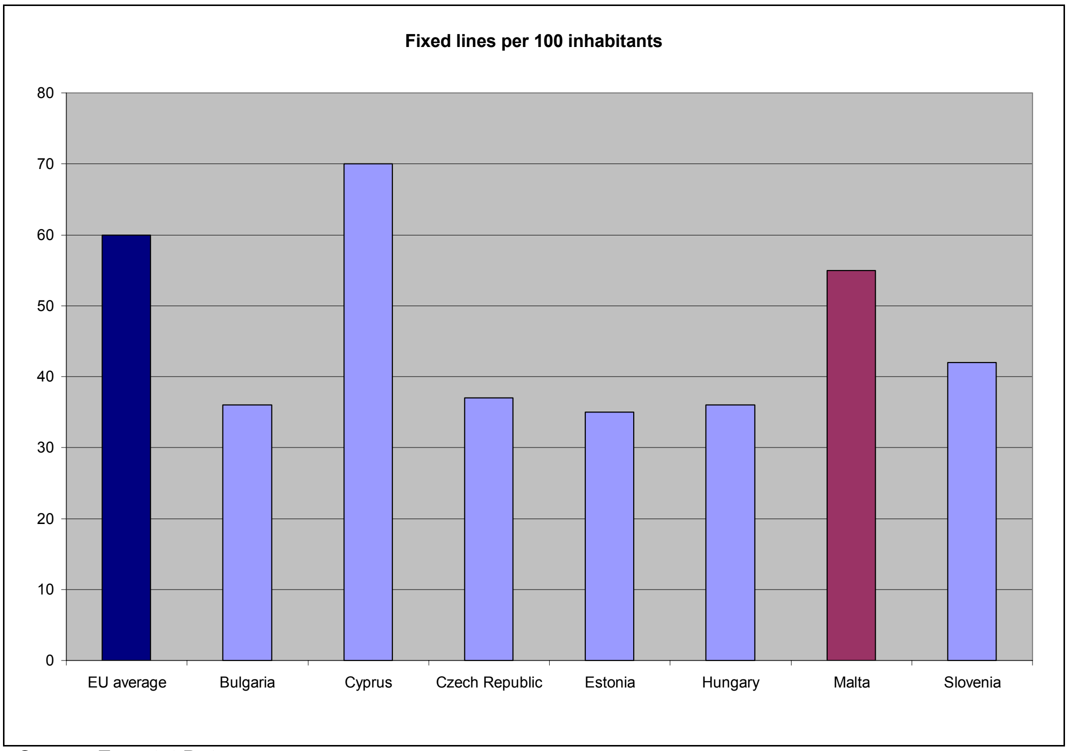
Carrier Selection and Carrier Pre-selection enables consumers to avail themselves of telecommunications services that are best suited to their specific needs, thereby enhancing competition in a liberalised telecommunications environment. In a consultation paper, published in August 2002, the MCA proposed the introduction of a carrier selection and a carrier pre-selection facility for international calls originating from Malta.

The Report on Consultations and Decision on **Accounting Separation and Publication of Financial Information for Telecommunications Operators** was published in October 2002. This decision defined the level of accounting separation mandated on DMP operators including relevant accounting concepts, principles and methodology.

In the consultative process regarding **Voice over the Internet Protocol** (VOIP), the MCA proposed a regulatory regime applicable to packet switched voice services, typified by voice over IP. The guidelines were subsequently published in December 2002.

2 The Fixed Telecommunications Market

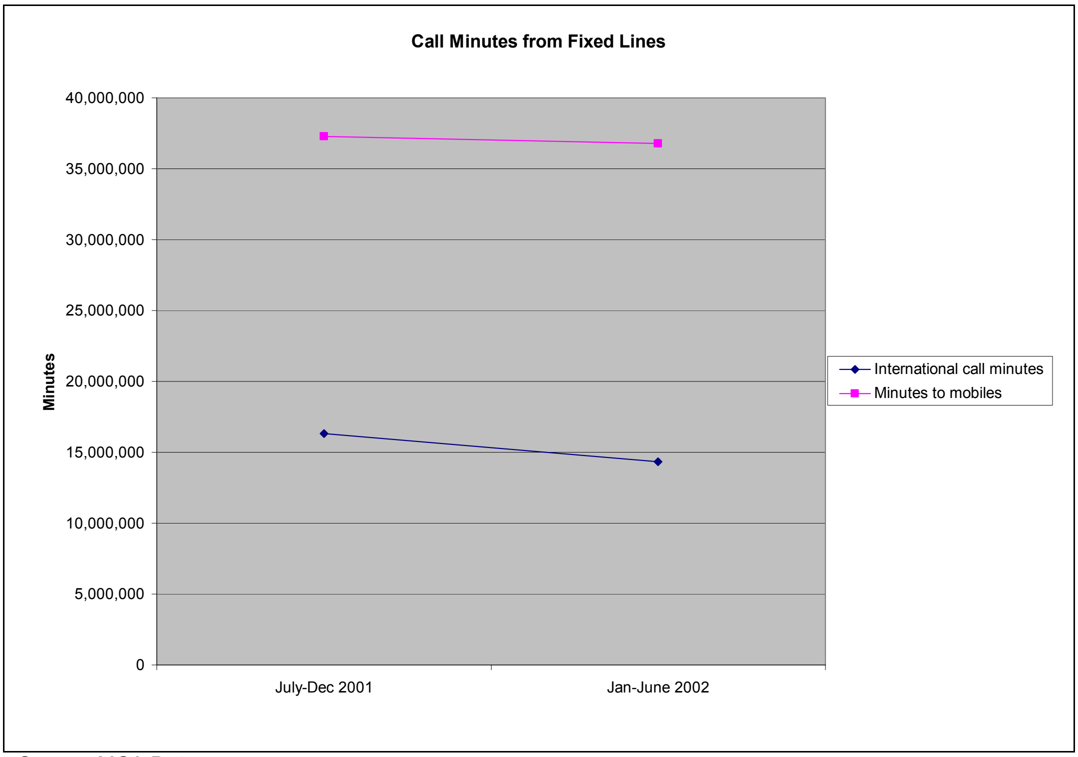
2.1 Fixed Lines



Source: Eurostat Data

The above chart compares the number of fixed lines per 100 inhabitants in Malta to the figures for the EU candidate countries with the higher number of fixed lines per 100 inhabitants and to the EU average. Malta follows Cyprus, being the candidate country with the second highest number of fixed lines in the comparison. Malta also compares quite favourably to the EU average.

2.2 Outgoing call minutes from Fixed Lines



Source: MCA Data

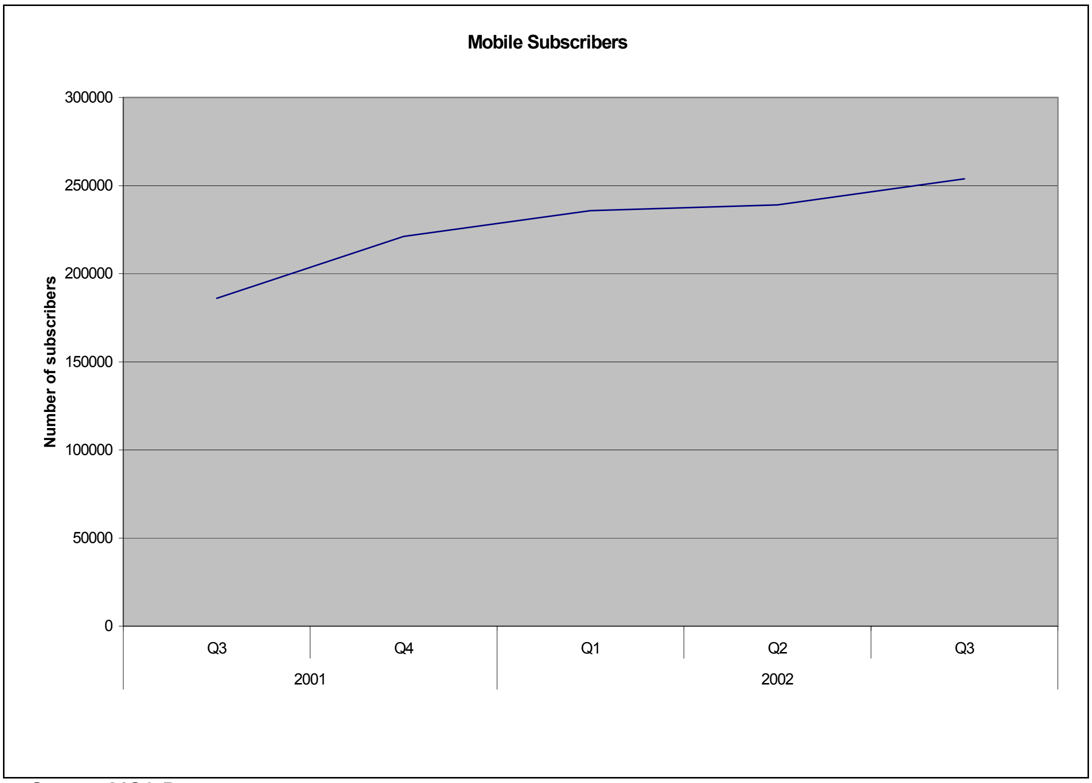
The above chart shows the outgoing call minutes from fixed lines for international calls and international call minutes to mobiles. Data for call minutes from fixed to fixed was not provided. There was a minor decrease in outgoing call minutes to mobiles in the first half of 2002 in comparison to the second half of 2001, of 1.4%. The same period showed a fall of 12.2% in international call minutes. The chart in the next Telecommunications Market Review should demonstrate whether such decreases are seasonal. However there have been similar decreases observed abroad where more calls are increasing made from mobile phones.

3 The Mobile Services Market

3.1 International Market Developments

According to CIT's Yearbook of European Telecommunications 2003, at the end of September 2002 the western European cellular market exceeded 300 million subscribers, taking total mobile penetration to 77%. With the market effectively at saturation level, growth rates have naturally declined, with subscriber numbers increasing by just 3.9% on the 289 million recorded at the end of 2001. Eastern Europe, in contrast, continues to see relatively solid growth: 38% growth in the nine months to the end of September boosted its subscriber base to 58 million, from 42 million at the start of the year.

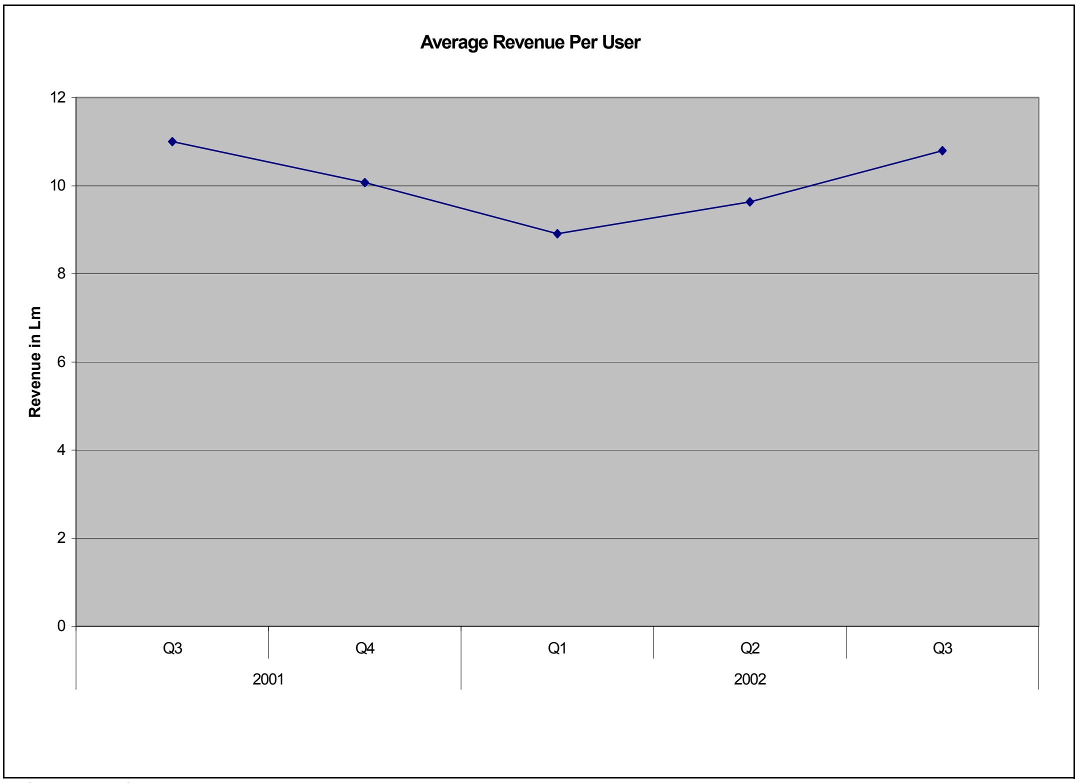
3.2 Mobile Subscribers



Source: MCA Data

The number of mobile phone subscribers has increased consistently between the third quarter of 2001 and the same quarter in 2002. There was an increase of 36.5% in the third quarter of 2002 over the same quarter the previous year. Mobile phone subscriptions increased by 7.7% from the first to the third quarter in 2002.

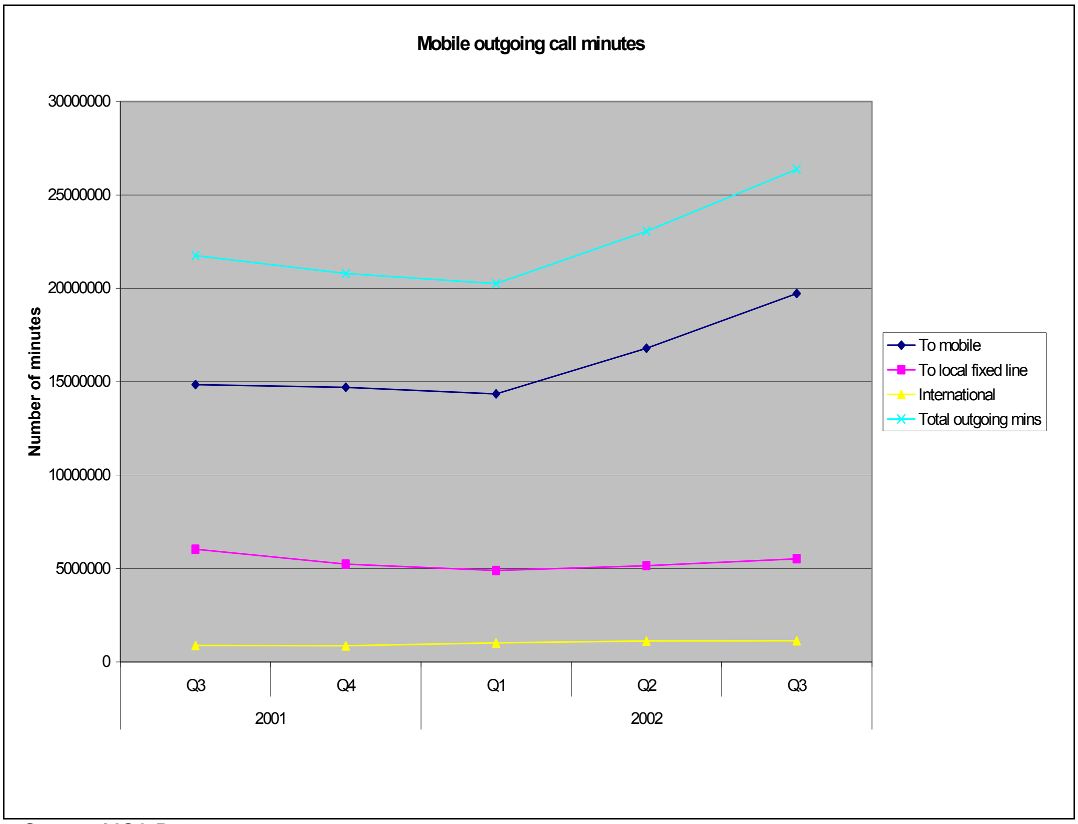
3.3 Mobile Average Revenue per User (ARPU)



Source: MCA Data

The weighted monthly average revenue per user in the mobile telephony sector fell from the third quarter of 2001 to the first quarter of 2002 by 18.9%, and then took an upward trend until it reached Lm10.79 during the third quarter of 2002. The ARPU in the third quarter of 2002 reached to Lm 10.79, a figure that was Lm0.20 lower than in the same quarter in the previous year.

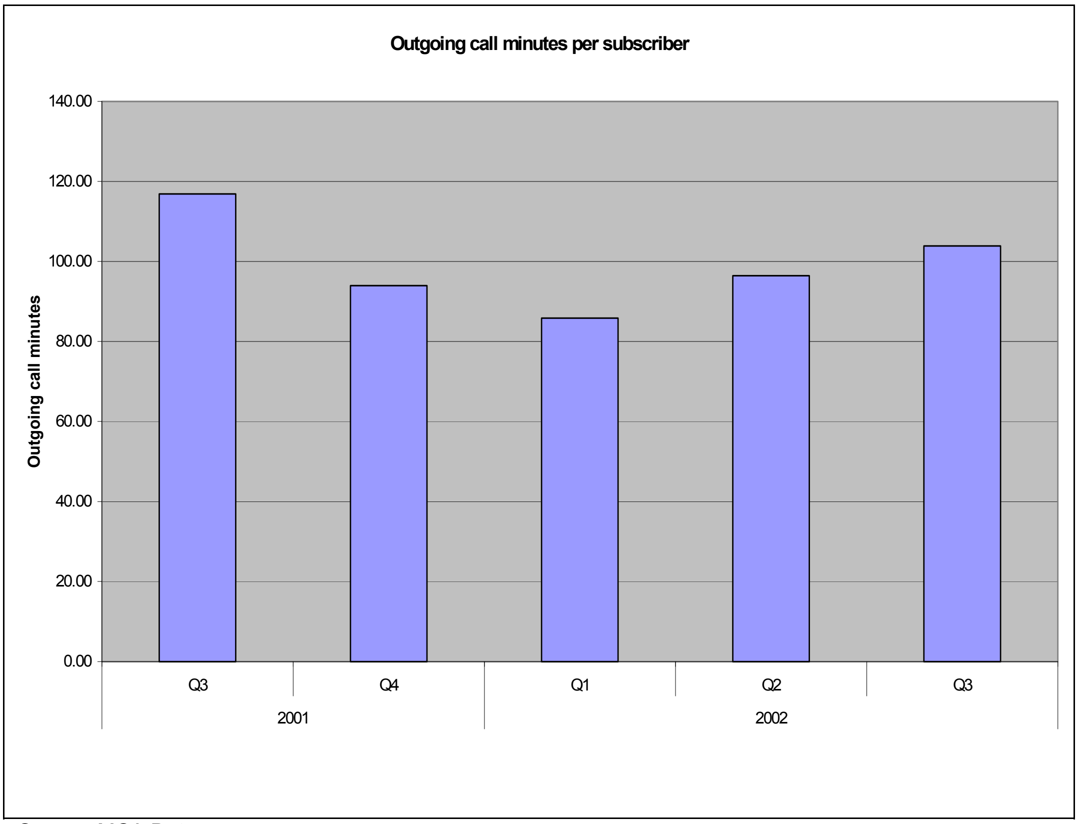
3.4 Mobile Outgoing Call Minutes



Source: MCA Data

Total outgoing call minutes from mobiles were 21.3% higher at the end of the third quarter of 2002 when compared to the same period in 2001. The outgoing international call minutes (which do not include roaming) remained fairly constant, and the change in the number of minutes in call minutes to fixed lines also showed scarce variation. The increase in total outgoing call minutes was therefore mainly reflected by increased mobile-to-mobile call time, which consisted of an increase of 32.9% over the year in consideration.

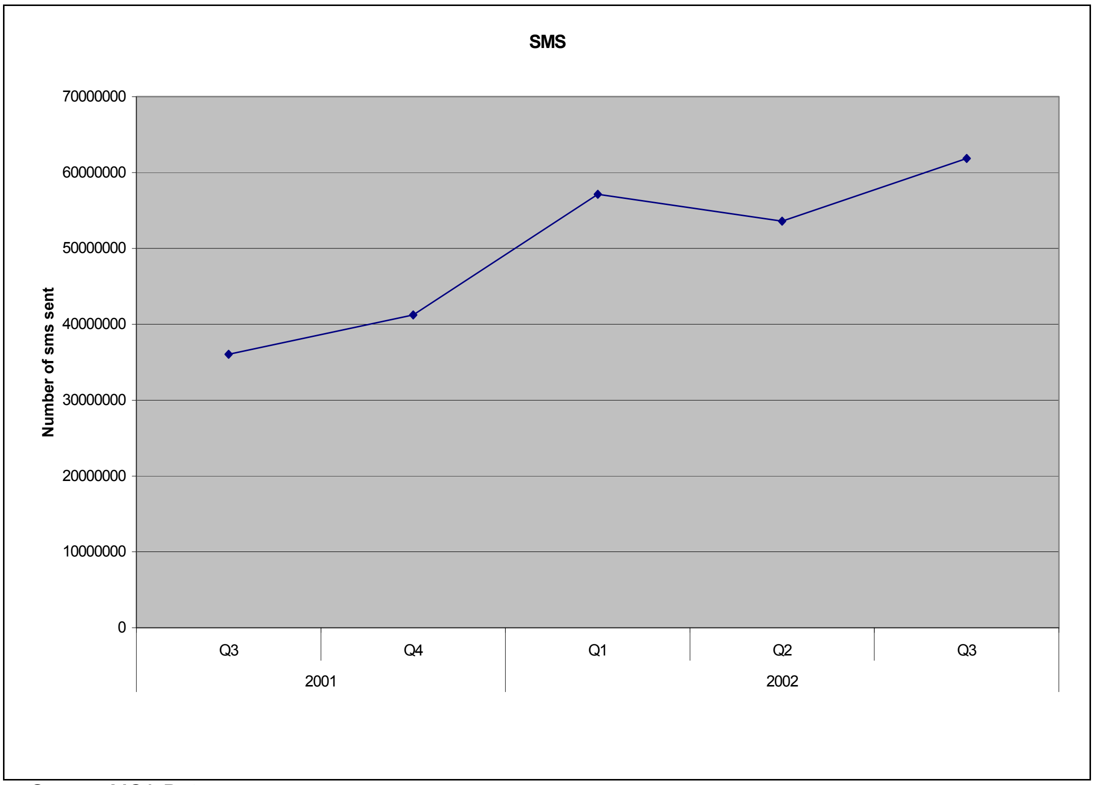
3.5 Outgoing Call Minutes per Subscriber



Source: MCA Data

There was a decline of 11.1% in outgoing call minutes per subscriber between the third quarter of 2001 and the same quarter in 2002. The trend consisted of a decline between the third quarter of 2001 and the first quarter of 2002, which picked up until the third quarter of 2002, but did not reach previous levels. This trend indicates the probability that the new subscribers between Q3 – 2001 and Q1 – 2002 tended to make less call minutes.

3.6 SMS

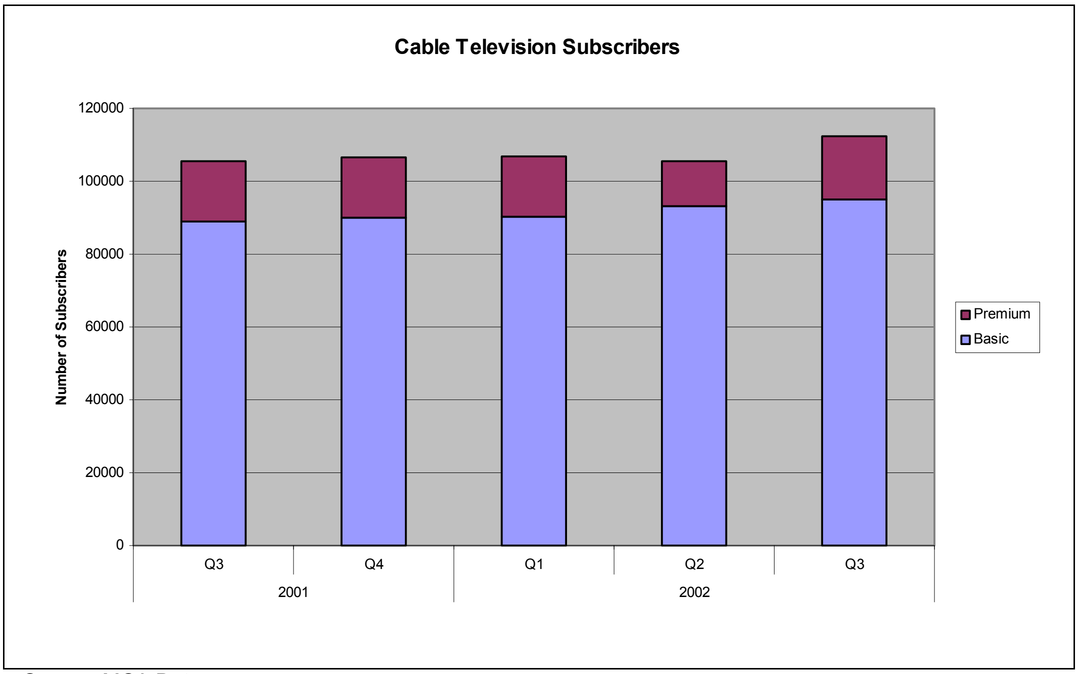


Source: MCA Data

There was a considerable increase of 71.6% in SMS messages between the third quarter of 2001 and the same quarter in 2002. The trend over the year was generally upward, with the exception of a fall of 6.2% between the first and second quarter this year.

4 Cable Television Market

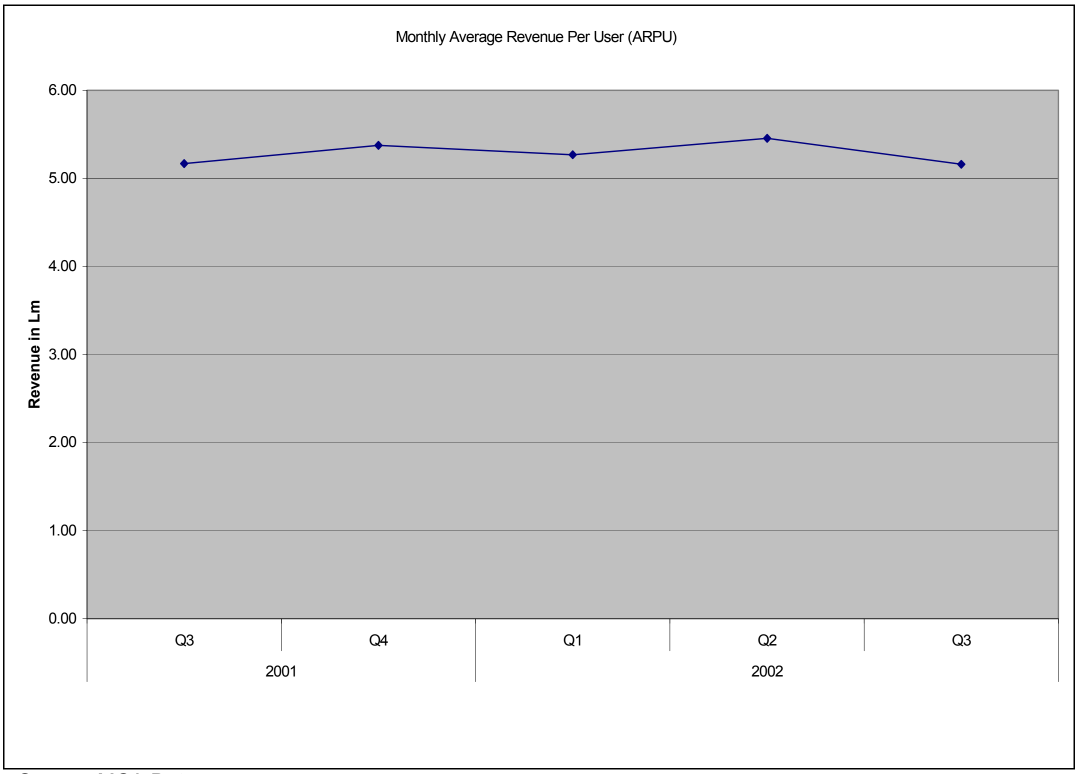
4.1 Cable Television Subscribers



Source: MCA Data

There was an increase of 6.5% in total cable television subscriptions between the third quarter of 2002 and the same quarter in 2001. There was an upward trend during the year with the exception of a fall of 1.3% between the first and second quarters of this year. The larger proportion of the increase consisted of Basic subscribers.

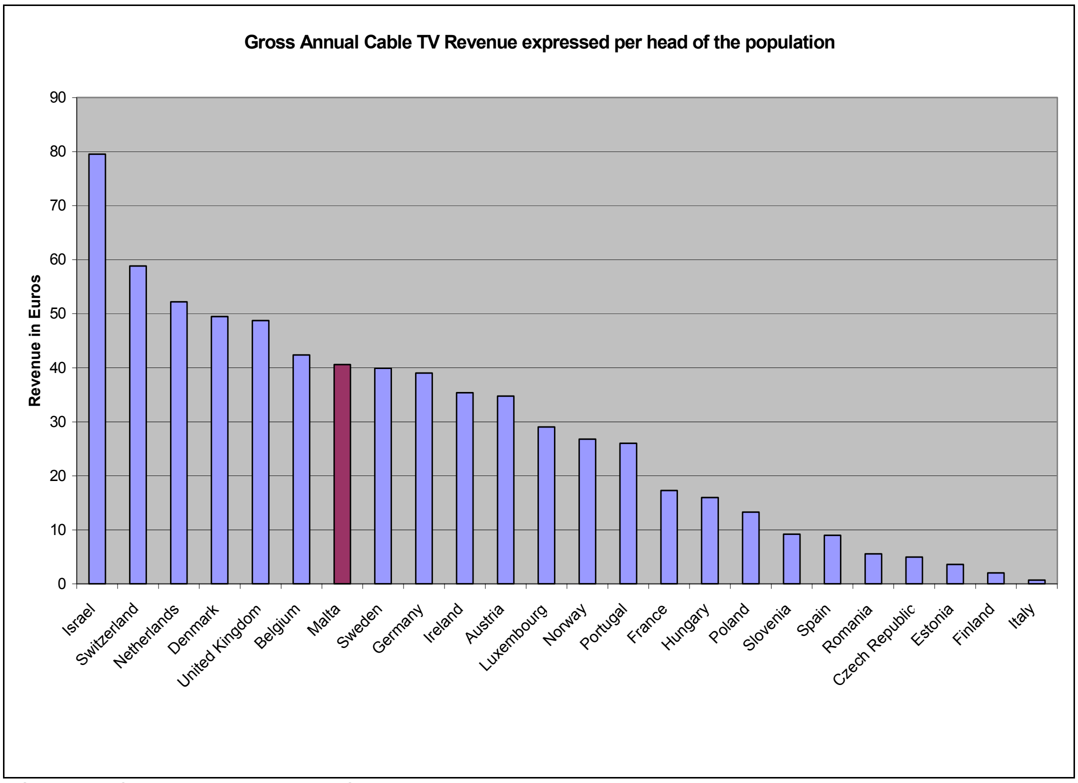
4.2 Cable television ARPU



Source: MCA Data

The monthly average revenue per subscriber for cable television services in Malta was Lm 0.01 lower for the third quarter of 2002 in comparison to the same period in the previous year. The ARPU reached a peak during the time period under consideration of Lm 5.45 in the second quarter of 2002.

4.3 Cable TV Revenue per head of the population

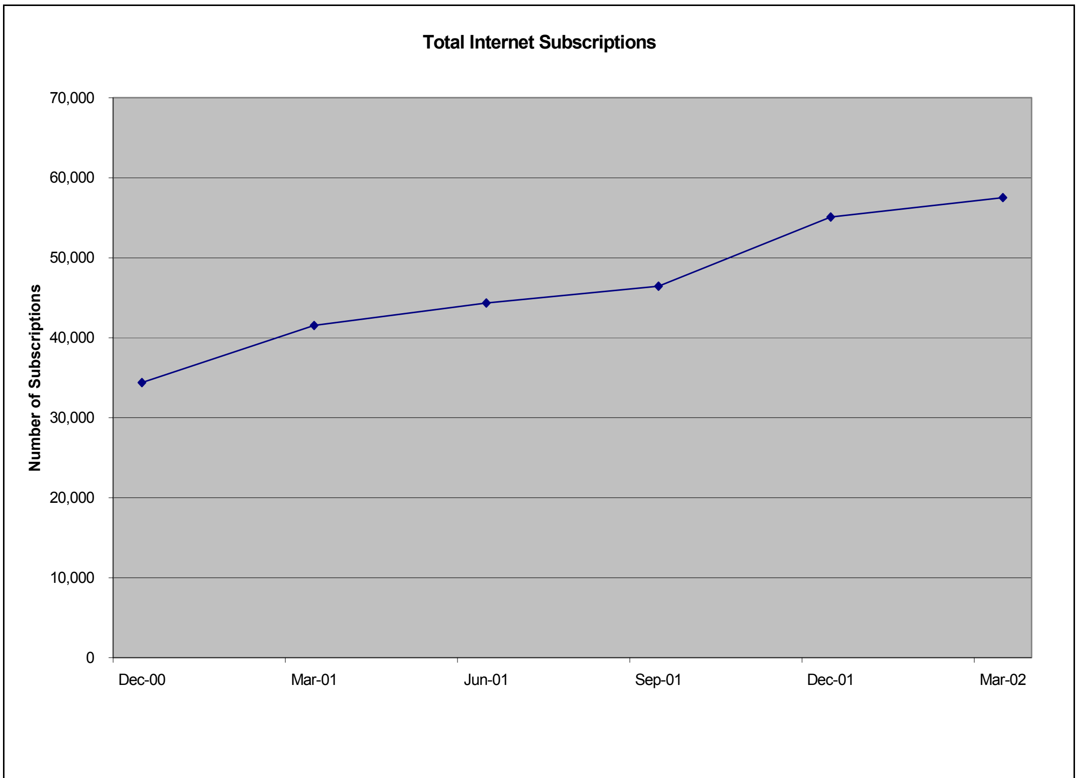


Source: MCA Data and European Cable Yearbook 2001/2002

Measuring revenue in terms of gross revenue per head of the population introduces potential market size into the equation, but removes factors of reach and take-up. It is a ranking of how important cable is to a country's economy. Malta ranks high in such terms, in fact it ranks seventh in the comparison of twenty-four countries in the chart above.

5 Internet

5.1 Number of Internet Subscriptions



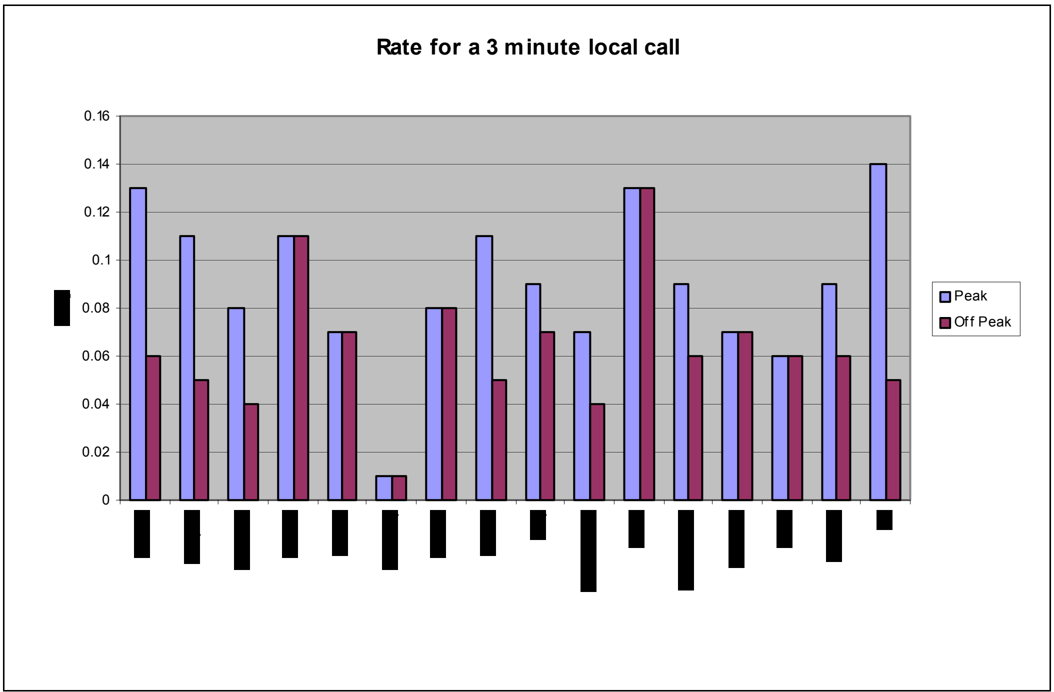
Source: NSO[1] data

The number of Internet subscriptions has been rising consistently between December 2000 and March 2002. There was a rise of 38.1% from March 2001 to March 2002. In the first quarter of 2002, there was an increase of 4% in Internet subscriptions.

[1] National Statistics Office

6 Tariff Movements[2]

6.1 Local Fixed Call Charges

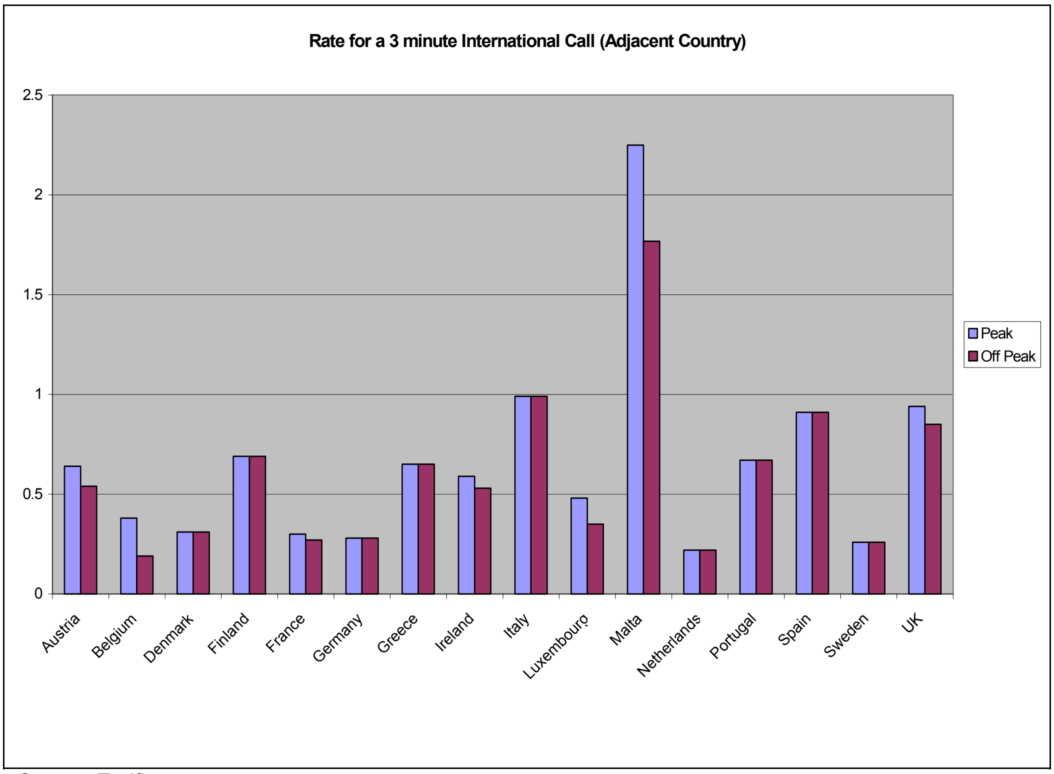


Source: Tarifica

In the comparison above, the UK has the highest charge for a 3-minute local call at peak time, followed by Malta and Austria. Malta has the highest charge for a local 3-minute call during off-peak time followed by Finland and Greece. The main reason for the high costs of the Maltese local calls in comparison to the other countries is the pulse-based charging system. During peak time one pulse consists of five minutes, therefore a local 3 minute call costs the same as a five minute call, and during off peak hours a three minute call also takes up one pulse of call time, when in fact in Malta, one pulse has unlimited duration in off-peak hours.

[2] The effect of tariffs upon consumers in different countries would vary depending upon purchasing power and other factors, however the complexity of adjusting such tariffs to purchasing power parity and also in order to avoid any possible distortions, unadjusted tariffs are represented in the analysis.

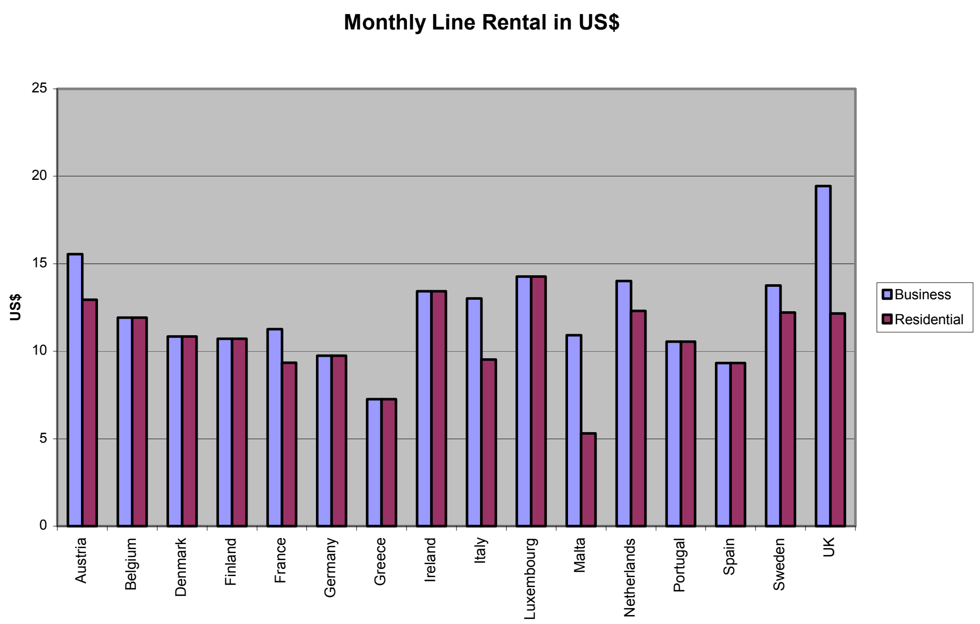
6.2 International Fixed Call Charges (near country)



Source: Tarifica

The chart above shows that Malta's international call charges are exceptionally high in comparison to tariffs in EU countries. In fact the peak charge in Malta is more than twice as high as in Italy, which is the EU country with the highest tariffs in the comparison. The off-peak rate in Malta is also outstandingly high.

6.3 Line rental charges

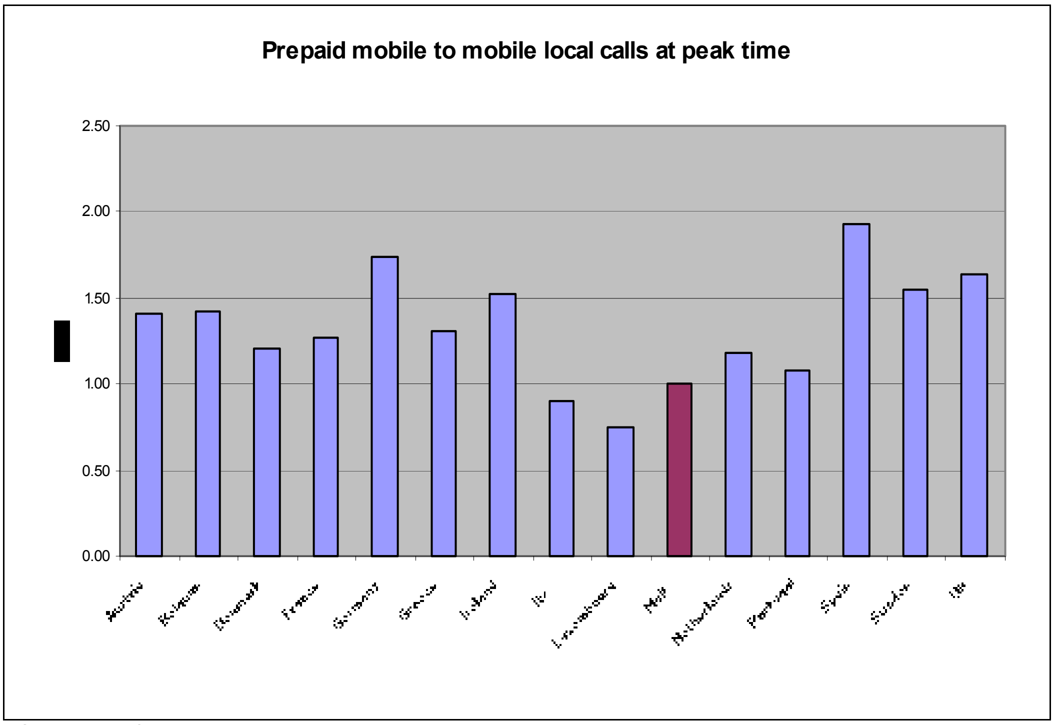


Source: Tarifica

The countries with the largest difference in line rental costs between business and residential are Malta, followed by the UK. Malta has the lowest residential line rental cost, followed by Greece. The business line rental cost is the fourth lowest in the comparison, after Greece, Spain and Germany.

It is important to note that the line rentals represented in the chart do not include offsetting factors such as the free pulses offered in Malta which significantly reduce the effective line rental price.

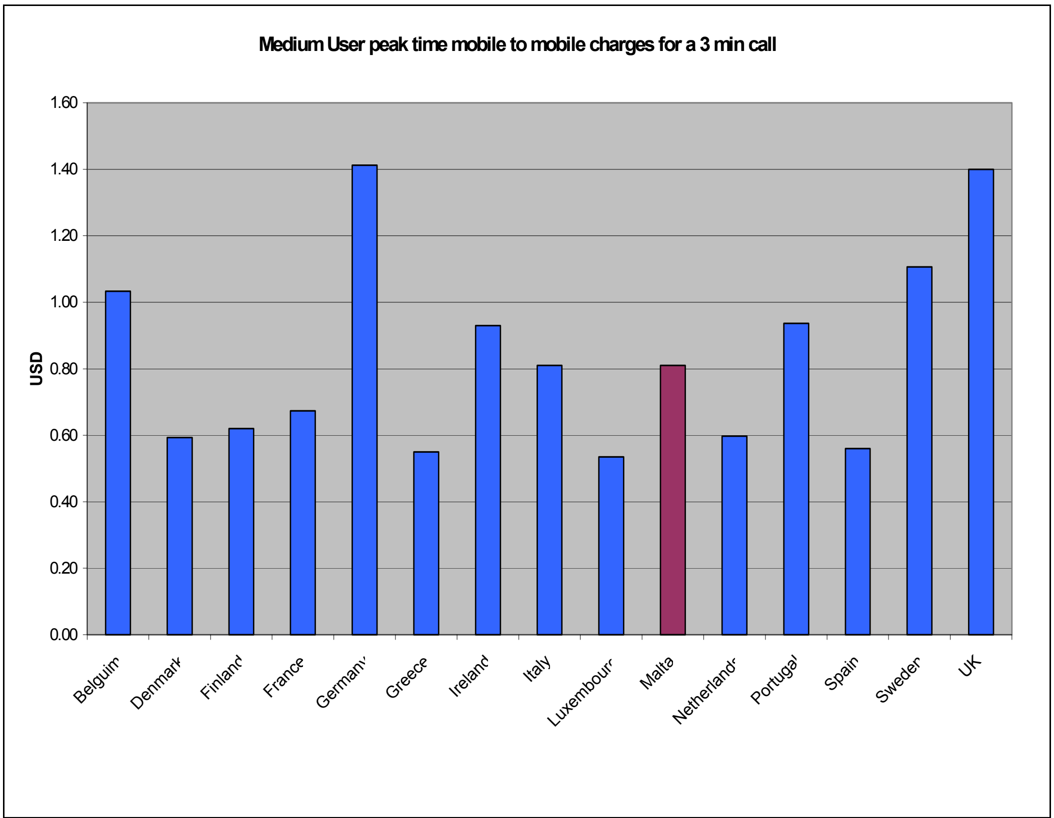
6.4 Mobile to mobile Charges (Peak Time)



Source: Tarifica

A comparison of the price of a 3 minute prepaid local mobile-to-mobile call amongst the EU countries shows Malta being amongst the countries with the lowest charges, following Luxembourg and Italy.

6.5 Medium User peak time mobile to mobile charges (post-paid)



Source: Tarifica

A medium user in Malta making post paid mobile to mobile calls, experiences tariffs that are amongst the highest in EU countries. The highest tariffs are paid by medium post-paid users in Germany, the UK and Sweden.

Further tariff data can be found on:

http://www.mca.org.mt/library/index2.asp?ch=2&lc=1.