

## **Electronic Communications Market Review October 2004 – March 2005**

---

**Malta Communications Authority**

"Il-Piazzetta" Suite 43/44, Tower Road, Sliema SLM 16, MALTA

Telephone: +356 21 336 840

Fax: +356 21 336 846

[www.mca.org.mt](http://www.mca.org.mt)

e-mail: [info@mca.org.mt](mailto:info@mca.org.mt)

## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>5</b>
<b>1 THE FIXED LINE MARKET.....</b>	<b>7</b>
<b>1.1 Fixed Line Subscriptions .....</b>	<b>7</b>
<b>1.2 Fixed Line Telephony Traffic .....</b>	<b>8</b>
1.2.1 Fixed line outgoing traffic terminating on the same network.....	8
1.2.2 Fixed line outgoing traffic terminating on mobile networks .....	9
<b>2 THE MOBILE MARKET .....</b>	<b>10</b>
<b>2.1 Mobile Telephony Subscribers .....</b>	<b>10</b>
<b>2.2 Average Revenue Per User .....</b>	<b>11</b>
<b>2.3 Outgoing Mobile Traffic.....</b>	<b>12</b>
<b>2.4 SMS Traffic .....</b>	<b>13</b>
<b>2.5 Multi Media Messaging.....</b>	<b>14</b>
<b>3 VOICE TELEPHONY MARKET.....</b>	<b>15</b>
<b>3.1 Local Voice Telephony Traffic .....</b>	<b>15</b>
<b>3.2 Voice over Internet Protocol (VoIP).....</b>	<b>16</b>
<b>3.3 International Minutes .....</b>	<b>17</b>
<b>4 THE CABLE TELEVISION MARKET .....</b>	<b>18</b>
<b>4.1 Cable Television Subscribers .....</b>	<b>18</b>
<b>4.2 Cable Television Average Revenue Per Subscriber .....</b>	<b>19</b>
<b>5 INTERNET .....</b>	<b>20</b>
<b>5.1 Internet Subscriptions.....</b>	<b>20</b>

<b>5.2 Internet Traffic - Dial-Up .....</b>	<b>21</b>
<b>5.3 Broadband Internet.....</b>	<b>22</b>
<b>6 EUROPEAN TRENDS.....</b>	<b>23</b>
<b>6.1 EU Broadband Penetration .....</b>	<b>23</b>
<b>7 THE COMMUNICATIONS INDUSTRY IN THE MALTESE ECONOMY.....</b>	<b>25</b>
<b>7.1 Annual Trends.....</b>	<b>25</b>
<b>7.2 Quarterly Developments: First Quarter 2005.....</b>	<b>31</b>
<b>8 REGULATORY DEVELOPMENTS IN MALTA .....</b>	<b>34</b>
<b>8.1 Consultative Documents .....</b>	<b>34</b>
8.1.1 Report on Consultation – Interconnection Strategy for the Electronic Communications Sector in Malta .....	34
8.1.2 Dispute Resolution Procedures in relation to disputes between Undertakings .....	34
8.1.3 Measuring Authorised Operator Quality of Service Performance .....	34
<b>8.2 Decision Notices .....</b>	<b>34</b>
8.2.1 Introducing Number Portability in Malta – A Report on Consultation and Decision.....	34
8.2.2 Interconnection Pricing Review 2004/2005.....	34
8.2.3 Update to the Price Control Review – Report on Consultation and Decision published in January 2003 .....	35
<b>8.3 Legislation.....</b>	<b>35</b>
8.3.1 Legal Notice 522 of 2004 – Data Protection Act (Cap. 440) .....	35
<b>8.4 General Publications .....</b>	<b>35</b>
8.4.1 Policy and Implementation Strategy regarding DTTV, 3G and BWA	35
8.4.2 Call For Applications - Third Generation Mobile Telephony.....	35
8.4.3 Call For Applications - Broadband Wireless Access.....	35
8.4.4 Invitation To Participate In a Comparative Process (Beauty Contest) - Digital Terrestrial Television .....	35
8.4.6 MCA Publishes Results Of Postal Customer Perception Survey.....	36
8.4.7 Report on Consultation – VoIP .....	36
8.4.8 Publishing of Market Review Methodology .....	36
8.4.9 Internet Health Monitoring System .....	36

<b>9 INTERNATIONAL TARIFFS ANALYSIS .....</b>	<b>37</b>
<b>9.1 EU Benchmarking of Wholesale Tariffs .....</b>	<b>37</b>
9.1.1 Fixed Termination Rates.....	37
9.1.2 Mobile Termination Rates.....	38

## EXECUTIVE SUMMARY

This is the sixth publication of the Malta Communications Authority's (MCA) Electronic Communications Market Review. This report provides a general overview of the industry's performance during the six months ending 31 March 2005, including an analysis of the main trends and developments in the various sectors of the Maltese electronic communications market.

The main developments that took place during the six months under review include the call for applications for Digital Terrestrial Television, Broadband Wireless Access and Third Generation Mobile (3G) Technology frequency spectrum allocation. The results of this process are expected to be announced later on during the course of this year. The allocation of this frequency spectrum should result in increased investment in the industry and the commercial launch of more services for consumers.

The period under review was characterised by the continued steady growth in broadband subscriptions. These grew to almost 40,000 connections, a growth rate of 38% when comparing quarter 1 of 2004 to quarter 1 2005. The take up continued to be fuelled by the increase in bandwidth offered to customers, the pay per use concept for broadband and the increase in dial up costs for Internet (dial up) users, besides lower up front installation costs.

Further growth was registered in terms of overall Internet subscriptions, mainly driven by broadband connections. There were more than 87,050 Internet subscriptions reported at the end of March 2005, an 8% growth year on year. Nearly 46% of all Internet connections are broadband. In comparison, in the last market report issued in September 2004 broadband connections made up approximately 38% of the Internet market. This confirms that the shift from dial up Internet to broadband connections is increasing steadily.

The mobile sector continued its consistent upward trend and the end of March saw a total of 308,929 mobile subscribers. This reflects an increase of more than 17,500 subscribers when compared to the six months ending 31 March in 2004. This constitutes a 6% growth in mobile subscribers, which can be considered as healthy, especially in a market that is already reaching saturation point. This means that 78% of the Maltese population own a mobile phone. An interesting new section covering the local use of MMS has been introduced in this report.

International Traffic volumes from both fixed lines and VoIP increased by 10.4% when comparing to quarter 1 of 2004 to the same quarter in 2005. The tariff rebalancing undertaken by Maltacom in June 2004 resulted in a significant reduction in international calling rates for customers. This fall in prices coupled with sustained use of VoIP, continued the upsurge in international outgoing traffic.

The sixth edition of the market report also includes a comparative analysis of various economic and market indicators underpinning the Maltese electronic communications sector.

The first section of the economic report analyses the contribution of the communications sector to the Maltese economy from 2001 to 2004. It also reviews the developments in this sector within the economy in general during 2004. The analysis covers output, labour-productivity and profitability. This section shows that the communications industry registered a marginal increase in turnover of only 0.8% during 2004, which also fell short of 1.6% increase recorded for the economy as a whole.

In 2004, the communications industry recorded a gross operating rate of 15%, slightly higher than the rest of the economy. At the same time the share of household expenditure on telecommunication services remained stable at 4.5%.

The second part of the report covers the industry's performance in the first quarter of 2005, which reflected a contraction of nearly 0.6% in total sector turnover due to the overall drop in the electronic communications sector turnover.

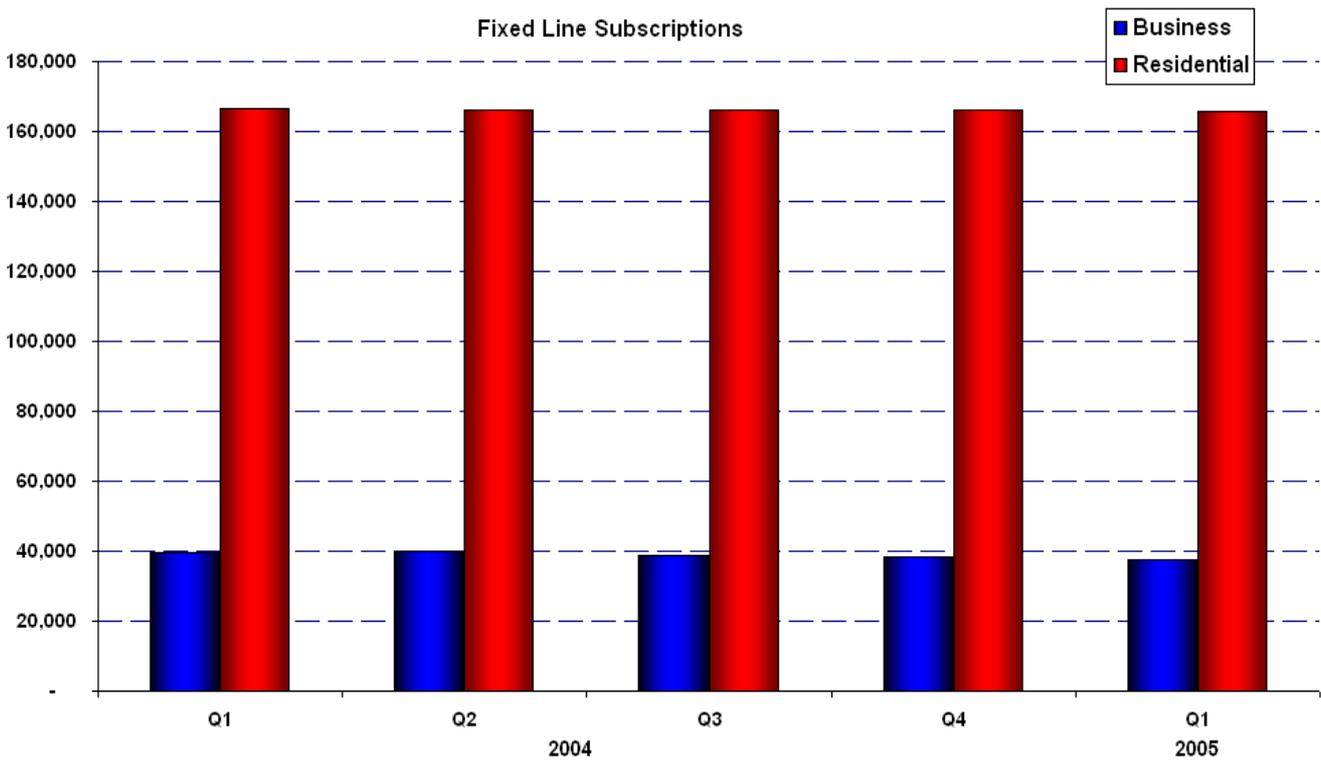
# 1 THE FIXED LINE MARKET

## 1.1 Fixed Line Subscriptions

At the end of March 2005 there were 203,039 fixed-line telephony subscribers. When compared with the figure recorded in March 2004, this signifies a reduction of 1.5%. The penetration of fixed line telephony now stands at 51 lines per 100 inhabitants.

This slight decrease in fixed line subscriptions can be attributed to the increase in the monthly fixed line rental price and the reduction in 'free pulses' that came into effect in June 2004 and the subsequent increase in broadband take up. This may have had an impact on a number of households resulting in the removal of their second fixed line that was primarily utilised for dial up Internet.

The following chart shows the split between residential and business subscribers. In fact 19% of fixed line subscribers are classified as business lines with the rest being residential.

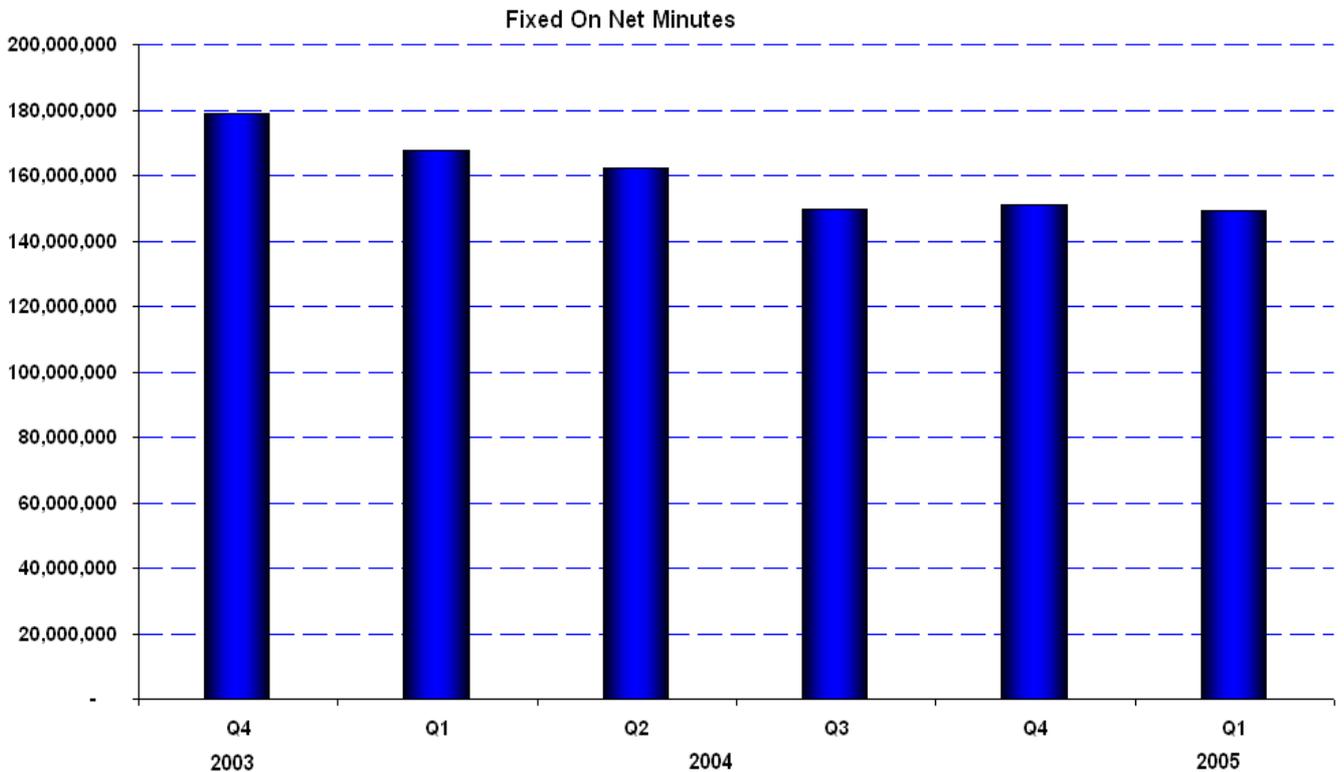


## 1.2 Fixed Line Telephony Traffic

### 1.2.1 Fixed line outgoing traffic terminating on the same network

The chart below reflects fixed line traffic minutes originating and terminating on Maltacom's own network for the period under review.

The downward trend in fixed line minutes has continued and is shown in the chart below. When comparing the figures for Quarter 1 2005 with the same quarter in 2004 a drop of 18.5 million minutes can be noted. This 11% reduction can possibly be attributable to the trend in fixed to mobile substitution and reduced usage as a result of the increase in cost of local calls during off peak hours (i.e. after 18.00 hrs).

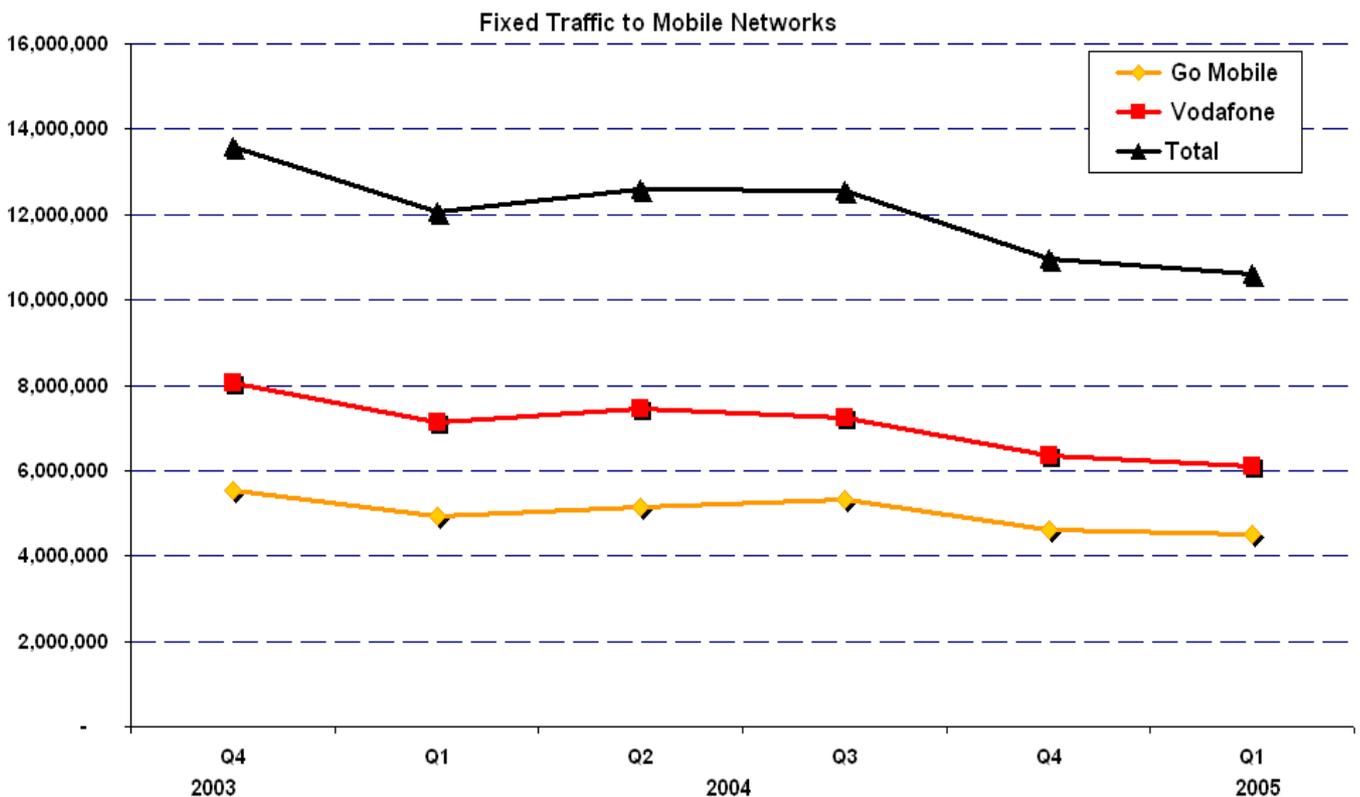


### 1.2.2 Fixed line outgoing traffic terminating on mobile networks

The shift from fixed-line to mobile communications can be pegged against the continued take up of mobile subscriptions. In fact the mobile penetration rate in Malta, which currently stands at 78%, results in increased usage of mobile as opposed to that of a fixed lines.

In fact the graphical illustration below highlights the fact that fixed line to mobile traffic has been declining steadily over the past year.

The results below also confirm the fact that communication has become noticeably more direct and personal. Many individuals contact family and friends either by means of a mobile call or an sms. This behavioural trait results in the downward shift in fixed to mobile traffic. In fact, when comparing Quarter 1 of 2004 with the same period in 2005, a decline of 1.4 million minutes can be noted, 11.9% less in fixed originating minutes terminating on mobile networks.

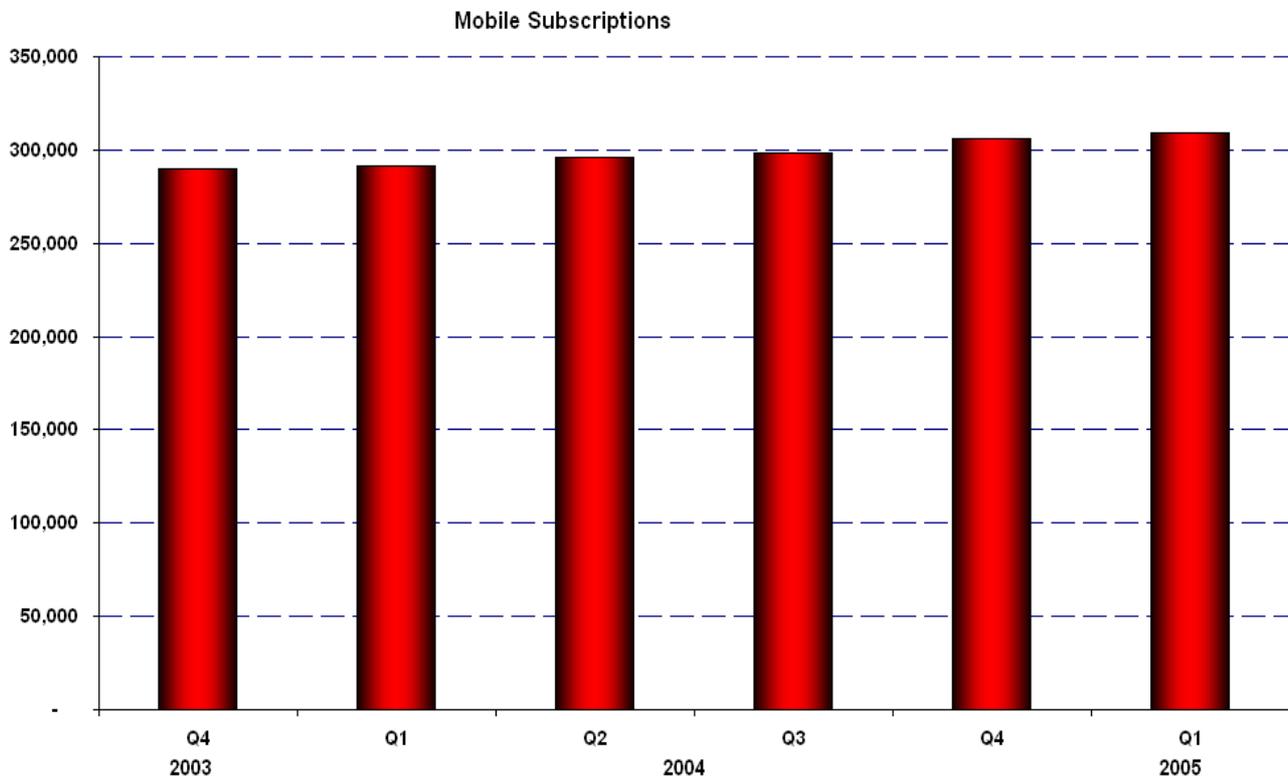


## 2 THE MOBILE MARKET

### 2.1 Mobile Telephony Subscribers

As at March 2005 there were 308,929 *active* (only subscribers that have been active during the previous 90 days are included in this figure) mobile subscriptions in Malta. This means that Malta has a mobile penetration rate of 78%.

This figure represents an increase of over 17,500 subscriptions since March 2004. This growth pattern in this sector has maintained its extremely positive trend with an increase in mobile penetration of over 4.4% since March 2004.

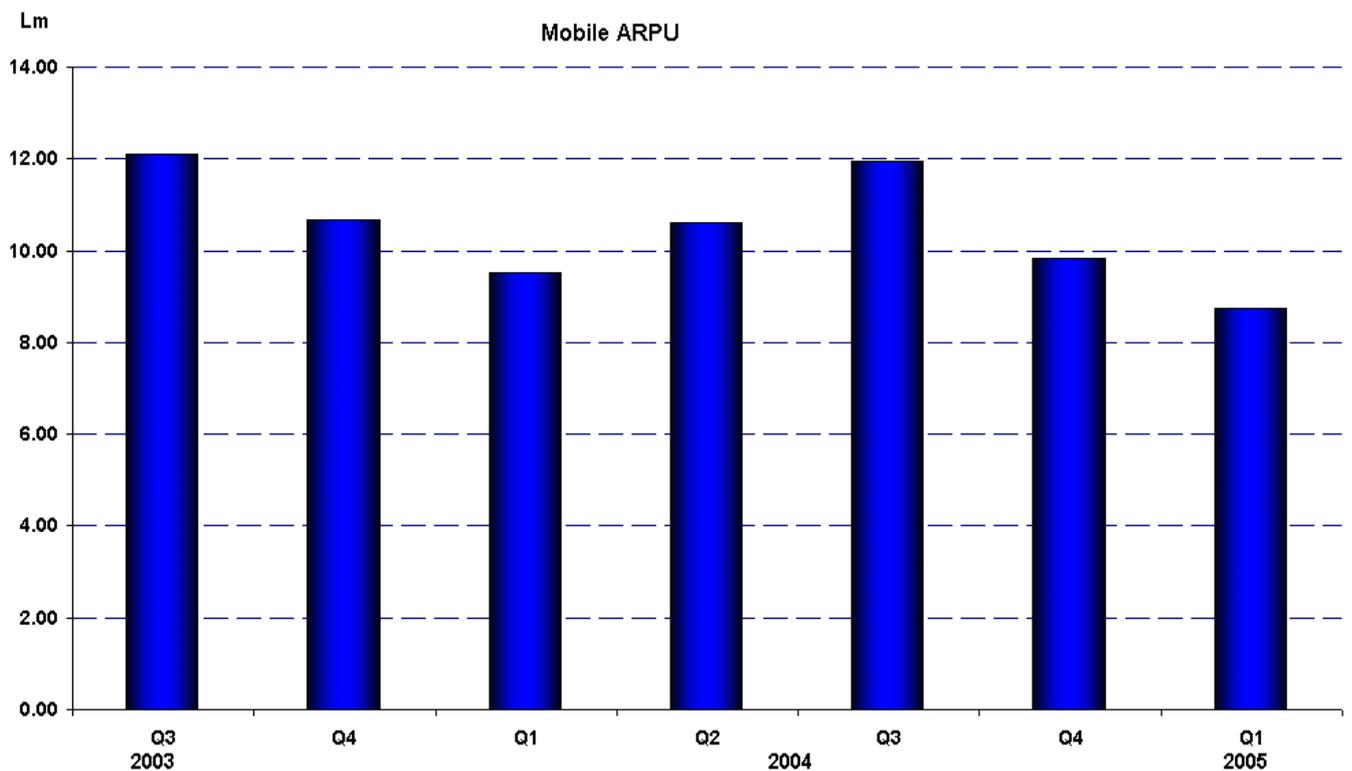


## 2.2 Average Revenue Per User

The chart below shows the monthly weighted average revenue per user (ARPU) in the local mobile market. This indicator represents the average amount of revenue generated by a local mobile subscriber for a network over a one-month period.

The ARPU includes revenues generated from outbound and inbound traffic and roaming revenues for local subscribers but exclude the revenues generated by the local operators from foreign visitors to Malta.

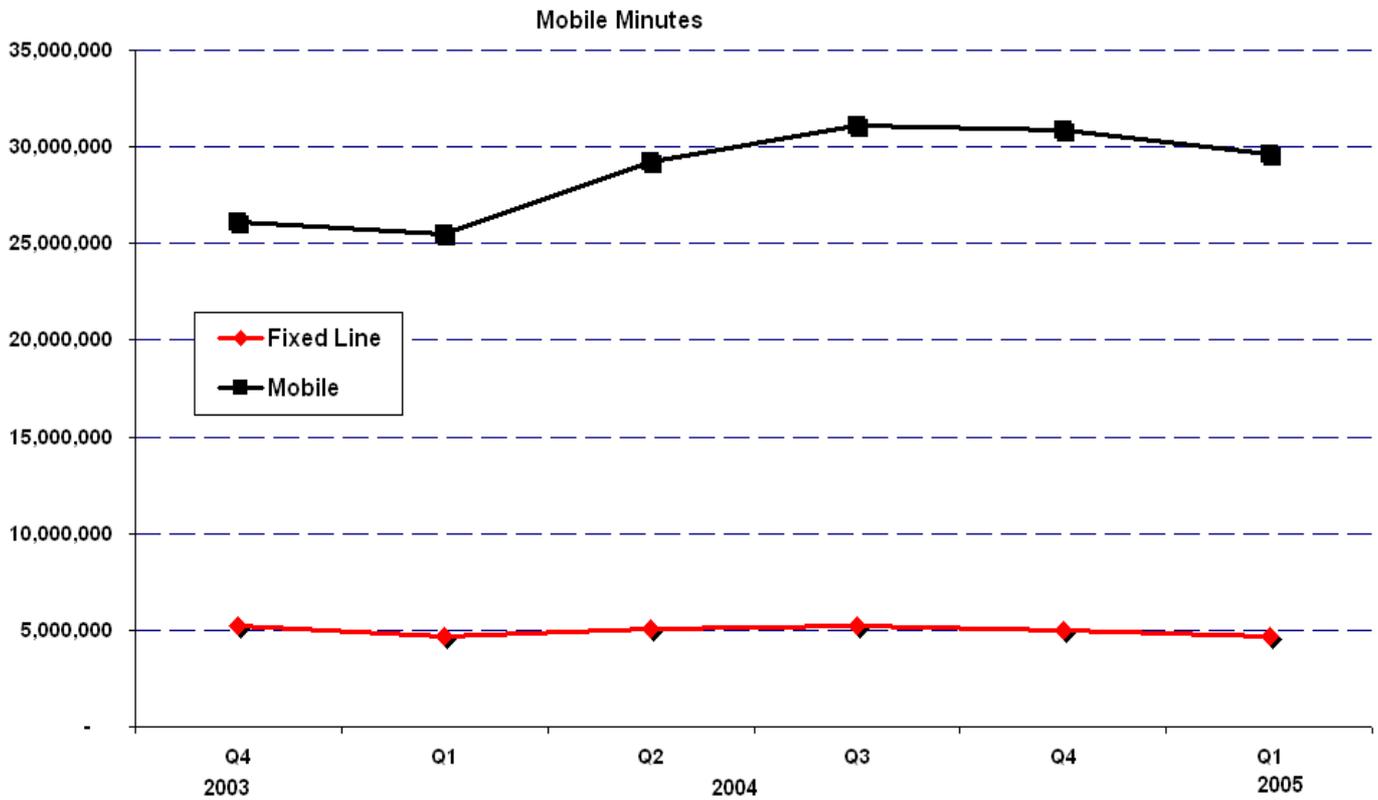
The ARPU figures traditionally follow a seasonal pattern. This is evident when analysing the summer periods where the amount spent on mobile services is usually somewhat higher than other periods during the year. However, as can be seen below the ARPU figure actually had a decrease of 8% in Quarter 1 of 2005 when compared to the comparable quarter of 2004. This may be partly due to the increase in the local subscriber base (new subscribers) spending less and pushing down the ARPU figure.



### 2.3 Outgoing Mobile Traffic

The graph below illustrates the total number of minutes generated by mobile subscribers during the period under review. It shows the outgoing mobile traffic towards mobile and fixed networks.

The seasonal trends can be clearly observed. However the continued increase in mobile minutes is also evident. In fact during quarter 1 of 2005 mobile to mobile traffic increased by over 16% when compared to the same period in 2004. This translates into an increase of over 4 million minutes. The consequential effect of this increase in traffic volumes on mobile to fixed line traffic resulted in less traffic from mobile users to fixed line numbers. In fact there was a reduction of 0.5% from the same periods in 2004 when comparing it to 2005. This confirms the fact, that the mobile is gradually becoming the main and preferred method of communication.

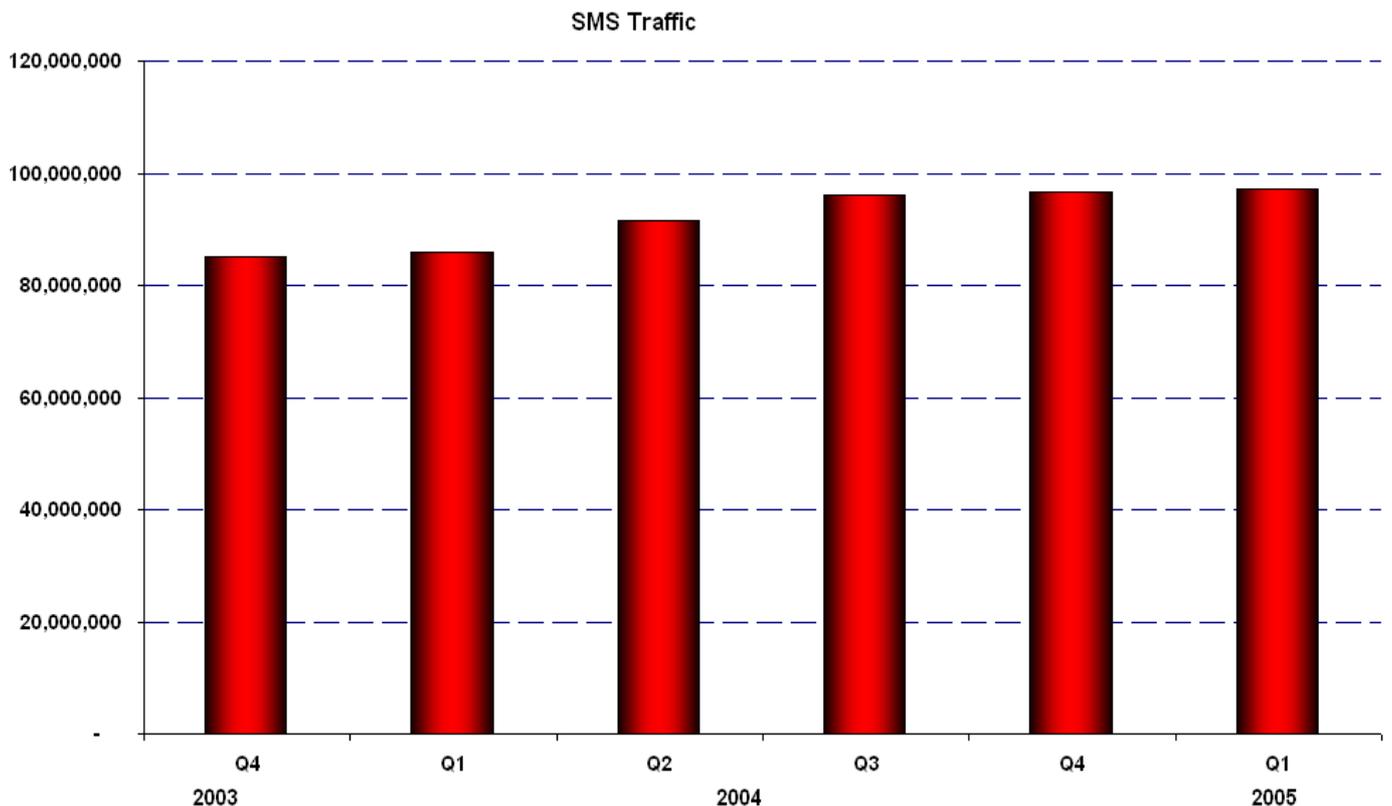


## 2.4 SMS Traffic

SMS traffic volumes have continued their upward trend. As can be seen below in the graph, SMS usage has not abated and in fact grew by 11.4 million messages, or 13.3%, between quarter 1 of 2004 and the same quarter in 2005.

The last Electronic Communications Market Review carried an analysis of SMS usage in the EU member states. The main characteristic of the analysis was Malta's status as the highest SMS user in Europe. It is likely that this status has been maintained.

Both operators had reduced their SMS tariffs during the last quarter of 2003. Since that time there have been a number of SMS promotions based on reduced tariffs and top up vouchers but not any further permanent tariff adjustments. Nevertheless SMS volumes have increased, although it must be said that the number of mobile subscribers has also grown by 4.4%.



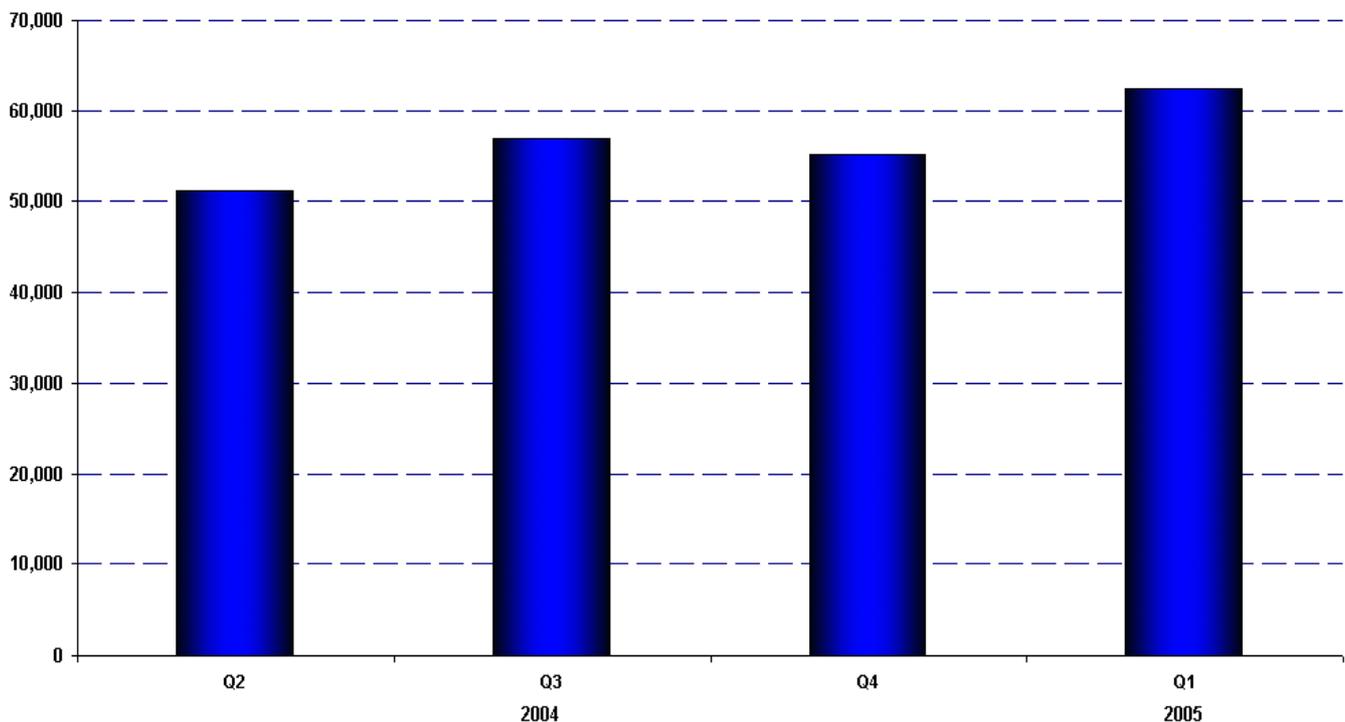
## 2.5 Multi Media Messaging

Multi Media Messaging means the transmission of messages containing text, graphics, photographic images, audio and even video clips between mobile devices.

MMS was introduced in Malta towards the end of 2002. The service was free of charge until March of 2004. However, when considering the number of MMS enabled handsets that are currently in use, MMS traffic can be construed as unsatisfactory. This could be due to tariff complexities, cost or the actual experience of sending, or need to send, an MMS. Another reason could be the lack of knowledge of who actually has a handset capable of receiving an MMS.

On this note a positive development was registered in March of 2005 when an agreement was reached between both mobile networks that allows subscribers to send MMS across networks. Up till that point subscribers were limited to sending MMS only to other subscribers on their same network.

It will be interesting to follow the progress of MMS traffic following this development. The graphical illustration below only shows the traffic volumes from quarter 2 of 2004 onwards i.e. when MMS tariffs were introduced.

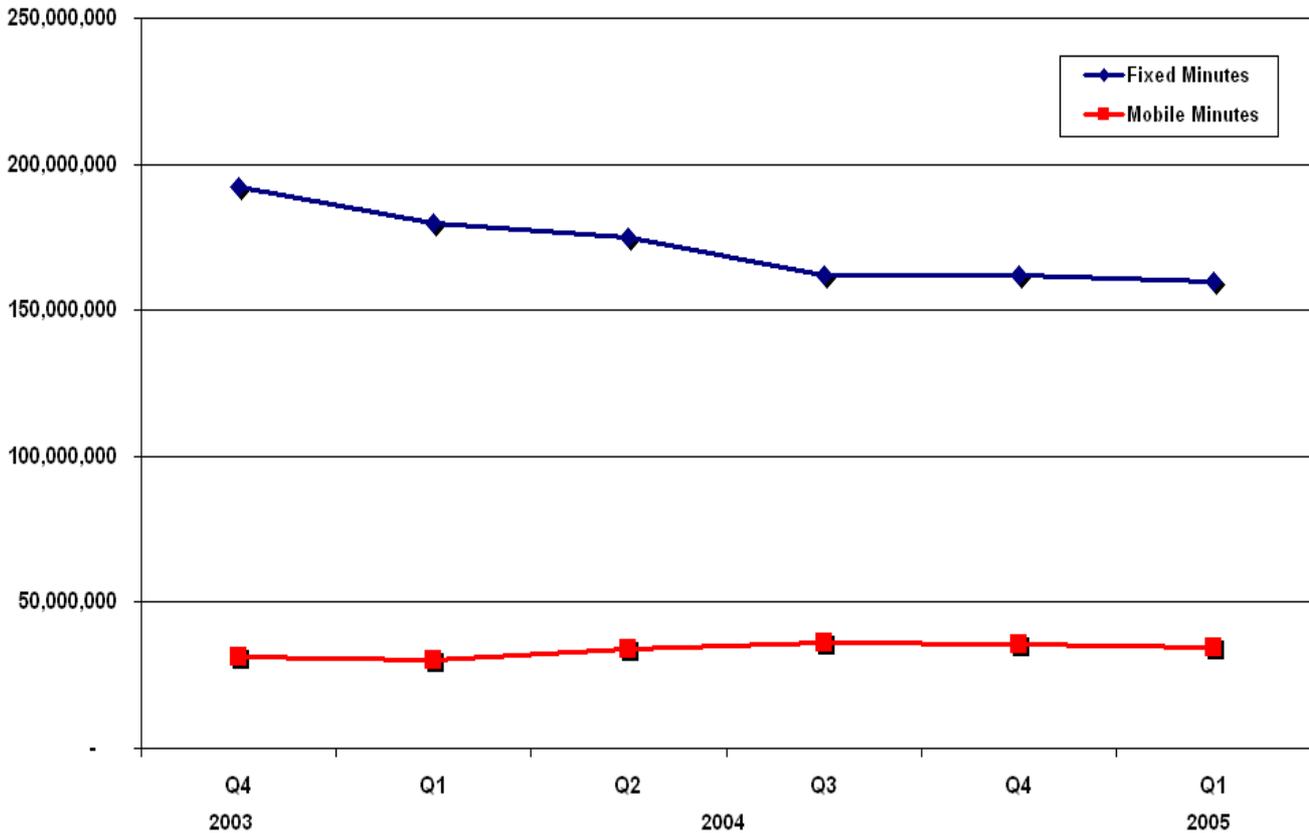


### 3 VOICE TELEPHONY MARKET

#### 3.1 Local Voice Telephony Traffic

The illustration below shows the total volume of local voice minutes (both fixed and mobile). The decline in the usage of fixed-to-fixed-line telephony is evident. Nevertheless, it still remains the most highly used form of communication in terms of absolute volume of minutes consumed with nearly 160 million minutes in Quarter 1 of this year. There is however a decline of 11% in fixed line to fixed line traffic over the comparable quarter in 2004.

By comparison, during the same time span, mobile-to-mobile traffic rose to 34.3 million minutes. This represents an increase in excess of 14% and therefore confirms the trend in mobile telephony noted earlier in this report.

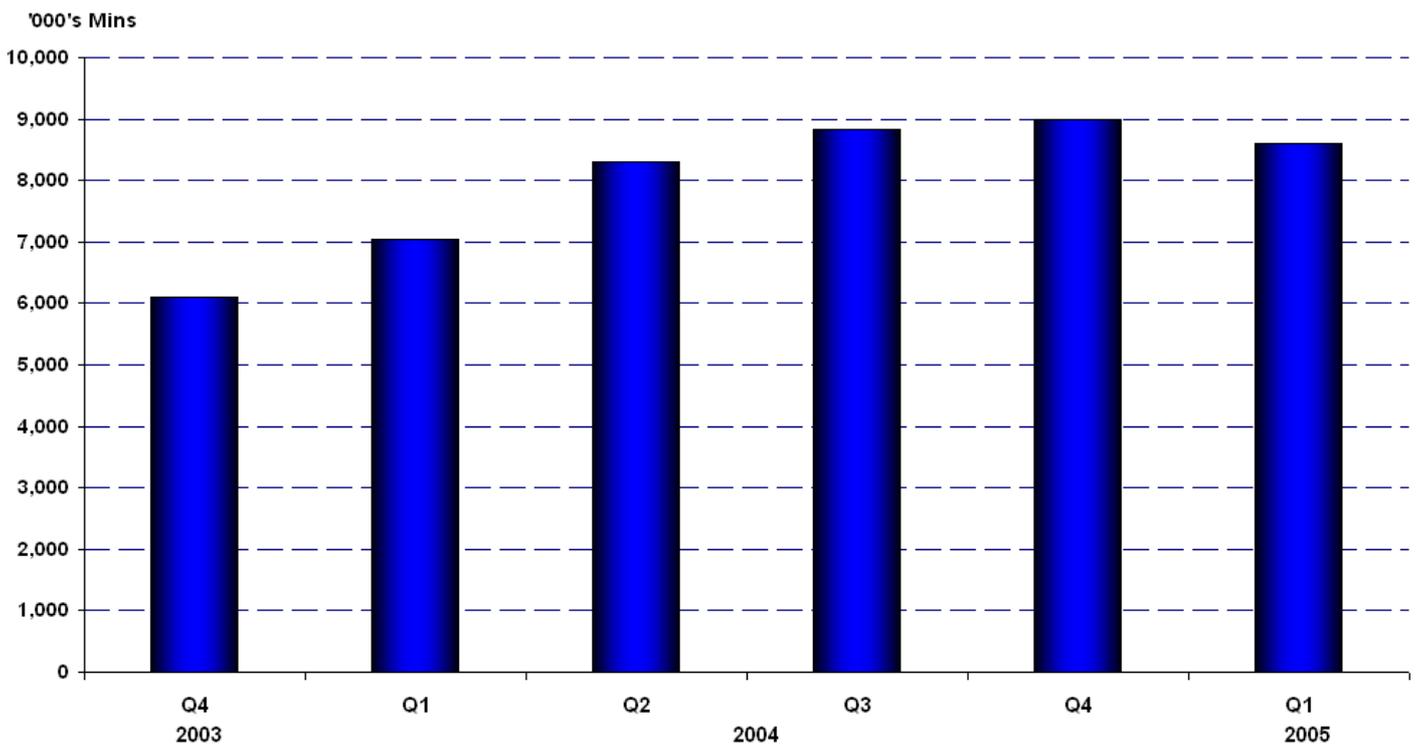


### 3.2 Voice over Internet Protocol (VoIP)

VoIP traffic volumes continued to increase during 2004 dipping slightly during the first quarter of 2005. Overall growth is quite conservative when compared to the trends experienced in 2003 and to a certain extent in 2004. In fact it is evident that when the first phase of Maltacom's tariff re-balancing came into effect, (with much reduced prices for international calls offered by Maltacom as from quarter 2 of 2004) VoIP traffic seems to have reached a plateau.

However, usage in quarter 1 of 2005 is still 18% more than the same period in 2004. It will be interesting to compare the last 3 quarters of 2005 with 2004 as a one-year time series with reduced tariffs.

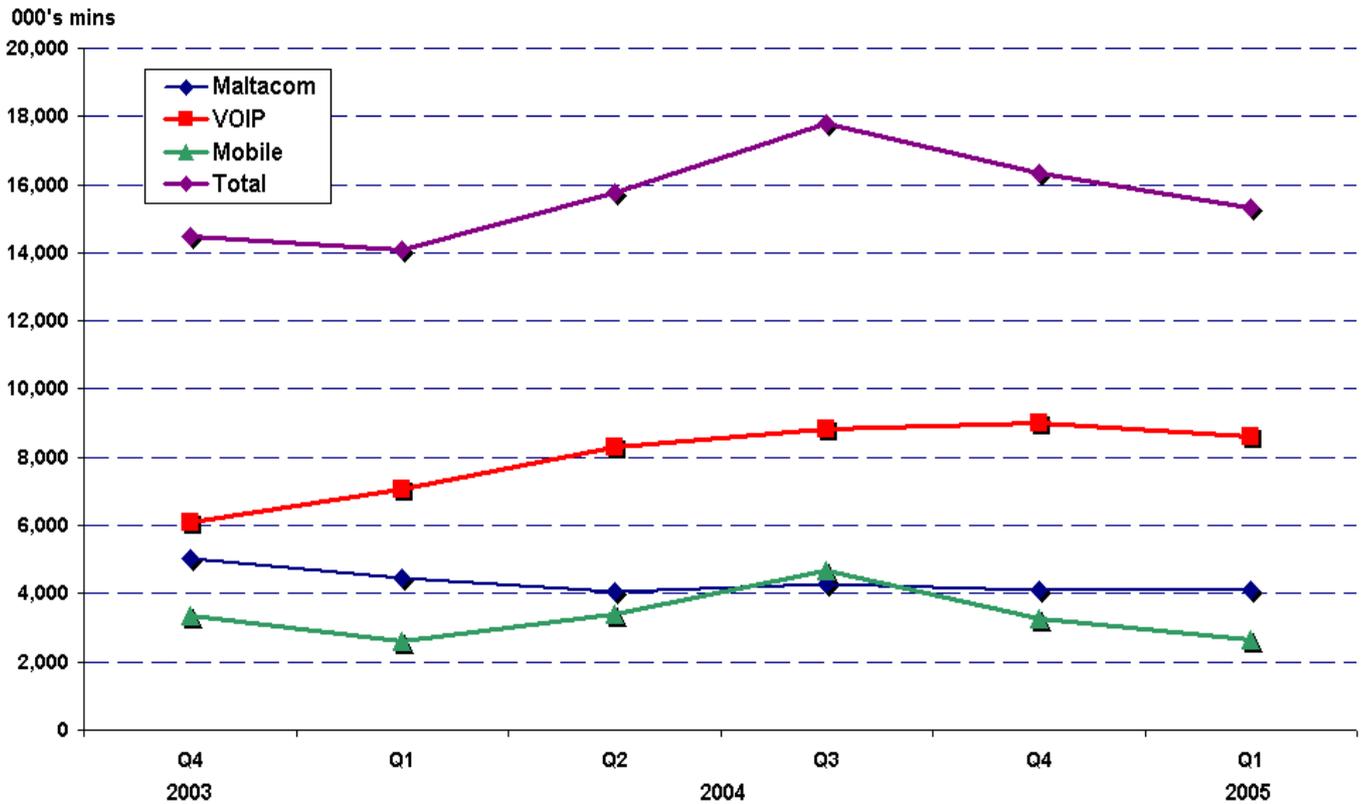
It is important to note that in December 2004 Maltacom created a daily time window between 20.00 hrs and 22.00 hrs during which international calls were discounted by 50%.



### 3.3 International Minutes

Total international outgoing minutes increased by 8.8% when quarter 1 of 2005 is compared to the same period in 2004. VoIP traffic increased by 22% whilst mobile minutes increased by 2%. Fixed line volumes decreased by 8.3%. As can be seen, the growth has been mainly sustained as a result of VoIP traffic. However as described previously, the trend of VoIP international traffic growth seems to have been stemmed and has even decreased in the last quarter under review. On the other hand Maltacom international traffic seems to have stabilised.

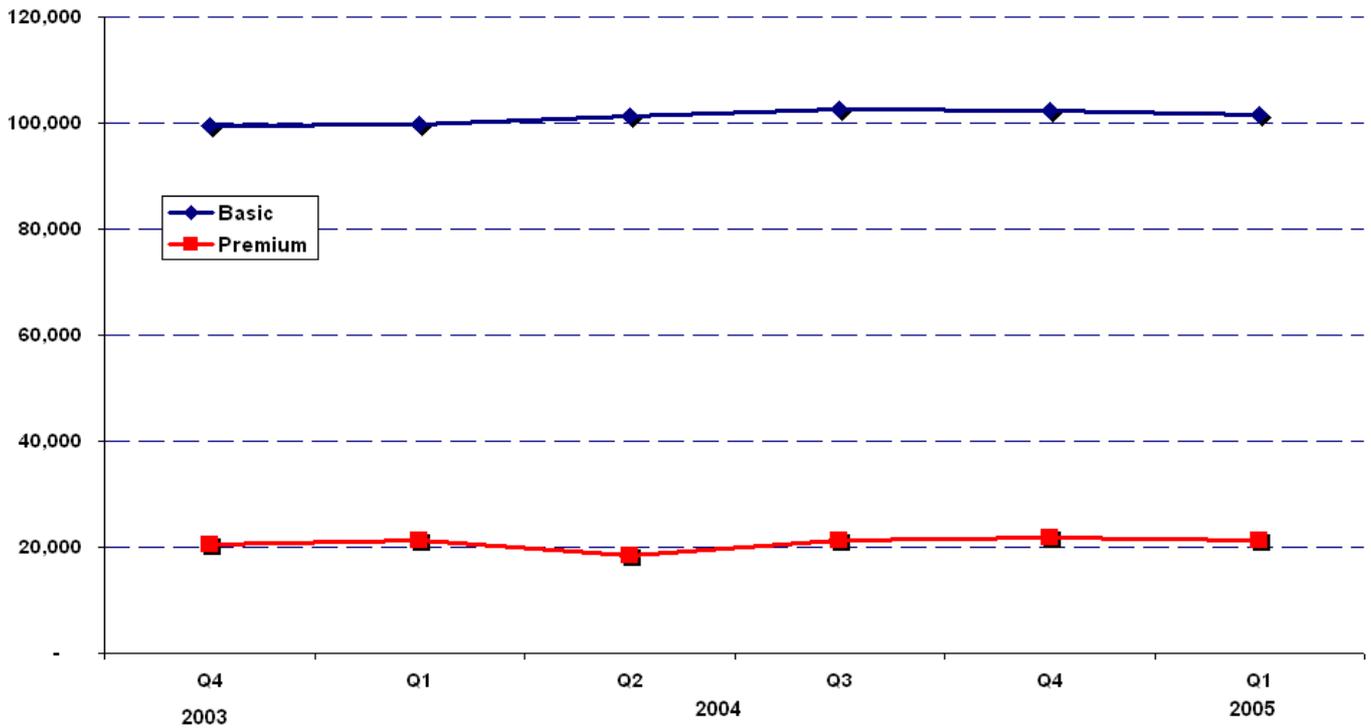
Mobile international minutes – which include also the traffic originated by visitors to Malta - peaked in the summer months for obvious reasons.



## 4 THE CABLE TELEVISION MARKET

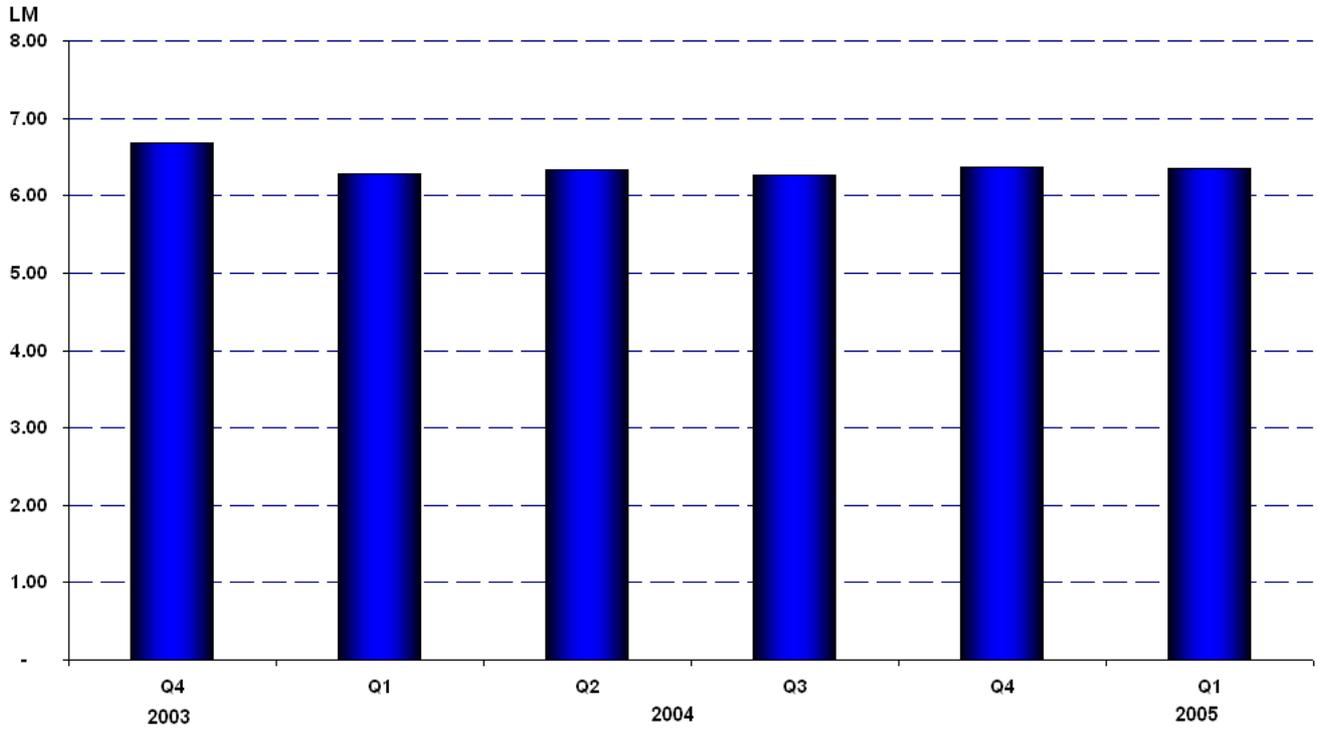
### 4.1 Cable Television Subscribers

Melita Cable launched its Digital service in February of this year. At the end of March 2005, there were 101,558 cable television subscribers, both Analogue and Digital. 21,232 of those subscribers had a Premium subscription. When compared to March 2004, Cable TV subscriptions grew by 1.8%, whilst premium subscriptions decreased minimally by 0.08%.



## 4.2 Cable Television Average Revenue Per Subscriber

The graph below shows the average monthly amount spent per subscriber on cable television services for the past year. An increase of 1.25% in ARPU can be observed in Quarter 1 of 2005 when compared to the same period last year.



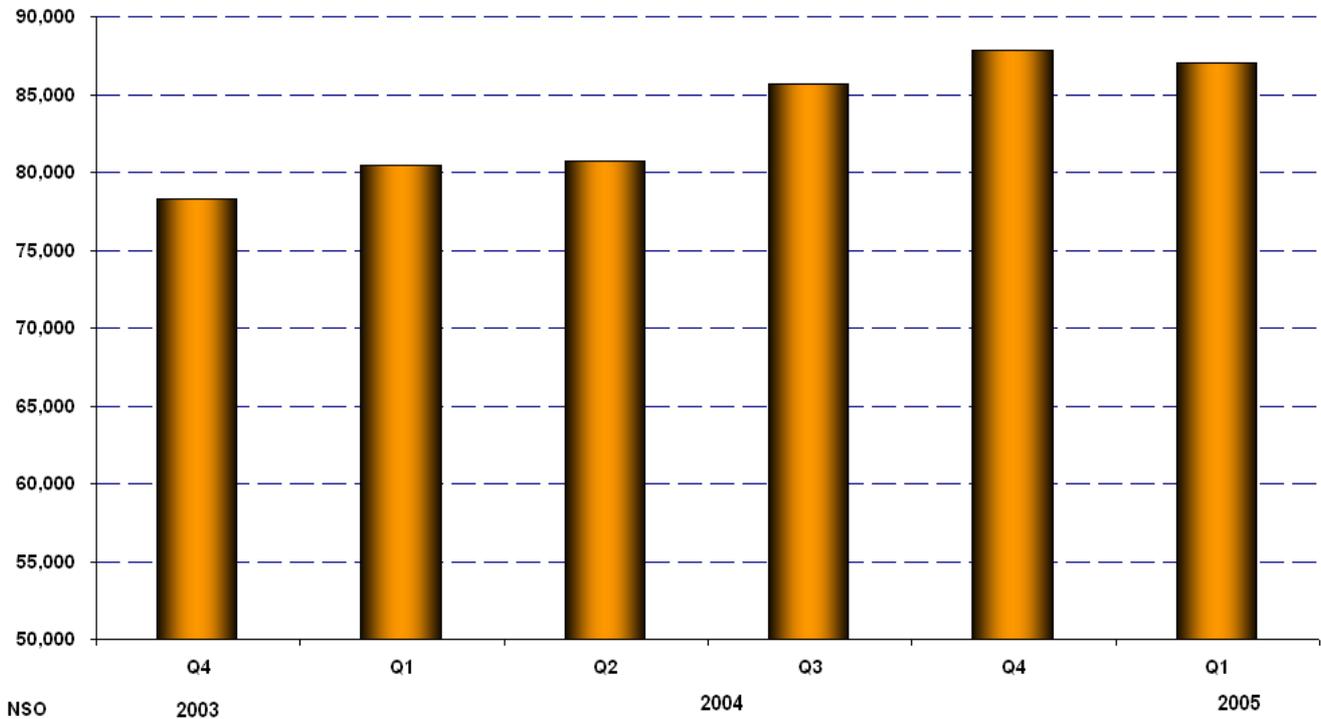
## 5 INTERNET

### 5.1 Internet Subscriptions

At the end of March 2005, the total number of Internet subscriptions, both broadband and narrowband, amounted to 87,050 - up by 6,597 subscribers or 8.2 % since March of 2004.

Consequently this translated to 20.3 subscriptions per 100 inhabitants, compared to 18.3 in the first quarter of 2004.

The graph below shows that between quarter 4 of 2004 and quarter 1 of 2005 there was a very slight decrease in total Internet subscriptions.

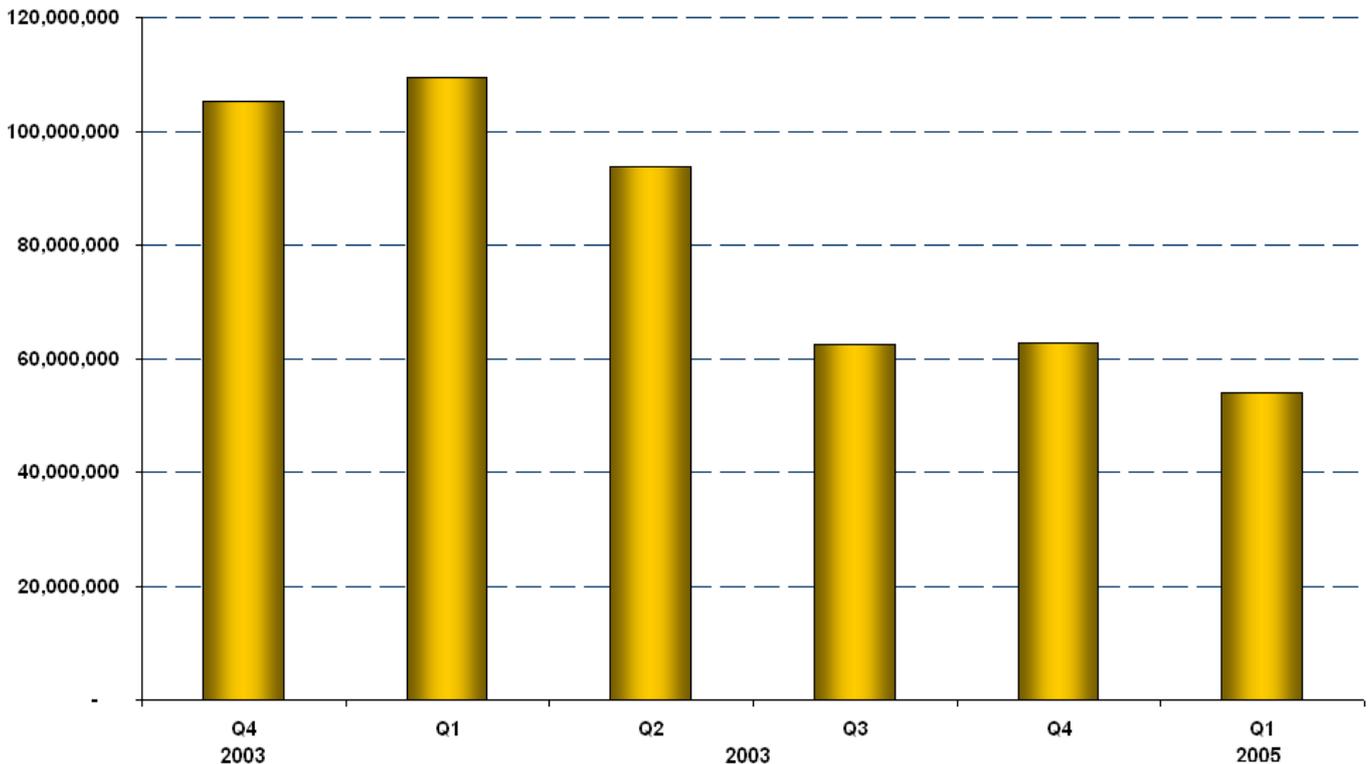


## 5.2 Internet Traffic - Dial-Up

The graph below shows the number of fixed line minutes used by subscribers to access Internet services. Although seasonal trends with respect to Internet usage can easily be observed there is evidently a drastic decrease in the volume of Internet minutes. Quarter 1 of 2005 experienced a downward trajectory of 50% in Internet traffic minutes when compared to the same period in 2004. The primary reasons for this decline are mainly twofold:

1 - Tariff rebalancing in fixed-telephony, which resulted in the duration of a pulse being reduced to 30 minutes, from an unlimited duration after 18:00 hrs, is a primary reason. This came into effect in June 2004.

2 - Continued proliferation of broadband services during the period under review effectively meant that 'heavy internet users' are migrating to the more efficient, and now cost effective solution, from the traditional dial-up method of accessing the Internet to broadband. This steady shift subsequently led to the considerable reduction in Internet minutes shown in the graph below.

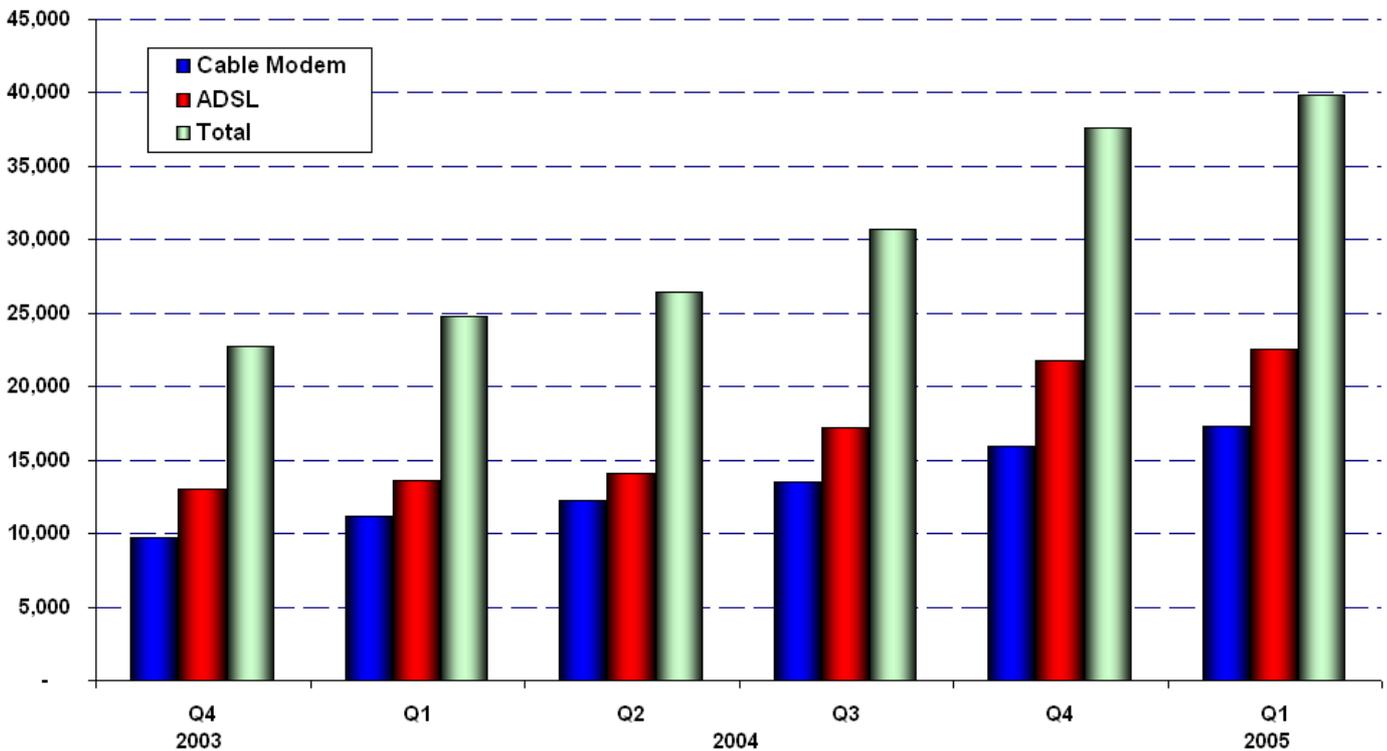


### 5.3 Broadband Internet

Broadband connections have continued to grow, a trend emphasised in the graph below. In fact a 61% increase was registered since quarter 1 of 2004 with more than 15,000 new connections.

As stated in the last publication of this report the demand for such services escalated partially due to the increase in the cost of dial up connections as a result of the Maltacom tariff rebalancing exercise. This coupled with increased marketing by the transport providers and sizeable discounts on upfront costs for installation and modems, have steered broadband to the current levels of penetration.

The Prepaid Broadband packages introduced in mid 2004 and the increased bandwidth offering to subscribers later on in the year have unquestionably also encouraged Internet users to install a broadband connection.

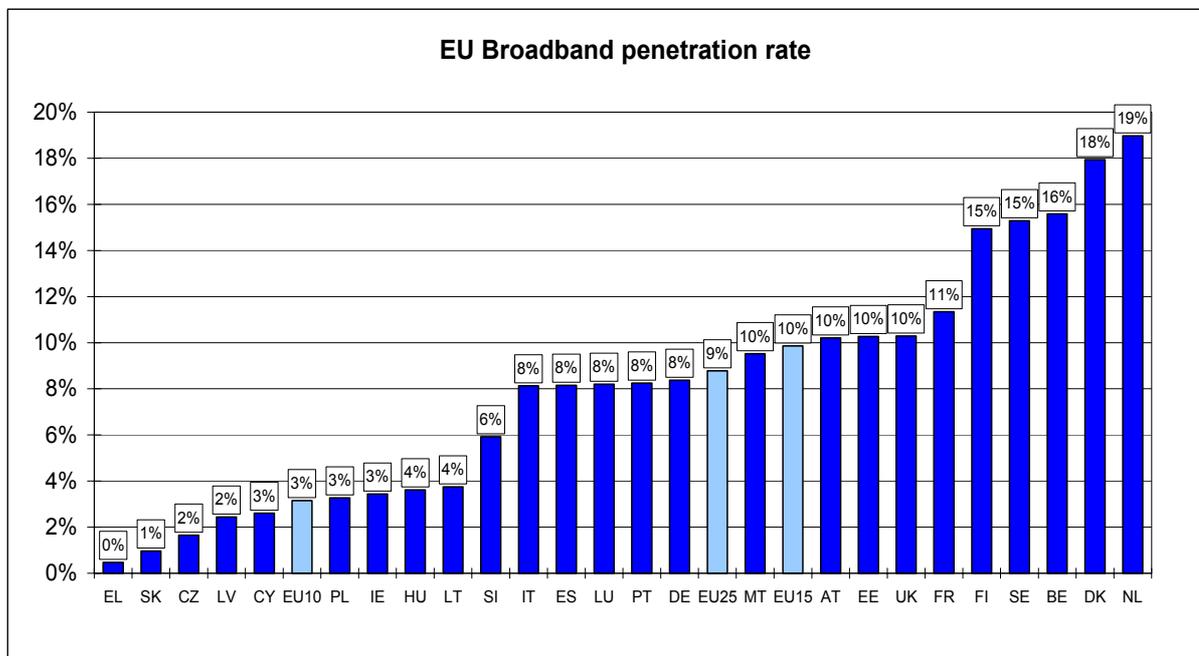


## 6 EUROPEAN TRENDS

### 6.1 EU Broadband Penetration

The illustration below shows the number of broadband connections per population in the EU member states as at January 2005. The emphasis on Broadband growth is definitely high on the agenda of every EU member state.

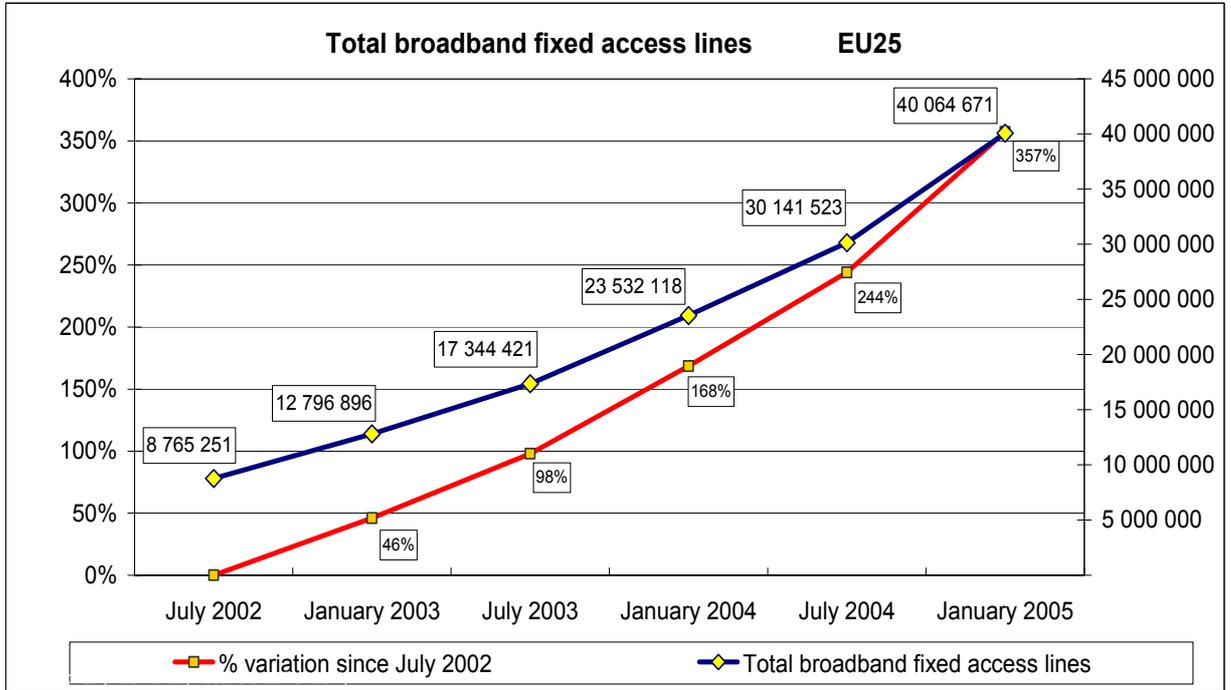
It is encouraging to see that Malta now has a 10% broadband penetration and that it is higher than the EU average of 9% and at the same average rate as that of the EU15. In fact when compared with the average of the new EU entrants, Malta is placed well ahead as the average rate is 3%.



Source EU

Broadband Internet access can be provided by different means: digital subscriber line (DSL), wireless local loop, (WLL), cable TV access (cable modem), dedicated leased lines and other access technologies (satellite, optical fibre, powerline communications). DSL has increased its importance as the predominant technology and now represents almost 80% of all broadband lines, with cable modem accounting for most of the balance.

The number of broadband lines in the EU is now over 40 million and take-up is growing faster than a year ago. In fact broadband take-up is growing faster than any previous new service (e.g. mobile) across the OECD.



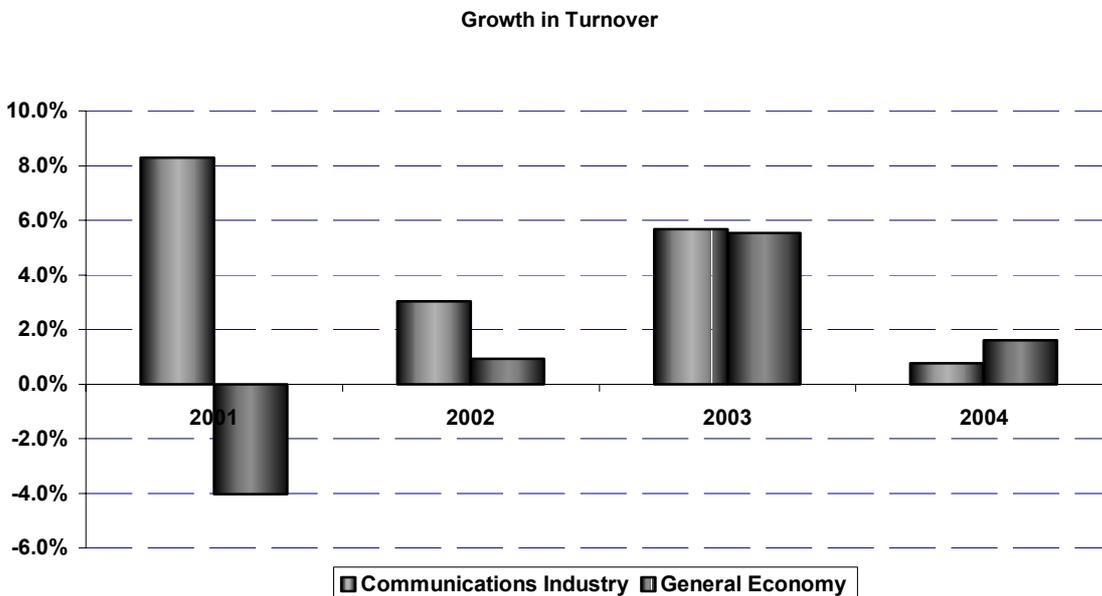
Source EU

## 7 THE COMMUNICATIONS<sup>1</sup> INDUSTRY IN THE MALTESE ECONOMY

### 7.1 Annual Trends

Evidence from the first nine months of 2004 suggested that the contribution to value added of the Communications industry would remain stable at 3%, while the growth rate in turnover would fall short of that for the economy as a whole for the second consecutive year. Data for the whole of 2004, shown in Chart 1.1, confirmed both these expectations.

Chart 1.1



Sources: NSO

However, whereas in 2003, this was just a nominal occurrence, in 2004 it seems that turnover growth might actually have contracted in real terms. This is because whereas in 2003 no significant price increases in the industry were registered, the 2004 tariff rebalancing for the fixed-line telephony business caused an increase in the overall prices for the industry. An accurate quantification of this contraction is not possible as an adequate deflating factor is still unavailable. However evidence from both the Transport and Communications sub-index of the RPI and the experimental Electronic Communications Index of the MCA<sup>2</sup>, points to an increase in overall prices during the current year.

<sup>1</sup> The communications industry incorporates posts, courier and telecommunications services.

<sup>2</sup> The electronic communications price index, which was developed in conjunction with the NSO, is still in its testing phase and is expected to be published in the next market review.

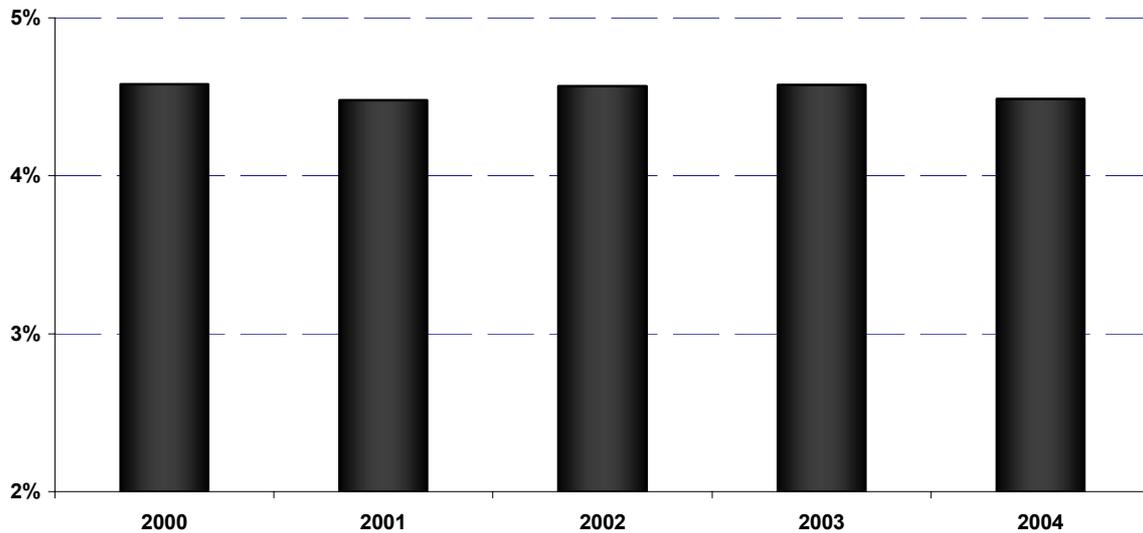
The source of this sluggish nominal growth is two pronged. Firstly, the electronic communications sector is going through a consolidation phase, in which other more modern lines of business are compensating for the contractions in turnover of the more traditional businesses in the sector. As a result of this offsetting effect in this sector, aggregate turnover edged up only marginally during 2004. Probably, this is a result of competitive developments in the sector, which are permitting consumers to shop-around amongst competing technologies for their telecommunications needs. In the process consumer expenditure is rationalised as demand shifts towards the less expensive offers in the market.

Overall however, this compensating effect, was offset by a drop in turnover of the non-electronic communications sector of the industry during the last quarter of 2004.

The effect of competition on consumer behaviour towards electronic communications services can also be seen from Chart 1.2, which shows the share of households' expenditure on these services. In fact, in 2004 this rate stood at 4.5%, a marginal drop from the rate of 4.6% recorded during the previous year. Given that overall prices increased during 2004, the noted level of expenditure suggest that consumers are constantly looking at cheaper options to maintain their level of expenditure stable. However one has also to take into account the quality improvements of the services offered in the market, which is permitting consumers to get more value with the same level of expenditure.

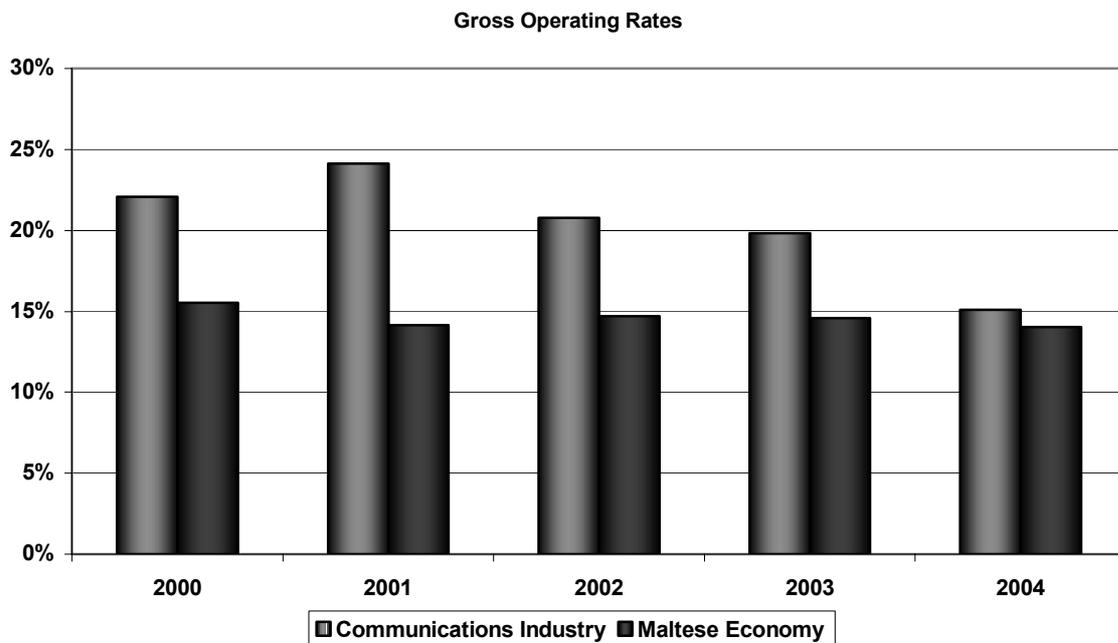
Chart 1.2

Share of Telecommunications Expenditure in Total Households' Consumption



Market liberalisation in the electronic communications sector is also affecting the profitability rate of the communications industry. In fact, as can be seen in Chart 1.3, although the gross operating rate<sup>3</sup> (GOR) of the industry remained higher than that of the whole economy throughout the reviewed period, the difference between these rates is shrinking gradually. This is primarily the result of the consolidation in the fixed-line business, which is experiencing higher competition from other, more modern, forms of communication. This incident is not unique to the local scenario but it can be observed in other liberalised markets internationally. Indeed the fixed telephony business has been affected by higher mobile substitution and other alternatives such as Voice over IP (VoIP) and e-mail.

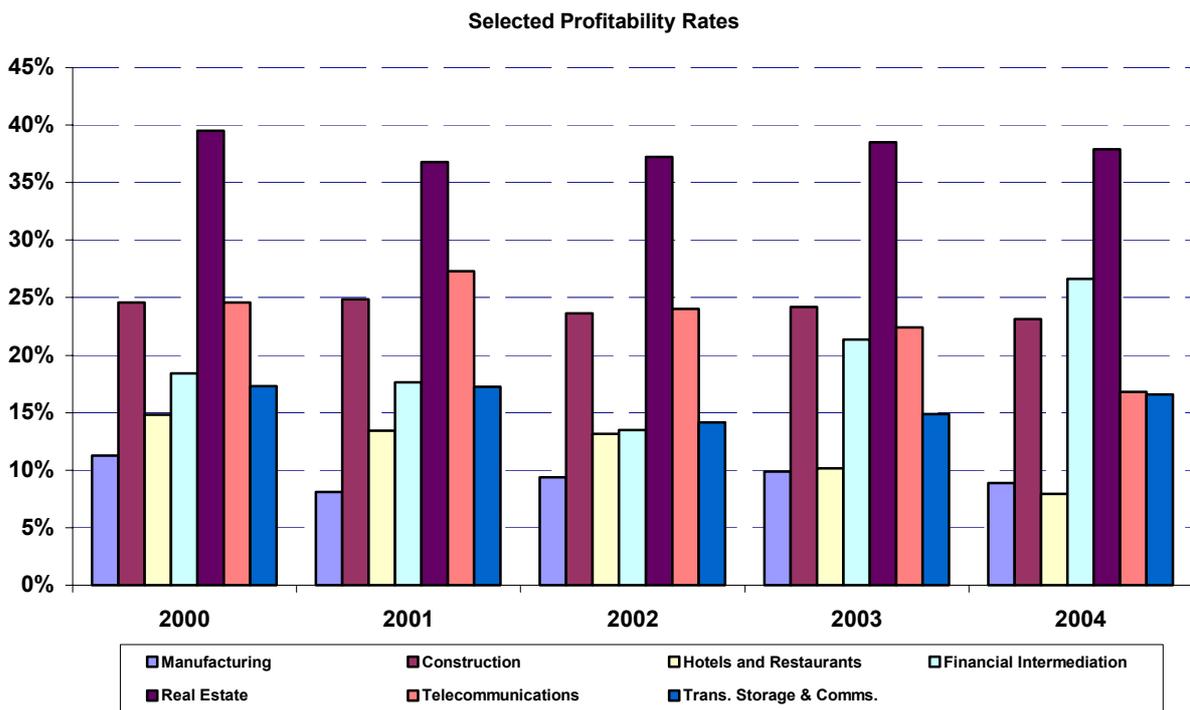
Chart 1.3



<sup>3</sup> The GOR is a measure of profitability, it shows how much of the value added is left after the labour component of the industry is compensated, as a percentage of turnover.

Such a declining trend can also be observed when these profitability rates are compared with the those of other industries in the economy, as shown in Chart 1.4 hereunder. One can notice that historically, the Electronic Communications sector recorded one of the highest operating rates, second only to real estate. Over time, however, as the GOR of the sector declined gradually, other growing industries, such as financial intermediation and construction, surpassed it.

Chart 1.4



Sources: NSO

The Communications industry is driven by the Electronic Communications firms, which due to their capital intensity, can benefit from considerable labour productivity. Chart 1.5 compares a rough measure of labour productivity for the industry with that of the Maltese economy as a whole. Labour productivity here is loosely defined as the ratio of real value added<sup>4</sup> to the number of persons employed, expressed in turn in full time equivalents<sup>5</sup>.

As can be seen in the chart, while the Communications industry recorded higher labour productivity throughout the five years to 2004. The corresponding labour

<sup>4</sup> Value added for the communications industry is deflated by the Transport and Communications sub-index of the RPI, while that for the general economy is deflated by the GDP deflator.

<sup>5</sup> Full time equivalence was obtained by assuming that a full-timer works roughly twice as much as a part-timer.

productivity for the whole economy remained stable. In fact, over the period reviewed in the chart, the real value added per employee of the industry increased by 11%, to Lm19, 630. Furthermore, these figures suggest that on average, an employee in the communications industry produces almost double the output produced by its counterpart in the economy as a whole.

Such differences in productivity are reflected in the higher average wages earned within the Communications industry, as high labour productivity demands higher wages. In fact, over the five years to 2004, the average wage in the communications industry has been roughly 25% higher than the average wage earned in the Maltese economy in general.

Apart from being a direct producer of services, the Communications industry also plays another very important role in the economy, as its services underpin the day-to-day operations of other industries in the Maltese economy. In fact in 2004, 29% of the industry's output was consumed as an input by the remaining industries in the economy. This rate remained relatively stable to that recorded during 2003, while when seen over the five-year span to 2004; it increased by 5.4 percentage points.

Perhaps more indicative of the role of the industry is the level of consumption expenditure on electronic communications service by Maltese firms. In fact in 2004 the share of electronic communications spend in total input consumption by industries stood stable at 1.7%. This rate increased from 1.1% in 2000 to 1.7% in 2004, while it remained stable when compared with the previous year's rate. The fact that the rate increased over the years suggest that electronic communications services are playing an increasingly important role in the way industries conduct their day-to-day business, and thus confirms the indirect role in wealth creation played by the telecommunications industry.

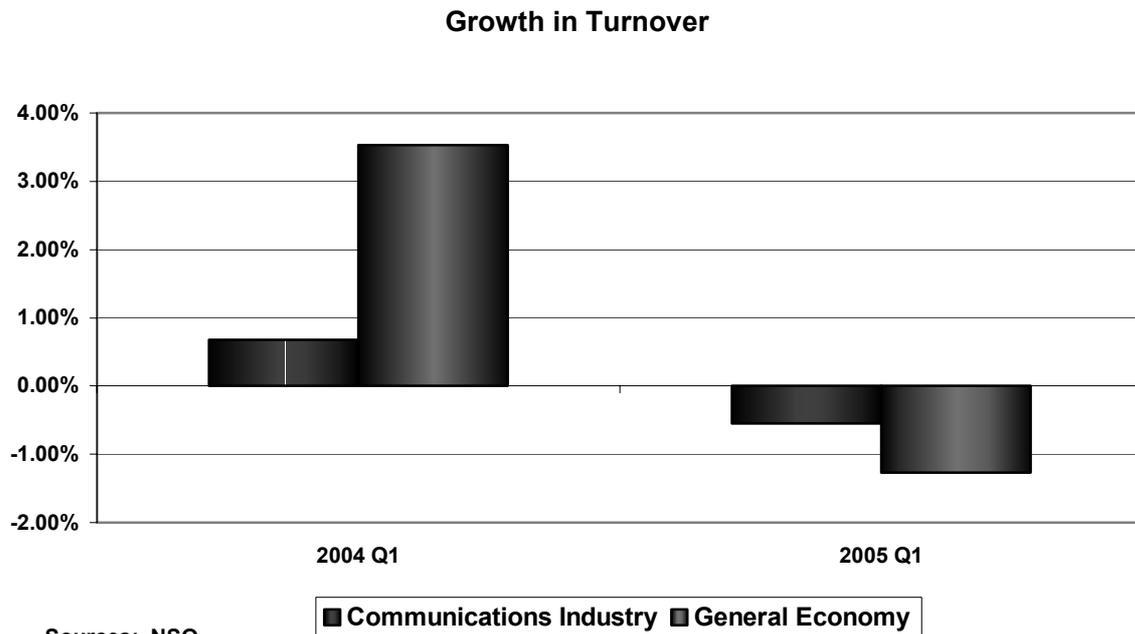
At the same time, the stability observed during the two years to 2004 may be an early indication that industries are also substituting for the cheaper options offered by the market to keep their input outlays on such services stable. However, as noted earlier on, these rates do not take into account the fast-paced quality improvements in the electronic communication services available to Maltese firms.

## 7.2 Quarterly Developments: First Quarter 2005

On a year-on-year basis, turnover growth in the Communications industry contracted by almost 0.6% in the first quarter of 2005, this was mainly attributable to an overall drop in the electronic communications sector's turnover. As can be seen in Chart 2.1, this nominal contraction was smaller relative to the decline recorded for the whole economy.

However if one had to account for the movement in price inflation in both the industry and economy as a whole, the contraction in the industry's turnover may have been greater than that of the economy in general. This is because when comparing the overall price level of the industry prevailing in the first quarter of 2005, with that of the comparable quarter of 2004, the latter was affected by the tariff rebalancing in fixed-line telephony services that occurred during June 2004. This led to a higher year-on-year inflation rate within the industry in relation to the general inflation rate for the whole economy.

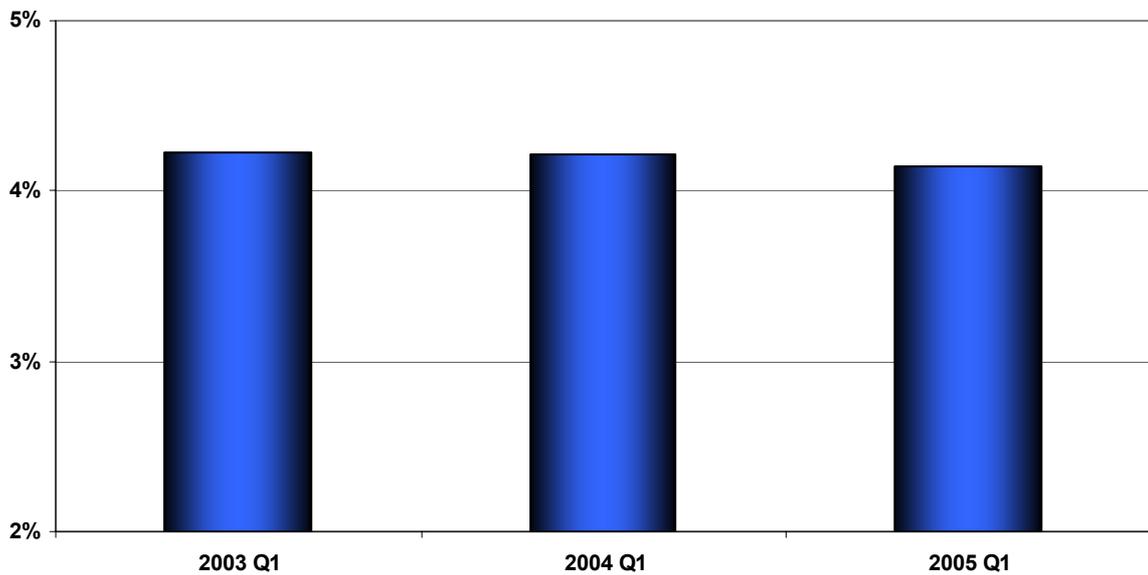
Chart 2.1



At the same time, the share of consumption expenditure on telecommunication services remained significant during the first three months of this year. In fact Chart 2.2 shows the share of consumption expenditure on telecommunications services remaining stable for the three comparable quarters of 2003, 2004 and 2005.

Chart 2.2

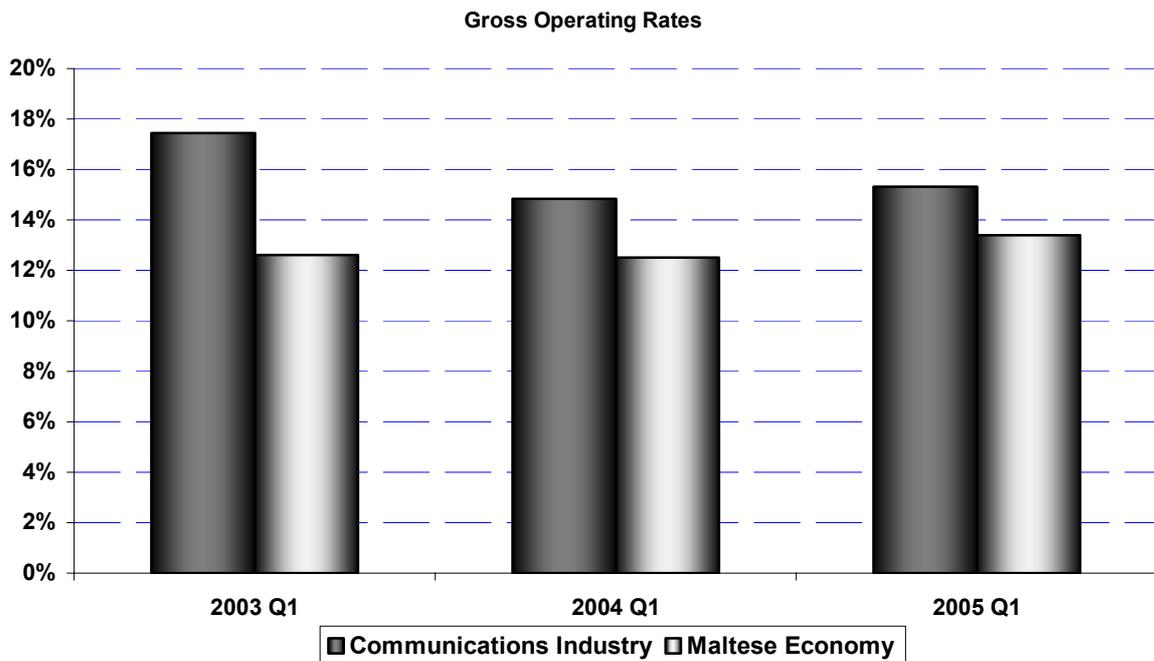
**Share of Telecommunications Expenditure in Total Households' Consumption**



On the other hand, operating rates recovered slightly during the first quarter of 2005, after having declined in the corresponding period of 2004. In fact, as shown in Chart 2.3, the Gross Operating Rate (GOR) of the industry stood at 15.3%, from the 14.8% recorded during the comparable period of 2003.

When compared with the profitability rates recorded for the economy as a whole, this rate remained higher, even though the differential between the two rates continued to shrink. The fact that the GOR for the industry recovered slightly might be an early indication that the overall consolidation phase in the industry's aggregate profits might be over. However any expectation on future trends is very difficult at this point, as competition between different technologies within the Electronics Communications sector is expected to increase considerably in the near future.

Chart 2.3



Sources: NSO

What can be discerned with a greater degree of confidence is that as the impetus of competition increases, cost reduction strategies would be inevitable to keep margins from squeezing further. If this happens across the board, the current gross operating rate can be maintained if not improved.

## **8 REGULATORY DEVELOPMENTS IN MALTA**

The main developments during the period October to March were the call for applications for spectrum for UMTS, Digital Terrestrial Television and Broadband Wireless Access.

### **8.1 Consultative Documents**

#### **8.1.1 Report on Consultation – Interconnection Strategy for the Electronic Communications Sector in Malta**

This report followed the publication of a consultation paper in July 2004 which dealt with the regulatory development of interconnection rates over the short and medium to long-term.

#### **8.1.2 Dispute Resolution Procedures in relation to disputes between Undertakings**

This Consultation paper proposed new mechanisms that will facilitate the effective resolution of disputes between electronic communications service providers.

#### **8.1.3 Measuring Authorised Operator Quality of Service Performance**

This document proposed the necessary requirements on Fixed and Mobile telephony networks, Leased Line providers and the Cable TV operator to have their respective Quality of Service performance results monitored and published bi-annually.

### **8.2 Decision Notices**

#### **8.2.1 Introducing Number Portability in Malta – A Report on Consultation and Decision**

This Decision follows the Consultation paper that was issued in October 2003 with regards to the Introduction of Number Portability in Malta.

#### **8.2.2 Interconnection Pricing Review 2004/2005**

In this Decision, the MCA published the results of the review carried out with respect to the interconnection termination rates for Maltacom plc, Vodafone Malta

---

Ltd and Go Mobile.

### **8.2.3 Update to the Price Control Review – Report on Consultation and Decision published in January 2003**

This document's prime objective is to clarify the manner in which price controls for electronic communications services applicable to authorised undertakings under the "old" legislation, shall subsist under the new legislation.

## **8.3 Legislation**

### **8.3.1 Legal Notice 522 of 2004 – Data Protection Act (Cap. 440)**

This legal notice concerns the processing of personal data (Telecommunications Sector) (Amendment) Regulations, 2004.

## **8.4 General Publications**

### **8.4.1 Policy and Implementation Strategy regarding DTTV, 3G and BWA**

This document highlights the impact of the responses and other inputs on the outcome of the policy that Government intends pursuing in respect of each of the three technologies.

### **8.4.2 Call For Applications - Third Generation Mobile Telephony**

The MCA issued a call for applications for access to rights of use of radio frequencies in the IMT-2000 band for the development and implementation of Third Generation Mobile Telephony networks in Malta.

### **8.4.3 Call For Applications - Broadband Wireless Access**

The MCA issued a call for applications for access to rights of use of radio frequencies in the 3.5GHz band for the development and implementation of Broadband Wireless Access (BWA) networks in Malta.

### **8.4.4 Invitation To Participate In a Comparative Process (Beauty Contest) - Digital Terrestrial Television**

The MCA published an Invitation to Participate in a Comparative Process (Beauty Contest) leading to Access for the Rights of Use of Radio Frequencies in the UHF Band for the Development and Implementation of Digital Terrestrial Television Transmission Networks in Malta.

### **8.4.5 MCA'S Annual Plan For 2005**

The MCA published its Annual Plan for 2005. It sets out the overall approach to regulation, the business priorities for 2005, and how the MCA's effectiveness will be measured and evaluated.

#### **8.4.6 MCA Publishes Results Of Postal Customer Perception Survey**

The MCA published the results of a postal customer perception survey, which was commissioned in November 2004. The survey was carried out to examine the attitudes of residential consumers and small businesses towards the local postal services.

#### **8.4.7 Report on Consultation – VoIP**

Following the publication of a consultation document titled - VoIP: Regulatory Principles for Innovative Services in July 2004, the MCA received four responses. This is the publication of the responses for informational purposes.

#### **8.4.8 Publishing of Market Review Methodology**

The Electronic Communications (Regulation) Act (Cap 399), which is based on the new European Union regulatory framework for electronic communications networks and services, requires the MCA to carry out a periodic market review exercise in line with Competition Law Principles.

#### **8.4.9 Internet Health Monitoring System**

In September 2004 the MCA launched an Internet Health Monitoring System (IHMS). The IHMS is a web server, accessible by the general public, which provides information regarding the status of Internet connectivity both domestically and overseas, in an easy to use and understandable manner.

The IHMS website can be accessed by going to [www.nethealth.net.mt](http://www.nethealth.net.mt). The implementation of the IHMS is a collaborative effort that is just one initiative to boost the quality of Internet services in Malta. In fact Internet users had made over 35,000 tests by the end of March 2005.

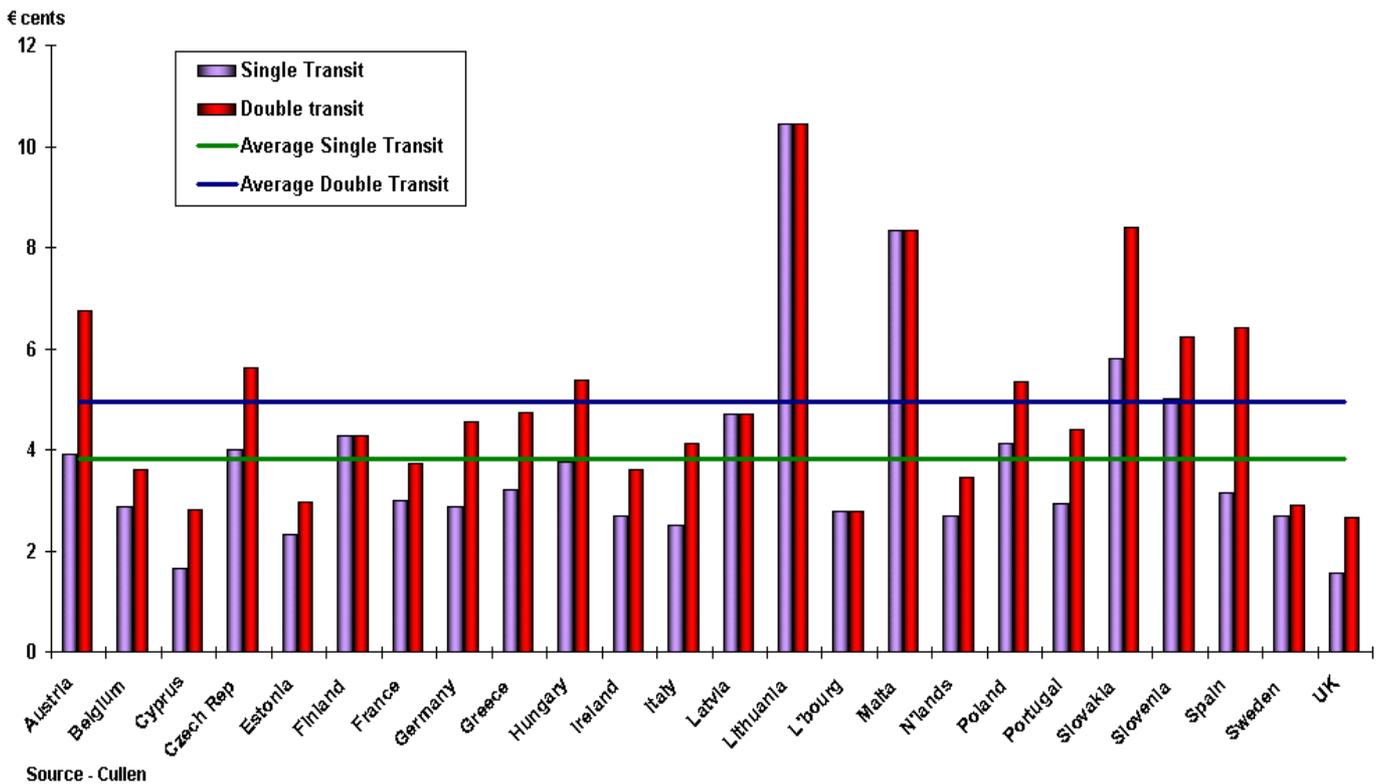
## 9 INTERNATIONAL TARIFFS ANALYSIS

### 9.1 EU Benchmarking of Wholesale Tariffs

#### 9.1.1 Fixed Termination Rates

The charge to terminate a call of three minutes duration on a fixed network is shown below. The chart depicts both single and double transit costs. The highest local interconnect is of €0.0834 cents. The local rates are still well above the European average for both single and double transit. Nevertheless it must be noted that there was a substantial reduction in local fixed termination charges in December 2004.

The below charges are a snapshot as at April 2005.



### 9.1.2 Mobile Termination Rates

The graph below depicts the wholesale mobile termination rates. As can be seen, following the recent reduction in November 2004, local rates are slightly below that of the EU average. These benchmarks are as at January 2005.

