mca
Malta Communications Authority

Telecommunications Market Review

October 2002 – March 2003

Malta Communications Authority
“Il-Piazzetta” Suite 43/44, Tower Road, Sliema SLM 16, MALTA
Telephone: +356 21 336 840   *Fax:* +356 21 336 846
Web: http://www.mca.org.mt

Table of Contents

1 Developments

1.1 Market Developments

This second edition of the MCA's Telecommunications Market Review reports the period October 2002 to March 2003.

In the fixed line telephony market there was a negligible fluctuation in the level of fixed line users. However, usage of ISDN experienced a growth of 56.3% in basic ISDN subscriptions and 18.9% in the level of primary ISDN lines from the first quarter of 2002 to the same period in 2003. The call minutes from fixed to mobile were quite stable during the year in consideration, with minor fluctuations possibly resulting from seasonal patterns. There was consistent growth over the year under review in call minutes for dial-up Internet.

The year 2002 experienced a steady growth in mobile subscribers, with the number of subscribers almost reaching the 280,000 mark during the last quarter. Mobile outgoing call minutes increased steadily during 2002. In fact, despite a decline between Q4 2002 and Q1 2003, the level reached in Q1 2003 was 40.1% higher when compared to the same period the previous year. The level of SMS messaging reached a peak in the last quarter of 2002 with nearly 80 million SMSs being sent during the period. Mobile ARPU was 3.6% higher in the first quarter of 2003 when compared to the same period in 2002.

The Cable TV market experienced marginal growth during the year under review, with an increase in total subscribers amounting to 9.5% from Q1 2002 to the same quarter in 2003. In the same period there was a fall in average revenue per subscriber of 2.25%.

Malta has the highest Internet user penetration amongst the EU accession countries at the level of 29%. The cost of dial-up Internet access is close to the average cost in the accession countries.

1.2 Regulatory Developments

During January 2003, the MCA investigated a number of allegations made by various Internet users claiming that ISPs are restricting bandwidth, thus inhibiting performance particularly to broadband connections. The MCA intervened in the matter by instructing such ISP's to refrain from such practices. It directed ISPs to perform bandwidth management in a way that ensures the most equitable distribution of available bandwidth while being minimally intrusive

In February 2003, the MCA published its consultation paper regarding **Tariff Approval Procedures**. Draft guidelines were proposed with the objective of addressing the subject of administrative procedures to be followed when operators introduce new, or propose changes to their tariff plans for all regulated telecommunications services. The MCA's decision will shortly be published following a comprehensive analysis of the feedback received from the industry. These guidelines should simplify the administrative process and increase flexibility for operators in responding to market needs, quite apart from ensuring that regulations dealing with tariff applications are adhered to.

A Decision establishing a **Numbering Plan for Value Added SMS Services** was published in February 2003. The mobile operators are now obliged to apply to the MCA for numbering ranges they intend using for their own network services. For common numbering ranges that will be used for independent services and m-government services, a joint application should be sent. Mobile operators will now be allowed to manage individual allocations from the numbering ranges allocated without the need to apply formally to the MCA for each number individually.

In February 2003, the Malta Communications Authority published its **register of Dominant Market Operators in the Telecommunications Transport Provider (TTP) market**. Dominant TTP operators are obliged to negotiate interconnection and access agreements as and when requested by an ISP with a view to allowing the requesting ISP to interconnect or access the TTP's system. The MCA has designated Maltacom plc, Mobisle Communications Ltd and Vodafone Malta Ltd as Dominant Market players in the Telecommunications Transport Provider (TTP) market.

In January 2003 the MCA published the draft **Reference Interconnection Offers** of both Maltacom plc and Vodafone Malta Ltd for consultation. The publication of the two RIOs took place a few days following the full liberalisation of the telecommunications market on 01 January 2003.

Interconnection allows different telecommunications operators to establish voice and data transmission connections between each other, thus allowing subscribers on one telecommunications network to communicate with subscribers on another network. A Reference Interconnection Offer (RIO) consists of the technical, commercial, procedural and financial terms and conditions for providing interconnection to other telecommunications operators and in particular new entrants to the market.

In May 2002 the MCA had designated Maltacom plc and Vodafone Malta Ltd as having a Dominant Market Position in the fixed telephony market and mobile telephony market respectively. Following these designations, the MCA directed the two operators to publish a RIO, as required by law. Operators having a Dominant Market Position are required, amongst other obligations, to provide interconnection promptly and efficiently, while interconnection charges must be sufficiently unbundled and supported by transparent cost accounting systems. The MCA published its decision on Interconnection in May 2003.

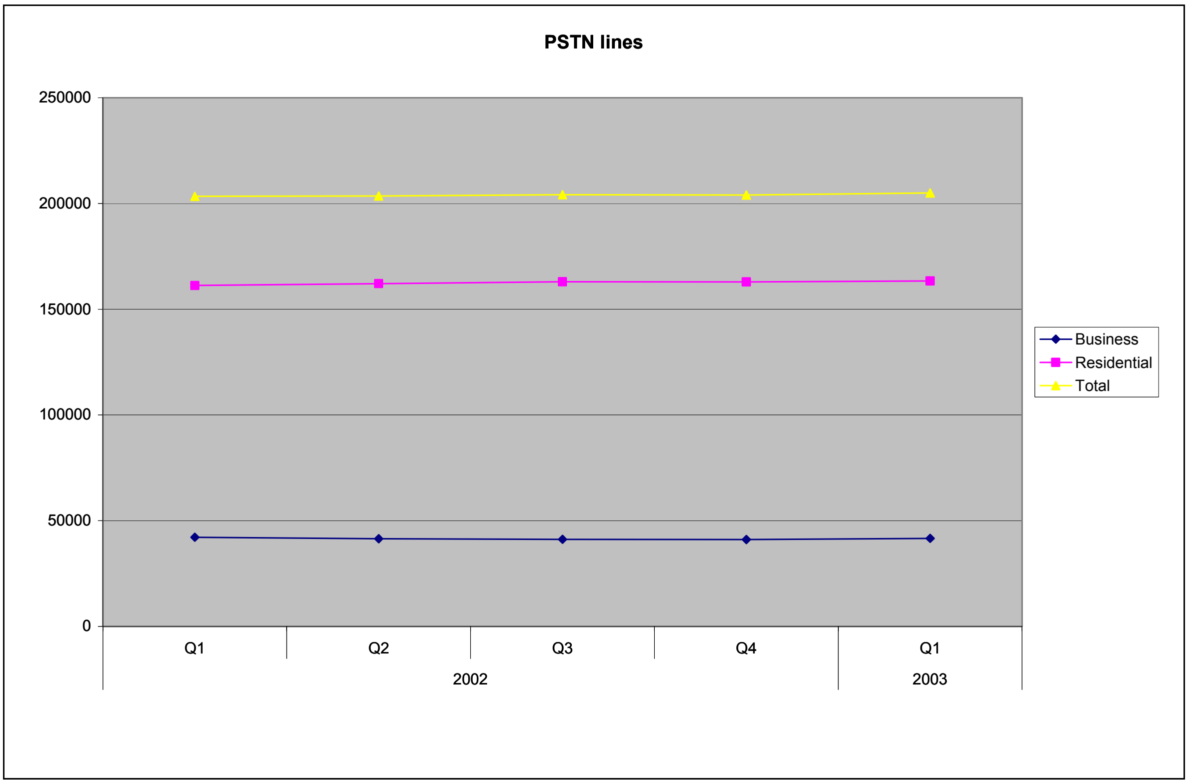
In May 2003, the MCA published its Consultation Paper regarding the **Introduction of an RPI-X Price Cap Mechanism on Certain Telecommunications Services.** The Paper deals with the proposed establishment of a price control mechanism on Maltacom's fixed telephony retail charges, whereby prices would be allowed to change depending on the expected rate of inflation and other factors. It also addresses the principles underpinning the MCA's strategy for rebalancing Maltacom's tariffs.

In May 2003, the MCA outlined its **Strategy for Broadband Regulation.** The paper outlined the MCA's commitment towards establishing a clear and over-arching broadband strategy by the end of this year in line with the E-Europe strategy driven by the EU commission. The MCA intends to carry out a broad consultative process with all stakeholders to ensure that the interests of both service providers and consumers are fully taken into consideration.

2 The Fixed Telecommunications Market

2.1 Fixed Lines

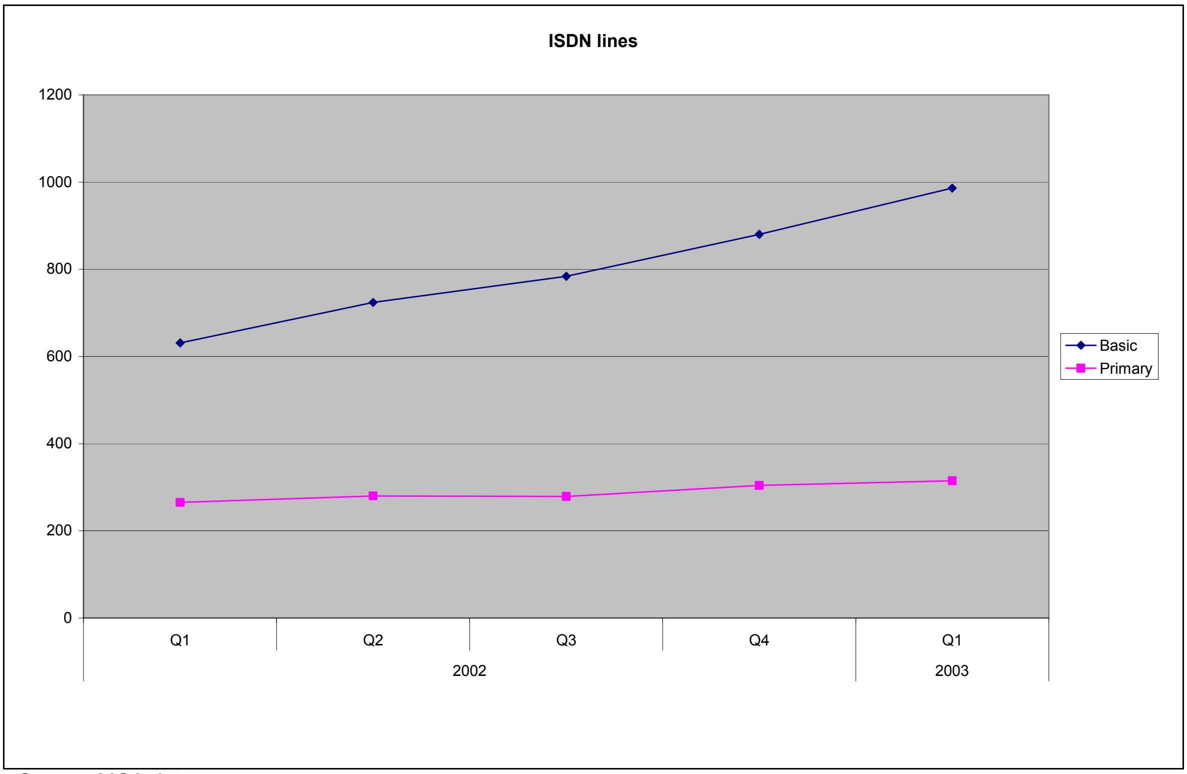
2.1.1 PSTN



Source: MCA data

The chart above shows the number of fixed lines (PSTN) for business and residential users from the first quarter (Q1) of 2002 to the first quarter (Q1) of 2003. The level of total number of lines varied marginally in the first quarter of 2003 when compared to the same period in 2002. In fact, there was a negligible increase of 0.8%, which resulted from an increase in residential subscriptions of 1.4% which was offset by a fall in business subscriptions amounting to 1.2%.

2.1.2 ISDN lines

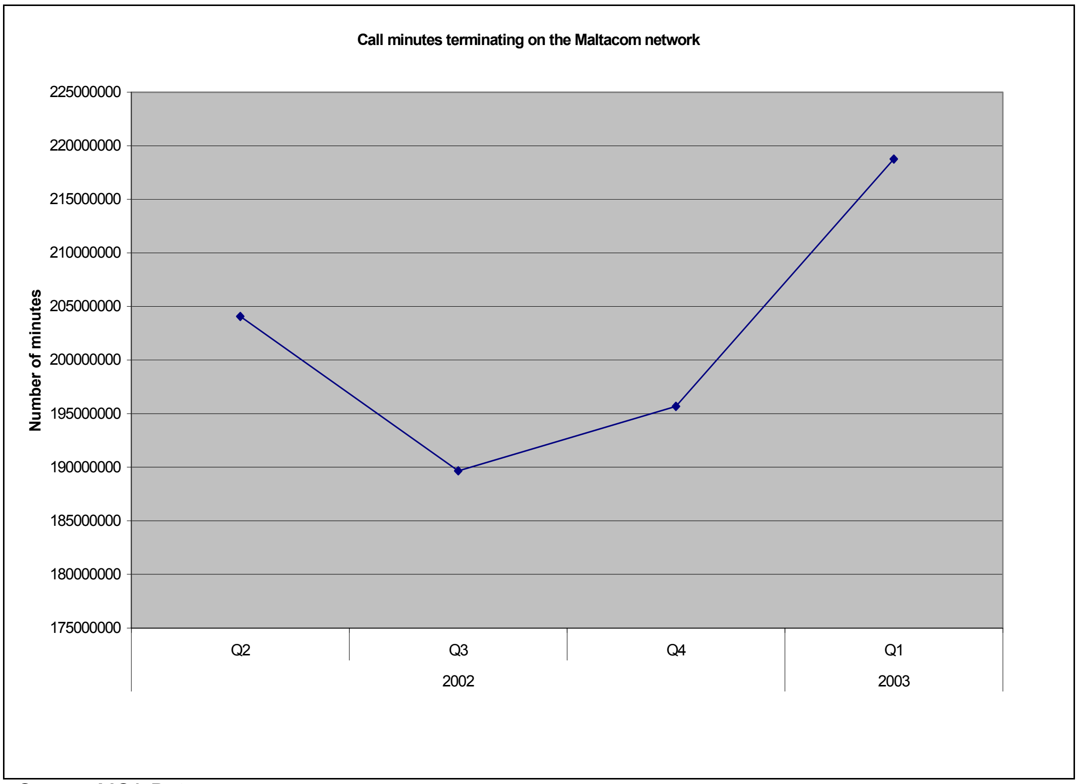


Source: MCA data

As clearly illustrated in the above chart, growth in ISDN lines from the first quarter (Q1) of 2002 to the same quarter (Q1) in 2003, the level of basic ISDN lines increased substantially during the period under review, standing at 56.3% higher in the first quarter of 2003 when compared to the same period last year. The level of primary ISDN lines increased by 18.9% during the same period.

2.2 Call minutes from Fixed Lines

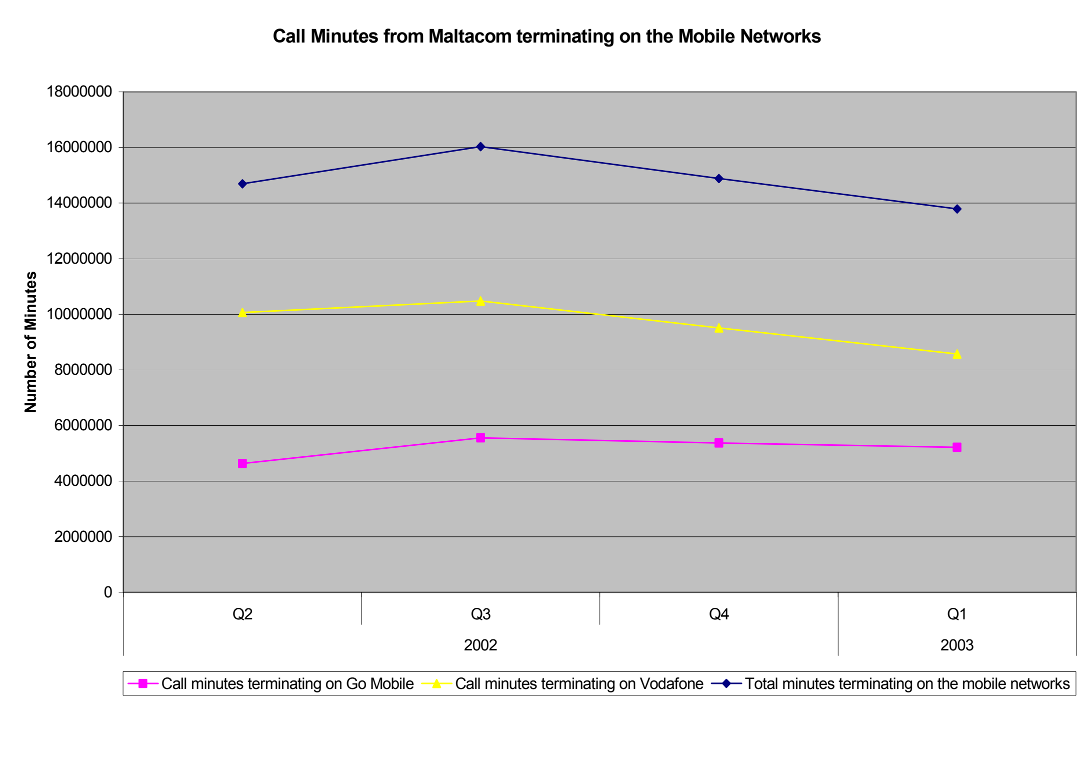
2.2.1 Call minutes originating from Maltacom and terminating on the Maltacom network



Source: MCA Data

The above chart shows the call minutes originating from the Maltacom network terminating on the same network. The highest level of call minutes was achieved in the first quarter of 2003, whilst the lowest amount of minutes originating from Maltacom to its own network was reached in the third quarter of 2002.

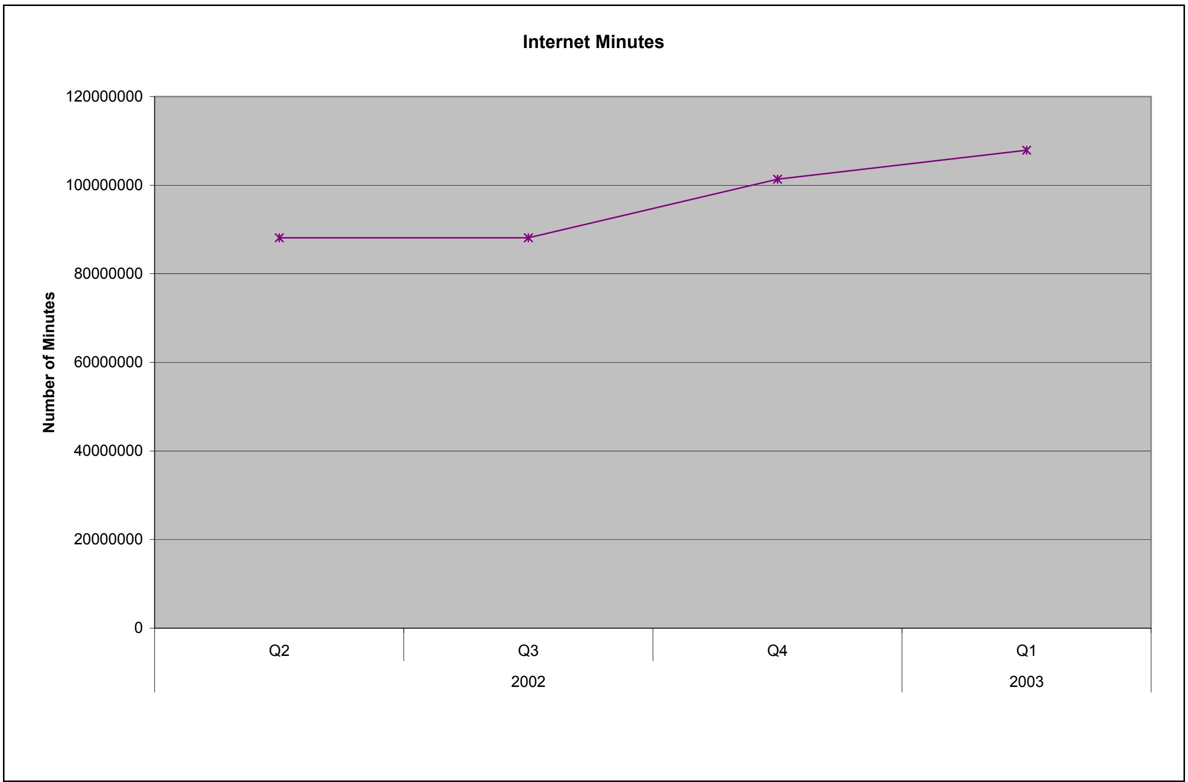
2.2.2 Call minutes originating from Maltacom terminating on the mobile networks



Source: MCA data

There is a similar trend between the minutes terminating on both mobile operators during the period in consideration. However, Vodafone Malta Ltd experienced a steeper decline in call minutes from Maltacom than Go Mobile between the third quarter of 2002 and the first quarter of 2003, which may indicate the possibility of convergence. The highest amount of call minutes originating from Maltacom and terminating on mobile networks was experienced during the third quarter of 2002.

2.2.3 Internet call minutes

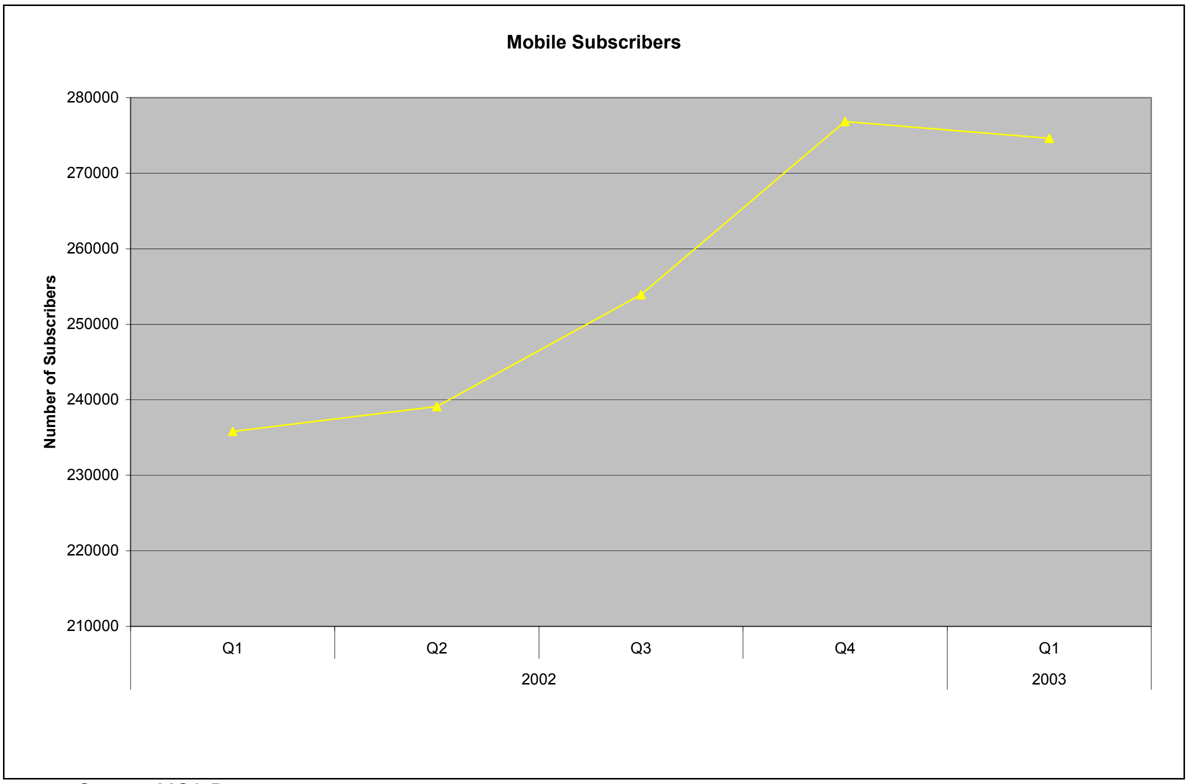


Source: MCA data

There was consistent growth in dial-up Internet minutes from the second quarter of 2002 to the first quarter of 2003. There was also a considerable increase in Internet minutes amounting to 22.4% during the first three months of 2003, in comparison to the second quarter of 2002.

3 The Mobile Services Market

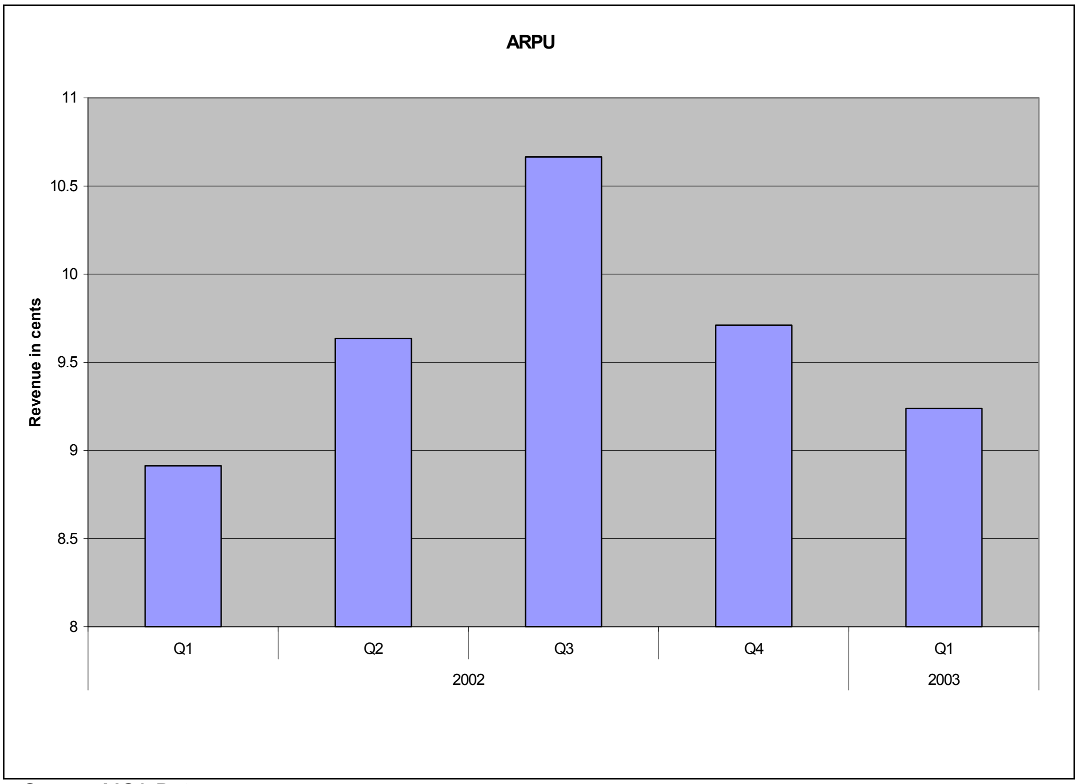
3.1 Mobile Subscribers



Source: MCA Data

The number of mobile phone subscribers reached a peak of nearly 280 thousand in the last quarter of 2002. There has been a considerable increase in mobile subscriptions during the year under review, with a minimal decline of 0.8% between the last quarter of last year and the first quarter of this year. During the first quarter of 2003, the number of mobile phone subscribers was 16.5% higher than in the same period the previous year.

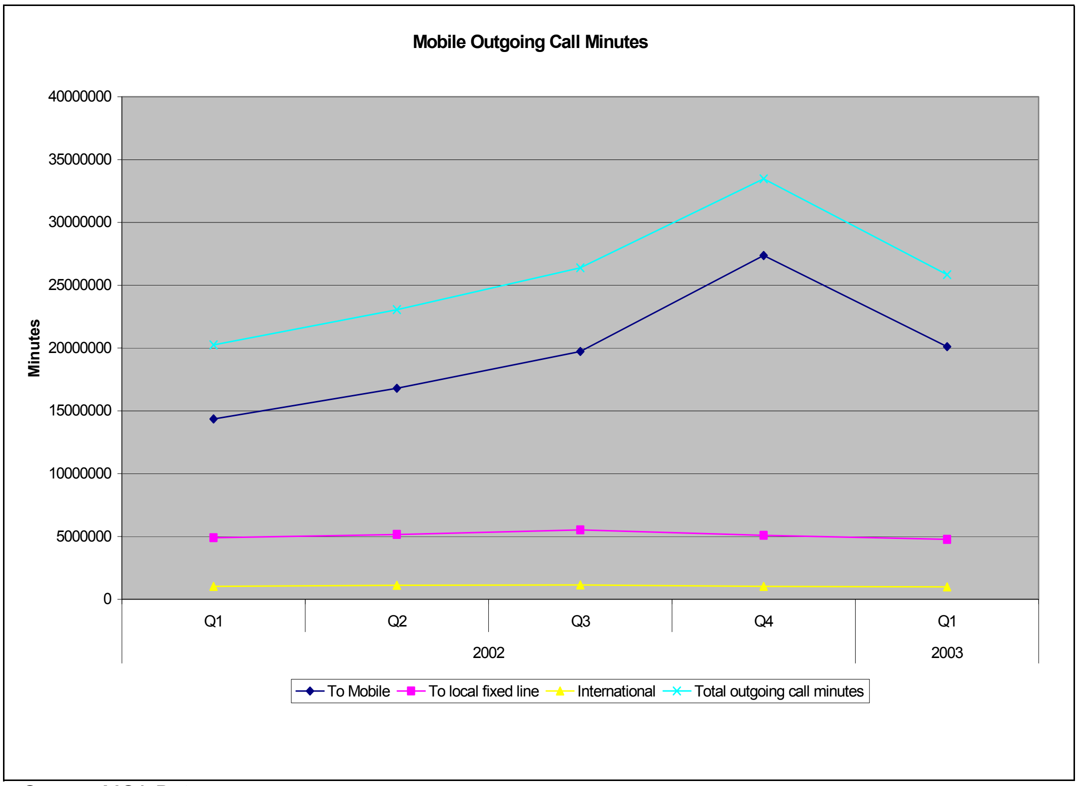
3.2 Mobile Average Revenue per User (ARPU)



Source: MCA Data

The weighted monthly average revenue per user (ARPU) in the mobile telephony market experienced an upward trend from the first to the third quarter of 2002, with a downward trend until the first quarter of 2003. However, in comparing the first quarter of 2003 to the same period in 2002, there is an increase of 3.6%.

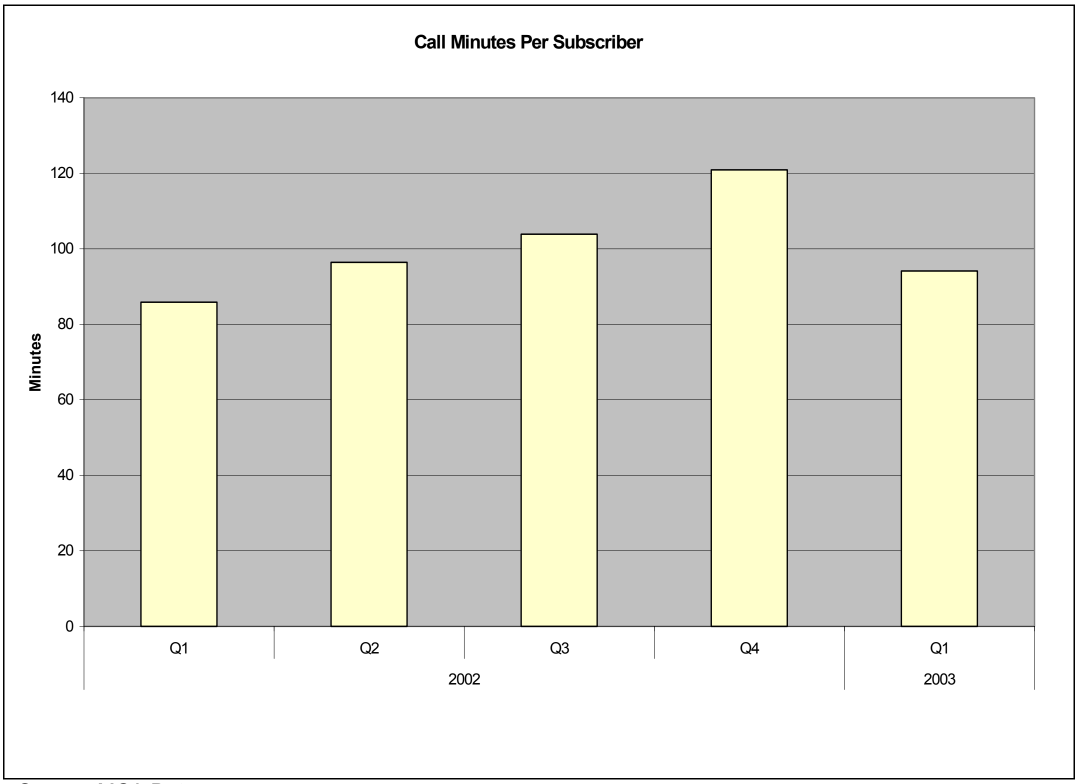
3.3 Mobile Outgoing Call Minutes



Source: MCA Data

Total mobile-to mobile call time was 40.1% higher in the first quarter of 2003 when compared to the same period in 2002. There was very limited variation in outgoing international call minutes, and the call minutes to fixed lines. The increase in total outgoing call minutes amounting to 27.6% was mainly the result of increased mobile-to-mobile call time.

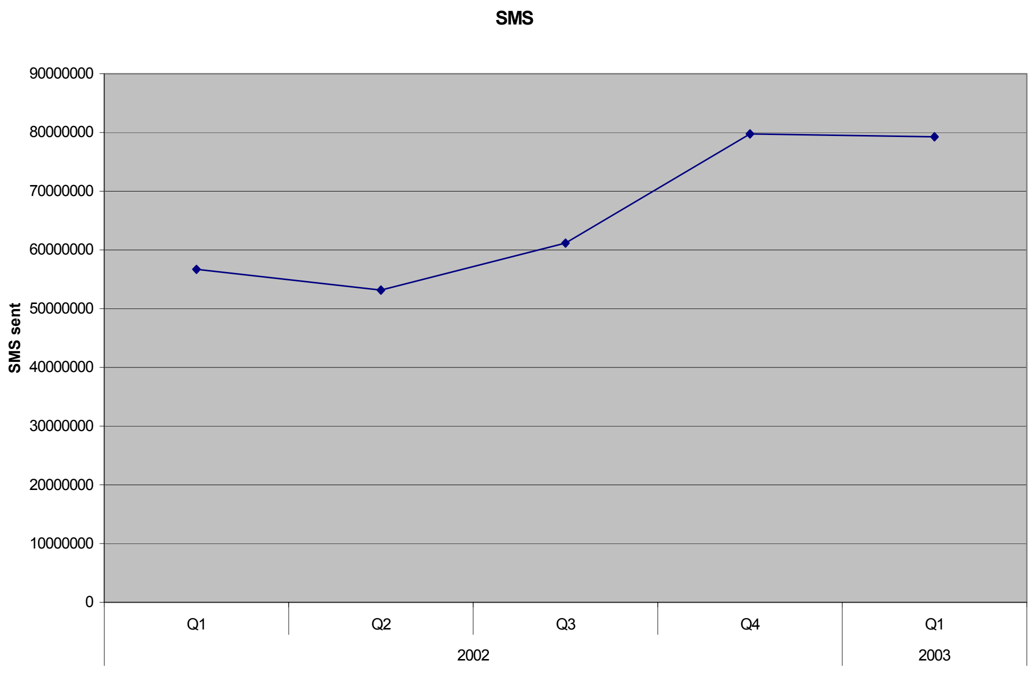
3.4 Outgoing Call Minutes per Subscriber



Source: MCA Data

There was an increase of 9.6% in outgoing call minutes per subscriber between the first quarter of 2002 and the same quarter in 2003. There was also steady growth registered in outgoing call minutes per subscriber during 2002.In fact, there was an increase of 40.7% in the last three months of 2002 in comparison to the first quarter of that year.

3.5 SMS

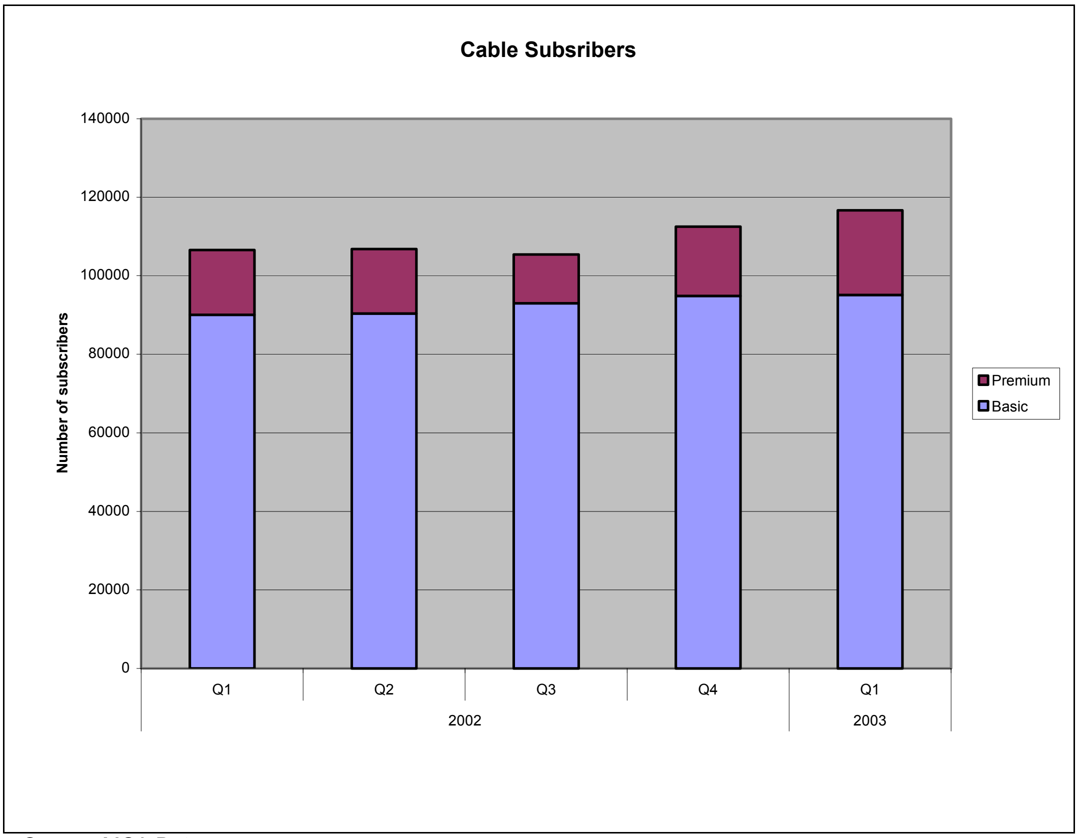


Source: MCA Data

An increase of 39.8% in SMS messages was registered between the first three months of 2003 and the same period in 2002. During the period under review, the level of SMSs reached a peak during the last quarter of 2002, whereby the level of 80 million SMS messages was nearly reached.

4 Cable Television Market

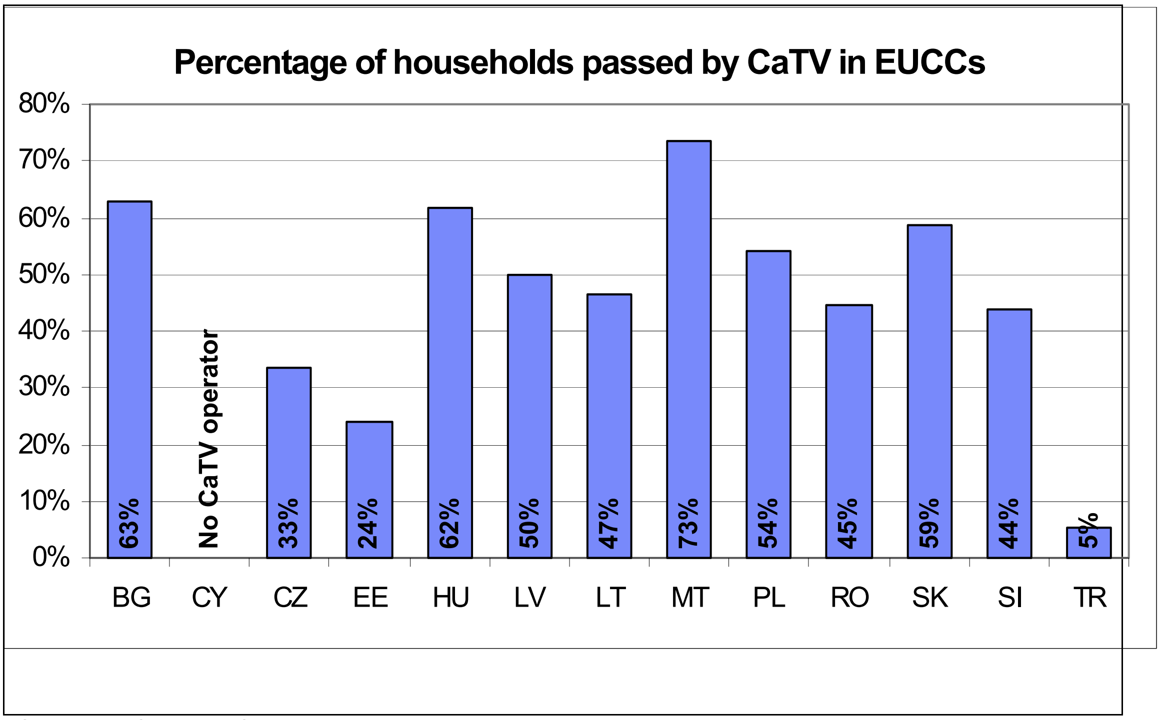
4.1 Cable Television Subscribers



Source: MCA Data

There was a marked increase of 9.5% in total cable television subscriptions between the first quarter of 2002 and the same quarter in 2003. There was a fall in total subscriptions of 2.3% from the second to the third quarter of 2002.However the subscriptions increased by 6.72% from the third to the last quarter of 2002, and there was a further increase of 3.73% from the last quarter of 2002 to the first quarter of 2003. One may note that the larger fluctuations consisted primarily of premium subscribers.

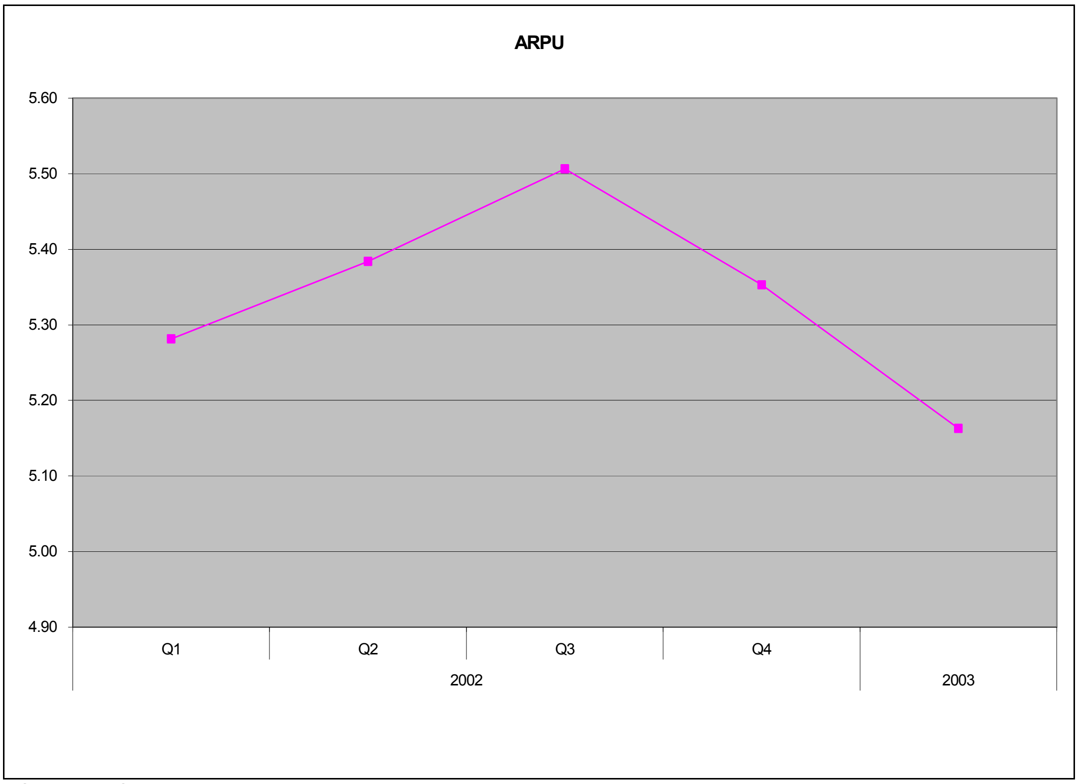
4.2 Cable Penetration



Source: EU Candidate Country Report

Malta has the highest percentage of households connected to the Cable TV network in the EU accession countries. It is followed by Bulgaria and Hungary with the second and third highest penetrations respectively. The countries with the higher penetration rates are considered to be the ones with the better potential for competition within the fixed telephony market. However, other factors that are unrelated to the penetration rate should also be taken into account.

4.3 Cable television ARPU

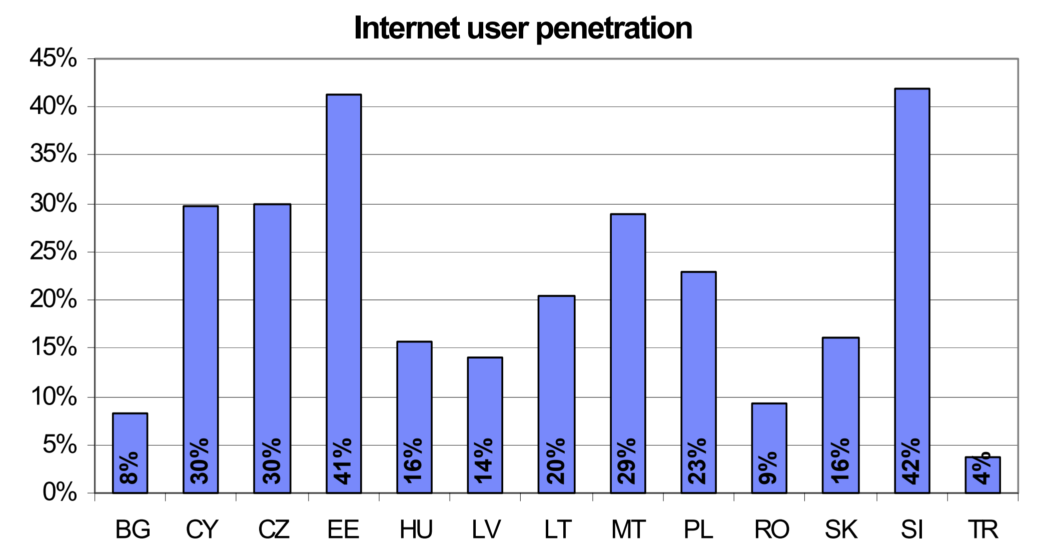


Source: MCA Data

During the period in consideration, the highest monthly average revenue per subscriber for cable television services in Malta was achieved in the third quarter of 2002 and since then there was a steady decline. The ARPU in the first quarter of 2003 was 2.25% lower than in the same period last year.

5 Internet

5.1 Internet User Penetration as at 31 January 2003



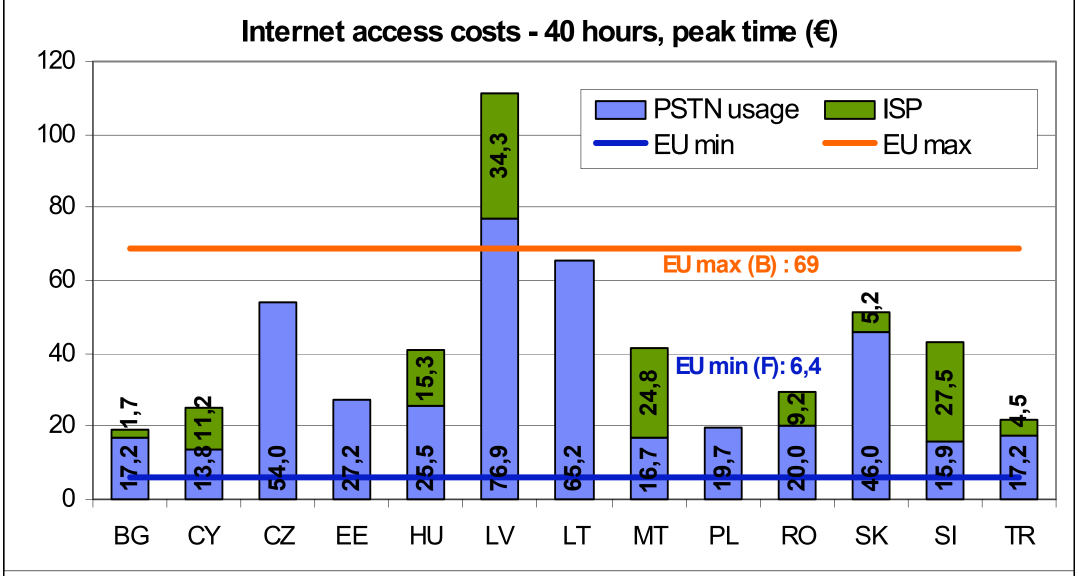
Source: EU Candidate Country Report

An important indicator on Internet usage is residential household penetration, i.e. the percentage of households connected to Internet[1]. The chart above shows that Malta compares quite well to the other accession countries with regards to Internet user penetration which stands at 29%.

[1] This number is rather estimated and the data are not absolutely comparable across EUCCs as in the case Internet users penetration. Information for Romania is not available, data for Bulgaria, Czechia and Malta are as of June 2002 and data for Turkey the data are as of end 2001.

5.2 Internet Access Costs

Dial-up Internet access cost – 40 hours in peak time as of 31 January 2003.



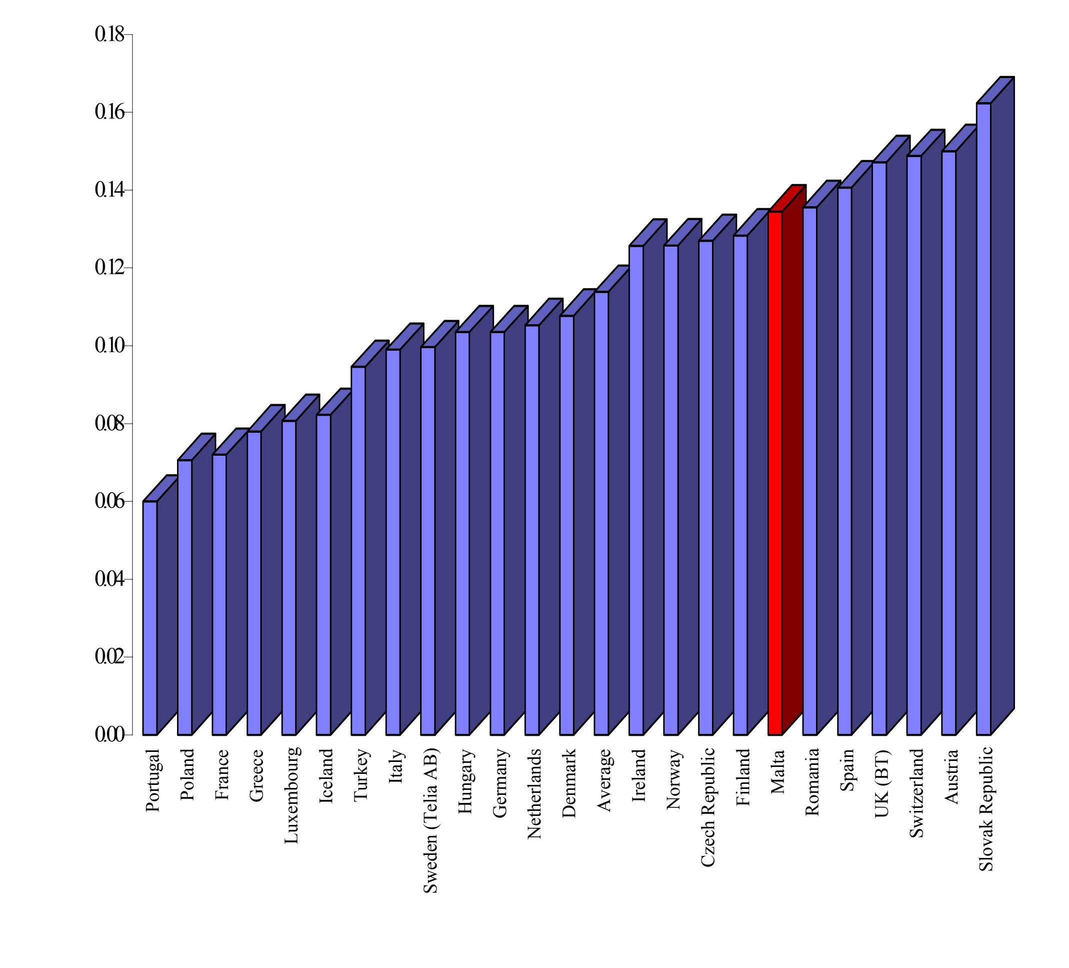
Source: EU Candidate Country Report

The above charts compare dial-up Internet access costs in the EU accession countries. The cost for dial-up Internet access in Malta is close to the average of the costs in the accession countries. However, it is about four times the minimum cost in the EU member states.

6 Tariff Movements[2]

6.1 Local Fixed Call Charges

The cost in Euros for a 3-minute local call in peak hours (excl. tax)



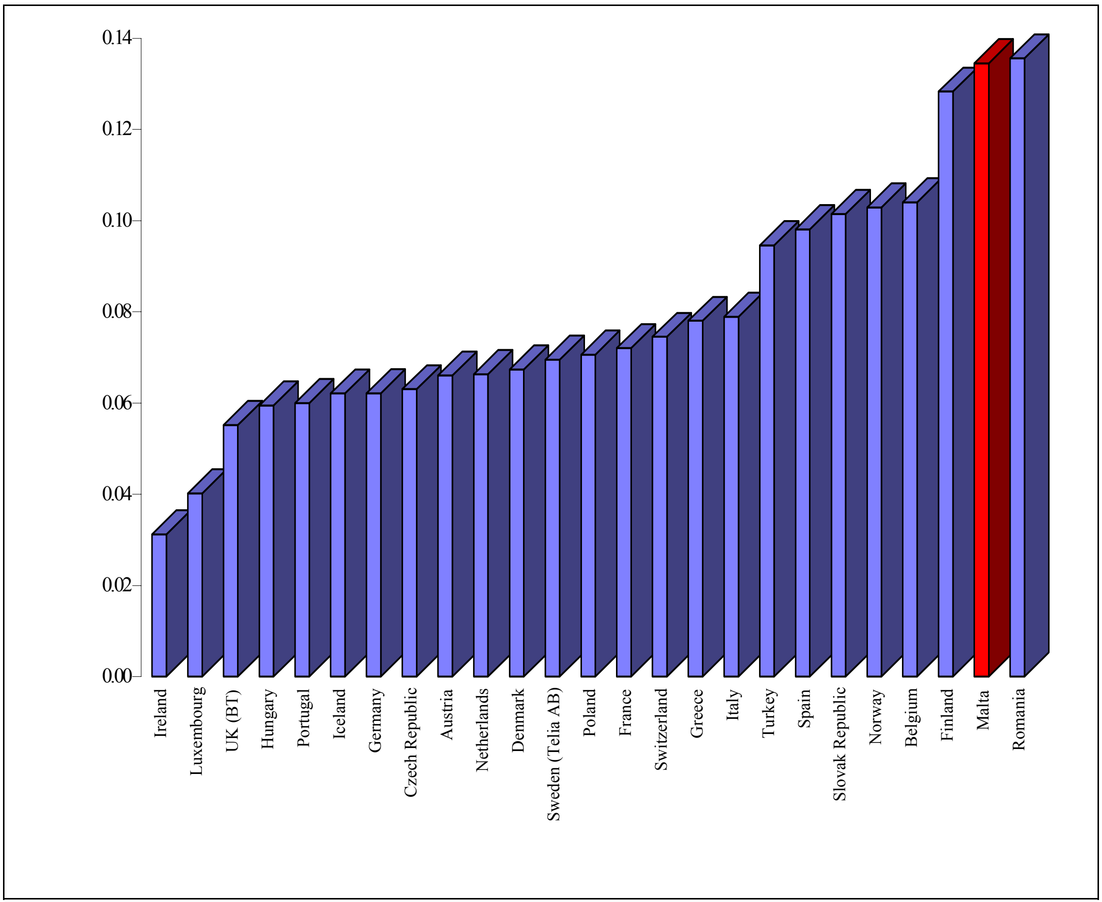
Source: Tarifica

In the comparison above, the Slovak Republic has the highest tariff for a 3-minute local call at peak time, followed by Austria and Switzerland. Malta ranks amongst the countries with the high charges in the comparison. However one must note that the pulse-based charging system makes a three minute call

[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.

dearer in comparison to other countries than a call that is closer to the length of a full pulse, which is 5 minutes long during peak time.

The cost in Euros for a 3-minute local call in off-peak hours (excl. tax)

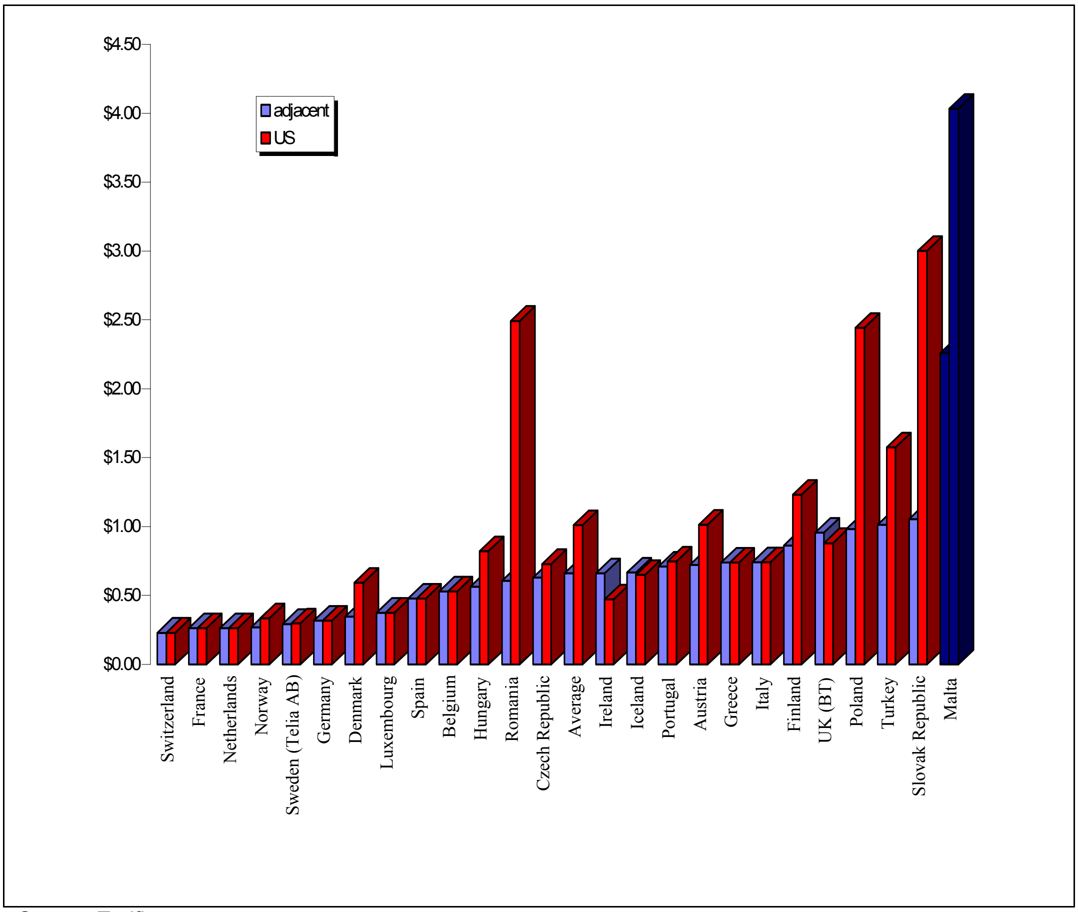


Source: Tarifica

The effect of the pulse based charging is even more evident in the comparison of the cost of a three-minute call during off-peak hours. In fact the Maltese rates are the highest together with Romania in this comparison. The duration of a pulse during off peak hours is unlimited so comparison with other countries should take this into account.

6.2 International Fixed Call Charges (near country)

The cost in Euros for a 3-minute call made in peak hours (excl. tax) *(sorted by "to an adjacent country)*

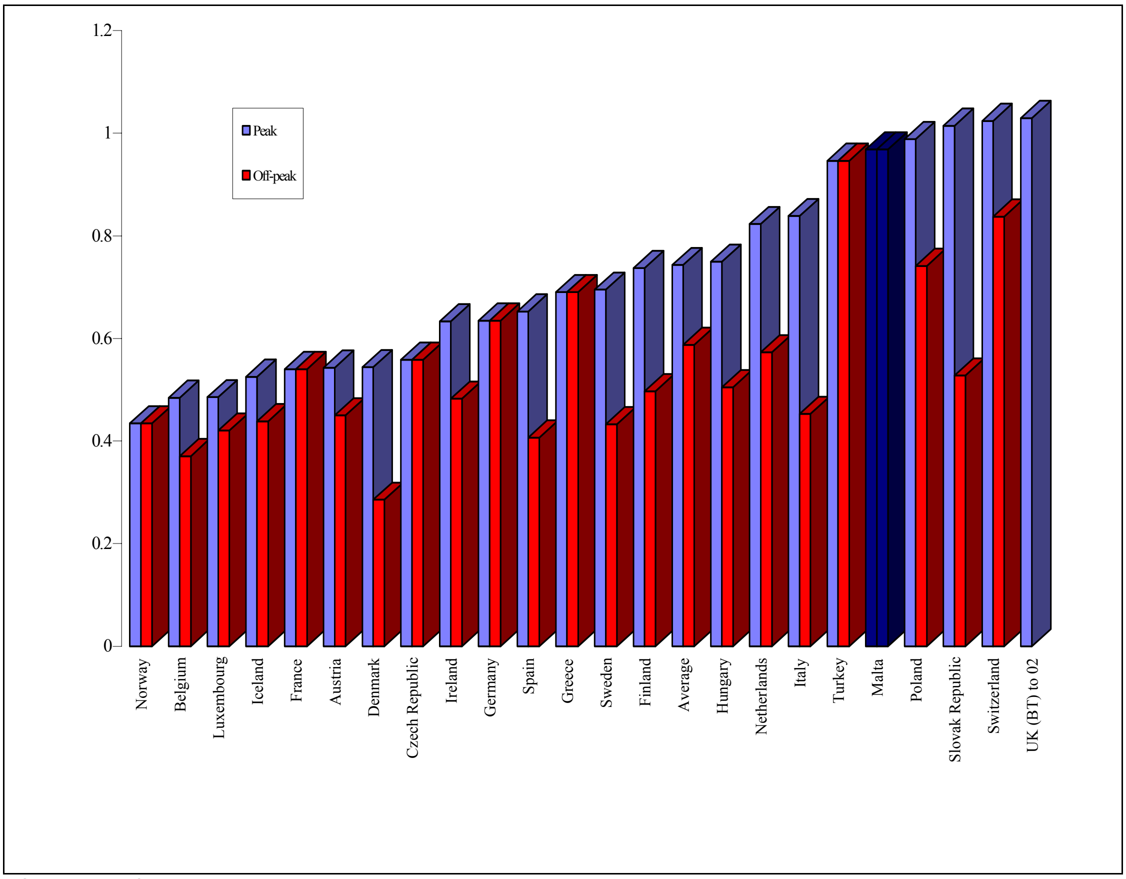


Source: Tarifica

Malta's international call charges are exceptionally high in comparison to tariffs in Europe. In fact the peak charges in Malta are between ten and twenty times the cheapest rates.

6.3 Fixed to mobile

The cost in Euros for a 3-minute call from fixed to mobile networks



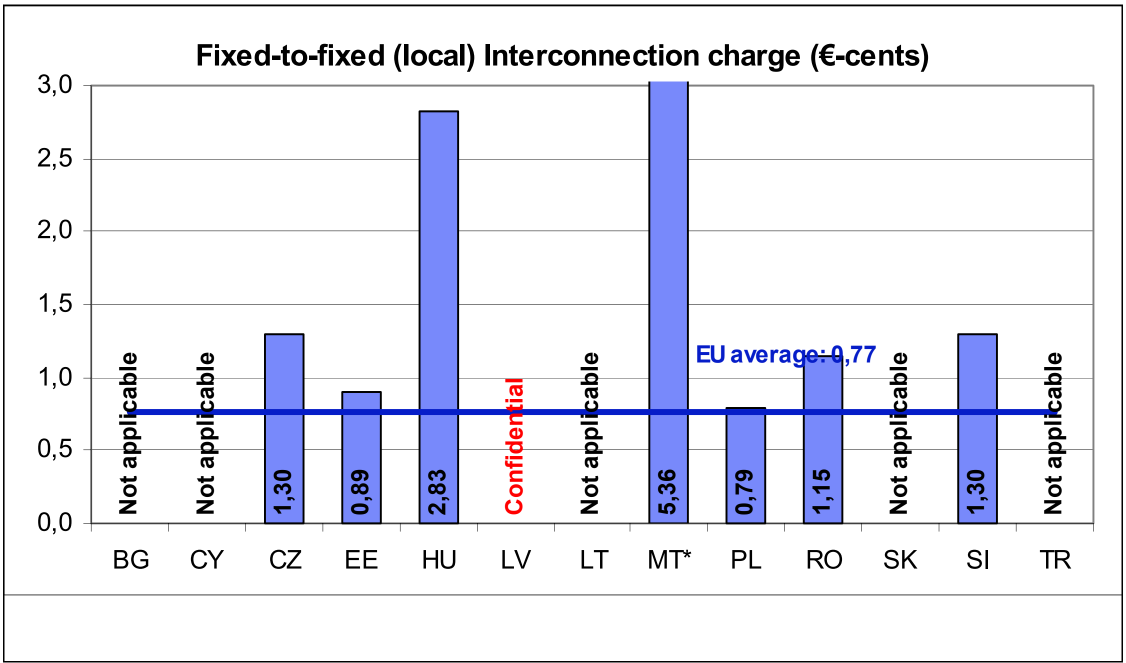
Source: Tarifica

Malta ranks amongst the countries with the highest rates for fixed to mobile calls for both peak and off peak rates. In fact it ranks fifth from the highest as shown in the comparison above.

6.4 Interconnection Charges

Fixed to Fixed

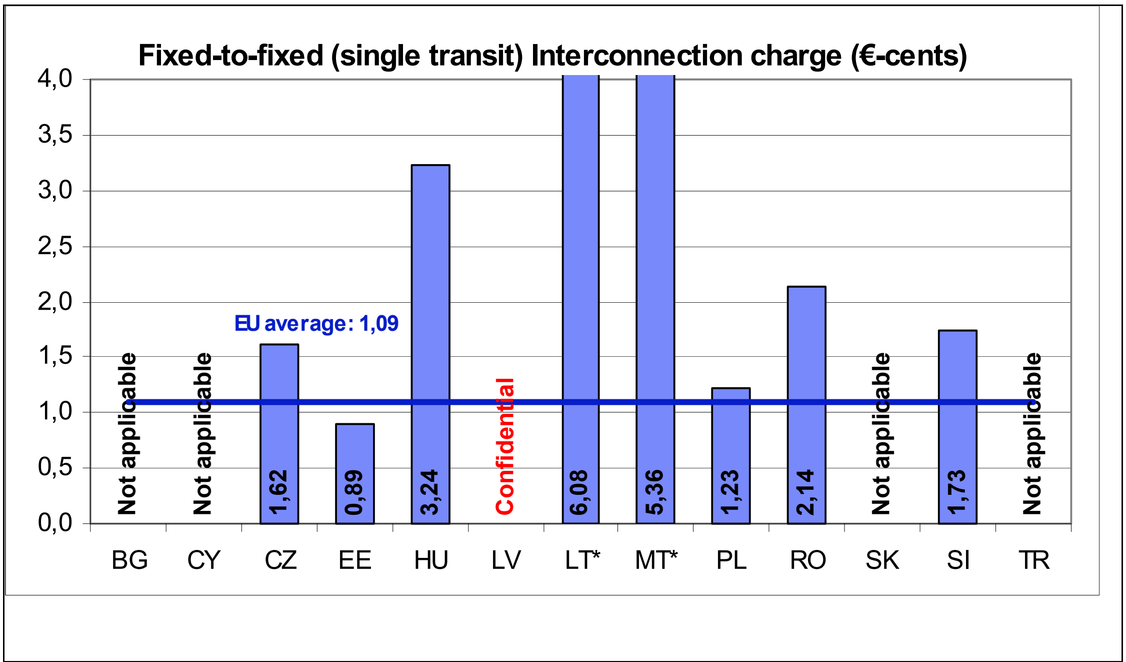
Fixed-to-Fixed interconnection charges for call termination on fixed network of incumbent operator – local level as of 31 January 2003[3]



Source: EU Candidate Country Report

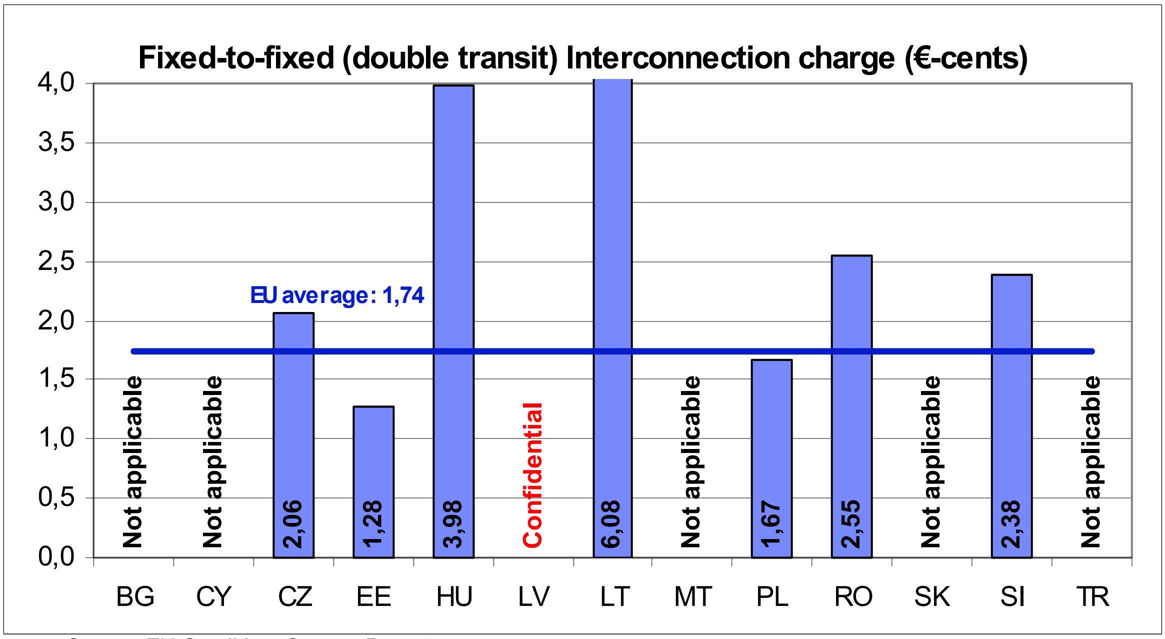
[3] In four countries (Bulgaria, Cyprus, Slovakia and Turkey) fixed-to-fixed interconnection is not yet applicable although the monopoly of fixed incumbent operator was already terminated at the end of 2002. In Malta the double transit is not applicable due to the geographical size of the country. In Slovenia the charges are applied for operators that are connected to all exchanges applicable for the respective type of interconnection otherwise the interconnection charges are higher (this is valid for mobile-to-fixed charges as well).

Fixed-to-Fixed interconnection charges for call termination on fixed network of incumbent operator – single transit as of 31 January 2003



Source: EU Candidate Country Report

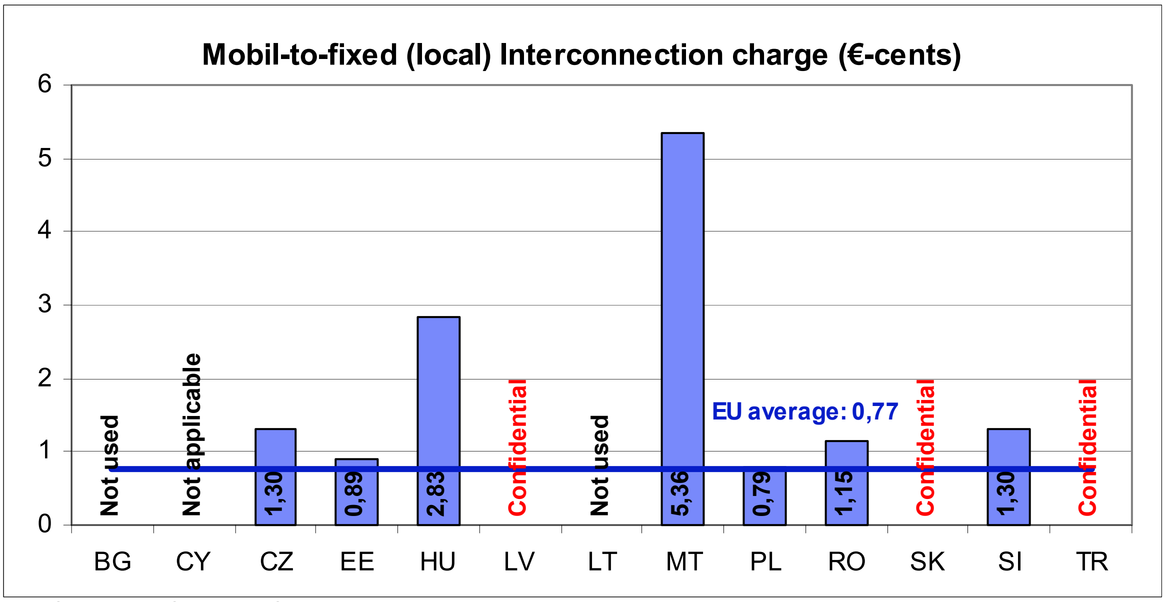
Fixed-to-Fixed interconnection charges for call termination on fixed network of incumbent operator – double transit as of 31 January 2003



Source: EU Candidate Country Report

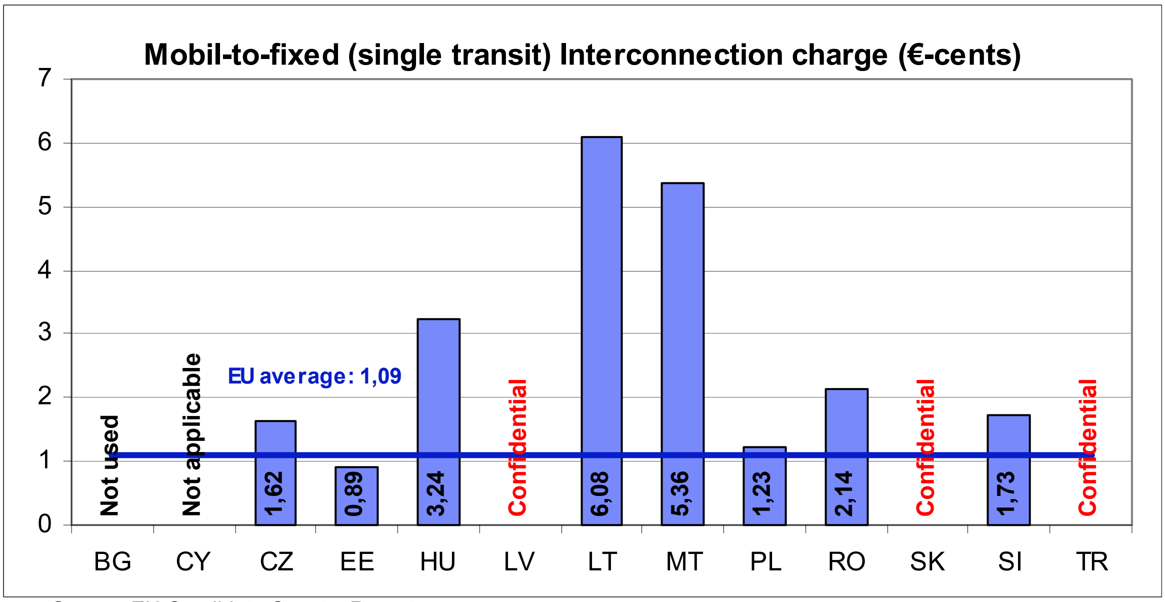
Mobile to Fixed

Mobile-to-Fixed interconnection charges for call from mobile network terminated in the network of fixed incumbent operator – local level as of 31 January 2003



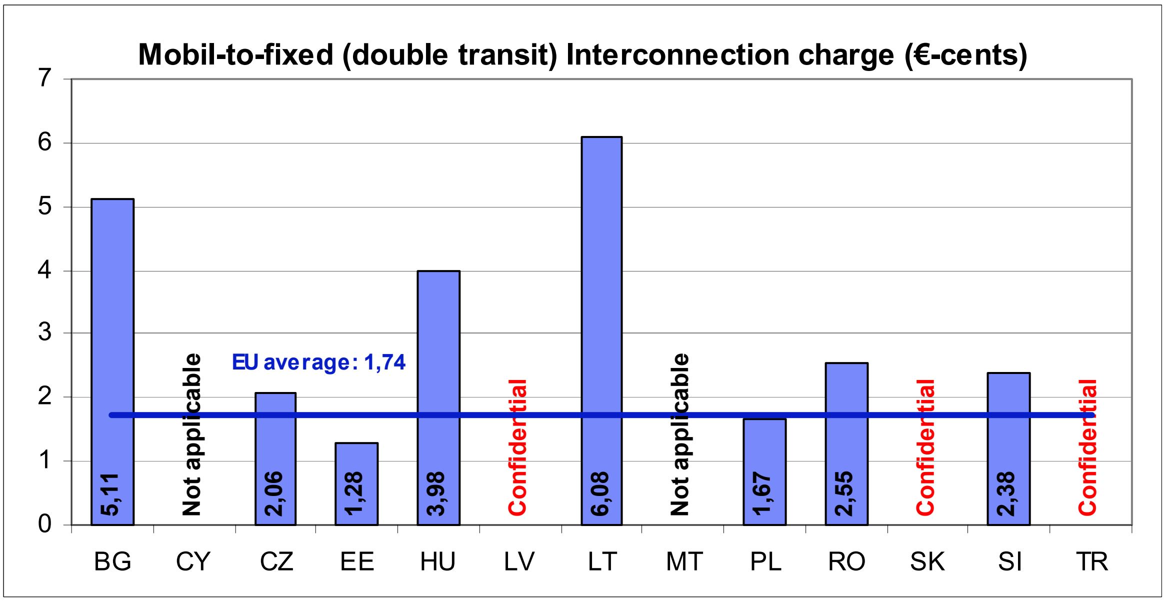
Source: EU Candidate Country Report

Mobile-to-Fixed interconnection charges for call from mobile network terminated in the network of fixed incumbent operator – single transit as of 31 January 2003



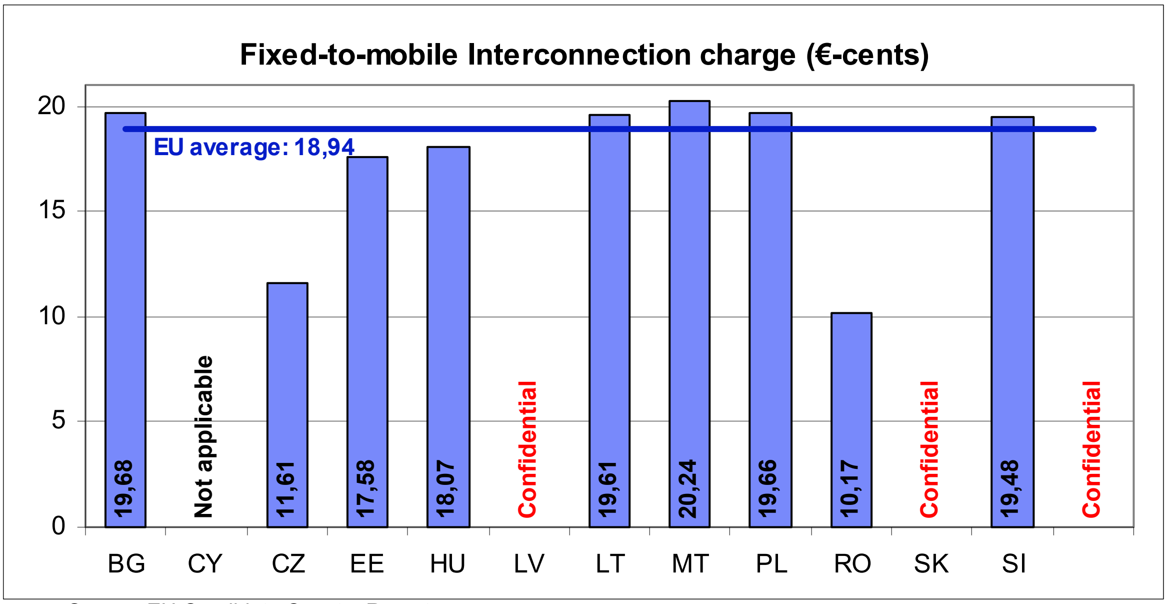
Source: EU Candidate Country Report

Mobile-to-Fixed interconnection charges for call from mobile network terminated in the network of fixed incumbent operator – double transit as of 31 January 2003



Fixed to Mobile

Fixed-to-mobile interconnection charges as at 31 January 2003



Source: EU Candidate Country Report

Further tariff data can be found on:

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