

Industry Analysis Report 2004

Submitted by
Economic Affairs Section
Pakistan Telecommunication Authority
Headquarters, F-5/1, Islamabad

Contents

- ⊙ Introduction
- ⊙ **PTA Initiatives for the Growth of the Telecom in Pakistan**
 - ✦ *Cellular Mobile*
 - ✦
 - ✦ *Other Services*
- ⊙ **Liberalization of Telecom in Pakistan**
 - ✦ *Salient Features Of The Mobile Cellular Policy*
 - ✦ *Salient Features Of Deregulation Policy*
 - ✦ *PTA Awards Licenses for Fixed Line and Cellular Mobile*
- ⊙ **Growth of Telecom Sector in Pakistan**
 - ✦ *Mobile Sector*
 - ✦ *Fixed Line Sector*
 - ✦ *Card Payphones*
 - ✦ *Broad Band/Internet*
- ⊙ **Telecom Liberalization Impact on Economy**
 - ✦ *Foreign Direct Investment*
 - ✦ *Employment*
 - ✦ *Revenue*
- ⊙ **Conclusion**

Industry Analysis Report

INTRODUCTION

Since the inception of Pakistan, basic telecom services were being provided by a monopolist, previously called as Telephone and Telegraph department (T&T). The department was being run by the Government and played multiple roles of regulator, policy maker and operator in the country. The T& T department was later converted into a corporation. Although the corporation was earning huge profits from the services, it was re-investing the same profits into the sector for the provision of more telecom service but the investment was not enough. Further, with the technological advancement, more and more telecom services were becoming available but there was not enough money available with the corporation to install new telecom systems for the provision of modern services. Resultantly, a digital divide prevailed in Pakistan and we remained far behind our neighbors and other comparable countries in terms of telecom access.

Cellular mobile services in Pakistan were commenced in 1990s when two cellular mobile telephone licenses were awarded to Paktel and Pak Com (Instaphone) for provision of cellular mobile telephony in Pakistan. Currently there are four cellular players in the market, two with GSM and two with DAMPS technology. Cellular subscribers though grew over the years however, due to partial competition; cellular companies could not meet the growing demand in Pakistan.

Keeping in view the above factors, government of Pakistan has decided to move away from monopoly situation in basic telephone and introduce more competition in the cellular market of Pakistan. The year 2003-2004 is considered as a historical year in the history of telecommunication in Pakistan. The telecom deregulation which started early this year in Pakistan has revolutionized the whole industry. Significant landmarks are achieved and the local telecom scenario is completely changed. Today all telecom services in Pakistan are open to competition whereby incumbent monopolies will now be competing with telecom giants of the world working in Pakistan. Telecom services consumers are forecasted to increase by many folds due to price reduction under competition and price regulation of SMP operators by the Authority.

PTA INITIATIVES FOR THE GROWTH OF THE TELECOM IN PAKISTAN

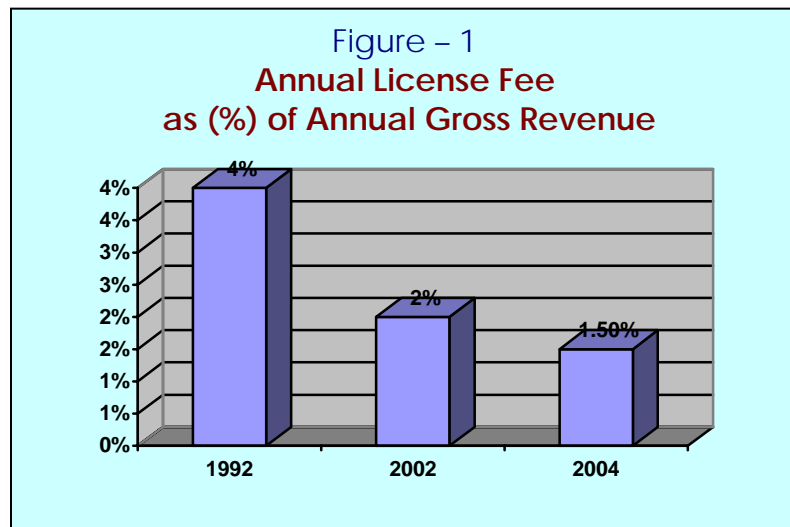
PTA extended number of incentives for the growth of sector which include drastic cut in royalty for different services and introduction of CPP regime for mobile sector which boosted the growth of the sector. However, still the penetration of cellular mobile and teledensity in terms of fixed line in Pakistan is quite low when compared to the similar economies. During the year 2004, PTA extended following incentives to reduce input cost of operators and further growth of the telecom sector in Pakistan.

Cellular Mobile

PTA provided several incentives for the growth of cellular mobile in Pakistan including the reduction in royalty and introduction of calling party pays regime in year 2001. During the year 2004 under cellular mobile policy annual royalty has been further reduced from 1.5% to 0.5% of annual gross revenue minus inter operators' payments for new entrants. The same will be applicable for the existing operators when they will renew their licenses.

Card Payphone

Card Payphone services are important means of providing handy fixed line services to general public. It is also an important source of self employment throughout the country. Keeping in view its importance, PTA provided incentives to this sector in terms of reduction in royalty and license fees over the years. Initially PTA was charging annual royalty @4% annual gross revenue and annual renewal fee @25% of initial license fees. In the year 2002 PTA reduced its annual fees to only 2% of the annual gross revenue and abolished the annual royalty.



In the year 2004 PTA further reduced the annual license fees from 2% to 1.5% of annual gross revenue which would give further impetus to the growth of the sector.

Other Services

During the year 2004, PTA also reduced annual license fee and royalty on other services like Electronic Information Service (EIS), E-Mail services, Data Communication Network Services (DCNS), Non-Voice Communication Network

Services (NVCNS), Voice Mail and Burglar Alarm Services etc. PTA abolished the annual royalty on these services with effect from license issuance date which was previously charged @ 4% of annual gross revenue or 50% of initial license fee. Annual license fee/renewal fee is also been reduced during the year.

LIBERALIZATION OF TELECOM IN PAKISTAN

It is considered view around the world that liberalization of the telecom sector brings more competition and helps to create more jobs in any economy. To usher the benefits of liberalized telecom sector in Pakistan, Government of Pakistan announced deregulation policies both for cellular and fixed line in the year 2003 and PTA was made responsible to award licenses to private sector as per criteria set in the policies. A brief of these policies is given in following paragraphs:

Salient Features of the Mobile Cellular Policy

Broad based objectives to be achieved through Mobile Policy are to increase service choice for customers at affordable and competitive price, to enhance private investment in mobile sector, recognition of the rights and obligations of mobile operators, to have fair competition among mobile and fixed line operators and build regulatory structure in line with international best practices. Main features of the MOBILE CELLULAR POLICY are:

- ⊙ Issuance of new national, technology neutral, licenses for 15 years.
- ⊙ New operators to roll out coverage to at least 70% of tehsil headquarters in four years with a minimum of 10% tehsil coverage in all the provinces
- ⊙ PTCL to prepare all transit and tandem switches for interconnection and implementation within six months of policy notification,
- ⊙ PTCL to prepare 50% of Local Main Switching units for interconnection within one year
- ⊙ Radio spectrum would be allotted through auctioning to mobile licensees.
- ⊙ The mobile licensees will also pay PTA an annual license administration fee to cover the cost of regulation.
- ⊙ Licensee will contribute 0.5% of gross revenue minus inter-operator and PTA/FAB related payments to Research and Development Fund.
- ⊙ Mobile Licensee will also pay USF charge limited to 1.5% of the gross revenue minus inter-operator and PTA/FAB related mandated payments.

Salient Features of Basic Telecom Deregulation Policy

The Policy is designed to achieve the objectives of increased service choice for customers at competitive rates, increased teledensity and expanded telecommunication infrastructure to un-served and under-served areas of Pakistan. Main features of the TELECOM POLICY are:

- Open and unrestricted licensing under licensing categories of
 - Local Loop (LL) – based on PTCL regions
 - Long Distance and International (LDI)
- License Term - 20 years
- Technology neutral
- Policy review period - 5 Years
- Licenses fees for both categories are
 - Local Loop - US \$ 10,000 (Bidding for WLL)
 - LDI - US \$ 500,000 (Performance Bond - US \$ 10 M)
- LDI licensee will be obliged to start roll-out by building at least one point of interconnect in five PTCL regions within one year of award of license and in all 13 regions within 3 years
- PTA to determine SMP in the sector and to regulate tariffs in case of evidence of unfair & burden-some pricing to consumers.
- PTA to regulate PTCL's rates and services, subject to price cap regulation scheme
- USF will be collected and disbursed by PTA , at maximum of 1.5% of gross revenue minus inter operator payments.

PTA Awards Licenses for Fixed Line and Cellular Mobile

PTA was made responsible to issue licenses to private sector under the policies issued by government of Pakistan. PTA took this job as a challenge and initiated work to implement the policy in a befitting manner. PTA initiated the spade work for transparent auction of the award of cellular license in Pakistan. Response from investors was overwhelming and PTA received 33 applications across the world for cellular licenses. Out of these 33 applicants, 9 were qualified, based on financial and technical evaluation. Finally, bidding was conducted on 14th April 2004 for award of cellular licenses in the presence of the Press and large range of audience.

Finally two additional cellular licenses have been awarded to international cellular companies, Telenor of Norway and Warid Telecom of UAE on 26th May 2004 @ US \$ 291 Million each and formal ceremony for award of licenses



was held at President's camp office Rawalpindi. President General Parvez Musharraf witnessed the signing ceremony and assured both the companies of continuity of the government economic policies. Both the companies have already deposited US \$ 291 million to the government of Pakistan while the rest of the amount would be paid in next ten years.

For LDI and LL licenses, again PTA adopted proactive approach to issue these licenses and initiated a consultation process with industry stakeholders regarding implementation of De-regulation Policy. Pakistan Telecommunication Authority (PTA) received 95 applications for the grant of Local Loop (LL) and Long Distance International (LDI) licenses from the prospective investors. Out of these applications 73 were meant for LL licenses while 23 were for the award of LDI licenses. So far, PTA has issued **12** LDI Licenses to various national and multinational companies who deposited initial license fee and fulfilled all other requirements. PTA has also issued **84** Fixed Local Loop Licenses to various companies for 14 telecom regions of Pakistan.

Pakistan Telecommunication Authority (PTA) decided to promote Wireless Local Loop industry. Spectrum being a limited source, PTA conducted an open auction for its acquisition, twenty companies have won the spectrum, in all 108 WLL licenses in fourteen regions will be awarded to the successful bidders upon completion of formalities and submission of spectrum winning prices.

GROWTH OF TELECOM SECTOR IN PAKISTAN

Pakistan telecom sector though grew but its rate of growth remained slow over the years. Now the competition has been introduced in the telecom sector which has shown positive impact on the growth of the sector in short span of time. It is also expected that sector will grow further when new operators will roll out their network in the current year. A brief account of the growth in telecom sector is given below.

Mobile Sector

Fruits of the competition in the telecom sector introduced by PTA have been passing on to the consumer in just few months in terms of reduction in tariffs and extension in coverage. On the eve of Independence

Day, Ufone offered free connections and added approximately 3,48,000 customers in just one month. Mobilink, the leading mobile company in Pakistan, also offering various packages to attract more customers. Recently, Mobilink offered free connection with Rs. 300 scratch card before it was offered bundle package and offered free hand set with connection.

At the end of year 2003 the mobile subscribers were almost 2.4 million which has increased to 6.5 millions till the end of September 2004. In the year 2003-04 sector grew by 173% (Figure -). This unprecedented growth can be attributed to series of events that have taken place during the year. This includes award of license to two new mobile companies thus creating competitive environment for existing operators. These operators have started acquiring market share as much as possible by bringing down the prices of new connections to zero. Similarly, PTA initiative to reduce activation tax from Rs 2000/- to Rs. 1000/- on new mobile connection have played an important role in increasing the subscriber base as the benefit was completely transferred to the consumers.

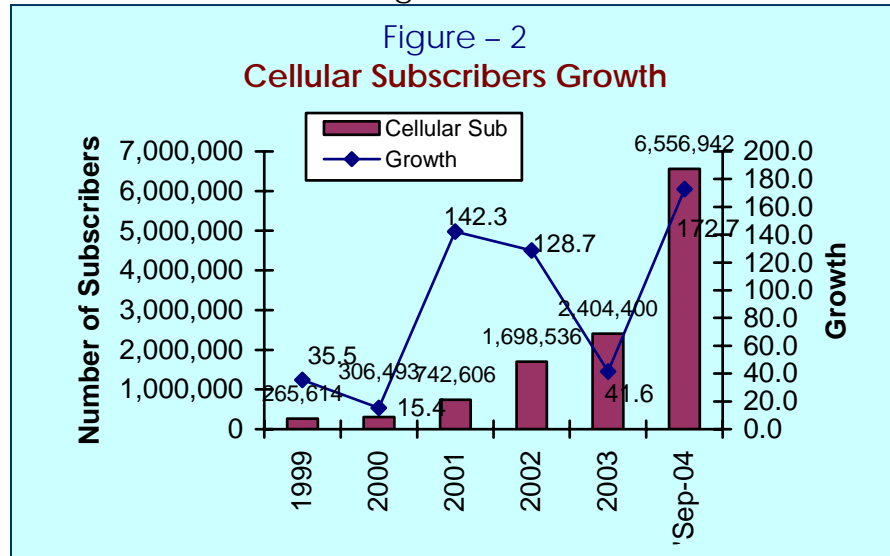
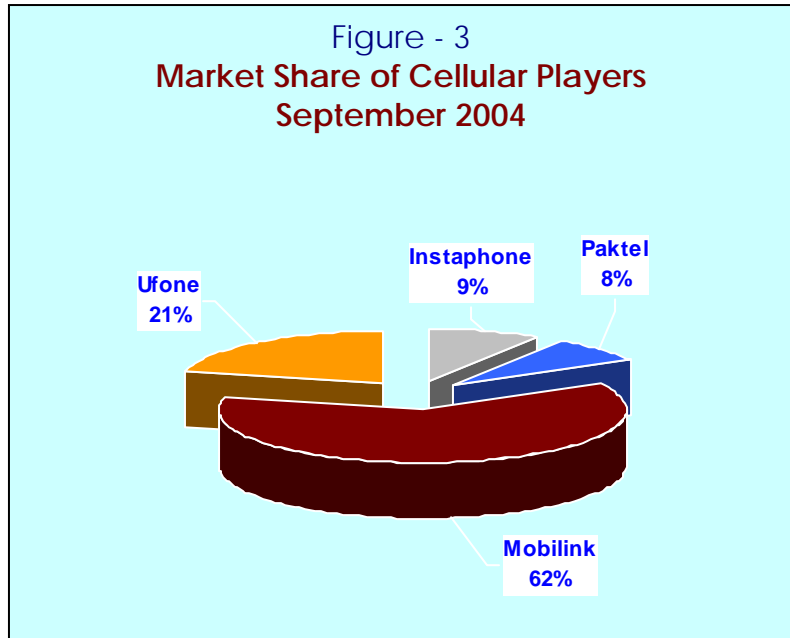


Figure-3 depicts the market share of four existing mobile operators in Pakistan mobile market. Mobilink being the market leader owns about 62% market share in terms of cellular subscribers. Ufone the competitor of Mobilink in GSM has share of about 21% in total subscribers of the mobiles in Pakistan. Instaphne and Paktel have market share of about 17%. Recently, Paktel has started GSM service and it is expected it would be able to add more customers in future. It is also expected that a healthy competition among 4 existing and two new entrants would encourage growth by many fold.

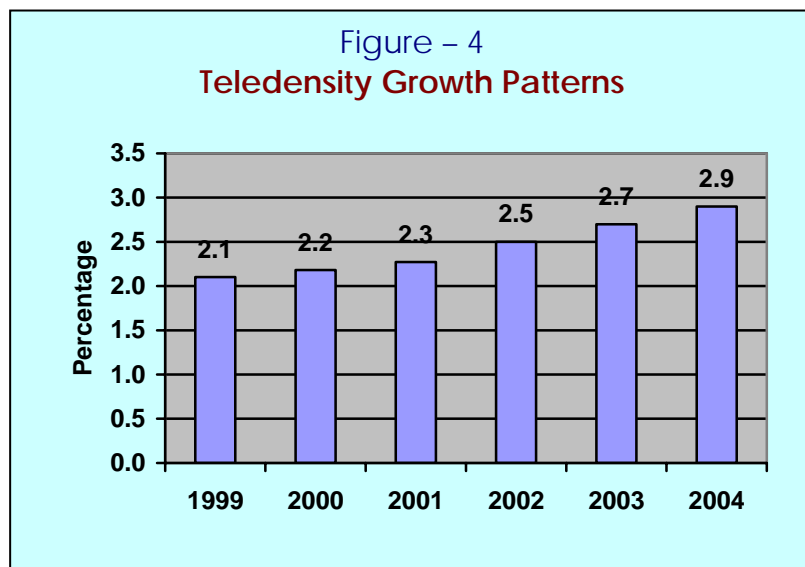


Fixed Line Sector

Fixed line Services in Pakistan have also shown magnificent growth patterns over the years. This has been evident from the increased teledensity over the years. Currently the teledensity has reach to 2.9% which was just 2.2% in year 2000.

PTA has been working towards increasing teledensity; in this regard PTCL tariffs have been reduced drastically not only for local but also for nation wide and international calls. PTCL has been forced to bring in schemes for provision of fixed line connection on easy terms.

Geographically, Punjab is the region which is largely connected with telecom services and has teledensity 3.4% in the year 2004. Teledensity in the province of Punjab was 2.8% in the previous year. Baluchistan has the lowest teledensity in Pakistan which is only 1.5% in the year 2004.



This is due to the fact that deployment of network in the areas in Punjab is more cost effective than that of Baluchistan (Table – 1).

Table-1

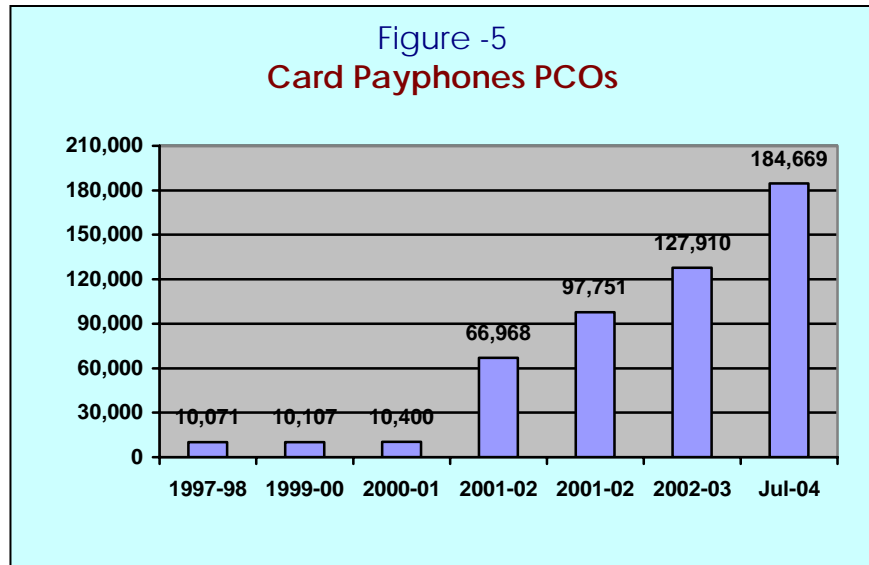
Teledensity by Provinces

Year	Punjab	Sindh	N.W.F.P	Balochistan
2001	2.4	3.0	2.0	1.3
2002	2.6	3.2	2.2	1.3
2003	2.7	3.3	2.4	1.4
2004	3.1	3.5	2.7	1.5

Recently, PTA has issued licenses for LL and LDI and it is expected that teledensity will increase as soon as new operators start their services. Similarly 108 licenses are expected to be given out for WLL services which will be a corner stone in increasing teledensity in rural areas of Pakistan which is currently very low.

Card Payphones

Card Payphone sector also shown a tremendous growth over the years. In the year 2000-2001 there were only 10,400 card payphones in the country and the number has reached to 184,669 in July 2004 shown in the Figure -5.



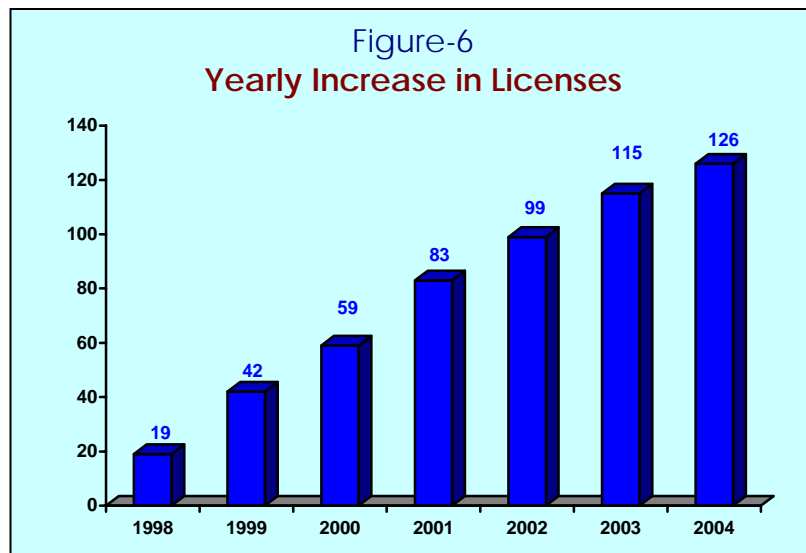
The growth in this sector is basically due to liberalized policy, competition, reduction in regulatory charges and reduction in tariffs of telecom services.

Broad Band/Internet

For last couple of years there has been a drastic worldwide shift of users from conventional internet access to broadband access. Keeping this in mind, PTA has allowed all the ISP's to offer broadband services as opposed to only 6 earlier. This has been decided in the greater interest of the users and the telecom industry for fostering broadband services.

Currently over 1900 cities have access of internet in Pakistan and strategy in Pakistan is to spread access to as many cities, towns and villages as possible and as soon as possible. For the purpose, the Internet bandwidth rates have been reduced drastically, for specific purposes, receive only, satellite communication has been facilitated without license requirement.

As evident in Fig-6 there were only 19 Internet service providers in the year 1997-98 which has reached to 126 in the year 2004.



To encourage the growth of the internet in the country, PTA has decided that in future only two types of license, PTCL region wise and Nationwide, license will be issued.

PTA has set Rs. 100,000 license fee for Region wise license and Rs. 300,000 for nationwide license. Existing licenses of District/Provincial level will also be upgraded to regional and national level. PTA has also requested Central Board of Revenue that internet operators who are using VSAT may be exempted from Central Excise Duty (CED). One could hope, this measure would help to increase the internet users by many fold.

IMPACT OF DEREGULATION ON ECONOMY

The impact of telecom deregulation on overall economy is quite obvious. Share of Telecom sector in GDP has increased from 1.5% in the year 1999-2000 to 1.7% in the year 2003-04. It is expected that total share of Telecom sector in GDP would increase to 3% in the coming 5 years when new operators would roll out their networks in the country.

A total of over Rs. 30 billion have been generated by PTA as initial license fee from new licenses (mobile, fixed and Spectrum for WLL). This contribution would have far reaching impact on the economy of Pakistan in coming years.

Foreign Direct Investment (FDI)

Foreign Direct Investment is considered an important source of economic growth in this globalized world. PTA has created a conducive and investors friendly environment in the telecom sector by awarding licenses in a fair and transparent manner. Award of cellular mobile licenses increased Foreign Direct Investment considerably (Figure-5). It is expected that US\$ 5 to 8 billion Foreign Direct

Investment would come to the cellular mobile and fixed line telephony in next 3 to 5 years.

Employment

Telecom sector has been declared as a priority area for employment generation and poverty reduction by the Government of Pakistan in year 2004. By issuing new licenses in the telecom sector, approximately 370,000 direct and indirect employment opportunities have been created. Indirect employment would be provided through franchises, vendors and distributors of the telecom companies entered in the telecom market of Pakistan.

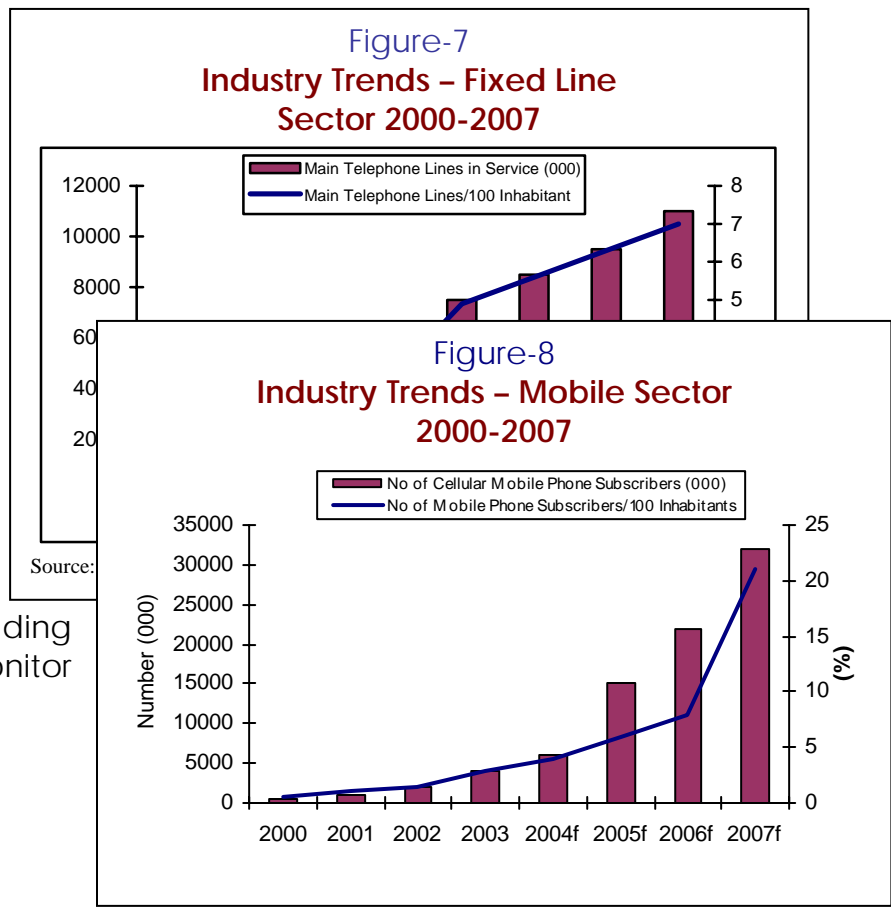
Service	Direct Employment (20,000)	Indirect Employment ((350,000)	Foreign Investments in Next 3 to 5 years
Mobile	5,000	Venders, Franchises and distributors	US\$ 2-3 billions
Fixed Line Telephony	15,000 LL (5,000), WLL (8,000), LDI	Pay Phone (PCOs) Venders, Customer Service Centers, Call	US\$ 3 to 5 billions

Revenues

Beside the sector's contribution in employment and Foreign Direct Investment, the revenues in terms of GST/CED have also increased significantly. CBR collected over Rs. 2 billion from fixed line and cellular sector during July-August 2004 (in just two months). Total collections from telecom sector in terms of GST/CED increased by 5% in fiscal year 2004 compare to the previous year.

CONCLUSION

Following the end of monopoly structure in basic telephony and introduction of more competition in cellular market of Pakistan, it is expected that both of sectors will grow considerably in the next few years. A number of WLL, LL and LDI operators will start to roll out their networks shortly. A leading firm "Business Monitor



International" has forecasted that Access Lines in Service (ALIS) in Pakistan will surpass the 10 million mark in year 2007 which are only over 4.6 million in the year 2004. It is expected that Fixed Line teledensity will reach to 7.1% in the year 2007 which is only 2.9% in the year 2004. Competition in the sector will help to reduce tariffs and improve the affordability for common man.

Mobile sector will also grow considerably with the entry of two new cellular operators and expansion of networks by existing operators. It is expected that cellular subscribers base would reach to 33 million in the year 2007 and cellular penetration would reach to 21% in the same year.