

ICPS newsletter

Experience of telecoms markets worldwide: Lessons for Ukraine

"I've had a chance to work in the telecommunications sectors of different countries, and I know that what is happening in Ukraine is not unique. Many—I might even dare to say all—countries encounter challenges, the main difficulty being the failure to come up with a simple, straightforward solution", said international consultant Alex Sundakov at a presentation for leading company representatives from Ukraine's telecoms market, arranged by ICPS following the completion of the "Analytical Support for the Privatisation of the Ukrtelecom OJSC" project

Why privatise?

Over the past decade, privatisation of communications operators has been underway. And interestingly, over the past decade, the purpose of privatisation has been mulled over again and again. The logic behind privatisation turns out to be less clear than it used to be, and with time, going through one's own and others' blunders in detail, we find out that there are a number of approaches to privatisation, each having its own logic.

The privatisation of the 1980s was ideological, the idea of which was that companies in private hands would be run more efficiently. It was believed that the sooner telephone companies get into private hands, the sooner they would be run efficiently. However, at the end of the 1980s surveys demonstrated that in those countries where rapid privatisation took place, and in those where companies were only commercialised (that is, they became corporate enterprises but remained state-owned), privatisation did not prove to be far more useful than the commercialisation of companies. This led to the first re-evaluation of privatisation goals.

Privatisation has been especially introduced on the agenda of those countries which did not develop their technologies, and was discussed as a way of applying the latest technologies—management systems—a way of adopting skills that were non-existent before. As a rule, this resulted in the sales of companies to American or English

corporations, which at that time were the most developed. Occasionally, it worked; however, time showed that many companies that did not resort to this, and simply hired advisors and/or managers from other countries, purchasing the latest know-how, could gain the same experience which allegedly was to be acquired through privatisation. Therefore, this no longer looked like a clear privatisation goal.

The subsequent stage and goal of privatisation has been in multiplying budget revenues—that is, selling companies at the highest possible price to earn more budget revenues. Every so often, in order to boost budget revenues it pays more to sell a monopoly rather than an efficiently run company. It turned out that the majority of countries that resorted to this method of buoying budget revenues created an ineffective environment for telecommunications, because for the purposes of maximising profit they granted free monopolies and privileges to telephone companies, but failed to attain the expected indicators. Therefore, there is an ongoing process of revising privatisation goals; this does not in any way mean that privatisation is irrelevant, only that it should be done very carefully, having first determined the privatisation's goal, because different consequences can ensue.

How to handle the market?

Another weighty factor for the telecommunications sector virtually all over the world is the regulation

process—the process of the government abandoning scrupulous control over price formation, investment, as well as processes shaping the development of the sphere. British Prime Minister Tony Blair determined one of his policy directions as maximum control for the market, while the government should have not more than necessary. That is, to put as few spokes as possible into the mechanisms of market relations, not forgetting, of course, that the government also has certain regulatory functions, which means that market relations will not be unfettered.

Interestingly, over the past decade all countries have been entangled in heated debates having to do with regulation issues, i.e., how to equipoise the role of the market and that of the government. It is worthwhile mentioning that this process is not unilateral, and it is not true that the government is constantly withdrawing from the telecommunications sector. In many countries, the government initially abandoned the telecommunications sector, then returned with new regulatory requirements, which before seemed unnecessary.

A vital element for the development of the telecommunications sector is that different technologies are starting to compete more intensely. When the privatisation and deregulation of the telecommunications market commenced, companies split into the those providing traditional communications services and those providing mobile communications services. All considered, these are two different markets, which should be managed differently and are governed by different principles and laws. But, in fact, they are not—different technologies in voice and data transmission services compete with each other more fiercely. In many countries today, the number of mobile telephones exceeds the number of

fixed lines, because mobile communications often offer the same services at similar prices. This competition of technologies puts state regulation systems in very uncomfortable conditions, which had formed taking into account that different technologies work in different markets. Many countries are now going through the painful processes of adjusting to these technological innovations, often awkwardly, with delays, and frequently it turns out that technological development outpaces the government's skills to establish valid frameworks for the functioning of this market.

And the last element—which also seems does not surprise anybody, but often unpredictably affects the way telephone companies operate—is the increasingly rigid requirements for the usage of telephone networks by Internet providers/users, and overall requirements for data transmission by different clients. That is, the Internet services market frequently outperforms the voice transmission services market and creates new and unprecedented problems, arising from the fact that regulatory systems built on voice transmission fail to cope with the problems posed by the new technological situation when data is transmitted using different technologies, capacities. In many countries, a minute of Internet connection as a percentage of traffic costs far greater than that of voice communications. And this dramatically affects the possibilities of efficiently using network resources, which makes it riskier because the regulatory system in many countries is not prepared for this.

Lessons for Ukraine

What are the achievements of the telecommunications market development worldwide? First, all countries where privatisation has already taken place are currently debating its results. Debates have to do with the revision of privatisation goals. It turned out that privatisation failed to achieve all the set goals. Presently, it is debatable as to what trade-offs were made and whether they were relevant. I consider this highly valuable for the debates that are currently underway in Ukraine, because as seen from

a position of detachment, privatisation here is deemed as a nostrum that is expected to conjure up anything from money to efficient owners, etc. I do not believe it possible to find such an ideal model, or to implant another country's model in Ukraine. Moreover, none of the countries I am familiar with regards its model as ideal. The essential is to follow the debates that took place in other countries and trade-offs achieved, and then get used to the thought that these trade-offs are unavoidable in Ukraine.

The second outcome of the past thirty years is deregulation, which actually turned out to be an extremely large-scale re-regulation. In 1985, when I was preparing New Zealand Telecom to be privatised, we were highly optimistic. We believed that in three or four years the government would not play any role at all in the telecoms sector. That is, telecommunications would exist equally as any other sector—governed by general laws, with competition such that the government would not have any particular interest in telecoms apart from these general laws.

In order to ensure the efficient running of the telecoms market, and its attainment of anticipated goals, thorough regulative frameworks should be created. Over many years, governments of virtually all countries have worked to establish these frameworks. Now, there is an ongoing process of their improvement, consuming a lot of state funds, as well as those of telephone companies (which allows them to enter debates with regulators and lobby their interests). It is difficult, even hazardous, to underestimate the regulatory efforts required to establish an efficient telecommunications market—not only willingness and drafting legislation are required, but also immense resources, the creation of proper institutions, and training of professionals. In Western countries, telecommunications regulation is in fact a profession. Consulting companies specialise in dealing with this issue, which only shows how complicated and demanding the system is.

It would be useful to summarise this global mine of experience and how it is

applicable to Ukraine. All these burning issues for Ukraine are also crucial for countries worldwide, and I would like to emphasise that there is no universal remedy, there will always be trade-offs, because all targets are impossible to hit, one always has to abandon less vital considerations. Compromise usually involves risks, because those players whose interests are sacrificed will always be dissatisfied. It is essential to understand this and be ready for it, because trade-offs are unavoidable, and it is critical to know when it is better to de-politicise these debates by turning to more rational aspects.

My opinion is that Ukrtelecom should be absolutely certain of why it needs privatisation. If it is needed to maximise budget revenues, now is not actually a good time to sell the company; and really it is not known whether that is the best way, in fact, to manage the company. If the goal of privatisation is to locate new resources, attract new capital investments, again it is not necessarily the best way to attract money to Ukrtelecom. Every so often, privatised companies trim their capital investments, which is one of the ways of returning money to new owners. This is not a contra-privatisation argument, it is only to emphasise the need for having clear privatisation goals and, accordingly, devising a scheme and timing it to maximally map into those goals. And it seems to me that in Ukraine this process is not mature yet, and until privatisation discussions take a more distinct turn, my advice would be not to rush with privatisation. The key point is not to take a one-sided approach to the problem, for all government-related issues should be treated multilaterally, because their solution will necessitate reconciling the interests of different social groups. And in order to achieve viable trade-offs, I deem it worthwhile to find the time to understand them well, discuss them thoroughly, and get a good feel for them. ■

Alex Sundakov is the director of the New Zealand Institute for Economic Research, which assigned the experts to the ICPS team executing the "Analytical Support for Ukrtelecom Privatisation" project.

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