

# Press-release of 15.07.2010

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On 15th July 2010, the Federal Antimonopoly Service (FAS Russia) held a session of the Expert Council on Communications Industry. Its agenda included two major items:

1. SKYPE software and its effect for technological advancement of communications markets and development of competition.
2. Contracts for investing in state and municipal facilities.

The Expert Council also discussed some issues affecting the interests of business community and consumers in the markets of communication services.

As mentioned by Deputy Head of FAS Russia Anatoly Golomolzin, who chairs the Expert Council: "Antimonopoly authorities of the CIS member-states have analyzed international communications markets, the main areas of their development, and remedies that can be undertaken by the government to correct these markets. Development of new innovative communication technologies, for instance, IP-telephony, including Skype, makes communication services 10-15 times cheaper". CIS has not established normative legal regulation in this field yet. "This segment of the market is actively developing" added Mr. Golomolzin.

Jean-Jacques Sahel, SKYPE Director responsible for Government and Regulatory Affairs, EMEA, made a presentation at the Expert Council, where he described the company's practice and proposals that can make considerable contribution to developing competition on communications markets. He talked about the most important changes in communications, technologies and services, especially emphasizing transition to IP-infrastructure and services that are becoming essential for society and economy. "Wide-band Internet access (3G, LTE access to fixed and mobile communication) is becoming universal", stated Mr. Sahel. Another important novelty - transition from hardware to software, when voice is not differentiated from other types of content and packet traffic is not differentiated by the type of packets. Jean-Jacques Sahel also said that "users are becoming a more important link in a communications chain: users are active participants in selection of technologies and services and can use several means of communication".

The Expert Council discussed what should be done to ensure that introduction of new technologies is beneficial to the users in terms of prices as well as expanding consumer choice, which can be achieved only by developing conditions for competition. "Regulatory approaches should follow technological and consumer trends and not the other way around". Regulation should facilitate introduction of the widest range of technologies and meet consumer needs. It is important to eliminate old administrative barriers without creating the new ones.

Telecommunication regulation should be more flexible while the boundaries of industry regulation should be narrowed. The current situation on the European telecommunication market was described as:

- presence of a few vertically integrated market players; control over the value chain; restricted competition or its absence; consumer needs and consumers themselves did not mean much to

business or are simply ignored.

Today the state of the market has been radically transformed:

- vertically integrated market players still exist but not to such an extent; low entry barriers both at the level of access and services: intensive competition at the level of infrastructure, access and services encourages innovations, which generates new products and services on a regular basis; consumers have access to a wider range of constantly expanding services rendered from any country in the world through the Internet.

Jean-Jacques Sahel also pointed out that "legislative regulation, which stimulated competition, has facilitated an inflow of investments in the industry infrastructure".

"There is a strong positive correlation (59%) between parallel infrastructures and competition, providing Internet access, and companies' shares of retail market and market prices in the four key areas: narrow-band access, mobile communication, business services and wide-band access" stated Mr. Sahel. "Such correlation can be observed in the countries where the system is more developed and there is a tendency to achieve better results through advancing competition and, accordingly, consumer well-being".

The SKYPE Director responsible for Government and Regulatory Affairs, EMEA, also shared his opinion about the future shape of regulation: "It is important to create competitive conditions when the government prevents market discrimination for Internet access along the whole value chain, which stimulates the growth of innovations".

Presentation of Jean-Jacques Sahel was met by the Expert Council with great interest, the speaker was asked numerous questions, which he tried to answer with maximum detail.

The members of the Expert Council and invited business representatives exchanged opinions on the excellent prospects of new technologies innovations in communication services and underlined the interest of Russian companies to provide similar services. For instance, a representative of "Rostelecom" OJSC said that as a result of Skype only in 2009 losses of Russian providers were around 6.7 billion Rubles. At the moment, expansion of Skype-type services is constrained by a low level of penetration of wide-band services in the Russian provinces. It is expected that in 2010 incremental growth will be 16 million and in 2011-18.6 million subscribers; while non-received income of Russian providers in 2011 can reach 10.5 billion Rubles. The modern state of regulation of the communication industry in Russia and the CIS makes providing Skype-based services more difficult and sometimes unlawful. To ensure legitimacy of such operations and stimulate market development, telecommunication legislation on VoIP-telephony should be corrected without delay. As stated by Anatoly Golomolzin, "the subject of discussion was very interesting and useful. Regulatory framework must be improved so Russian companies are able to provide similar services. Efforts should be made to ensure advancement of innovative technologies in telecommunications otherwise we'll lose in the international competition".

The second item on the agenda was discussing amendments to Article 17.1 of the Federal Law "On Protection of Competition". In practice, the mechanism formalized by Article 71.1 of the Law doesn't work and in some instances problems arise when contracts are to be concluded for

possession or use of small premises (up to 20 sq.m.) The main reason is that tender and auction procedures are strictly formalized and the government agencies responsible for tender and auctions are overloaded, therefore they give priority to larger premises. Typically, there is only one person that expresses an interest towards small premises and a tender or an auction is simply a formality. FAS Russia drafted relevant amendments to Article 17.1 of the Federal Law "On Protection of Competition" as part of the "third antimonopoly package", which received support of the Expert Council. The Council looked into another aspect of the problem, when some owners of state or municipal property refuse to enter into contracts with communications providers for accommodating communication equipment. FAS Russia will investigate the problem after the interested market players file relevant information to FAS. Summing up the session, its participants agreed upon further cooperation.