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**Conference focuses on changing face of fixed-line telecoms**

By Robert Smyth

Participants at the BBJ's conference on fixed-line telecoms last Wednesday, Aug. 31, offered a wide variety of observations about changing competition, regulations and innovative new technologies affecting the fixed-line sector.

Speaking from the regulatory side, Ferenc Bánhidi, a board member of the National Telecommunications Authority (NHH), noted that while the replacement of fixed lines by mobiles is not as rapid as it once was, fixed-line operators do face significant challenges.

"The landline business is mature or decreasing," said Bánhidi. "The revenues of landline providers have decreased, including internet revenues. The internet has not compensated for the decrease in fixed phone revenues."

Bánhidi recalled that the decline in landline subscribers stopped in 2004, but started up again in 2005, and this may lead to a decrease of several hundred thousand lines. Perhaps as a veiled warning to fixed-line providers to be more flexible to consumer needs, he noted that the majority of households, while they do not want to give up their landlines, want to use them differently. At the same time, he also noted that NHH market analysis shows that really long calls are made only by landline.

As the next big development on the market, Bánhidi cited the introduction of local loop unbundling (LLU), which could see alternative operators offer enticing new services by gaining control of the line all the way to the end user.

The NHH observed at the end of 2003 (when it began tackling the market) that interconnection fees – i.e. the prices alternative telecoms pay incumbents for using their networks – stood a lot higher than the EU's fixed-line average.

"The landline market was very limited and concentrated exclusively on business, not on households," Bánhidi said. "We wanted competition in the residential segment, and the most important step was to adjust connection fees."

Bánhidi mentioned that pan-European alternative telco Tele2 first looked into the Hungarian market in 2002, but was convinced about entering only after interconnection fees came down by 72% to EU levels in 2004.

**Intensifying competition**

Imre Bölcskei, domestic regulatory director at local market leader Magyar Telekom Rt (formerly Matáv), recalled that Hungarian telecom liberalization has occurred in multiple steps since 1993. With the passage of the Telecom Law, he noted, Matáv's infrastructure monopoly ceased to exist.

The Magyar Telekom Group collects some Ft 17 billion–Ft 18 billion (€69.6 million–€73.7 million) in monthly fees on the fixed-line business market, thus claiming roughly two-thirds of the entire market.

On the convergence of fixed-line and mobile, whereby bundled packages could be made available to consumers at lower cost, Bölcskei said that Magyar Telekom expects to be able to launch "triple play," offering three services over one line, similar to the voice, broadband internet and TV package launched by UPC Hungary Kft last year.

Balázs Fürjes, strategy and regulatory head of Hungary's number two fixed-line provider, Invitel Rt, said that his company is ready to compete head-on in the triple-play arena.

"We can offer live television, and also give the user the opportunity to access content that has already been shown. The latter cannot be managed by cable operators," Fürjes said.

Nadine Berezak-Lazarus, managing director of Düsseldorf-based BMP Telecommunications Consultants, described Hungary as an emerging broadband market, but noted that the market lacks broadband internet delivery for €30 per month, the price typically offered in many EU countries.

"Competition creates the broadband market," she said. "Broadband penetration can prevent erosion of the fixed-line market, and should allow the launch of new services."

In discussing regional mergers and acquisitions, Péter Karli, assistant director at the Budapest office of Deloitte, cited as a significant development the appearance of leading Spanish telecom Telefónica, which acquired Český Telecom earlier this year.

Karli added that the role of venture capital has become highly significant since 2000, after certain strategic investors left the market. He also singled out vertical integration as a new trend, whereby media, IT and telecoms are converging into groups.

## **New directions**

Regarding technical trends in 2005, Adam Grabowiecz, sales and marketing associate at Mitsubishi Electric Europe, spoke about Mitsubishi providing broadband over the electrical grid through electric lines directly into consumers' homes.

"Almost everybody has electricity at home," he noted. "Electricity penetration is usually higher than phone penetration, and electrical grids allow providers to reach customers much quicker."

PLC (powerline communications) technology is ideal for ISPs and incumbents looking to go into new geographical areas, as well as for alternatives wanting to compete without building a big network, stated Grabowiecz.

PLC can also be used for "in-home" networking to enable extension of the DSL signal, as DSL is only available from one access point, he explained.

Gene Siczko, vice president for sales in CEE at Cambridge Broadband Limited, mentioned WiMax as a technology that will soon be available for commercial use.

"Testing is beginning this year, and will go on in the next. [In time,] there will be the ability to connect to broadband wherever it is available, through much larger hotspots," said Siczko.

Cambridge Broadband's VectaStar transmission platform supports emerging access technologies such as WiMax, as well as direct connections to high-end customers.

Sieczko mentioned that the biggest market pull for VectaStar is from cellular operators looking for UMTS backhauling solutions, which can provide extra high-speed coverage to, for example, sparsely populated areas that would otherwise require development of very expensive networks.

“It’s an economic alternative to building your own network, and it can be grown as business increases,” he said, adding that that VectaStar can also be linked to powerline technology.

Concerning Cambridge Broadband’s activity in Hungary, Sieczko said the company is negotiating with a number of Hungarian service providers who own 3.5 GHz licences on how to help with providing services using WiMax.

*Phone Notes is a regular BBJ column examining the latest trends in Hungary’s telecommunications industry. The author can be contacted at Robert.Smyth@bbj.hu.*

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