

# THE LIBERALIZATION PROCESS OF THE TELECOM MARKET IN ROMANIA AND EUROPEAN UNION

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## **Abstract**

The liberalization of the telecommunication market was an important step in the further development of the entire Romanian communication system, by facile access for the market participants and set up of the necessary infrastructure for mobile phone operators in order to provide services at reasonable prices to the final consumer. The process of liberalization, largely imposed by European directives packages, involved the necessity of monitoring the functioning of the market mechanism by an autonomous authority, empowered to issue regulations in order to promote non-discriminatory access. This article will look into the liberalization process of the mobile telecom market in Romania and in other EU Member States and it will be illustrated with some case studies of European mergers in this sector.

**Keywords:** Telecom market, liberalization process, concentration degree, mobile penetration rate, communication system, Competition law

## **1. INTRODUCTION**

The Telecom package, released by the European Commission in 2013 as "Connected Continent", recently adopted, addresses the disturbances in the functioning mechanism in order to simplify the operating rules and reduce the tariffs for incoming calls across the Union. The Commission's proposals also deals with the obligation to issue a single valid operating license in all 28 EU Member States.

This legislative package concerning the creation of a single market in mobile telecommunication systems provides a series of measures which needs to be made for creating a connected continent. The package of laws also includes a recommendation of the European Commission concerning the liability of each Member State and cost calculation methods regarding the promotion and compliance with the competition rules in the new market and, more important, a provision spurring investments in broadband.

European Commission frequently adopts decisions to ensure a competitive environment in telecommunication systems and prevent major mobile operators to implement anticompetitive practices.

In addition, mergers between telecom companies were monitored on this market to avoid unjustified increases in prices, a restraint in innovations and service quality.

Theoretical approaches and practical examples on mergers in the telecom sector were presented by Jacquemin and Slade (1989), Motta (2004), Whinston (2006).

## 2. MERGERS IN THE EUROPEAN UNION

At the EU level, it was developed a legislative package „Connected Continent”, a project that aims to create a single telecommunications market which would lead to an increase in supply of pan-European services. In order to achieve this goal, the reduction of interconnection tariffs is important.

The European Commission is analyzing merger operations. An analysis of the indicators used to calculate or approximate the concentration on a market, when the market shares of the players in the sector are not all known, was conducted by Busu (2012).

Among the most important transactions of this kind we mention two concentration on mobile markets in Germany and Ireland.

Thus, in 2013, the company Telefonica Germany has notified the Commission of its intention to acquire a majority of shares of E-Plus in Germany and later the Commission opened an investigation of the merger (see If M.7018 - Telefónica Germany / E-Plus). Similarly, Hutchinson 3G UK notified the European Commission of its intention to take over the majority of shares of Telefonica company in Ireland. As a result, an investigation was opened regarding this transaction (see case M.6992 - Hutchison 3G UK / Telefónica Ireland). Because the two proposed mergers would reduce the number of competitors on the telecom markets of those countries, which are already highly concentrated, these mergers will be carefully analyzed during the next two years.

Also, the European Forum has reviewed and approved the first stage of a two large-scale merger. It's about the merger by absorption of the most important cable operator in Germany, Kabel Deutschland, by Vodafone (see case M.6990 - Vodafone / Kabel Deutschland), transaction which was done for \$ 8 billion. The other merger was the company's acquisition of Virgin Media cable operator in the UK mainly by Liberty Global (see case M.6880 - Liberty Global / Virgin Media), the transaction amount being 23.3 billion USD.

Regarding anticompetitive behaviour of the companies, the Commission fined the companies Telefonica and Portugal Telecom from Spain with almost 67 million euros the first company and € 12 million the second, as a result of anti-competitive agreement between the two companies on the Iberian

telecommunications market (see case Telefónica and Portugal Telecom AT.39839). By anticompetitive agreements between the two companies on the telecommunications market in Portugal and Spain, a telecom market remained fragmented in the European Union. Cartel constitutes the most serious violations of competition rules at Community level because they could lead to higher prices and less supply for end consumers. This decision is very important as the market-sharing agreement was one which crossed the borders.

The latest developments at national level are viewed in the European context and, in fact, are determined by the principles, rights and obligations under the Treaty on the Functioning of the European Union (TFUE) in response to the challenges arising in an extended framework, if we are to consider the American approach. Not incidentally, Article 3 of the TFUE refers to the exclusive competence of the European Commission establishing the competition rules for the proper functioning of the internal markets.

### 3. THE ROMANIAN TELECOM MARKET

In Romania, the year which marked the opening of the telecommunication industry to competition is 2003, the date on which the Directive 2002/21 / CE on a common regulatory framework for electronic communications networks and services is applied. The European telecom package included, at the time, along with regulatory directive and other directives on licensing, the access to networks and associated infrastructure, universal service and data processing staff. European Directives amended in 2009, will have a new meaning in the light of sustained efforts, especially during 2011-2013 in the European Union, to telecom deregulation and formation of the single market. Proposals to amend the current legal framework were determined to excessive fragmentation of the European market, currently divided into 28 national markets according to each EU Member State level with specific national regulatory interference, while being the main cause of the slow economic growth of the European telecommunications industry. So the lack of common standards on interoperability, heterogeneity in the implementation of the current regulations and the presence of current institutional models, is obstructing the smooth functioning in the European telecom rules.

Thus, specific markets suitable for each telephone networks operated by each supplier have been identified by market regulator ANCOM, as mobile telecom relevant markets.

By decisions of ANCOM, providers were listed on the one hand, with significant market power on the relevant market for these services based on factors as market shares, and buyers of depicted services, on the other hand.

Other factors, apart from structural barriers, volatility, asymmetry in negotiation power, considered relevant for determining significant market power, concern: vertical integration, number of competitors, countervailing power of the final consumers, price trends and profit level, the degree of product diversification, low turnover, presence / absence of potential competitors, control over a network or infrastructure that is difficult to duplicate, economies of scale, technological advantage, easy or privileged access to financial resources or the existence of a developed network of distribution.

At present, the identified operators on the telecommunication market are: „S.C. Telekom Romania Mobile Telecommunications”, „S.C. Orange Romania S.A.”, „S.C. Vodafone Romania S.A.”, „S.C. RCS & RDS S.A.” and „S.C. Telemobil S.A.”.

From the competition point of view, delimitation of the markets took into account the degree of elasticity to determine whether the goods or provided services by the market participants were interchangeable or substitutable in terms of specific characteristics, price and/or by the use of the final consumers.

At the same time, the supply substitutability criterion determines the area of the products / services which could be offered in a short time and without significant investments by a competitive bidder, given the similarity of technologies and price, time required to start their provision and legal requirements. If providing substitutable products/services require significant changes in the existing network or associated infrastructure, significant additional investment or a long time to implement, then such products/services will not be included in the relevant market. By analogy, the relevant product/services includes all products/services which are substitutable in terms of supply. However, although both aspects are analyzed, supply substitutability is taken into account when pricing effects on the market are consistent with those of demand substitution.

Also, from a technical side, the area covered by network elements and associated facilities are both taken into account, and also the existence of potential legal limitations, the access and interconnection agreements. Considering these aspects, the relevant geographic markets were defined at national level.

An analysis of the concentration of the mobile market in Romania compared to other EU member states was conducted by Busu (2014), in which the author brings into attention the latest legislative developments, combined with the current economic context specific telephony Romanian market mobile.

Garbacz and Thompson (2007) studied how mergers lead to price increases. The authors used telecommunications markets data from various countries of the European Union.

Sometimes, calculating the concentration degree of a market is difficult, especially in markets with a large number of competitors. Busu (2012) proposed a method, subsequently extended by Busu and Cimpan (2015), for approximating the HHI index using arithmetic average inequalities.

#### 4. DATA OF THE MOBILE TELECOMMUNICATION OPERATORS IN THE ROMANIAN MARKET

In Figures 1 and 2, shown below, we could observe the market shares of the competitors in the mobile telecommunications services sector, calculated as percentages from the total number of active users (SIM cards "active") and based on the number of users per subscription, respectively, on prepaid "active" cards.

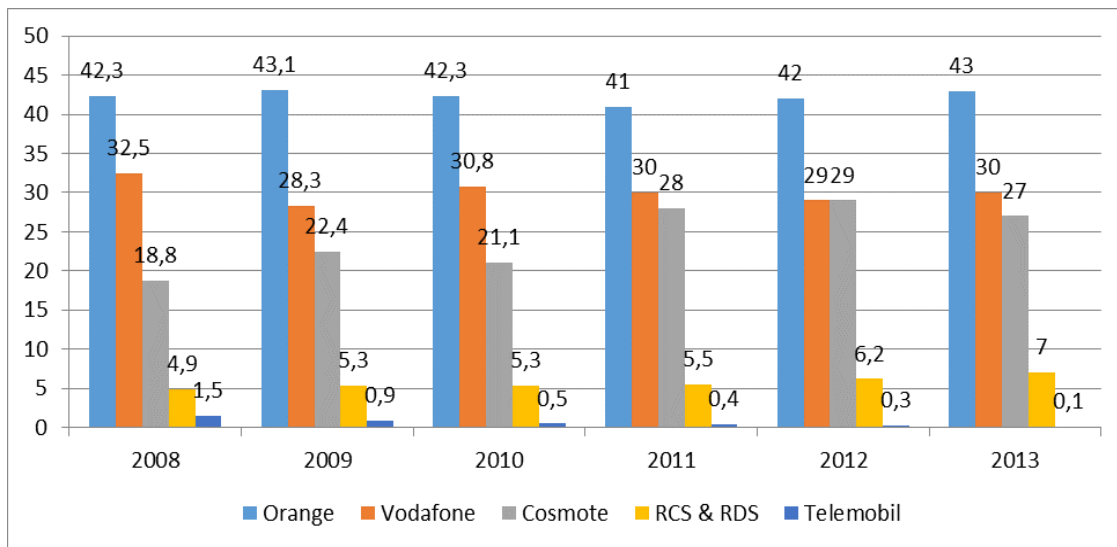


FIGURE 1- MARKET SHARES (%) OF THE TELECOM COMPETITORS AS A PERCENT OF THE TOTAL NUMBER OF USERS IN 2008-2013

Source: ANCOM, www.ancom.ro

As we could see from the graph above, during 2008-2013 period, "Orange" had the largest market share determined by the number of users (42-43%), followed by "Vodafone", with a market share of 30-32 % and "Cosmote" (19-27 %). Other operators recorded considerably lower market shares as follows: "RCS & RDS" (5-7%) and "Telemobile" with (0.1-1.5%).

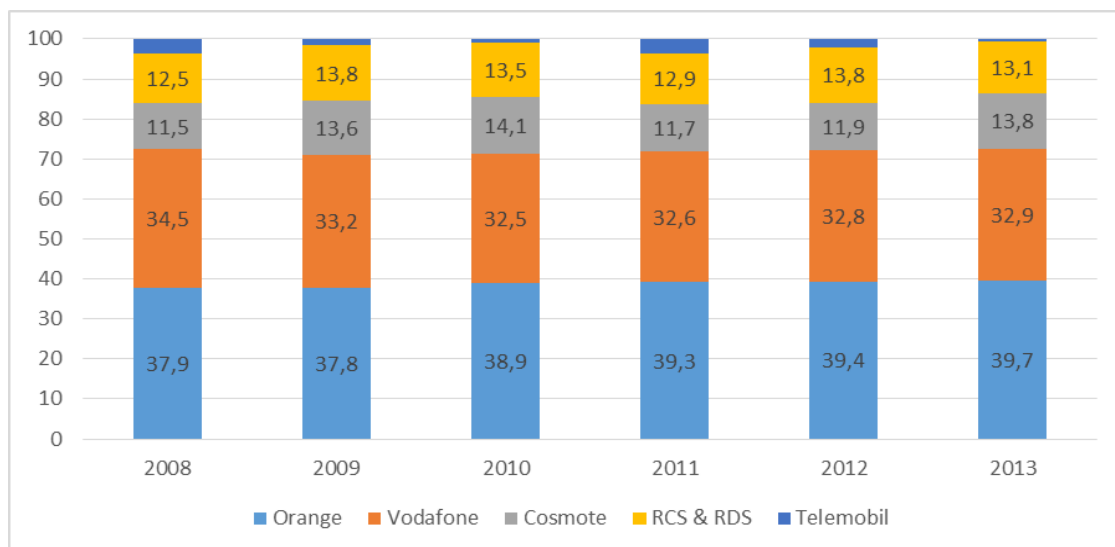


FIGURE 2 - MARKET SHARES (%) OF THE COMPETITORS ON THE MOBILE TELECOMMUNICATION MARKET AS A PERCENTAGE OF THE TOTAL NUMBER OF SUBSCRIBERS IN 2008-2013

Source: ANCOM, [www.ancom.ro](http://www.ancom.ro)

The above graph shows that at the end of 2013, "Orange" had the largest market share determined by the number of users (39.7%), followed by "Vodafone" with a market share of 32.9% and "Cosmote" (13.8%). Other operators recorded considerably lower market shares as follows: "RCS & RDS" with 13.1% and "Telemobile" with 0.5% market share.

Wide variations in market shares on the payment method can be observed, at the end of 2013, in the case of "Cosmote" (25.6% prepaid segment "active", compared with only 14.1% in the segment of subscriptions) and in the case of "RCS & RDS" (13.5% segment subscriptions compared to only 0.02% prepaid "active" segment), but this company has recently begun to provide prepaid card mobile telephony services.

In terms of total subscribers, in the period 2008-2013, we note that, while market shares were kept relatively constant over time, the gap between the top two players and other three is considerable.

Regarding the evolution of the turnover of the companies in the mobile sector, the market shares of the main competitors on this market could be seen in Table 3 from annexes. The graph below shows the evolution of these market shares in the period mentioned above.

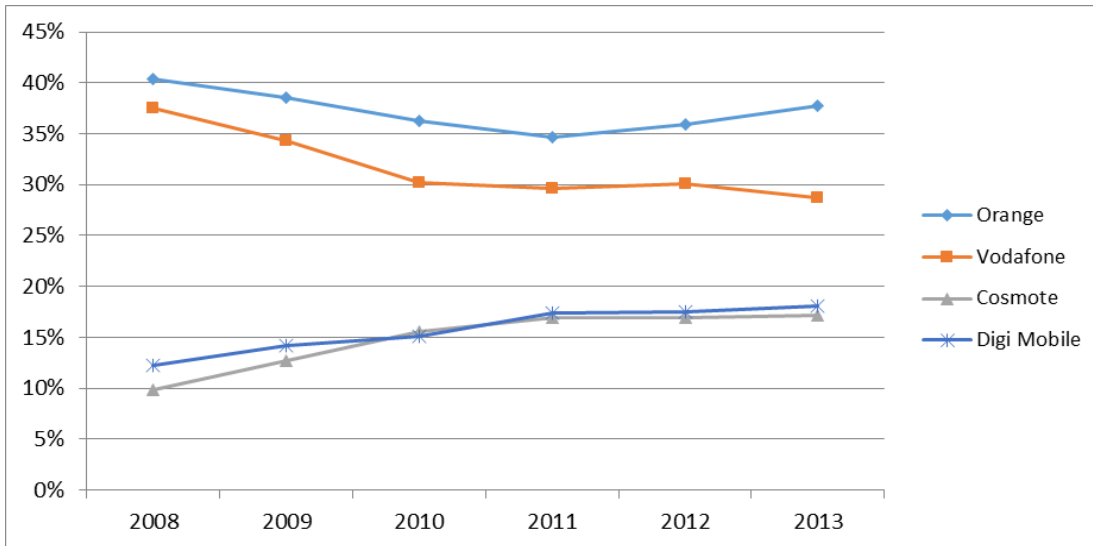


FIGURE 3-MARKET SHARE EVOLUTION RESULTING FROM THE TURNOVER SHARE OF THE MAIN PLAYERS ON THE ROMANIAN MOBILE MARKET IN 2008-2013

Source: Ministry of Finance; own processing, www.mfinante.ro

The above graph shows that the turnover of the top two companies were in decline from 2008 to 2011, during the economic crisis, while from 2011 to 2013 was increasing. During 2008-2013 the other two companies, Cosmote and Digi Mobile had increasing turnovers.

## 5. CONCLUSIONS

The mobile telecommunication sector has a number of features to be taken into account when considering competition in the market. High barriers to entry due to particularly large investments needed to enter the market, are leading to a high degree of market concentration. However, this is not an obstacle to the normal functioning of a competitive environment. The focus in this sector is necessary, but not sufficient for price competition which may affect consumer's welfare in the end.

Mobile service sector in Romania, although it is characterized by a small number of operators, does not affect consumers in a negative way, technological progress having a big impact on the dynamics of the industry, always maintaining a high degree of competition.

The rapid growth in the number of subscribers in the system and of those who use pre-pay cards, as well as the lower costs in recent years, show that the Romanian market for mobile voice services is a maturing one, consumers orienting toward other services that operators provide, such data packets.

## ACKNOWLEDGEMENT

This work was co-financed from the European Social Fund through Sectorial Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”.

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## ANEXES

TABLE 1 - MARKET SHARES (%) OF THE TELECOM COMPETITORS AS A PERCENT OF THE TOTAL NUMBER OF USERS IN 2008-2013

Furnizor	2008	2009	2010	2011	2012	2013
Orange	42.3	43.1	42.3	41	42	43
Vodafone	32.5	28.3	30.8	30	29	30
Cosmote	18.8	22.4	21.1	28	29	27
RCS & RDS	4.9	5.3	5.3	5.5	6.2	7
Telemobil	1.5	0.9	0.5	0.4	0.3	0.1

Source: ANCOM, www.ancom.ro

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