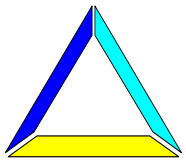
**Institute for Economic Research and Policy Consulting in Ukraine**
**German Advisory Group on Economic Reform**

Khreshchatyk 30/1, 01001 Kyiv, Tel. (+38044) 228-6342, 228-6360, Fax 228-6336
E-mail: institute@ier.kiev.ua, http://www.ier.kiev.ua



**Q10**

# Restructuring of the Fixed Line Telephone Service Market in Ukraine

## Resume

In 2001 Utel was nationalized by buying out the shares of its private owners. The intention was to re-integrate the international calls business into the state monopoly Ukrtelecom and then to privatize the monopoly as a whole. However, there is no clear consensus reached about the role of privatization and competition in different telephone services (local, long distance domestic and international).

When discussing Ukrtelecom's privatization main arguments usually focus on expected budget revenues and attracting a private investor. The primary goal of restructuring the telecommunications sector, however, should be to achieve supply of telecommunications services to all customers at the lowest price.

There are several arguments used in the debate in favor of the creation of a monopoly. These include the alleged higher efficiency of an integrated monopoly due to its higher investment potential, protection of domestic industry and security arguments. The paper shows that these arguments are not valid. A private monopoly can never be as efficient in reduction of costs as a competing company, especially if there is no regulatory or competitive pressure from outside. In addition, an integrated monopoly can successfully deter entry of new operators and reduce competition not only into natural monopoly segments (local telephone services), but also into potentially competitive segments of an industry (long-distance and international telephone services).

Thus in order to achieve efficient supply of telecommunications (TC) services to all final consumers the following recommendations are proposed:

**1**. Regardless of the outcome of the privatization debate ***introduction of competition into the TC market should be a strategic goal.*** The primary measure in this respect is the elimination of entry barriers. This goal should be pursued in two directions: first, **elimination of the administrative or regulatory barriers to entry** and the second, **reduction of the power of Ukrtelecom to deter entry.**

**2.** ***The establishment of an independent telecommunications regulator*** would solve numerous problems concerning regulation of market access, resolving disputes on interconnection, non-discriminative licensing and control of tariffs. In addition it would improve transparency of regulatory procedures. Setting up of a regulator should be guided by internationally accepted principles.

In addition, a corresponding mechanism should be developed in order to avoid uncertainty occurring from overlapping regulatory responsibility.

**3.** ***Regulation of interconnection*** should be addressed specifically because it is one of the tools to successfully introduce competition into the market. In order to prevent conflicts each operator in the market should be obliged to offer interconnection to others. Interconnection charges can be determined via a centralized negotiation process, which should include all operators participating in the market or, in case of disagreement, via an independent regulator.

In order to avoid collusion between incumbent operators, which then would result in high mutual tariff settings in order to deter entry, newcomers should have the right to appeal to the independent regulator. In general, the procedure of setting tariffs for network usage should be transparent for all market agents and the time between requested price changes and permission should be minimized.

***4. Regulation of tariffs for final consumers should be reformed.*** A clear and transparent regulation of tariffs should guarantee:

- Flexibility of tariffs with respect to changes in costs;
- Gradual convergence of tariffs to the cost structure in order to eliminate cross-subsidization;
- Fair return, which is sufficient for a provision of an optimal mix of internal and external financing to meet the sector's development. An efficient method of tariff regulation would be the introduction of price caps, where PPI-X regulation would account for PPI changes and the pace of technological development (X-factor).[1]

***5. The integration of Ukrtelecom & Utel poses a serious threat to competition*** even if the regulatory environment would be reformed properly. Therefore the first-best solution would require the disintegration of Ukrtelecom and Utel. This would ease entry into the market for existing firms as well as for green-field investments. In addition, it would improve conditions in order to resolve the cross-subsidization problem.

**6.** The remaining **monopoly of the Ukrtelecom-Utel** merger **needs a strong regulation** as it is usual also the case in western countries.

7. In the case **if**, for some political reasons, ***Ukrtelecom will be privatized according to the present decision (integrated with Utel), the second-best approach would be to provide a maximum openness of the TC market*** via easy access to the telecommunications networks in order to guarantee competition both from domestic and foreign companies. Above-mentioned principles of regulation would guarantee the development of proper rules of the game.

***8.*** A careful decision concerning the ***type of transformation from state ownership into private ownership is also very important.*** The Ukrainian government has decided to switch the type of industry management from ownership control to regulation. This means that now privatization should be carried out carefully in order to avoid private monopolist power abuse. Under present conditions ***a concession of Ukrtelecom*** to strategic investors would be the ***best way.*** It would hit both targets: (1) to generate revenues from privatization and (2) to introduce an efficient owner. Currently privatization seems to be at a dead point where both targets are under serious threat. Even if a private investor would receive

[1] For more details see paper N 24 of the German Advisory Group

temporal rights to additionally manage some part of the state-owned stake (say, 25%), it could be doubted if such a procedure would substantially raise a strategic investor's interest in privatization. This has clear consequences for the bid price. Thus the retention of a major stake in state ownership may seriously hamper further improvement of corporate governance of the company.

# Introduction

In 1992 a strategic decision of the Ukrainian government in the telecommunications sector allowed international companies to work in the sector. Among others this has solved the problem of interconnecting the Ukrainian telecommunications market directly with the international networks. One of the results of this decision was the origin of a monopolistic international telephone service operator - Utel. Thus, besides the already existing Ukrtelecom, which was responsible for national long distance and local calls, a second player in fixed line telecommunication services entered the market.

In 2001 Utel was nationalized by buying out the shares of its private owners in order to re-integrate the international calls business into the state monopoly Ukrtelecom and than to privatize the monopoly as a whole. The privatization of Ukrtelecom's minority shares, which was finally approved by the parliament and planned to be carried out in 2001 was postponed to 2002, even notwithstanding the risk of a large state budget deficit. Ongoing debates among both policy makers and experts about the advantages and disadvantages of privatizing the monopolistic fixed lines telephone operator in Ukraine as well as the pendulant government's position signal that there is a lack of a coherent an consequent strategy for the sector's restructuring and modernization. Besides, there is no clear consensus about the role of privatization and of structural separation of the sector into different telephone services (local, long distance domestic and international).

The government advocates the idea of building up a monopoly with the following arguments: First, its potential to generate monopolistic profits and, therefore, a higher attractiveness of the monopoly for potential investors; second, a larger amount of capital, which would be available for investment into the sector. However, privatization of a 37 percent stake in Ukrtelecom may not resolve the major problems of the sector, which are (1) its low levels of technological development and technical modernization[2], and (2) inefficient operational management of the monopolistic operators[3].

The approach taken seems to substantially underestimate the role of competition in this market. This paper aims to answer two urgent questions: (1) what is the proper regulatory environment under Ukrainian conditions and (2) why competition is needed to be introduced into the sector.

[2] According to the annual report of Ukrtelecom, by the end of 1999 only 12.9% exchanges were digital as opposed to above 70% in most OECD countries.

[3] Employment of the Ukrtelecom was more than twice that of average for telecommunications operators in EU countries.

## Competition in the telephone service market

When Ukrtelecom's privatization is discussed main arguments usually focus on the expected budget revenues and the attraction of a private investor. The primary goal to be pursued is often lost out of sight: to deliver final consumers services of high quality but at the lowest price. The argument of budget revenue's serves very short-run purposes and is not related to the mentioned primary goal. In contrast, the argument of attracting a private investor is related to the long-term development of the sector and of the delivery of telecommunications services. We will concentrate on the latter.

The major questions are (1) whether an integrated monopoly is favorable for the sector development, (2) whether a private monopoly is more efficient than a competitive market, (3) how can a monopoly maintain its position, and (4) how monopoly power abuse can be constrained. These questions are directly related to the economic discussion of allocative and dynamic efficiency of a monopoly vs. a competitive market. The paper will not review this discussion but rather focus on the concrete questions related to the urgent needs of the Ukrainian telecommunications sector[4].

Often the argument of a higher efficiency of an integrated monopoly due to its higher investment potential is used in favor of the creation of a monopoly. However, this argument is valid only in the case if huge R&D investments are to be undertaken to achieve a substantial decrease of production costs. This argument can hardly be applied to the telecommunications market in Ukraine. The development of the Ukrainian telecommunications sector lags far behind the international level. However, needed investment is not of such huge amount; new investment into own R&D is not necessary because new technologies could be bought at the market. Thus there is no need for a monopoly profit. Often there are other arguments used in favor of the existence of a monopoly like: state security and the necessity to protect Ukrainian producers. In this case the question arises how costly such a policy would be and if this would be affordable for Ukraine. The creation of Utel however, was a good example, which demonstrated that the activity of international companies in the Ukrainian telecommunications market did[5] not hamper strategic interests of the industry.

Privatization of the dominant operator does not automatically lead to its efficient operation because a private monopoly

- will always set prices above costs and enjoy profits while generating deadweight losses for the society,
- it can afford slack management and still cover generated inefficiency and
- it can use earned profits to deter potential competitors.

[4] An extended discussion and empirical evidence, which reveals greater efficiency of firms that operate in the competitive conditions can be found in Caves and Barton (1990), Green and Mayers (1991), Nickell (1996), Geroski (1990), Dutz and Hayri (1999), etc.

[5] The simultaneous task of switching from soviet to international telecommunication networks and of developing Ukrainian networks were accomplished successfully mostly due to the participation of international telecommunications companies in the international and mobile communications segments of the Ukrainian TC sector. Until 1999 Utel, 49% of which were owned by international operators, made cumulative investments of USD 190 million. Until 1996 already 24 digital long-distance exchanges were installed, which still exceed current demand for the international telephone service. Since 1998 Utel started installing digital local exchanged and leasing them to state owned Ukrtelecom.

Concerning cost efficiency a private monopoly can never be as efficient as a company under competitive conditions. Thus, pressure from outside is important in order to force a monopoly to improve its efficiency. In fact there are two kinds of pressure possible. The first is the implementation of government regulations, say, price caps. The second is the existence of threat of potential competitors entering the market. The latter is especially interesting in the case of building up a new monopoly in Ukraine by integration of Ukrtelecom and Utel. If they would not have been integrated and access to the local networks would be regulated, they could easily develop into potential competitors and force each other working efficiently.

An integrated monopoly can successfully deter the entry of new operators not only into the natural monopoly segments, but also into the potentially competitive segments of an industry. In fact, the market for telephone services can be divided into several segments – local, domestic long-distance and international services. According to present technological development the local telephone service has the strongest natural monopoly features[6]. No operator will create alternative wire networks because of their high fixed costs. The monopoly in the local telephone service is also the most harmful for the development of competition in related segments, since it is the only mean for final customers to get access to these services. A monopolist who excludes competitors from access to the local telephone service segment can also win long distance and international telephone service markets. Then a monopoly spreads into other markets and becomes self-reinforcing. High profitable long-distance and international call markets captured by a monopolist allow him to cross-subsidize the local telephone market in order to successfully deter competitors from entering the local phone market.

Thus, the regulation of access to local networks is crucial and the regulation of access to trunk networks is favorable in order to create pressure on the monopoly in order to make it working efficiently. If access to the networks is easy and transparent, the threat of potential competitors entering the market becomes credible and the monopolist would not be able to maintain high profits covering all its inefficiencies[7]. This credible threat of competition for the monopolies in the telephone market's segments should be created regardless this monopoly is state owned or privately owned. In Ukraine this can be achieved only if access to networks is properly regulated, including interconnection procedures and tariffs, network usage tariffs. International experience of the development of the TC market shows, that interconnection is a source of numerous disputes between operators. As we can see in Figure 1 the existence of an independent regulator plays a major role in solving disputes concerning interconnection. Therefore, regulation of access should be supported by the creation of an independent regulatory body[8], which should also resolve interconnection disputes.

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[6] Due to quick technological advances the fixed lines networks lose their natural monopoly features because of increasing information transmission capacity and falling transmission cost, second, due to development of alternative modes of communication. For example, international telephone service nowadays can have competition from the computer data transmission and satellite communications; long distance voice transmission cost allows existence of alternative networks and has competition from microwave transmission; local telephone service can have competition from cable TV and wireless communications. Among local, long distance and international telecommunication markets the only one with still strong natural monopoly features is local telephone service market. Development of the close services-substitutes, like mobile fixed-like network, is stretched in time and cannot be considered as a successive competitor at least in the short-run.

[7] This theoretical argument was empirically supported and presented for telecommunications sector by Olivier Boylaud and Giuseppe Nicoletti "Regulation, market structure and performance in telecommunications", *OECD Economic Studies*, No.32, 2000/1

[8] Regulator should be independent to avoid regulations capture by the monopoly.

# Impediments to competition in the telephone service market

At present, private operators are reluctant to enter the profitable and promising telecommunications market in Ukraine. Although in 2000 the total number of operators in the telecommunications market was already over 200[9], Ukrtelecom with its affiliates and subsidiaries still occupied a dominant position on the telecommunications market, controlling 70% of it.

### Insufficient legal framework

Major impediments to market entry are improper regulation and absence of regulatory institutions, which could be arbiters in conflicts between telecommunications operators. The absence of efficient rules strengthens the market power of the incumbent company (Ukrtelecom). Thus, although the Ukrainian TC market is proclaimed by the government to be open for entry de facto the market remains dominated by the state owned operators.

*Regulation of network access*

Notwithstanding the fact that the market has been divided into local, domestic long-distance and international services and operators in each segment were licensed, the interconnection between the licensed operators was not ensured. Interconnection procedures are put in favor of the dominant state owned operator[10]. In the opinion of both telecommunications market operators and the Antimonopoly Committee of Ukraine (AMC) insufficient access to networks is one of the major impediments to competition. According to the AMC factors constraining competition in the sector are the legislatively protected exclusive rights of Ukrtelecom's concerning the networks as well as " an unfavorably small scope of operations by other operators".[11] None of the providers of public communications services can get access to the fixed networks and to public switches without a "cooperative agreement" with Ukrtelecom. The law "On communications" supports this position of Ukrtelecom and stipulates that Ukrtelecom is the only company owing and managing primary telecommunications networks, which before were owned by the state.

According to international experience interconnection fees are usually defined in negotiations between two operators. Only in the case of a disagreement they are set up by an independent regulator. This procedure is transparent for all market agents, since there are requirements to publicly announce tariff rates and the time between requested price changes and permission is regulated in a way to be minimized.

*Regulatory body*

At present there are two major players in the Ukrainian TC sector: the State Committee for Communication and Informatization (SCCI) and the state owned Ukrtelecom[12]. Despite there is no legislative basis declaring that Ukrtelecom has to fulfill duties of a regulator (and of course it should not), in practice, it performs some of these functions[13]. The absence of the separation of regulatory functions poses two

[9] 914 licenses were issued by 01.01.2000. Nearly half of them to local telephone communications

[10] Recent example is suite brought to the court by Golden Telecom against Ukrtelecom.

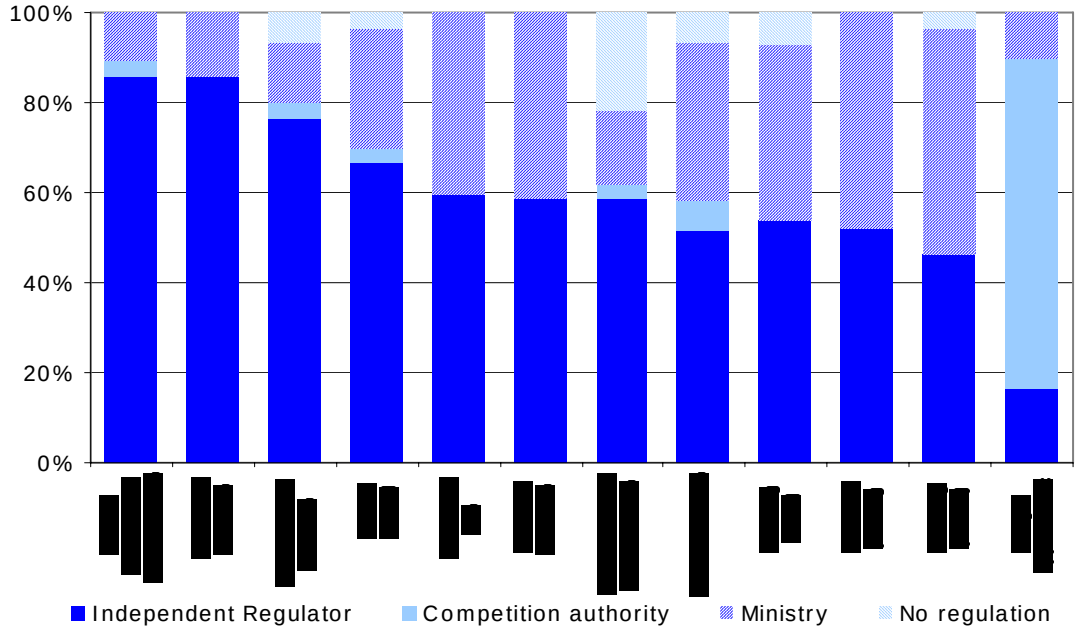
[11] Report of the AMC, 1999.

[12] In fact, Ukrtelecom and the SCCI have very tight relations. This is proved by the recent replacement of the SCCI top authorities with Ukrtelecom's top management. This situation makes impossible an independent regulation of Ukrtelecom.

[13] A good example is access to primary networks, where Ukrtelecom restricts Golden Telecom and, most recently, a number of IP-Telephony operators from the access. Apart from explanations of improper

problems: (1) Ukrtelecom being an operator is at the same time the primary network manager and has unconstrained power to influence access, and (2) the SCCI is responsible both for strategic policy-making and operational regulation of the industry. Both problems indicate the urgent necessity to restructure and reorganize

**Figure 1. Regulatory responsibilities in OECD countries across fields of control**




*Source:* OECD, 2000

the regulatory procedures. The SCCI should be responsible exclusively for the policy in the industry, forming legislation framework and planning industry development. The state owned operator should be actually put on the same footing as other market operators and later split into separate businesses[14]. An independent regulator should play a major role in implementation of the telecommunication sector's legislation and in resolving conflicts between operators, as it is the case in OECD countries (see Figure 1). Specific issues concerning the independent regulator's financing, accountability, staff assignment, and functional structure are addressed in the next section.

*Certification problems*

In order to start operations in the Ukrainian telecommunications market an operator needs a certification of telecommunications equipment and frequency and/or operational licenses. The Committee of Standardization and Certification of Ukraine coordinates the certification procedures; testing and certification of telecommunications equipment is conducted by the SCCI. Certification of the telecommunications terminals or equipment used for public networks is mandatory, while certification of other equipment is voluntary.

In Ukraine international certificates are not honored without the product first being tested by one of the three Ukrainian laboratories. Monopolization of this procedure creates opportunities for rent-seeking. In 1998 Ukraine indicated that it would adhere

licenses or equipment certificates the right to restrict operators from access can be done only by the regulatory authority and not by the Ukrtelecom, which must be treated on equal footing with the rest of market agents.

[14] This strategy was followed with AT&T in the US.

to the EU regulations for standards and certification[15], but until now only certificates issued by the Ukrainian testing centers are accepted unconditionally.[16] This resulted in a substantial delay of new entrants into the Ukrainian TC market. Thus, the current situation of certification requires further reforms and rightly falls under critique of the AMC.

**Monopoly power in the industry**

The state-run telecommunications company Ukrtelecom provides a wide range of telecommunications services – local, long-distance domestic, international telephone services, TV and radio broadcasting, data transmission, etc., operates the primary network and the major part of the secondary network (Ukrtek) and performs projecting, construction and maintenance of the networks.

The monopoly power of Ukrtelecom is continuously supported by a number of state regulations. Except the already discussed exclusively right to manage the networks interconnection, Ukrtelecom also cross-subsidizes local phone calls, which makes the sector of local phone calls un-attractive for new entrants. In addition the company also monopolizes a number of maintenance services.

These regulations give the monopoly the ability to control all segments of the telecommunications market and to deter potential competitors. According to the AMC, the industry is among leaders in monopolistic pricing and other antitrust legislation violations[17]. As it is reported by the AMC Ukrtelecom uses hidden forms of power abuse. An example is the international and long-distance telephone service markets, which are formally open to competition but in practice are dominated by the affiliated Ukrtelecom and Utel. This monopoly is based on the monopoly for local telephone service, where Ukrtelecom has a market share of 80%.

Most of these services could be unbundled and contracted out to competing operators and access to the different sectors of the TC market should be regulated as already was explained above.

The planned privatization of Ukrtelecom seems to show, that the government intends to gradually change its methods of controlling the sector from control managed by state ownership to control established via regulation. In this light emphasis on the design of a proper regulatory environment should become even greater.

**Tariffs for final consumers**

The existence of low tariffs of local communications service, which do not reflect underlying costs, is a general problem for a number of countries, including the OECD. In many countries, and Ukraine is not an exception, loss-making local telephone services are subsidized at the expense of long-distance and international services. Attempts are made in OECD countries in order to alleviate the problem, since it generates additional economic costs. First, it is leaving local telephone services market abandoned and overburdened with outdated technologies, second, it requires additional attempts to maintain monopolies in long distance or international telephone service markets generating subsidies.

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[15] In general, technological standards or spectrum allocation regulations should be brought in line with EU to avoid prohibitively high switching costs in the future.

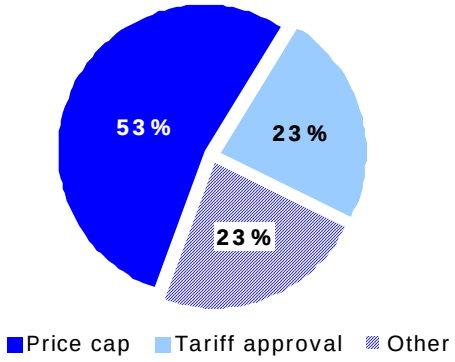
[16] See, for instance, Communication Market Analysis (2000), p.7.

[17] For example, before 1994 Utel had the unique right to provide international and long distance domestic telephone services. After the Ukrainian Antimonopoly committee's (AMC) attack on the monopoly of provision of the conditions of the Utel's operation were revised.

In general, the elimination of cross-subsidization requires international calls tariffs to be reduced and local calls tariffs to be increased. As international experience reveales, operator's losses from decreasing tariffs of international calls were more than compensated by the gains from an increased number of calls[18]. However, it should be noted that an increase of the tariffs of local communication services might be a problematic issue in Ukraine because of the persisting low average level of personal income.[19] Thus, a decision should be made by the government to what extend local telephone services can be considered a social good. If the local telephone services would considered to be subsidized then such subsidies should be financed out of the state or local budgets financing. However, at an initial stage the number of privileged categories of telephone service users should be severely restricted.

Cross-subsidization can seriously hamper competition in the local calls' markets further slowing down technological change and profitability of the services. If low local tariffs are supported for social reasons business of potential competitors in the segment is seriously economically restricted and business is attracted only into segments where high tariffs are set[20].

**Figure 2. Types of tariffs regulation in OECD countries**




Source: OECD

In OECD countries mainly a price cap regulation is used in order improve efficiency of tariff regulation (see Figure 2).

## Privatization of Ukrtelecom

The strategy of merging Ukrtelecom and Utel before privatization in order to raise the value of the then existing telecommunications monopolist has a number of adverse effects: it worsens the problem of cross-subsidization, favors antitrust laws violation and questions further technological development of the industry due to constraints imposed on private entry and investments. Thus, to maintain the monopoly turns out to be very costly. IP telephony, satellite communications and other Internet services undermine natural monopoly status in international telephone service, while mobile communications and, potentially, cable TV networks threat monopoly in local telephone service.

Efficiency of the current policy of carrying out privatization of Ukrtelecom might be doubt. A strategic investor would be interested to control the company in order to secure investment. Owning only a 37% stake would not be sufficient for that purpose. Even in the case the strategic investor would be given the right to manage an additional state owned share of Ukrtelecom during a fixed period of time in order to achieve controlling right for that period the results of such a transfer of right might be doubt. Under condition of high instability and intransparency of the institutional

[18] Price elasticity of the long-distance and international communication services is much higher than local one, which was proved by the empirical evidence in the US and other countries.

[19] Many countries do not rebalance their tariffs because of the strong consumers' opposition to keep local prices low.

[20] So called cream-skimming phenomenon.

framework in Ukraine potential foreign investors might not trust such rules. Thus, in order to privatize Ukrtelecom successfully the privatization of a majority stake is considered to be necessary. State control of the sector could then be achieved by implementing transparent and efficient regulation.

# CONCLUSIONS AND POLICY RECOMMENDATIONS

**1**. Regardless of the outcome of the privatization debate ***introduction of competition into the TC market should be a strategic goal*** of the Ukrainian government in order to achieve efficient provision of telephone services. The primary measure in this respect is the elimination of entry barriers. This goal should be pursued in two directions: first, elimination of the administrative or regulatory barriers to entry and the second, reduction of the power of Ukrtelecom to deter entry.

**2. *The establishment of an independent telecommunications regulator*** would solve numerous problems concerning regulation of market access, resolving disputes on interconnection, non-discriminative licensing and control of tariffs. In addition it would improve transparency of regulatory procedures. Setting up of a regulator should guided by internationally accepted principles:

- Policymaking within the sector should be separated from the operational management which is carried out by a ministry or another body of executive power,
- Guaranty of the regulator's independence should be ensured via a collegial structure of its management, legally determined fixed terms of the office occupation as well as differentiated appointment of the staff,
- The regulator should be accounted to the authority, which is not directly in charge of the industry development (for instance, the Parliament of Ukraine).
- Independent financing, i.e. the regulator should be financed by a separate fund, which could be partially filled from the general budget and from the fees of market operators
- A horizontal functional structure of the regulator seems to be optimal in the light of rapid technological development in the industry, which will eventually lead to the convergence of different telecommunication services.

Increased competition in the telecommunication sector also raises the question about the corresponding mechanism to coordinate the activities of an independent regulator and of the competition authority. The mechanism should avoid uncertainty occurring from overlapping regulatory responsibility. The precise division of regulatory responsibilities is a matter of discussion, however, we consider rational retention of the merger/acquisition control and other pure antitrust regulation within the responsibilities of the antimonopoly committee at the same time allowing the regulator to perform demonopolization of the sector.

**3. *Regulation of interconnection*** should be addressed specifically because it is one of the tools to successfully introduce competition into the market. In order to prevent conflicts each operator in the market should be obliged to offer interconnection to others. Interconnection charges can be determined via a centralized negotiation process including all operators participating in the market or, in case of disagreement, via an independent regulator.

In order to avoid collusion between incumbent operators which would result in high mutual tariff settings in order to successfully deter entry, newcomers should have the right to appeal to the independent regulator. In general, the procedure of setting tariffs for network usage should be transparent for all market agents and the time between requested price changes and permission should be minimized. Following US and UK experience the negotiation process becomes more "efficient" if operators are forced to present their accounting reports. Legislation in both the US and the EU states that interconnection to other operators should be provided at any feasible points under conditions equal to that of the owner of the network[21].

***4. Final consumers' tariff regulation should be reformed.*** Clear and transparent regulation of tariiffs should guarantee:

- flexibility of tariffs with respect to changes in costs,
- gradual convergence of tariffs to the cost structure in order to eliminate cross-subsidization,
- fair return, which is sufficient for provision of an optimal mix of internal and external financing to meet sector's development. An efficient method of tariff regulation could be achieved by introducing a price cap, where PPI-X regulation would account for PPI changes and the pace of technological development (X-factor)[22]

***5. The integration of Ukrtelecom & Utel poses a serious threat to competition*** even if the regulatory environment would be reformed properly. Therefore the first-best solution would require disintegration of Ukrtelecom and Utel. This would aese entry into the market for existing firms as well as for green-field investments. In addition, it would improve conditions in order to resolve the cross-subsidisation problem.

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***8.*** A careful decision concerning the ***type of transformation from the state into private ownership is also very important.***. As long as the government decides to switch the type of industry management from ownership control to regulation, privatisation should be done carefully in order to avoid private monopolist power abuse. The ***best way*** to proceed in this situation would be ***a concession of Ukrtelecom***. It would hit both targets: (1) to generate revenues from privatization and (2) to introduce an efficient owner. Currently privatization seems to be in a dead point where both targets are under the serious threat. Even if private investor would receive temporal rights to additionally manage some part of the state-owned stake (say, 25%), it could be doubted if such a procedure would substantially raise a strategic investors interest in privatization. This has clear consequences for the bid price. Thus the retention of a major stake in the state ownership may seriously hamper further corporate governance of the company.

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[21] For example see the US 1996 Telecommunications Act.

[22] For more details see paper N 24 of the German Advisory Group

A.S., P.S., P.O. Lektor: V.V.

Kiev, October 2001