

NOBODY'S LISTENING

Who is Responsible for Maintaining Armenia's Telephone System?



By HRATCH TCHILINGIRIAN

Everything is being done to do nothing," said Makich Demirian, Chairman of the Merchants Guild of Armenia, regarding the recent and growing dissatisfaction with ArmenTel, Armenia's sole telecommunications company. An exasperated population in Armenia is caught between company executives looking out for corporate interests, a government trying to figure out which official made what deal with whom, and a political opposition garnering momentum on a critical economic issue prior to the May parliamentary elections.

A host of political groups—from the opposition parties in the National Assembly to the Republican Council of Women to the Youth Party of Armenia—launched angry protests against ArmenTel, for its "unfair" monopoly, unimpressive services and price hikes. Even rival political parties, such as the ARF and the Armenian National

Movement (ANM) started to actively campaign against ArmenTel,

calling upon the people to refrain from using their telephones.

While lacking articulated political and economic solutions to Armenia's impending problems, various political forces are trying to capitalize on the public's negative reaction to ArmenTel to enhance their own popular standing.

The government has defended the terms of the deal. Prime Minister Armen Darbinian told his cabinet that the 1997 deal with the Greek telecommunications company, OTE, was "the best in the CIS". He argued that the sale had facilitated improvements in Armenia's telephone network and reminded his colleagues that "High quality has to be paid for. Telephone services that are free of charge existed only in communist times."

Challenging the constitutionality of

ArmenTel's monopoly, 72 National Assembly deputies took the matter to Armenia's Constitutional Court. In late January, the Court ruled that ArmenTel's 15-year monopoly is unconstitutional; however, they found that the company's exclusive rights were based on a clause in Armenia's law on telecoms passed last year. The Court refused to challenge the terms of the original agreement, arguing that the company's exclusive rights were a major condition for the purchase of the 90 percent stake in ArmenTel. The Court said that, despite constitutional contradictions, the existence of "natural monopolies" is not against the basic law, leaving it to the government and the National Assembly to find a legal solution to the current confusion. The Court urged the enactment of a new law that would specify certain economic spheres where natural monopolies can exist, and bring the telecommunications law into conformity with the constitution.

That leaves OTE sole owner of 90 percent of ArmenTel, Armenia's national telecom company, purchased for \$142.5 million, in 1997. The Armenian government retained 10 percent of the company. Later, in March 1998, the Cypriot Leventis Group expressed interest in purchasing the 10 percent. In August, the European Bank for Reconstruction and Development (EBRD) announced that it would purchase a 10 percent stake in the company. Currently, according to ArmenTel's Hasmik Choutilian, negotiations are still underway with both Leventis and EBRD. The EBRD is expected to issue a \$60 million credit to ArmenTel (repayable in eight years with a three and a half year grace period) to develop and expand communication networks in Armenia. This is the first time EBRD would be investing in a private Armenian company. Once the deals are finalized, and after several reshuffles of the company's equity, ArmenTel shares would be divided among four groups: OTE with \$126.7 million (72 percent), the EBRD with \$17.6 million (10 percent), the Armenian government and Leventis with \$15.8 million (9 percent) each.

Greece's state-owned OTE, the Hellenic Telecommunications Organization, is the largest company on the Greek Stock Exchange, with a market capitalization of \$9.5 billion. The company is in the process of privatization and holds shares of various telecommunication companies in Serbia and other Balkan states. OTE's acquisition of ArmenTel was part of the company's strategic focus in the Balkans and the Black Sea region where it is involved in submarine cable and terrestrial extensions through Georgia and Armenia.

The sale—so far the largest privatization deal in Armenia—was seen as an indication that privatization, which had stalled earlier in 1997, had picked up again. For a country with an average per capita income of just \$430 in 1997, such a large foreign investment was seen as a critical element of economic development.

With a population of about three million, Armenia has 585,000 telephone lines in service. In 1998 ArmenTel reported \$34 million in pre-tax earnings in the first half of the year, compared with \$47 million for the whole of 1997. The company expects the figure to rise to \$70 million this year.

The acquisition agreement stipulates that ArmenTel is to benefit from a license for the exclusive provision of a wide variety of fixed and mobile telecommunication services in Armenia for a period of 15 years. In March 1998, Armenia received \$62 million from OTE toward the purchase, which boosted Armenia's Central Bank's currency reserves.

Growing dissatisfaction with OTE's management of ArmenTel became apparent early this year. Multi-layered problems caused by unfulfilled original intent, mismanagement and failure to meet investment expectations surfaced. In late May, shortly after the privatization of the company, Armenia's Prosecutor General's Office stated that two mid-level managers of ArmenTel were arrested on bribery charges. Grigor Boghbatian, former Communications Minister, was interrogated in connection with the case, as was Vahram Soghomonian, former CEO of Armentel.

Other major problems exasperated the government's and the public's patience.

In 1998 OTE was supposed to invest \$60 million in Armenia's telecommunications infrastructure. But, according to ArmenTel's Choutilian, only \$14 million has been invested so far. Based on the acquisition deal, OTE had agreed to invest \$100 million in the first two years to create a new telecommunications infrastructure in Armenia. Many question the wisdom of maintaining ArmenTel's 15-year monopoly when the company failed to meet its obligations in the first year after acquisition.

Although ArmenTel is entitled to decide on its rates unilaterally, the government attempted to convince ArmenTel to defer the measure for one year. Nevertheless, OTE introduced increases starting January 1, 1999. In addition to an increase in charges for international calls, the basic monthly telephone service charge for local lines was raised from 600 to 900 Dram (about \$1.70), with only four minutes a day allotted for free calls.

Beyond individual several institutions and large businesses customers-among

them Arminco, the largest Internet provider in Armenia, the National Academy of Sciences, and Noyan Tapan News Agency—complained loudly when communication lines were cut unexpectedly and without reason. At the same time, the Armenian Union of Internet Users, in a letter to the government stated that ArmenTel's telecommunications monopoly "hinders the development of Internet services in Armenia. For example, to lease a 64kb/s Internet channel costs \$5,000-\$6,000 in Armenia, some "seven to ten times more than in other countries in the world," they charged.

Still, there are questions about Trans World Telecom (TWT), the company which owned 49 percent of Armentel (with an initial investment of \$6 million, and later another \$3.5 million) before the OTE takeover. It is not clear whether the "American" TWT is a registered company in the US. In June 1997, TWT received \$77 million for its share of Armentel. This, too, has become a sore point for politicians who are smelling a corrupt deal.

The government's efforts to renegotiate ArmenTel's 15-year monopoly have so far been successful in (partially) lifting the monopoly for cellular communications only. Indeed, the EBRD insists, as one of its terms for the 10 percent acquisition, that ArmenTel should reduce its exclusive right to provide mobile telecommunications from 15 years to five years.

On its part, ArmenTel is unhappy about the Armenian government's sloppy handling of the deal. OTE is also displeased about its contract (signed by the previous owners) with the German-giant Siemens because Siemens reportedly charges high prices for supplying telecommunications equipment to ArmenTel. Siemens has provided a \$100 million loan to ArmenTel for purchase of equipment.

The complex Ar-menTel arrangements do not end there. The French-giant Alcatel has a FR 50 million (about \$10 million) deal with ArmenTel and Armenia's Ministry of Communications to modernize some 80,000 communication lines in Yerevan. Alcatel was first involved in Armenia in the early 1990s when small telephone switching stations for 10,000 users were installed in various regions of the country.

In the final analysis, while admitting that it was "politically wrong" to introduce the highly unpopular per minute fee before parliamentary elections due in May, and opening up such a large can of worms, Artak Vartanian, Minister of Postal Services and Telecommunications, affirmed, "Yes, we do have low salaries and grave social problems, but we must have a growing economy, which is impossible without investments." ■

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