EUROCHAM
European Chamber of Commerce in Vietnam

Telecom

I. Market Overview

This paper summarises the key issues facing telecom operators and service companies (not telecom equipment manufacturers) in Vietnam. The Vietnamese telecommunication industry, under the control of the Ministry of Information and Communications (MIC), has experienced significant growth over the past years, particular in mobile and Internet/Broad Band (BB), which increased in pace in 2009. Unlike many other developing countries, Vietnam also grew in the fixed / landline sector. The reported high penetration rates (a teledensity of > 100%) have to be taken with caution, as there is a very high number of inactive mobile subscribers, and mobile subscribers with more than one subscriptions.

Following a decision to create more competition in the sector, the government has issued a number of licenses to “facility based operators” (network operators) as well as allowing non network owning companies to enter the market. Despite this, the sector is still largely dominated by two 100% state owned enterprises, VNPT (MIC) and Viettel (Ministry of Defense) which account for > 90% of the market share. Network quality and availability in Vietnam still is underdeveloped but recent deployment of fibre backbones and new international capacity helped to improving the situation. Until now, the regulatory framework has not reflected the market development accurately. This is likely to change with the new Telecommunication and Radio Frequency Law, expected to be passed in late 2009, which will provide a significant legal improvement.

1. Mobile Sector: The mobile sector currently has 92 million subscribers with a comparatively high number of seven Mobile Network Operators (MNOs). This leads to an intense competition in the segment, which is mainly reflected in aggressive promotional pricing campaigns. However, numbers have to be taken carefully, as more than 90% of subscribers are prepaid subscribers and even contracts mostly do not have long termination periods. Accordingly, this lead to a very high number of inactive SIM cards, which are still counted in the subscriber figures. The real numbers are hard to determine, as the legal framework does not allow for easy deactivation and re-allocation of SIM cards.

The mobile sector is dominated by three operators with approximately 90% market share in terms of subscribers and an even higher market share in terms of revenues and profit. VNPT with its two operators Mobifone and Vinaphone have a combined market share of over 50% of subscribers and Viettel remains close to 40% subscribers. The 7th MNO started operations in summer this year. The vast majority of subscribers are on GSM based networks with only two of the small networks operating on CDMA and another of the small operators having recently switched from CDMA to GSM. In 2009 the government issued four 3G licences to the existing operators (one each to the 3 market leading operators and one to a consortium of two of the small ones) by way of a “beauty contest”. Also a first Mobile Virtual Network Operator licences was issued. The market for Value Added Services is still small but offers huge potential, particularly in areas such as mobile banking etc.

2. Broadband (BB) and Internet: Vietnam has over 21 million Internet and 2.6 million BB subscribers. However, 2/3rd of BB subscribers are in Hanoi and HCMC, the provinces are largely underrepresented. VNPT dominates the market with over 50% market share. FPT, a publicly traded company, is able to maintain a close 3rd market position after Viettel. The amount of internet usage doubled in 2008 to more than 40 million and will keep growing as also more Vietnam targeted/based content is available.

3. Fixed line: The fixed line sector still experience growth with now more than 17 million subscribers. The number of fixed line connections is expected to even out in the coming years, as more and more substitution is expected. Prices are currently fully regulated but from 2011 on operators will have flexibility in pricing. More than 2/3rd of the market is traditional PSTN with fixed wireless applications accounting for the remainder.

4. Wireless Broadband Access (WBA): The MIC issued a number of trial licences for WiMAX which were mostly concluded this year. However there is no clear picture on the proceeding with commercial licences. The 3G networks announced to go live in late 2009/early 2010 will provide WBA, first in the urban areas.

II. Key issues of further market development

The development of the sector in recent years is very impressive with some of the highest growth rates in Asia. The massive increase in penetration rates contributed to the general economic development of Vietnam. In order to continue this and reach the government targets in ICT, the sector needs a strong independent regulatory body to ensure a level playing field for all operators. Network quality and international capacity need further improvement and the National Telecommunication Fund must be fully utilized to support the connectivity of rural areas. The mobile sector, with its price-driven competition through heavy promotional campaigns for new subscribers, has lead to a huge number of inactive subscribers. This situation is not ideal and the current government initiatives (limiting of promotional campaigns, restriction of no. of SIM, subscriber registration) need to be stronger enforced.

EuroCham believes that international industry investors will be able to contribute to the further development of the sector in Vietnam in commercial means but also in improving network infrastructure and penetration. A number of well-known and respected European telecom operators are willing to engage in this through strategic partnerships with Vietnamese operators. However, until recently the only legal structure for foreign operators to invest in the local market was through a Business Cooperation contract (BCC) with a Vietnamese operator. A BCC is of limited duration and gives the foreign party a revenue share but no equity rights. Only two European companies as well as some Asian operators have operated by way of BCC in the market. Rather surprisingly in early 2008, Vimpelcom, a Russian MNO was authorized to invest in a JV receiving a GSM licence with the Ministry of Security.

As a result of its WTO accession, Vietnam agreed to open the sector more for international participation. Currently, foreign ownership in a “facility based “ (network) operator can be up to 49%. As the market development is already progressed with also a number of licences issued in the different segments and e.g. in the mobile sector spectrum being scarce participation is expected to take place through the equitization process of licensed companies. Since 2005, the Government has announced rapid equitization intentions for the main mobile operators (Mobifone, Vinaphone, and Viettel - starting with Mobifone), but considerable delay has affected this equitization process and the IPO of SOEs (State Owned Enterprises) in general.

III. Recommendations

The currently discussed new Telecommunication and Radio Frequency laws are significant steps towards a suitable framework for the sector. The Government has to create an independent regulatory body with the means and tools to secure the further development of the sector and service availability for the country. In particular:

1. Destructive competition: It will be important to find a fair balance between competition levels sufficient to satisfy the customers' needs and a regulatory environment that allows for long-term growth and related involvement of champions of the sector. Accordingly, the government should look at minimum regulations that discourage overly aggressive promotion campaigns causing destructive losses of players in the sector, and eventually, put in danger the overall telecom sector.

2. National network development plan: A national network development plan must focus on the broad availability of connectivity with suitable bandwidth and reliability. The current mainly price driven competition, especially in the mobile sector, though leading to a fast reduction of consumer prices, may fail to secure a market environment to deliver long term investment in network infrastructure and services.

3. Roadmap and timelines towards equitization: The government needs to give confidence to foreign operators, particularly European enterprises who have indicated their belief in the development of Vietnam and their willingness to invest in the country with a long term commitment. However, their willingness to invest in Vietnam may be affected if despite clear WTO commitments investment possibilities in the telecom sector remain unclear.

4. Equitization Roadmap: EuroCham believes that equitizing and thus allowing European champions to enter the Vietnamese market is the best option to ensure Vietnam's medium and long-term growth in the telecom sector. The contribution of external European expertise and experience will help the leadership of Vietnam in telecom sector. We therefore recommend that the Vietnamese government speeds up the equitization process of telecoms operators, starting with announcing a reliable roadmap and definite timelines for equitization in the sector. The role and expectations towards foreign strategic investors and the criteria for their selection should be made clear and transparent.