8 Telecom Deregulation in Azad Jammu & Kashmir and Northern Areas

Azad Jammu and Kashmir covers an area of 13,297 km^2, with its capital at Muzaffarabad. It has an estimated population of 3.798 million. The state is divided into two administrative divisions which are composed of eight districts. The population of Azad Kashmir includes many tribes and main language is Northern Hindko. It is predominantly Muslim with some minority groups. Per capita income is estimated to be US$ 500 to US$ 600.

The name "Northern Areas" was first used by the United Nations to refer to the Northern Areas of Kashmir. The region used to consist of many small states. Some parts of the region were governed as a part of Kashmir for many years. Currently Northern Areas is governed directly by Pakistan. The Northern Areas (NAs) or the Federally Administered Northern Areas (FANA) is the northern most area of Pakistan. It is the part of Kashmir to the north and west of the cease-fire line with an area of 72,496 km^2. The "Northern Areas" is divided into three divisions which are Baltistan, Gilgit and Diamer. The estimated population of Northern Areas is 1.5 million. The population consists of many diverse linguistic, ethnic and religious groups due in part to the many isolated valleys separated by some of the world's highest mountains. Urdu is understood by most inhabitants.

Telecommunication in the Region

The provision of telecom facility in AJK& NAs remained the responsibility of the Special Communication Organization (SCO) who started operations in 1976 with a total of 400 lines. After deregulation in 2006, the region boasts a network of about 121,381 fixed lines and 987,680 cellular mobile connections. SCO has done an excellent job in providing connectivity to these far flung areas. It has had exclusivity in AJ&K and NAs till the deregulation of cellular sector. Opening of mobile sector and competition has resulted in an overall improvement of the sector besides revitalizing SCO. SCO is currently providing fixed line, mobile, PCO, VoIP, VSAT and bandwidth services. The operator literally owns all the existing longhaul and access network resources in the area. Success of fixed line deregulation will depend largely upon cooperation and transmission media of SCO. It is hoped that SCO will continue playing a pivotal role in the communication of the region.

Rationale for Deregulation

Traditionally, telecom industry has consisted of state owned monopolies regulated by government Authorities. Technological advances in telecom infrastructures and services have made competition more favorable for telecom growth, than regulation. Competition allows telecom operators to achieve the economies of scale and scope. It facilitates expansion into new product and geographic markets and integration of network, infrastructure and content resources. It enables telecom operators to benefit from technological convergence and provide bundled services.

The prime objective behind deregulation in the telecom sector is the benefit of the consumer through effective competition in the industry. This means more choices, low prices and, improved quality.

Experience in Pakistan

Telecommunication de-regulation policy successfully opened up the telecommunication sector of Pakistan. Exclusivity of PTCL has ended, many new players are competing both in the fixed and mobile sectors and teledensity has shown unprecedented growth. Deregulation has benefited customers, new entrants and PTCL alike.

The prices of long distance and international calls have been significantly reduced. Cellular mobile, Broadband and De-regulation policies have promoted efficient use of radio spectrum; increased choices, reduced price and increased private sector investment in telecommunication.

Deregulation in AJ&K and NAs

After the successful deregulation of Pakistan it was strongly being felt that the people of AJ&K and NAs should not be left behind in the field of telecommunication. Extension of the jurisdiction of Pakistan Telecommunication Authority to Azad Jammu and Kashmir and Northern Areas through "the AJ&K Council's Adaptation of Pakistan Telecommunication (Re-Organization) Act, 2005" and Notification of Administration of Northern Areas has paved way for deregulation of AJ&K and NAs. Pursuant to the objectives of the Act, Azad Jammu & Kashmir Council, Administration of Northern Areas has approved the Licensing Regime recommended by the

Pakistan Telecommunication Authority. De-regulation of AJ&K and NAs is expected to increase service choice, reduce prices, increase teledensity and private investment in the telecommunication sector. It will accelerate the expansion of telecommunication infrastructure in the un-served and under-served areas.

Mobile Sector Deregulation

The first phase of de-regulation in AJ&K and NAs with the issuance of Cellular Mobile Licenses in June 2006 has completed. The Authority invited all Cellular mobile operators operating in Pakistan for the grant of licenses for telecom services in the region. PTA fixed US$ 10 million for grant of a cellular mobile license for AJ&K and NAs. Meeting the requirements, four mobile operators Mobilink, Warid Telecom, Telenor Pakistan and Ufone were granted licenses on 26th June 2006 and Paktel was granted license on August 22, 2007.The award of mobile licenses to four operators is the first significant step towards the liberalization of the telecom sector in the region bringing it at par with the rest of the country. The people of Azad Kashmir and Northern Areas now have more choice of telecom services, enhanced network coverage and improved quality of services.

Fixed Line Deregulation

PTA has launched the second Phase of Deregulation of telecom sector in AJ&K and NAs on 4th September 2007 where it has invited applications for grant of LL, LDI, Tower, Infrastructure and Class Value Added Services licences in the region. Entry to fixed-line market is unrestricted and open. Any person who requests for a license, and meets the licensing requirements, will be eligible to get a license on payment of the prescribed fee.

Table - 24
Fixed Line License Information

License	Region	Term Years	Initial License Fee
LDI	Whole AJ&K and NA	20	US$ 20,000/-
LL	Two Regions in AJ&K and One Region in NA	20	RS 20,000/- per AJ&K Region RS 15,000/- for NA
Value Added Services	Entire AJ&K and Telecom Regions	15	Rs 20,000/- per AJ&K region and Rs 15,000/- for NA Rs 40,000/- for Entire AJ&K
Infrastructure Licenses	Entire AJK and NAs	20	US$ 4000
Tower Licenses	Two Regions in AJ&K and One Region in NA	15	Rs. 10,000/ per region

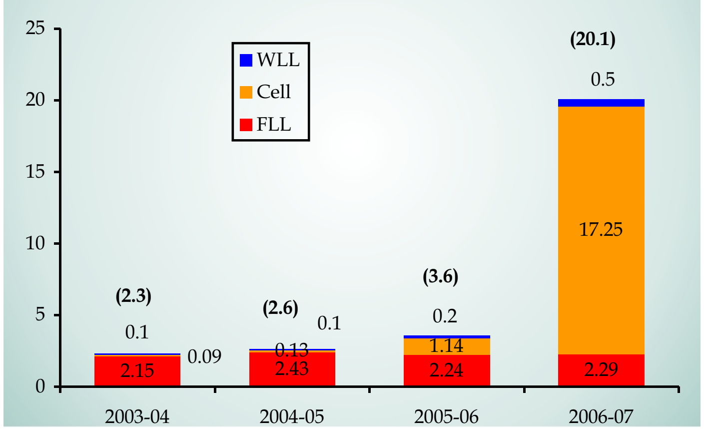
LDI license fee will be US$ 20,000/- while the license fee will be US$ 2000/- per region in AJ&K and US$ 1000 for NAs. License term for LDI, Infrastructure and LL would be 20 years each where LDI license would be provided for whole AJ&K and NAs while LL licenses will be awarded on regional basis. There will be two regions for LL licenses in AJ&K & one for NAs. It is expected that the de-regulation process of fixed line sector in AJK and Northern Areas will be completed within next few months.

Information Memorandum for award of Fixedline licenses in AJ&K and NAs has been placed on PTA website which provides background information on the AJ&K and NA's telecommunication sector, the scope, rights and obligations of licensees as well as the timetable, instructions and related information concerning the licensing process.

Current Status of Telecom in AJ&K and NAs

Currently, SCO is providing main telecom services in AJ&K and NAs of Pakistan except cellular mobile services where five cellular mobile operators working in Pakistan are also in the run with SCO.

Figure - 62
Teledensity in AJ&K & NAs



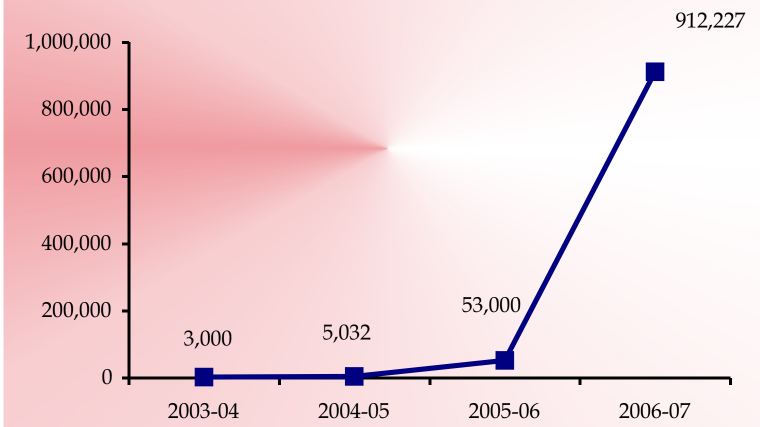
Teledensity

Currently the total teledensity of AJ&K and NAs stands at 20.1%, which was only 3.6% in the year 2005-06. Over 450% growth in teledensity in the region is due to liberalization of cellular mobile sector in the region. Cellular Mobile sector contribution in total teledensity of AJ&K and NAs is about 17.25% in the year 2006-07 while last year its share was just 1.14% when the sector was functioning under mon0oply of SCO. Since, all other sectors (WLL& FixedLine) are still working under monopoly by SCO where teledensitys is still unimpressive. Fixedline teledensity was only 2.15% in the year 2003-04 which has improved by only 0.014% in the year 2007 and reached to only 2.3%. SCO has also launched WLL service three years back but still its teledensity is only 0.5%. Major factor behind the low teledensity in Fixedline is the difficult terrain of the region to lay fiber.

Cellular Mobile Sector

SCO started its cellular mobile service in the year 2003 in AJ&K and NAs of Pakistan, however its subscription was only 5,032 till the year 2004-05. PTA allowed all cellular mobile operators to temporarily work in AJ&K during the devastated earthquake, which boosted the cellular mobile subscription there. Later on PTA awarded licenses to Mobilink, Ufone, Telenor and Warid to operate in AJK& NAs in June 2006. All four companies are now providing the service in the area. Liberalization of Cellular mobile sector in AJ&K has also compelled SCO to expand its networks.

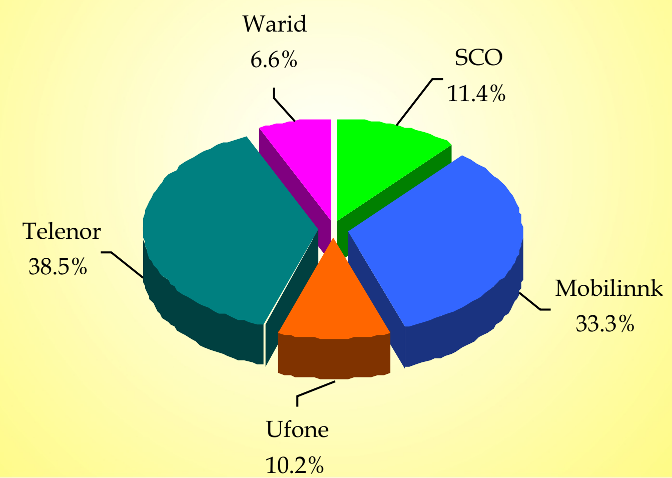
Figure 63
Cellular Mobile Subscribers in AJ&K& NAs



Currently there are 912,227 cellular mobile subscribers all across the region. In the year 2003-04, SCO launched its service only in AJK where it provided only 3,000 connections in first year. While in next year (2004-05) SCO cellular Subscribers reached to 5,032, which depicted very slow growth. In the year 2005-06, SCO cellular subscribers growth was over 950% where its subscribers reached to 53,000.

Newly established cellular Mobile operators have gained more market share than SCO in just one year owing to their aggressive marketing and their own infrastructure advantage in Pakistan. Currently, Telenor is leading in terms of market share in the region where its share is 38.5%, which is followed by Mobilink who attained market share of 33.3%. SCO has market share of 11.4% while Ufone has 10.2% market share in the year 2006-07. Paktel has recently got license for AJ&K and NAs which has not started its services as yet.

Figure - 64
Market Share of Cellular Mobile Operators in AJ&K and NAs 2007



All five operators have installed 260 cell sites across the region where most of sites have been installed in AJ&K, which is more

Table - 25
Cellular Cell Sites by Company (2007)

	AJ&K	NA	Total
SCO	34	24	58
Mobilink	56	8	64
Ufone	21	-	21
Telenor	55	9	64
Warid	53	-	53

populous than NAs and also more lucrative from business point of view. Out of 260,only 41 cell sites have been installed in Northern Areas.

Fixed Line

Fixed Line sector is working under monopolistic situation where only the incumbent, SCO is providing fixedline services. SCO is providing services through Fixedline and WLL in both of the telecom regions of the area. Currently, there are 149,029 fixedline and WLL connection in all across the region where WLL subscribers share is just 19%. AJ&K share in total subscribers (Fixed+WLL) is 83% while only 17% connections are working in NAs.

Table - 26
SCO FLL and WLL Subscribers
2006-07

	AJ&K	NA	Total
WLL	24,987	2,661	27,648
Fixed	99,232	22,149	121,381
T otal	124,219	24,810	149,029

There were only 75,369 fixed lines in AJK& NAs in the year 2003-04 which have reached to 121,381 in the year 2006-07 which shows growth rate of 61% in last four years however, last year its growth has been registered 16%. About 82% of fixedline subscribers are in AJ&K while WLL connections are also more concentrated more in AJ&K region where its share is 90% and only 10% WLL subscribers are in NAs. Fixedline and WLL subscribers are not proportionate to the population in both of the areas.

Table - 27
SCO FLL and WLL PCOs
2006-07

	AJ&K	N A	Total
WLL	1,432	9	1,441
Fixed	1,206	556	1,762
Total	2,638	565	3,203

Apart from Fixedline and WLL, SCO is also providing telecom facility through PCOs in the far flung areas of the region which provide service to people who can not afford telephone at home. Distribution of PCOs is not different to that of fixedline across the two regions. Approximately 82% PCO are working in AJ&K while 18% PCO are working in NAs.

Future Potential

There is a lot that needs to be done in the AJ&K and NAs. A vast majority of population is without telecommunication facilities. The combined population of the region is estimate to be around 5.3 million out of which only 1.02 million has been covered so far. The literacy rate, per capita income and the demand of communication facilities is considered to be reasonable enough to sustain several telecom operators. It is estimated that the new operators can at least capture 1.32 million subscribers before the teledensity reaches current level of Pakistan. Year 2005 has passed with a remarkable success for the Telecom Industry which have started to grow with great zeal and enthusiasm. The deregulation policies of the Government have resulted in the fastest, transparent and fair deregulation of the telecom sector."

Conclusion

Deregulation has already changed the telecommunication landscape of Pakistan. The quality, variety and rates of telecommunication facilities available now were unimaginable a few years back. It is hoped that the people of AJ&K and NAs will also enjoy the same telecommunication benefits as in Pakistan. Telecom infrastructure will grow, teledensity will increase and general standard of living will improve. Telecom development will spur growth in all other sectors of life especially economy. Considerable amount of investment will be made and thousands of new job opportunities will be created. With the entry of private sector operators and resultant competition in the market, choices will increase quality will improve and prices will fall considerably. With Deregulation AJ&K and NAs will enter a new era of better connectivity and economic growth.