

Opportunities abound in Russia's telecommunications sector, despite the setback of the August 1998 financial crisis.

In its aftermath, the government allowed rate increases of approximately 30 percent, while business and residential subscribers now pay about 75 percent more in installation fees for new lines. With further rate changes, Russian telecom companies should improve their financial performance, repay equipment debts to foreign suppliers and initiate new development plans.

A promising sector in Russia is custom information technology (IT) software development. For a telecom company seeking to become a leader or remain competitive, it can be profitable to contract specialized IT software engineering to a Russian institute as a co-operative venture.

Constraints

Several risks continue to dog the sector:

- an uncertain regulatory environment;
- high fragmentation;
- low liquidity;
- substandard corporate levels of disclosure and transparency; and
- inadequate protection for minority shareholders.

On the positive side, several telecom companies are adopting Western accounting methods, and the shift should bring a more transparent accounting system better able to attract investors. And market fragmentation would be reduced by

Sector profile

Russia — telecom

a merger of some of the regional operators.

Business and data communications

With a few exceptions, providers of business and data communications are joint ventures between foreign partners and either Rostelecom or a regional telecom. A joint venture can also help a foreign company obtain the necessary licences. For their part, Russian partners benefit from the introduction of value-added services without undertaking any significant capital expenditures, and they acquire the latest technology and know-how.

Cellular communications

Since August 1998, competition has brought a drastic reduction in cell phone rates and an increase in the service packages offered to consumers. As a result, subscriber numbers grew by over 100 percent in 1998 and are

projected to grow by over 70 percent by the end of 1999. Telenor's purchase of a 25 percent stake in Vimplecom (one of the main cellular operators) is an indication that providers are starting to receive the infusion of capital required to expand capacity. With a continued decline in rates and increased investment, cellular use will grow still more, and wireless could eventually become a viable alternative to regional telecom operators.

Communications equipment

Since the financial crisis, companies have been unable to make large investments in new systems. Instead they have focused on smaller, cash purchases of equipment, with the aim of a quick return on the investment.

Satellite communications

Given Russia's underdeveloped fixed-line telephone network and far-flung population, VSAT communications could offer an interesting solution.

Long-distance market

Rostelecom leases dedicated international communications channels to private companies. It has a 90 percent share of the long-distance market and an 85 percent share of the international market.

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(For the unabridged version, see www.infoexport.gc.ca/canadexport)

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- Italy must be made more aware of Canada as a world supplier and developer of information and communication technology (ICT) solutions and equipment, on par with the United States, France, Germany, the United Kingdom and Japan.

Events and information

- Visit our Canadian Embassy Web site at www.canada.it
- Canada will have a national stand at Italy's largest ICT trade fair, the International Exhibition of Information and Communication Technology (SMAU), October 19-23, 2000, in Milan. Although many of those who participated at

SoftWorld will not be at SMAU, the Web site for the show is excellent and is well worth a visit, as it provides excellent profiles and links: www.smau.it

- Visit the Web site of the Italian Institute for Foreign Trade at www.ice.it

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