



Dominican Republic: The Telecommunication Sector

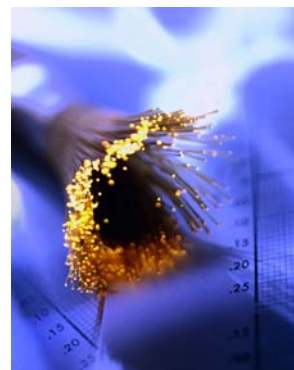
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Summary

The Telecommunication industry in the Dominican Republic has been growing over the last five years and has been characterized by greater competition, price reductions, and the introduction of new technologies, which allows the industry to offer modern products and services. The cellular sub-sector is the most competitive and the sub-sector that experiences the largest growth rate. The country enjoys a modern telecommunication law that: facilitates investment in the sector by providing equal treatment for local and foreign investors; allows price rates to be set freely by the industry players; and guarantees interconnection rights. Although there are four providers of telephony services; the local, long distance, cellular, and ISP markets are dominated by CODETEL. This report provides an overview of the Dominican telecommunication market accompanied by relevant statistics, and information on the legal framework.

Market Overview

The Central Bank of the Dominican Republic reported that during 2006 the telecommunication industry contribution to the GDP grew 28 percent. Growth is more significant in the mobile sector where the number of wireless subscribers in 2006 was more than four times the number of wireless subscribers in 2002. As a result, teledensity in the Dominican Republic has increased from 30.5 percent in 2002 to 61.0 percent in 2006 according to the Dominican Institute for Telecommunications (INDOTEL).



Regulatory Issues

The Telecommunication Law:

Although the Dominican Republic liberalized its telecommunications market to allow competitors to enter the market as early as 1992, it did not update its General Telecommunications Law until 1998. This Law (153-98) regulates the entire telecommunications industry and it applies to the transmission and reception of words, sounds, images, or information by means of electromagnetic signals or impulses. The approval of Law 153-98 was a major development in the Dominican market; it is a modern and flexible legal instrument that enables public regulation while maintaining favorable conditions for private investment. This law promotes the free functioning of the telecommunication market under conditions of effective competition, constituting the first legal instrument that the country has adopted to regulate competition in a particular industry. The law also allows companies the freedom to set rates and the freedom to negotiate between service providers. Another fundamental objective of Law 153-98 is the reaffirmation of the principle of universal service and the creation of a "Contribution to Telecommunications Development Tax", which mandates a two percent charge to telecommunication services. The funds generated by this tax are applied to the execution of projects to promote universal telephone services and the financing of INDOTEL (Instituto Dominicano de las Telecomunicaciones). INDOTEL is the government agency that supervises and regulates telecommunication services in the Dominican Republic. It is responsible for issuing concessions, establishing standards, supervising operators, and developing national and international telecommunications policies. INDOTEL is well regarded within the telecommunications industry, and is said to demonstrate a proactive and equitable role in the supervision of the market.

Market Entry Regulations:

The Telecommunication Law regulates the telecommunication services emphasizing the type of services that can be provided, rather than the type of company that can offer them. This focus translates into technological advantages for the industry by recognizing the modern tendency of technological convergence.

Based on Law 153-98, companies interested in offering communication services in the Dominican Republic, must apply for the following authorizations:

TYPE OF AUTHORIZATION	MANDATORY FOR	IMPORTANT PROVISIONS
CONCESSIONS	-All telephony services (fixed and wireless) -Cable TV services -Television broadcasting -Radio broadcasting	Granted after INDOTEL has determined that the applicant complies with the technical, economic, and qualification requirements. Granted for renewable terms of five to twenty years.
LICENSES	Services that require the use of the RF spectrum: 1) Wireless services (cellular, paging, trunking), 2) Radio and TV broadcasting.	Granted through a public bidding because the frequencies are not available in an unlimited number and are granted for renewable terms of five to twenty years. Radio and television broadcasting licenses are only issued to Dominican citizens.
REGISTRATIONS	-Ham radio service -Mobile aeronautical service -Mobile maritime service -Resale of services -Private telecommunication services -Value added services (electronic mail, Internet/Intranet, and digital transmission of data).	A simple formality of registration.

IMPORTANT NOTE: In all instances it is required that the applicant be incorporated as a company according to the laws of the Dominican Republic. In addition, all the information and communications with INDOTEL must be in Spanish, or if in a different language, they must be translated to Spanish by an authorized legal/court translator in the Dominican Republic.

Local Taxes:

The following taxes apply to all Telecommunication Services provided in the Dominican Republic (a total of 28 percent):

- ITBIS: 16 percent.
- Contribution to Telecommunications Development Tax: 2 percent.
- Selective Consumption Tax: 10 percent.
- In addition, INDOTEL also assess an annual “User Fee” on the right to use the radio spectrum.

Standards:

The Dominican Republic is a member of the International Telecommunications Union (ITU), an agency of the United Nations in Geneva, which plays a vital role in the standardization of telecommunications. Law 153-98 acknowledges the applications of the recommendations issued by the ITU, and establishes that all the technical norms in the Dominican Republic must be in accordance with international practices in World Zone Number 1, to which the country belongs. Telephone sets imported into the Dominican Republic do not need to go through a registration process with the local authorities as long as they are in accordance with international practices in World Zone Number 1. Some countries have regulations controlling the use of cellulators with picture taking capabilities, but in the Dominican Republic no such regulations are in place. However, the authorities prohibit the use of cellulators while driving a vehicle without the use of a hands-free device.

Telephony Market

Fixed Telephony:

The Dominican market for fixed lines is largely dominated by CODETEL, which accounts for 88 percent of all the installed lines. Regarding telephony equipment, in the Dominican Republic we can find two kind of equipment: the telephone sets that are terminals of a proprietary phone system and the conventional telephone sets. Codetel offers two phone systems to their business clients and to some extent to their upper class residential clients: a proprietary Nortel (Canada) phone system, in which only Norstar's telephone sets can be used as terminals; and the Avaya (U.S.) phone system. The later, which is a hybrid system that is more flexible, provides interoperability, allows the connection of conventional sets, and allows the migration to VoIP. As a result, the hybrid phone system technology is becoming the favorite of the end-users, thus limiting the market potential of the terminal telephone sets. By installing a hybrid phone system the end-users are able to connect many types of conventional sets and to expand to accommodate more telephone sets without the need for costly upgrades. The major carriers are changing to the hybrid system, which would increase the market potential of the conventional telephone sets. In the Dominican market, there is an ample variety of conventional telephone sets; from the less sophisticated, low-cost Asian imports, to cutting edge technologies that include motion sensors, cameras and VoIP software. As indicated in the following table, the number of fixed lines is decreasing.



FIXED TELEPHONY	Year 2003	Year 2004	Year 2005	Year 2006
Number of residential lines	603,937	614,479	607,610	603,350
Growth rate		1.7%	- 1.1%	-0.7%
Number of business lines	254,241	246,533	252,381	257,833
Growth rate		-3.0%	2.4%	2.2%
Wireless Local Loop	38,483	29,861	23,187	21,946
Growth rate		-22.4%	-22.4%	-5.4%
Number of public lines	12,148	11,385	13,074	1,897
Growth rate		-6.3%	14.8%	6.3%
TOTAL NUMBER OF LINES	908,809	936,155	896,253	897,026
TELEDENSITY	10.5%	10.6%	10.0%	10.0%

Source: Instituto Dominicano de las Telecomunicaciones (INDOTEL)

Wireless Telephony:

In the wireless telephony, the Dominican market is extremely competitive, with four carriers currently in the market: Claro (formerly Verizon and owned by America Movil of Mexico), Tricom, France Telecom's (Orange), and Centennial Communications. CODETEL again dominates the market, accounting for 63.7 percent of the market, followed by Orange (25.1 percent), TRICOM (5.7 percent), and CENTENNIAL (5.5 percent).

The coverage of the cellular networks reaches approximately 90 percent of the country. Cellulars operate in the Dominican Republic at 800 and 1900 MHZ frequency (which is the North American standard) using 3G CDMA and GSM technologies (Orange).

During the initial introduction of cellular technology, when only one company dominated the industry, users were limited to top executives of corporations, high-ranking government officials and elite members of the society because of the high subscriber cost. The introduction of Personal Communication Systems (PCS) services, the implementation of "Calling Party Pays", and the multiple marketing plans offered by the operators have made the cellular sector a dynamic, competitive and growing sector.

The sub-sector of mobile phone (cellulars) is the one that shows more growing potential (please see below table).

WIRELESS TELEPHONY	Year 2003	Year 2004	Year 2005	Year 2006
Number of analog cellulars	228,995	129,486	80,362	47,308
Pre-paid	228,068	128,953	77,678	46,444
Invoiced	927	533	2,684	864
Growth Rate		-43.50%	-37.9%	-41.1
Number of digital cellulars	1,862,919	2,404,577	3,542,927	4,558,351
Pre-paid	1,594,022	2,030,549	3,040,518	3,914,107
Invoiced	268,897	374,028	502,409	644,244
Growth Rate		29.10%	47.3	28.7
WIRELESS GROWTH RATE		19.40%	43.0%	27.1%
WIRELESS TELEDENSITY	24.5%	28.8%	40.7%	51.0%

Source: Instituto Dominicano de las Telecomunicaciones (INDOTEL)

The growth potential is larger for digital cellulars with the capability of: multimedia messaging service, downloading of ring tones and logos, picture taking, Internet access, instant messaging, location based services, etc.

Competitive Situation

The Dominican market for telecommunication equipment is almost 100 percent import-dependent. There is some local production of conventional telephone sets, but it is located in the Free Trade Zone sector. FTZ manufacturers are mandated to export no less than 80 percent of their total production, and the products that stay in the local market (no more than 20 percent) have to pay duties and taxes as any other imported products. As a result, very little of the locally manufactured telephone sets stay in the Dominican market.

The Dominican market is highly price sensitive. U.S. companies interested in this market should try to focus on price competitiveness and offer cost effective solutions, but should not forget to offer adequate technical support.

Major brands present in the market: Samsung, LG, Kyocera, Boss, Motorola, Siemens, Nokia, Sony Ericsson, Toshiba, and Panasonic.

Market Access

The general import climate in the Dominican Republic is very favorable. The dollar exchange rate is responsive to market forces and importers can obtain hard currency easily. Import duties levied on all telecommunication equipment is 3 percent of the CIF price (Cost+Insurance+Freight). However, the free trade agreement (CAFTA-DR) between the Dominican Republic and the United States provides for duty free entry. Under the CAFTA-DR, United States imports of telecommunication equipment into the Dominican Republic have been classified by categories. Each category provides for the elimination of customs duties in different stages. In the telecommunication sector, most of the products will enter the Dominican Republic duty-free on the date the agreement enters into force (under Category A) and only one product has fallen into the Category B. An explanation of these categories and a list of products included in each one follow:

Category A:

Duties on goods under this category will be eliminated entirely on the date the agreement enters into force.

HARMONIZED CODE	DESCRIPTION
851711	Line telephone sets with cordless handsets
851719	Videophones
851721	Facsimile machines
851730	Central office telephone switching systems Private branch exchange telephone switching apparatus Electronic key telephone systems Telephonic switching apparatus Telegraphic switching apparatus
851750	Telephonic apparatus (for carrier-current line or digital line, other) Telegraphic apparatus (for digital line systems, other)
851780	Telephonic intercom systems
851790	Telephonic switching apparatus and parts Telephonic apparatus and parts Telegraphic apparatus and parts
851830	Telephone handsets Headphones, earphones, microphone or speakers
851840	Audio frequency amps used as repeaters in line telephony
851890	Telephone handset and repeater parts
851820	Telephone answering machines
852510	Communication transmission apparatus
852790	Radio reception apparatus (use with telegraphic or phonic apparatus) Paging receivers and paging alert devices Radio telecommunication reception apparatus
852910	Antennas and parts for heading 8525
852990	Parts for apparatus of headings 8525

Category B:

Duties on goods in this category will be removed in five equal annual stages beginning on the date the agreement enters into force and will be duty-free effective January 1 of year five.

HARMONIZED CODE	DESCRIPTION
851890	Telephone headset and repeater parts

Market Entry

Foreign suppliers of conventional telephone sets for the residential segment of the market are currently selling their products without appointing a local distributor or agent. However, for the sale of cellulars and terminals telephones, the common practice is to designate a local distributor or agent. Local distributors are able to provide technical support, offer guarantees, and maintain inventories of parts and accessories. These importers and distributors usually have sales agents who distribute the products to small retailers throughout the country, and many also have their own outlets.

For More Information

The U.S. Commercial Service in Santo Domingo, Dominican Republic can be contacted via e-mail at: Isolda.frias@mail.doc.gov; Phone: 809/ 227-2121 ext. 226; Fax: 809/ 920-0267 or visit our website: www.export.gov/caribbean.

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