



# Kazakhstan: Telecommunications Market

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## Summary

- The telecommunication market in Kazakhstan was valued at approximately \$2.2 billion in 2006, reflecting 20% growth compared with 2005.
- Mobile communications is the largest component of the telecom sector. As forecasted by iKS-Consulting, the number of mobile customers will reach 10.5 million by the end of 2007 (70% penetration rate). Mobile communications represents more than 45% of revenues in the communications services sector.
- The government of Kazakhstan sought to liberalize the telecommunications market in 2004 with a program aimed at ending the monopoly of the state-owned company Kazakhtelecom, Kazakhstan's leading telecom operator. However, despite changes in the law, there is little evidence that Kazakhtelecom's position has been greatly affected, and the market remains mostly closed to foreign or domestic competition. For this reason, the market does not encourage foreign investment, but does provide opportunities to equipment providers.

## Market Demand

The telecommunications sector remains one of the most dynamic and fastest developing sectors in Kazakhstan's economy. The country's telecom revenues in 2006 amounted to \$2.2 billion, a 20.4% increase from 2005. According to the Economist Intelligence Unit, the market could be worth \$10 billion by 2010.

The following segments make up the telecommunication market in Kazakhstan: mobile communications, fixed line communications, Internet and Data Transmission, Radio and TV broadcasting.

The market breakdown in 2006:

- Mobile Communications - 46%
- Fixed Line Communications - 27%
- Internet and Data Transmission - 8%
- Radio and TV Broadcasting - 5%

In 2004, the government of Kazakhstan adopted a law that sought to demonopolize and liberalize the telecommunications market. The program was aimed at decreasing the monopoly of Kazakhtelecom, Kazakhstan's leading telecom operator (and over 50% government owned). Its main provision was to provide all operators equal access to the country's telecommunications network and to initiate a system of alternative operators of international and long-distance services (by abolishing Kazakhtelecom's exclusive license). In reality, the program has had little impact on Kazakhtelecom's dominance, as the firm still has a monopoly on telecommunication services, which has resulted in high tariffs for long distance and international phone communications and Internet access. There is a hope that Kazakhstan's goal to enter the World Trade Organization will positively impact the current situation in regards to market liberalization, as it will require the government to reexamine its regulatory oversight, which is currently fragmented.

## Fixed Line Communications

There are several operators that provide fixed-line services in Kazakhstan. Despite the government's program for market liberalization, state-controlled [Kazakhtelecom](#) is still the leading service provider in the fixed-line communication segment. With 2.8 million subscribers, it has market share of over 70%, and

controls over 90% of all fixed line traffic. According to company data, its revenues increased by 8% in 2006.

The local market is restricted by Kazakhtelecom's exclusive rights of ownership and use of the local loop, so other providers are dependent on Kazakhtelecom's infrastructure. Among other large providers operating in the market are KazTransCom, Transtelecom, Nursat, Arna and Golden Telecom. These operators control only 10% of the fixed line segment and mostly work in the corporate markets servicing around 80,000 subscriber lines. As an example, KazTransCom and Transtelecom (both state owned) provide services to KazMunaiGaz (the national oil & gas operator) and Kazakhstan Temir Zholy (railway) respectively, while firms like Nursat are affiliated with Kazakhtelecom.

According to iKS Consulting, last year consumption of fixed-line services grew by 15% up to \$684 million, while the number of subscriber lines grew by less than 10%, up to 2.85 million. According to a plan approved by the government of Kazakhstan, by the end of 2008 the penetration of fixed-line communications services will reach approximately 23%, and the level of digitalization 80%. The goal will be reached by implementing several Kazakhtelecom projects on modernization and digitalization of existing fixed-line networks and development of fixed-line networks in remote rural areas around Kazakhstan.

### **Mobile Communication Sector**

In 2006, mobile communications was the largest segment of Kazakhstan's telecommunication market. Due to the rapid development of telecommunication technologies, revenues received from fixed line communication is steadily declining, giving way to mobile technologies. The mobile and fixed line shares of total telecommunication revenues amount to 46% and 27% respectively. The volume of mobile telecommunication services provided in 2006 increased by 58.5% compared to 2005. In 2006, the total number of mobile communications subscribers reached 7.84 million, having grown by nearly 2.4 million (40% growth) since 2005. The level of penetration exceeded 50% of the total population compared with 36% in 2005. According to iKS-Consulting forecasts, by the end of 2007 the number of mobile subscribers in Kazakhstan will reach 10.5 million, though a report conducted by dTS put the number at 6 million in early 2007, with the possibility of 7.5 million by the end of 2008. The number of mobile subscribers is forecasted to grow by an average of 13% per year until 2011.

The main providers in the mobile market are:

1. GSM Kazakhstan, which is 49% owned by Kazakhtelecom, operates under the K'cell and Activ brands. It ranks first among operators with 60% market share.
2. KaRTel, a GSM operator and subsidiary of Russia's Vimpelcom, renders services to more than 2 million subscribers, ranking it just behind GSM Kazakhstan.
3. Altel was the first cellular communications operator in Kazakhstan and the sole provider till 1998. Currently it renders CDMA2000 1x services (supplied by Ericsson) under Dalacom and PATHWORD brands. It started as a joint venture between a U.S firm and Kazakhtelecom, but the US partner sold its shares in 2002, and Kazakhtelecom now holds 100% of its shares.
4. Mobile Telecom Service, a GSM operator, is a new subsidiary of Kazakhtelecom (est. in 2006). In the mobile market the company operates under the NEO brand.

According to the State Agency for Informatization and Computerization, new mobile technologies will be introduced to the mobile communication market. This includes 3G mobile communication networks that will be deployed in 3-4 of Kazakhstan's largest cities. As a first step, three pilot zones will be created for implementing 3G mobile technology projects.

### **Internet Market**

According to the Agency for Informatization and Communications, there are more than 500,000 Internet users in Kazakhstan, which means the Internet penetration rate is about 4-5%, the highest in Central Asia. According to forecasts of iKS -Consulting, in 2007 the number of Internet users will exceed 1 million. One obstacle to faster growth is that Internet access tariffs in the market are high, a result of

Kazakhtelecom's continued dominance in the market, this time through Kazakhstan Online, the country's largest ISP. A 2007 government program to reduce information inequality, however, seeks to decrease Internet access tariffs in an effort to raise usage among its citizens.

In addition to ADSL, ISDN, and dial-up, Internet access services are also provided using modern wireless technologies. For example, there are several operating Wi-Fi networks belonging to Kazakhtelecom, 2Day Telecom and Limited Partnership Aksoran in Almaty and Astana, the country's two main cities. Hot spots are installed in several restaurants and cafes in Almaty and Astana. Additionally, as the country's new capital, Astana, continues to grow, city planners are looking to wireless local loop solutions, mostly based on the WiMAX platform.

### Satellite Communications

Satellite technologies for providing Internet access and establishing phone communication for all regions of Kazakhstan are in high demand because of the country's vast territory and low population density. However, until recently, operators that sought to provide services based on satellite technologies could only lease foreign satellites, either Russian or via the Intelsat consortium. In 2006, Kazakhstan's first satellite, KazSat, was launched. Besides Kazakhtelecom, KazSat's capacity has been leased by Astel, Katelco, Nursat and 2Day Telecom; altogether about ten companies. Almost half of the satellite's capacity (which totals 864 MHz) has been loaded, and during 2007 it will reach 80%. Kazakhstan is already planning to launch the KazSat-2 satellite by 2009.

## Market Data

### Main Indicators of Kazakhstan's Telecom Sector

Indicator	2005	2006	2007 (forecasted)
Phone Density per 100 people	17.7	18.5	21
Mobile Phone Density per 100 people	37	45	58
Number of Internet Users per 100 peop	2.7	4	8
Level of telecommunication network digitalization:			
- city phone stations;	72.11%	76.8%	86.04%
- rural phone stations	52.64%	61.0%	66.3 %

Source: Agency for Informatization and Computerization.

### Telecommunication Equipment Market (U.S. Dollars in Millions)

	2005	2006	2007 (estimated)	Projected Growth%
Total Market	361.8	475.0	612	28
Local Production	10	11	11.5	5
Exports	2.7	4.3	5.0	16
Imports	354.5	468.0	605.0	29
Imports from U.S.	40.7	73.2	117.0	60

Source: National Statistics Agency.

### Best Prospects

Based on the government program on Development of the Telecommunication Sector for 2005 – 2008, the best prospects for U.S. suppliers of the telecommunication equipment are:

- 3G telecommunication equipment (WiMAX);

- Satellite telecommunication systems for providing Internet access and phone communication in remote areas;
- Equipment for digitization of the existing telecommunication networks including digital and/or interactive TV systems working on a frequency of 40 GHz and more.
- Equipment for DWDM technologies

## Market Entry

The most effective ways for U.S. exporters of telecommunication equipment to enter the market are to open a representative office or find a local distributor. Through a representative office, a company entering the market will be able to establish a distribution network and certify its products. The role of a distributor is important. These companies are familiar with domestic legislation affecting telecommunications equipment, are familiar with market conditions, can work more effectively in promoting products, and have contacts with customers operating on the market. Additionally, in compliance with existing practice, local distributors may participate in tenders for state owned telecommunication companies and organizations. If an exporting company wants to participate in tenders independently, it must establish a local presence in the form of a LLP or a joint venture with a local counterpart.

## Market Issues and Obstacles

### Certification

According to current legislation, all telecommunications equipment imported into Kazakhstan must be certified for product safety and general network compatibility. General requirement and certification procedures are presented in Standard ST-RK 3.4. Procedures for telecommunications equipment certification include testing for electromagnetic compatibility, non-interference with existing systems, product safety, and compliance with Kazakhstan's consumer protection laws. Certification services are only provided by a few agencies accredited with the [Committee for Technical Regulation and Metrology](#). An updated list of the accredited bodies is published on the committee's website.

### Obstacles

- Usually, the certification process is complicated and slow.
- Kazakhstan does not recognize third country certificates.
- Strong competition from European and Chinese producers provides a wide range of both quality and inexpensive telecommunication equipment.
- Participation of foreign companies in state organized tenders is prohibited by local legislation. The best way for the US exporters to participate in tenders is through a local distributor or a joint venture with a local counterpart.
- Foreign ownership of fixed line telecoms companies is restricted to 49%.

## Trade Events

### KITEL 2008

May 27-30, 2008

15th Anniversary International Central Asian Telecommunications, Computer and Information Technologies Exhibition

Organizer: Iteca; [www.iteca.kz](http://www.iteca.kz)

## Resources & Contacts

Agency for Informatization and Computerization: <http://www.aic.gov.kz>

Committee for Technical Regulation and Metrology: <http://www.memst.kz>

Kazakhtelecom JSC: <http://www.telecom.kz/>

Ministry of Transportation and Communications: <http://www.mtk.gov.kz>

### **For More Information**

The U.S. Commercial Service in Almaty, Kazakhstan can be contacted via e-mail at:

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