

Uzbekistan Telecommunications Report

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Market Overview:

Uzbekistan is the third-largest country in the CIS (Commonwealth of Independent States) after Russia and Ukraine, with a population of 26 million. The telecommunications industry plays a critical role in Uzbekistan, a double land-locked country in the heart of Central Asia. Uzbekistan inherited numerous problems in its telecommunication industry facilities from the former Soviet Union. Fixed telephony network was backward and dilapidated. The country, since independence, has made significant progress in upgrading its fixed telephony system and building new wireless communication networks.

The modernization needs for the telecom sector were clearly outlined in the Uzbekistan law on telecommunications as well as in the national program for reconstruction and development of the telecommunication network (NPRDTN) in the Republic of Uzbekistan by the year 2010 adopted by the government of Uzbekistan (GOU) in 1995. The major points of NPRDTN included: installation of the Uzbek part of the large fiber optic line project (Trans-Asia-Europe Project); complete digitalization within the country by year 2010; and the increase in telephone line density.

Before the country's independence, the telecommunication sector was a state monopoly. The first step towards structural change in the sphere of post and telecommunications was made when regional production communication departments were reorganized to enterprises of post and electrical communications. As a result, the number of independent enterprises and agencies has grown.

The telecom sector is currently governed by the Law on Telecommunications of 1999 (the "Telecom Law") and regulated by the Uzbek Agency for Communications and Information (UzACI). The Telecom Law is supplemented by a number of presidential decrees, cabinet resolutions, and regulations. UzACI is the successor to the Ministry of Communications, has the rank of a ministry, and provides strategic policymaking and regulatory implementation functions. The Director-General of UzACI holds the post of Deputy Prime Minister, making UzACI a de facto ministry. UzACI oversees a wide breadth of activities, including regulation, management/supervision of commercial and quasi-commercial entities, an educational institution, services for maintaining telecom network integrity, operations in emergency situations, and funding of telecom and informatics development. Additionally, the Director-General of UzACI is the Chairman of the Board of Supervisors of Uzbektelecom, the majority state-owned incumbent operator. Uzbektelecom is a large, strategically important company for the country's economy. It provides 98% of local and 96% of international fixed telecommunications services in the country. It has charter capital of 30.792

billion soum (approximately \$27.1 million). Employees own 5.8% of stock and the state owns the remainder.

Therefore, fixed-line services are provided mainly by Uzbektelecom, owner of the fixed-line network. Uzbektelecom currently holds a monopoly on international voice services and Voice over Internet Protocol (VoIP), which, unless extended, will expire in 2007. The government has been trying to privatize Uzbektelecom since 1999. Currently, all regions of the country are linked with Tashkent via high-speed communication lines.

Prospects for the country's telecommunication sector are strong given that fixed telephony penetration is a low 7.5%, whereas mobile telephony penetration stands at about 2.8% as of mid 2005.

Six operators provide cellular phone services in Uzbekistan, the largest of which are Uzdunrobita JV, Unitel, and Coscom. The cellular market grew by over 80% in 2004.

Market Breakdown

Country: Uzbekistan	2001	2002	2003	2004	2005(estimate)
Population(millions)	25	25.3	25.6	25.9	26.3
GDP (US Dollars, billions)	11.4	9.7	10.1	12.0	13.0
Real GDP growth y-to-year	4%	4%	4.2%	7.7%	8.4%
GNI per capita, Atlas method (US\$)	560	450	420	460	490
Size/Growth of Market for Telecom Equipment (in millions of US\$)	300	350	500	na	na
Total Telecom Imports (in millions of US\$)	170	210	na	na	na
US Telecom Equipment Imports (in thousands of US\$)	60	30	na	na	na

Source: World Bank, Uzbekistan Country Commercial Guide FY 2004: Leading Sectors

According to UzACI, in the first half of 2005, in the sphere of Telecommunications and ICT services were provided worth over 171 billion soums (about \$150 million). The year-on-year growth made up 29.8% in the first half of 2005.

Fixed-Lines Market:

Fixed line penetration in Uzbekistan is 7.5%. In 1991, the year when Uzbekistan gained independence, the country had 1.55 million fixed line subscribers. By 2003, Uzbekistan had 1.8 million fixed telephone numbers available. In the course of 2005, the total fixed line subscriber numbers had risen to 1.98 million.

As noted above, fixed-line services are provided mainly by Uzbektelecom, owner of the fixed-line network. Uzbektelecom fixed line revenue reached approximately 103.3 billion soums (about \$104 million) in 2004. In 2003, fixed line revenue of Uzbektelecom stood at 81.6 billion soums (about \$82.3 million). Uzbektelecom saw its net profit plunge to 911 million soum in 2004 from 2.9 billion soum in 2003, according to an audited annual report presented at the company's annual general meeting on June 10, 2005. The report does not explain the sharp drop in profit. Shareholders decided to pay dividends for 2004 of 16.70

soum per common share and 250 soum per preferred share, compared to 13 soum and 300 soum respectively for 2003.

It was announced recently that Japan's Mitsui & Co. Ltd. will supply Uzbekistan with telecommunications equipment for a total of 2.73 billion yen, or more than \$24 million, under the second phase of a project to expand the country's telecommunications network.

Under an additional agreement between Mitsui and the Communications Agency, the Japanese company will supply, install and launch 53 transfer systems, 26 televised TV-transmitters and lay 1,011 kilometers of fiber-optic cable, the source said.

The equipment will be bought with 2.73 billion yen saved from a 12.69-billion yen loan extended by the Japanese Bank of International Cooperation. The Uzbek government received this loan in 1999 to implement the second phase of a project to expand the telecommunications network.

Earlier this year, Uzbektelecom reported to have completed a \$100 million project to develop the telecom network. The company installed digital telephone exchanges with capacity for 37,000 numbers in Bukhara, Khorezm, and Navoi regions, and Karakalpak autonomous republic under the project, as well as two international exchanges for 5,670 ports (2,220 in Karshi and 3,450 in Fergana), and built a 2,697-kilometer fiber optic line. Uzbektelecom also installed 185 digital transmission systems, a WLL wireless system for 4,250 numbers, five radio relay lines, 63 television, and 36 radio transmitters.

The project was launched in 2003. Japan's Mitsui & Co Ltd and Marubeni Corp were the general contractors. The project was financed with a loan from the Japan Bank for International Cooperation (JBIC) worth 12.7 billion yen provided in 1999, and out of the Uzbek budget. This was the second telecom project the Japanese government has helped finance in Uzbekistan. It provided 12.7 billion yen in 1995 for the first stage of a project to develop the telecom network in the country.

Also recently, Alcatel-Shanghai Bell signed a \$2.97 million contract with Uzbektelecom, Uzbekistan's national telecommunications company to supply equipment for the modernization and expansion of networks in Tashkent.

The Chinese company will supply equipment for digital switches with combined capacity of about 79,000 ports and install new software at existing switches that are outfitted with Alcatel equipment, of which there are five in Uzbekistan.

The project will be financed by credit from Alcatel-Shanghai Bell. This is the second Uzbek contract that Alcatel's Chinese division has secured this year. The company signed a \$7 million contract with the Uzbek Agency for Communications and Information to supply equipment for satellite television and radio broadcasting to remote parts of Uzbekistan. Alcatel-Shanghai will supply equipment for the ground station, as well as install transmitters in more than 300 population centers. The project is expected to increase the share of the population reached by state radio and TV channels to 100% from the current 85%. This project will be financed with a \$5 million loan from China's ExIm Bank and UzACI.

China's Huawei Technologies will supply \$8 million worth of equipment to Uzbekistan to modernize the network of national operator Uzbektelecom. The project involves the replacement of analog telephone switches with digital ones in seven regions of the country.

The new switches will have combined capacity of 320,000 ports. The overall cost of the 18-month project is \$12.5 million.

The project will be financed with a loan from China's ExIm bank and with Uzbektelecom's internal resources. The China's ExIm Bank in May signed two loan agreements with Uzbekistan's National Bank for Foreign Economic Activities totaling \$31.4 million. One loan for \$8 million will be provided for the network upgrades, while the second loan of \$23.4 million will help finance a \$39 million project to build the second phase of a hydropower station in the Surkhandarya region.

Uzbektelecom also signed a \$4.35 million equipment contract with Huawei Technologies. The operator bought \$4 million of equipment to modernize ten switches in Tashkent with combined capacity of 100,000 ports, and \$350,000 of videoconferencing equipment. Deliveries have already begun.

Uzbektelecom carried out three projects last year under a contract with Huawei Technologies: upgrades to the telephone network in Namangan at a cost of \$1.98 million, a fiber optic ring in Tashkent at a cost of \$528,000 and a switch in Urgut at a cost of \$279,000.

According to UzACI, Uzbekistan might call a tender by the end of 2005 for the privatization of Uzbektelecom. A revaluation of Uzbektelecom is to be conducted in the near future due to its takeover of state data network company UzPAK. According to the official, all the preparatory work for Uzbektelecom's privatization has been completed.

The state tender commission has postponed the tender for a 49% stake in Uzbektelecom several times this year due to disagreements with the appraisal of the company. The stake is to be offered to a foreign investor.

In 2004, the Uzbek government decided to reduce the stake it plans to sell to a foreign investor in to 49% from 64.2%. The Uzbek government approved a resolution on additional measures for privatizing Uzbektelecom, according to which a new way of placing shares was designed - 45% of Uzbektelecom shares will remain with the government, 55% will be sold, including 49% to a foreign investor. Uzbekistan, in privatizing Uzbektelecom, has already sold 6% of the provider's shares, including 5.8% to the company's employees.

Uzbekistan has been preparing to privatize Uzbektelecom for several years. The country signed a contract with the Commerzbank-led consortium, which also includes Ernst & Young, law firm LeBoeuf, Lamb, Greene & MacRae, in December 2000. In line with the consortium's recommendations, Uzbektelecom was restructured in 2002, with 14 subsidiaries reorganized into branches. Uzbekistan initially planned to offer 51% of the company to foreign investors, but in 2003 the State Property Committee decided to increase the stake slated for sale to 64.2%. Later in 2004, Uzbektelecom, citing a decree issued by UzACI, announced that it will retain its monopoly on international telephone services, including IP telephony, following privatization. The decree also stipulates that other operators and Internet providers must get their access to international telecoms networks through Uzbektelecom, and that the corresponding settlements with international operators for their services will be carried out through Uzbektelecom. This is intended to increase Uzbektelecom's appeal to foreign investors.

The only other alternative fixed lines services provider in Uzbekistan Buzton was acquired by Golden Telecom, Russia's biggest private mobile operator, in June 2004. Golden Telecom acquired 54% of the stock of Buzton for \$2.8 million. Uzbektelecom owns 43.52% of shares

in Buzton and NCI Projects International, Inc. own the rest. Buzton is licensed to provide international and local communications, communications between cities, and data transfer services.

Buzton was set up in 1995 to provide fixed digital telephone services. The company began providing data and Internet access services in 1999, and is now a provider of integrated communications services. The company has about 100 corporate clients, including international financial institutions, the diplomatic corps, and major foreign companies working in Uzbekistan. Corporate clients make up about 90% of Buzton’s business. It has approximately 10,000 subscriber numbers and 22 access points in Tashkent, and ten other regions of Uzbekistan. According to the company's accounts, which have not been audited, Buzton made a profit of approximately \$3.9 million in 2003. According to the company's own evaluations, its share of the corporate and embassy communications market in Uzbekistan is 60%. In 2004, Buzton deployed a \$1.5 million SI-2000 switch from Slovenia's Iskratel in Tashkent. The company plans to use the switch to build a new telephone network by the end of 2005 that will operate in 12 regions of Uzbekistan and have capacity of about 22,000 ports. Buzton plans to spend \$2 million on the network. The switch was financed by Buzton's internal resources with support from Golden Telecom.

Cellular Market

Ansher Capital estimates that total revenues of the Uzbek cellular market reached \$130 million by the end of 2004. Mobile telephony penetration stands at about 2.8% as of mid 2005 – very low compared to some other NIS countries (Russia, Ukraine, Belarus, Kazakhstan). However, the market has been experiencing a very strong growth recently. According to the session of the Complex on Information Systems and Telecommunication of the Cabinet of Ministers held in mid 2005, the number of mobile users rose by 190,900 people compared to the beginning of 2005 and made up 735,000. The number of cellular subscribers in the republic increased 67.7% in 2004 to 544,100 people on January 1, 2005.

Mobile Phone Operators

Operator Name	Number of subscribers	Market share (2004-2005)
1. Uzdunrobita	400,000	54%
2. Unitel	200,000	27%
3. Coscom	77,000	10%
4. Perfectum Mobile	44,000	6%
5. Uzmacom	11,000	1.5%
6. Buztel	3,000	0.4%

1. Uzdunrobita. Uzdunrobita was founded in 1991 and started operation on the Uzbek cellular market in 1992. The company holds GSM and DAMPS/AMPS licenses valid until 2016. Mobile TeleSystems OJSC, the largest cellular phone operator in Russia and the CIS,

owns Uzdunrobota, the largest Uzbek cellular operator. The company bought 74% stake of Uzdunrobota for US\$121 million in July of 2004 with a 3-year option to purchase the remaining shares (26%) at a minimum price of \$37.7 million.

Uzdunrobota was the first cellular operator to enter the Uzbek market. According to Ansher Capital, a strong brand, comprehensive national coverage (nearly 100% in DAMPS and 90% in GSM), and aggressive pricing are the three main factors that contribute to the company's dominant market share.

Uzdunrobota received a GSM 1800 license to operate nationally and a GSM 900 license to operate outside of Tashkent in March 2002. Despite the fact that Uzdunrobota was slower to adopt the GSM standard than many of its competitors, the company was able to catch up quickly. Uzdunrobota officially launched its GSM network on November 1, 2002, contracting Ericsson and Huawei to supply equipment.

Uzdunrobota continues to maintain its DAMPS network as 20% of its customers prefer the higher connection quality that DAMPS provides. In the long run, the company will likely replace its DAMPS network for two reasons: 1) lack of availability of DAMPS equipment (e.g. no new handsets) and 2) lower cost of GSM equipment and serving GSM customers.

Types of cellular services offered by Uzdunrobota include VAS, SMS, WAP, MMS, GPRS, Mobile ISQ, Mobile Paging. International roaming provided with more than 70 countries and via Thuraya network. Methods of payment are prepayment and cards.

Uzdunrobota plans to invest \$50 million in developing the GSM network in the republic in 2005. As part of the second stage of expanding the GSM network in all regions of Uzbekistan, an additional 400 base stations would be installed. According to Uzdunrobota, the number of subscribers is expected to reach 500,000 people.

2. Unitel. Unitel is the second-largest cellular phone operator in Uzbekistan, with a market share of 27%. Its network covers major population centers in the country. It operates in both the GSM 900 and 1800 standards. The company was initially the leading GSM operator in Uzbekistan. Since Uzdunrobota's launch of its own GSM network in 2002, however, Unitel has fallen to second place in terms of number of subscribers.

South Korean conglomerate, Daewoo, established Daewoo Unitel in Uzbekistan on April 26, 1996 and began commercial operations in 1997 with GSM cellular service. Daewoo Unitel invested more than \$18 million in 1998 to develop its GSM-900 service and another \$30 million in 2001 to further extend its network in major cities, boosting the capacity of its cellular network to 137,000. In 2001, Daewoo Unitel replaced Ericsson with Huawei Technologies to upgrade the company's mobile infrastructure in Tashkent city and province.

In September 2004, Daewoo sold its 100% stake in the cellular operator to Dutch Silkway Holding, which is the subsidiary of Greek telecommunication company Germanos. The total amount of the deal was \$73.5 million. Taking into account Unitel's net debt of \$10 million, the enterprise value equals \$83.5 million. European Bank of Reconstruction and Development has also invested some \$9 million and became a 7% shareholder in Unitel. Moreover, EBRD plans to further invest in the company by allocating a commercial loan of \$30 million. Proceeds of the loan will be used as part of the three year development program of the company for the total value of \$83.3. The other \$53.3 million will come out of Germanos's own coffers and Unitel profits.

Types of cellular services offered by Unitel include VAS, SMS, WAP, and USSD. International roaming exists with 56 countries. Methods of payment are prepayment and cards.

3. Coscom. The company ranks third with a market share of 10%. Coscom's network covers almost the whole country. It occupies a premium segment of the market by focusing on corporations and high-value individuals. According to Coscom, about 80% of diplomatic corps, more than 150 representatives of international organizations, large corporations, and many other large state owned and private companies use services of Coscom. International roaming services, which Coscom first introduced to Uzbekistan, continues to distinguish the company. Currently, Coscom is the industry leader in the quality of its network coverage and voice transmission.

Coscom is the first Uzbek telecommunication company to receive ISO 9001:2000 certification from TUV Rhineland Berlin-Brandenburg Group, an international certification body. This distinction attests to the superior management competence of the Coscom team. It also reflects MCT Corp's significant experience gained through the management of a number of wireless operators in CIS countries.

Coscom was established in 1996 by MCT of the United States with 51%, Uzbekkosmos with 35% and Davr-Konversiya with 14%. MCT now owns 85.6% of the company and minority shareholders, including Coscom managers, own the other 14.4%. Coscom holds a license to offer GSM 900/1800 standard services throughout Uzbekistan.

Types of mobile services offered by Coscom include VAS, SMS, VMS, FMS and many others. International roaming exists with more than 75 countries and via Thuraya network with 119 countries. Methods of payment are prepayment and cards.

4. Buztel. Alfa Telecom, part of Alfa Group, in December 2004, acquired 100% of this Tashkent based cellular GSM-900 network operator Buztel for less than \$10 million and became the second Russian company entering Uzbek mobile market. Purchasing a local mobile operator was the cheapest and easiest way of obtaining limited license in GSM-900 frequency in Uzbekistan. Buztel is the smallest of the six principal players in the Uzbekistan wireless industry.

5. Uzmacom. Alfa Telecom also bought a 74% stake in another Uzbek cellular operator Uzmacom (founded in 1997) from Malaysia's Superior Communications in February 2005. Remaining 26% shares are still owned by the Uzbektelecom. Although exact amount of the deal is not disclosed, it could be somewhere between \$9-13 million. Both companies acquired by Alfa occupy the lower tier of the mobile market, offering few new services, and a footprint limited to Tashkent city and Tashkent region. Currently, Uzbektelecom is negotiating with two Russian companies concerning the sale of its 26% stake in Uzmacom, one of which is Alfa Telecom, which already owns a controlling stake in Uzmacom. The matter of the sale has already been submitted for consideration to the state tender commission. Uzbektelecom, which is 94% owned by the state, must get the commission's approval for any purchase-sale transactions.

6. Perfectum Mobile. According to Ansher Capital, Perfectum Mobile is a second tier player in the wireless market with a limited subscriber base and footprint. However, the company is aggressively expanding its CDMA network, and is the industry leader in the provision of high value services, such as SMS, Mobile Internet, SMS ICQ, MMS, WAP, VAS and VMS. Yet, according to Ansher Capital, it is questionable if its CDMA technology platform will live up

to its expectations, as well as if the company can translate high value services into higher earnings.

In 2004, Uzbektelecom has launched a Wireless Local Loop (WLL) network in Khorezm and Bukhara regions and in Karakalpak autonomous district in the republic at a cost of \$10 million. The network has been set up using CDMA-450 technology and consists of 30 base stations with a capacity for 40,000 numbers. The U.S. company Lucent Technologies supplied the equipment and Japan's Marubeni Corporation was the subcontractor for the project. The WLL network will allow Uzbektelecom to provide communications services, including voice and high-speed data transmission, in remote regions of the republic where even access to basic communications services was difficult. As mentioned above, WLL network was built during the second phase of the \$100 million expansion of Uzbekistan's telecommunications network. This phase was financed with a loan from the Japan Bank for International Cooperation (JBIC) that was extended in 1999.

Below pls find import duty rates that apply for telecommunication equipment.

No of Commodity Group	HS code	Description of goods	Rate
85	8525* (except 852530, 852540)	trans apparatus for radiotelephony etc, tv cameras cordless telephones	5
	8526*	radar apparatus, radio navig aid & remote cont app	5
	8527	reception apparatus for radiotelephony, except:	30
	852790100	for civil aviation	10
	8528	television receivers (incl monitors & proj receivers), except:	30
	852812900 *		5
	852812910 *		5
	8529-8531, 8535-8538	Aerials and Aerial Reflectors of All Kinds; Parts for Use Therewith, Other Parts of Transmission Apparatus, Radar Apparatus or Television Receivers, Electric signal, safety or traffic control equip, Electric sound or visual signaling apparatus, pts, Electrical apparatus for switching etc, ov 1000v, Electrical apparatus for switching etc, n/ov 1000v, boards, panels etc with elec switch appar etc., parts for elec appar etc of head 8535, 8536 & 8537, except	10
	853610100		5
	853620100		5
	853630100		5
	853641		5
	853649000		5
	853650		5
	853669100		5
	853669300		5
	853690100		5
	8532		5
	8533		5
	853400		5

This table is for information only. There are a number of exemptions and special cases which need to be looked upon separately.

Current Telecom Legislation

The telecom sector is currently governed by the Law on Telecommunications of 1999 (the “Telecom Law”) and regulated by the Uzbek Agency for Communications and Information (UzACI). The Telecom Law is supplemented by a number of presidential decrees, cabinet resolutions, and regulations. UzACI is the successor to the Ministry of Communications, has the rank of a ministry, and provides strategic policymaking and regulatory implementation functions. The Director-General of UzACI holds the post of Deputy Prime Minister, making UzACI a de facto ministry. UzACI oversees a wide breadth of activities, including regulation, management/supervision of commercial and quasi-commercial entities, an educational institution, services for maintaining telecom network integrity, operations in emergency situations, and funding of telecom and informatics development. Additionally, the Director-General of UzACI is the Chairman of the Board of Supervisors of Uzbektelecom, the majority state-owned incumbent operator. Uzbektelecom is a large, strategically important company for the country's economy. It provides 98% of local and 96% of international fixed telecommunications services in the country. It has charter capital of 30.792 billion soum (approximately \$27.1 million). Employees own 5.8% of stock and the state owns the remainder.

According to EBRD assessment (Commercial Laws of Uzbekistan, An Assessment by the EBRD, July 2005), tariffs are regulated for Uzbektelecom and other operators providing universal services. The State Committee of De-monopolization and Competition Development (CDC) sets tariffs for universal services in accordance with the Law on Natural Monopolies. Little progress appears to have been made with respect to the implementation of tariff policy or tariff setting mechanisms. While a programme of tariff increases for local telephony is understood to be in place, there appears to be no serious attempt to rebalance tariffs and little movement to decrease the high international call rates.

EBRD also evaluates the licensing framework as somewhat burdensome, requiring licenses for design, construction, operation, and provision of telecom services. While there are obligations as to interconnection in the Telecom Law and licenses, they fail to provide the necessary framework for implementation of a modern interconnection regime. Interconnection appears to be based solely on commercial agreements, and given Uzbektelecom’s overwhelming market position, this method leads to a significant imbalance in bargaining power for alternative operators.

EBRD report concludes that, while the Telecom Law covers certain fundamental aspects of telecom regulation, it is vague and too imprecise to present a clear picture of rights and obligations. The law would, thus, benefit from revision, consolidation, and rationalization. Similarly, government policy would greatly be enhanced by clarification, restatement, and publication. On the institutional side, while the state’s shareholding in Uzbektelecom has been formally transferred to the State Property Committee (GKI) in anticipation of privatization, the continuing influence of UzACI in the management and operations of Uzbektelecom (through representation on Uzbektelecom’s supervisory board) seriously undercuts the company’s independence and impartiality and has the potential to create significant conflicts of interest within the sector. While the current situation is understood to be partly transitory, delays in separation of regulatory and non-regulatory functions and in making the regulatory authority truly independent of operator interests will continue to affect investor confidence and hamper development of the sector. Additionally, lack of detailed implementing

regulations and mechanisms for interconnection, tariffs, and universal service will likely slow sector development.

Standardization, Licensing, Certification

The telecom sector is regulated by the Uzbek Agency for Communications and Information (UzACI). Law of the Republic of Uzbekistan “On Standardization”, as of December 28, 1993, the Resolution No 410 of the Cabinet of Ministers of the Republic of Uzbekistan “On Introducing Alterations and Amendments to some Decisions of the Government of the Republic of Uzbekistan” as of August 12, 1994, and orders of UzACI define the activities of the enterprises in the area of standardization in the telecommunications sector.

Licensing in the area of telecommunications is implemented by UzACI. Specialized department of UzACI on Licensing, Certification, and Standardization receives and registers applications from competitors for licenses to conduct activities in the area of telecommunications, processes license agreements and licenses, organizes the works on suspension, cessation, and annulment of licenses, and organizes meetings of the License Commission. As mentioned above, according to EBRD, the licensing framework is somewhat burdensome, requiring licenses for design, construction, operation, and provision of telecom services. While there are obligations as to interconnection in the Telecom Law and licenses, they fail to provide the necessary framework for implementation of a modern interconnection regime. Interconnection appears to be based solely on commercial agreements, and given Uzbektelecom’s overwhelming market position, this method leads to a significant imbalance in bargaining power for alternative operators.

According to the Law on Telecommunications of Uzbekistan, all the telecommunication equipment, including terminal equipment, to be used in the telecommunication networks of Uzbekistan, has to be certified.

Certification of telecommunications technical equipment attests that telecommunication equipment conforms to the established requirements. The objectives of certification are (see Article 2 of the Law of the Republic of Uzbekistan AOn the Certification of Products and Services@):

- monitoring the sale of telecommunication equipment that is harmful to people's life and health, to property belonging to individuals and legal entities, and to the environment;
- assuring the competitiveness of telecommunication equipment on the world market;
- creating the conditions for domestic and joint ventures and businessmen to participate in the international arena in economic, scientific and technical cooperation and in trade;
- protecting consumers from negligence on the part of telecommunication equipment manufacturers, vendors, and operators;
- confirming telecommunication equipment quality indicators declared by the manufacturer (vendor, operator);

Telecommunications technical equipment is subject to testing for conformity to the following obligatory requirements providing:

- Telecommunication equipment safety of peoples' health, life and property of people, and for environmental protection;
- Telecommunication equipment compatibility (electromagnetic, technical and informational)
- Telecommunication equipment interchangeability
- Resource conservation.

There are two certification bodies responsible for certification of telecommunication equipment - Uzstandard (its specialized departments) and the Center for Scientific-Technical and Marketing Research at UzACI.

Market Trends and Competition

The main drivers of growth of the Uzbek telecommunication market in the near future are going to be low penetration, need to upgrade and modernize the telecommunication infrastructure, deployment of new networks (fiber-optic), and digitization of exchanges.

Uzbekistan has approved a program for developing its telecommunications and IT network in 2005-2011 in the summer of 2005. The program involves increasing total switchboard capacity to 2.2 million numbers by 2010 from 1.98 million numbers in 2005. The capacity of digital switches will increase to 2.2 million numbers from 934,500 this year. Fiber optic and digital radio relay lines will increase from 7,668 km to 9,680 km. According to forecasts, the number of mobile subscribers in the country will increase from 735,000 to 3 million by 2010. The program is to be financed with loans and foreign investment, the internal resources of operators and providers, and government funding. Investment in the program is expected to total about \$50million.

Many analysts foresee consolidation of the wireless sector. Ansher Capital believes that purchasing both Buztel and Uzmacom proves that these acquisitions are portfolio investments for Alfa Telecom. If purchase of Buztel was deemed as obtaining GSM-900 license in Uzbekistan, purchase of Uzmacom proves the fact that at least one of the acquired operators will be resold to current majors such as Uzdunrobita. Olga Zhilinskaya, an analyst at investment bank Renaissance Capital believes that it would be logical to merge Buztel and Uzmacom. In future, Alfa might sell or transfer these assets to VimpelCom, Russia's number-two cellular network provider.

Reportedly, China Mobile Communications Corp is also considering buying a stake in Uzbekistan Telecom. China Mobile executives paid a visit to Uzbekistan in 2005, and have discussed the possible acquisition with Uzbekistan and the country's regulators, according to China's embassy in Uzbekistan.

China Mobile will follow the capitalization of Uzbekistan Telecom, and will visit the country again later this year. In the past, China Mobile, the world's largest mobile operator in terms of subscribers, have been focusing on the home turf due to their well-established dominance and the huge size of the domestic market. The State Property Committee said earlier in 2004 that Russian companies Golden Telecom and Sistema Telecom showed interest in buying the shares, along with Korea Telecom and SOLAN Communication.

There are obstacles with respect to market access. Uzbekistan does not recognize foreign test data and certification can be quite a lengthy and costly process. Therefore, it is important to team up with capable local or foreign partners. A good example would be teaming up of Lucent Technologies with Marubeni of Japan for delivery and deployment of Wireless Local Loop (WLL) network in Khorezm and Bukhara regions and in Karakalpak autonomous district in the republic, as described above.

Best Prospects and Current Buyers:

Best Prospects for US Equipment and Services:

- Fixed telephony equipment. Uzbektelecom will continue its efforts to improve its existing fixed communication networks. Therefore, it is expected that a demand for digital automatic telephone exchanges will increase. As mentioned above, Uzbekistan's program for developing its telecommunications and IT network in 2005-2011, foresees increasing total switchboard capacity to 2.2 million numbers by 2010 from 1.98 million numbers in 2005. The capacity of digital switches will increase to 2.2 million numbers from 934,500 this year. Fiber optic and digital radio relay lines will increase from 7,668 km to 9,680 km.
- Wireless systems. Best prospects for wireless equipment include conventional radio systems, cellular equipment, and satellite communications and data transmission via satellite equipment. As competition among cellular phone operators intensifies, the demand for mobile content services and software (VAS related) is projected to increase as well. Almost all cellular network operators in the country declared their intention to expand their network by deploying new base stations. There is a demand for transmitters for radiotelephony (two-way systems, walkie-talkies and trunk mobile radio systems), receivers for radiotelephony (cellular systems, handsets, cell site equipment and switching equipment), parts and accessories for radiotelephony, power supply equipment, antennas for frequencies 0.3-30 GHZ, communication control systems, commutation television and radio equipment. There is also a demand for fixed wireless terminals both for businesses operating in rural areas and businesses in the cities that need more reliable telephone services.

Current Buyers

Buyers of telecommunication equipment are fixed line operators (Uzbektelecom, Buzton), cellular network operators (Uzdunrobita, Unitel, Coscom, Perfectum Mobile, Uzmacom and Buztel), niche players in the Uzbek telecommunication market, such as, East Telecom (The operator holds licenses to develop, build and operate telecommunication lines and offer local and international communication services).

Major Investment Projects in the Pipeline

Asian Development Bank plans a \$30 million project in 2006 Information and Communication Technology (ICT) in Basic Education. The outcome of the Project is to improve learning through ICT use in priority subject areas in grades 5-9 in project schools with a pro-poor focus. The telecom component of Project consists of establishment of school clusters for ICT.

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