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Ukraine Battles to Eject Russian Telecoms Giants

By The Moscow Times

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Russia's MTS, one of the biggest players on Ukraine's mobile market, is facing efforts by Kiev to undermine its position.

MOSCOW/KIEV — Russian mobile firms face being squeezed out of Ukraine after Kiev signaled it would favor European companies in future airwave auctions to curb Moscow's influence in the country.

It is the latest move in a concerted effort by Kiev, Europe and the U.S. to push Russian companies out of international markets until Moscow halts its involvement in territorial fighting in eastern Ukraine. The U.S. and the EU have imposed sanctions; Kiev and Moscow are engaged in tit-for-tat action to hurt each other's businesses.

Yet Ukraine's government — which has yet to publish the terms of future airwave auctions — may struggle to sideline Russia's top mobile operators: One has already said it may seek legal redress if necessary and the other may follow.

And with Kiev needing billions in cash to cover funding gaps — the crisis has drained its already shaky economy — it seems unlikely that Prime Minister ArsenIy Yatsenyuk will follow through his threat to sell a data-focused third-generation, or 3G, telecom license to an EU operator for 1 hryvna ($0.08) "with the only purpose of not having the Russian monopoly here."

About 80 percent of Ukraine's mobile market is controlled by Russia's top mobile firm MTS and Amsterdam-based VimpelCom, in which Russian billionaire Mikhail Fridman's Alfa-Group is the biggest shareholder.

Yatsenyuk said he would act to break up that monopoly.

"This time Russia will not receive monopoly rights to all telecommunications licenses ... We want to see European companies as participants of the public sale of the licenses."

He gave no indication that Russia-linked firms could lose their existing business in the country. But a failure to secure 3G licenses would put them at a big competitive disadvantage because revenues from data and Internet access via mobiles are growing while revenues from phone calls are stagnant.

Kiev has also passed a law paving the way for the imposition of economic sanctions against companies and individuals to target those suspected of supporting and financing pro-Russian separatists.

It is not clear which Russian companies could appear on the list or what kind of sanctions could be imposed under the law, but the move to reduce Russian influence in the economy may accelerate as politicians eye next month's election.

"Protect Interests"

MTS said it was awaiting publication of the 3G auction terms and would examine them for compliance with Ukrainian and international law, as well as intergovernmental agreements on investment protection.

"Such agreements rule out the possibility of discriminatory measures ... and are aimed at creating equal conditions for [Ukraine's] own and foreign investors," its spokesman said.

MTS is the No. 2 player in Ukraine, which is its second-biggest market behind Russia. It has invested more than $10 billion in Ukraine's telecoms infrastructure — including some $293 million since 2012 to prepare its network for the launch of next-generation services.

It has 23.1 million users or a 38 percent market share, according to market consultancy AC&M.

"If the rumors that MTS will not be admitted to the auctions ... are confirmed, MTS, as a company that belongs not only to Russian investors, but investors from Europe and the U.S., reserves the right to protect its business interests," the spokesman added.

VimpelCom, whose unit Kyivstar is the biggest wireless carrier in Ukraine with a 42 percent market share, said it would not make any comment until the rules for the 3G spectrum sale have been published.

Ukraine accounted for 7 percent of its revenue last year and 8 percent of its core earnings, or EBITDA, and the company was forced both to take a $2 billion impairment on its Ukraine business and to cut its 2014 outlook.

Kyivstar had 25.4 million subscribers at the end of June, according to AC&M.

The Russian companies are followed by Astelit, in which Turkey's Turkcell has a 55 percent stake, with 16 percent of Ukraine's market. The country's fixed-line telecom monopoly Ukrtelecom so far holds Ukraine's only 3G license.

Not Going Soon

Yatsenyuk said the 3G licenses would be worth "billions of hryvnas," though he has not yet said now many will be up for sale, or when.

However, analysts say the displacement of Russian firms may not happen any time soon given their financial heft.

Russian mobile operators would be stronger bidders for the new licenses than Astelit or European carriers, many of whom are struggling with high leverage or engaged in costly consolidation given fierce price competition in their home markets.

"We do not see why Russian operators would be excluded from the license auction which means budget revenue, among other things; also, they are in a position to outbid Turkcell's Astelit," said Ivan Kim, analyst at VTB Capital.

"Both MTS and VimpelCom have ... strong 3G-ready networks and launching 3G services would only take a short period of time. We think it would be hard for a newcomer to make inroads into the market under these circumstances." a

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