The Swiss telecommunications market*

Using mobile phones on the slopes of Mount Titlis in the Swiss Alps

Switzerland, a country at the centre of Europe, has a telecommunication market with features that are distinct from its neighbours. While fixed line services are favourably priced, mobile communications are comparatively expensive — but customers tend to remain loyal to their providers. And Switzerland has trodden an unusual path in making broadband Internet access part of universal service obligations — one of the first countries to do so.

Broadband included as a universal service

The decision to include broadband as a requirement in the provisions for a universal service was taken in recognition of its importance in Switzerland in today's information and knowledge society. Moreover, the installation of broadband access covering most areas of the country is technically feasible, and more and more applications can now only be accessed using broadband technology.

The political will to provide even outlying regions with access to a broadband service was an important factor in the incorporation of such an obligation into the universal service. The historical incumbent operator, Swisscom AG, was given the mandate of providing a universal service and now offers broadband connections almost everywhere. The corresponding universal service licence has been in force since 1 January 2008.

In order to be able to prepare the new licence, Switzerland's Federal Office of Communications (OFCOM) had to evaluate several criteria, such as whether there was interest in broadband services, whether these were accessible to the general public, and the broadband penetration rate. This evaluation revealed a somewhat divergent situation. Although at the time of the survey over 98 per cent of household connections were broadband-compatible from a technical viewpoint, the penetration rate was less than 20 per cent. Participation in community life therefore appeared not to be primarily dependent on access to broadband services. Nevertheless, having looked at the overall picture, the government decided to pursue this route.

* *This article was contributed by the Swiss Federal Office of Communications.*

The financial risks involved were limited through allowing costs of expansion to be covered, if necessary, by recourse to a universal service fund already provided under statutory arrangements. In addition, Switzerland's top governing body, the Federal Council, specified relatively modest minimal broadband transmission rates, while specifying upper price limits for broadband as part of the obligation to provide services. The financial risk could also be limited because the obligation is technology-neutral and slightly reduced services are permitted if difficult conditions are encountered. As a result, Swisscom was able to provide coverage to almost the whole of Switzerland, without having to call on financial compensation from the universal service fund.

At the end of 2008, 84.6 per cent of Swiss Internet users had broadband access; 69.3 per cent of them had digital subscriber line (DSL) connections and 28.8 per cent had cable modem access. Various other access technologies played a lesser role at only 1.9 per cent. Just over half the connections in Switzerland were provided by the historic operator, Swisscom AG (52.3 per cent).

ICT in Switzerland, 2008 (per 100 inhabitants)	
Fixed telephone lines	64.11
Mobile phone subscriptions	117.97
Computers	97.60
Internet users	76.10
Broadband Internet subscribers	34.15

Source: ITU

Despite unbundling in 2007, Swisscom's market share in the broadband sector has continued to grow. This is primarily because, so far, most providers of DSL Internet services have been restricted to reselling one of Swisscom's services. The situation for alternative providers has worsened accordingly: within the space of a year, their share of the DSL connection market dropped from 27.3 to 24.5 per cent. The implementation of unbundling appears not yet to have brought about a reversal of the trend.

Very competitive fixed line network

The small market share (in comparison with the rest of Europe) that Swisscom has managed to retain in the fixed network market sheds some light on the development and current status of competition. The greater the share of the historic operator, the less the alternative providers have succeeded in penetrating the market. For Switzerland, Swisscom's share (59.3 per cent) of the entire fixed network market is well below the average (64.8 per cent) of the countries of the European Union. Only the historic operators in Sweden (57 per cent), Germany (51 per cent) and the United Kingdom (58 per cent) have smaller market shares.

Competition is therefore effective in the Swiss fixed network market, and at the end of 2007, some 75 companies were offering voice telephony on the fixed line network. This situation shows that there are evidently no longer any hurdles restricting entry into the Swiss telecommunication market. A positive sign is the fact that in 2008, three more providers were active in the market than in the previous year.

At the end of 2007, some 43 companies were involved in the Internet protocol (IP) telephony sector, compared with 30 in 2006. This places Switzerland as one of the top European countries in this category, in sixth place out of 25 countries. Of all IP telephony connections, 85 per cent use cable television (CATV) networks.

Since market liberalisation in Switzerland in 2006, the charges for using fixed networks have fallen markedly. Despite this, competition has not yet led to complete harmonization of connection prices. Comparing Swisscom with another operator, Sunrise, for instance, reveals that Sunrise's prices for national calls are 20 per cent lower for a three-minute call, and 10 per cent lower for a ten-minute call. Even in the case of international calls, which are already reasonably priced in Switzerland, it is still often possible to make savings of between 13 and 16 per cent. Depending on call duration and destination, Swiss customers could save more if they were to select their service provider according to their pattern of usage.

Mobile communications: more expensive, but customers stay loyal

The status of competition in the Swiss mobile communications market has some distinctive features. Although Swisscom's prices are not the cheapest, customers are still very interested in its services. Swisscom's market share is approximately 62 per cent, which is high for an historical operator in comparison with the European average of 38.3 per cent. This puts Switzerland in second place in Europe after Cyprus (85.2 per cent).

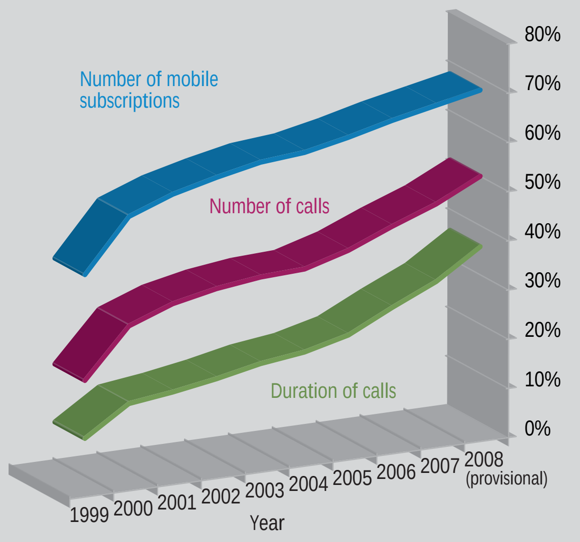
It is also unusual that Swiss users of mobile telephony prefer more expensive contracts to cheaper prepaid systems (57.3 per cent versus 42.7 per cent). In the EU, the ratio between these two methods of payment is almost exactly reversed (58.2 per cent prepaid compared with 41.8 per cent contracts). It would seem that factors other than price are decisive here: customers in Switzerland seem to appreciate an attractive service and good coverage, as well as being able to use their mobile phones without any limitations.

Four companies operate mobile communication networks in Switzerland (Swisscom AG, Sunrise Communications AG, Orange Communications SA, and In&Phone), with the three largest operating third-generation (3G) networks, in particular the Universal Mobile Telecommunications System, or UMTS. Despite Switzerland's relatively small size, this puts it among the top rankings for the number of operators that typically serve the markets in EU countries.


Shutterstock

However, merely having several providers does not always guarantee effective competition. The prices charged for mobile services in Switzerland are, on average, 57 per cent higher than those in the EU (the difference varies according to usage and the type of customer contract). This is linked with the fact that Swiss customers are reluctant to change providers. It should also be mentioned that the Swiss mobile telephony market was only liberalized in 1998, and that Switzerland has strict regulations on the construction of mobile infrastructure and protection from radiation. In addition, disputes about termination rates can only be resolved by the authorities if they are requested to intervene by a party to such negotiations. (Termination rates are fees charged by mobile network operators for routing traffic of other carriers.)

Figure 1 — Mobile telephony share of the Swiss market



Source: Official Swiss Telecommunications Statistics for 2008, provisional results (Swiss Federal Office of Communications)

Development of fixed line and mobile telephony

As in other countries, there is a trend in Switzerland towards mobile communications replacing the fixed network (see Figure 1). However, given the current market situation and price differences between the more favourable fixed network telephony and comparatively expensive mobile communications, to date this trend has been developing relatively moderately. If applied to the total duration of all phone calls, at the end of 2008 the proportion of mobile calls was just under 40 per cent. The fixed network also remains the preferred platform for longer calls.

However, the full potential of mobile communications is revealed when comparing the number of fixed network connections and mobile telephony contracts. In 2008, some 70 per cent of all new connection contracts were in the mobile telephony sector (prepaid or post-paid).

In terms of the number of calls made, in Switzerland the fixed line and mobile networks are more balanced. In recent years, mobile telephony has clearly increased — even in 2005 it already accounted for approximately 40 per cent of calls. Consumer habits are evidently changing, and reaching for your mobile phone is increasingly becoming a matter of course.