

Myanmar Poses High Telecom Hurdles

By SHIBANI MAHTANI AND NEWLEY PURNELL

YANGON, Myanmar—When Myanmar's first foreign telecommunications companies, Qatar's **Ooredoo** QSC and Norway's **Telenor** ASA, arrived last year, customers lined up for blocks to buy their inexpensive services, exhausting the supply of SIM cards within weeks and cheering their executives.

Six months later, state-owned **Myanmar Posts & Telecommunications**, which had for decades monopolized the market despite its generally outdated services, has added more new customers than its challengers combined.

The scenario underscores state-owned companies' dominance here and the conflicting forces that foreign companies face as the military government tries to modernize Myanmar's long-isolated economy and lure fresh investment while also moving to protect its interests. As Myanmar prepares to open up other sectors, including energy, real estate, tourism and manufacturing, the telecom industry is being watched as a test case.

"In this first round, MPT does have clear advantages and has emerged the winner," said Chris Tun, director of Deloitte Consulting's Myanmar practice. "But the game is still early."

Myanmar's outlook is particularly tricky for U.S. businesses, which are prohibited by the U.S. Treasury Department's blacklist from doing business with more than 200 or so Myanmar individuals and entities, including the military.

There is much room for telecom growth in this country of 51.4 million people. Mobile penetration here is only about 14%, Deloitte estimates, compared with more than 100% in most countries, even less developed ones.

As Ooredoo and Telenor struggle with hurdles over bureaucracy, am-



Customers lined up to buy Ooredoo mobile service at a Yangon shop in August.

biguous land-ownership structures, hiring and even religious tensions, MPT is quickly moving to assert its dominance.

Bolstered by a \$2 billion investment and strategic advice from Japanese mobile carrier **KDDI** Corp. and trading house **Sumitomo** Corp., MPT has adopted new marketing strategies and a modern new logo

As Ooredoo and Telenor struggle with bureaucracy and ambiguous land ownership, Myanmar Posts & Telecommunications is asserting its dominance.

and has cut the cost of its services by almost 40%. These upgrades are boosting the reach of the operator's already-superior network, analysts say, and helping it to add new customers.

MPT has more than doubled its subscriber base to 11 million in the past six months, more than three times the 3.4 million claimed by Telenor at the end of 2014. "In the past, we did not even have a mar-

keting department," said Kyaw Soe, MPT's general manager. "We did not know what a marketing strategy was, because we were the only one in the market."

Ooredoo had 2.2 million customers in Myanmar by December 2014, according to the company. Ooredoo said in its earnings report Tuesday that while its Myanmar operations

were unprofitable, the company's results in the country were in line with its expectations. The Myanmar business contributed \$189 million in revenue last year, Ooredoo said. Telenor and Ooredoo, since winning coveted licenses to operate in the country in 2013, have also embarked on marketing campaigns that are visible across Myanmar.

In the rural Shan and Karen states, numerous red Ooredoo and

blue Telenor banners were recently draped alongside homes and tea shops. In the commercial capital of Yangon, roadside police booths carry Telenor logos; Ooredoo umbrellas shade street vendors from the tropical heat.

Building out their networks is another story.

Erecting cellphone towers is complicated because all land in Myanmar is constitutionally owned by the state and land-rights ownership is often unclear, executives from the companies and their tower contractors say. Villagers and city residents sometimes brandish old, often handwritten deeds in the hopes of a large payout, these people say.

Land is "an area of considerable legal challenge in Myanmar," because the country lacks a developed regulatory framework, said Andrew Stott, a Singapore-based attorney with law firm **Olswang** LLP who specializes in the telecom industry. Companies have "struggled to gain sufficient clarity over ownership."

Petter Furberg, chief executive of Telenor's Myanmar operations, said local governments in Myanmar are "rapidly learning how to process land and building permits in a more efficient manner," something that is "critical for the continued nationwide mobile network rollout."

The government didn't respond to requests to comment.

Both companies appear to have a long way to go. Telenor says it has built 1,500 towers so far, and is adding 200 to 300 a month, still far shy of the estimated 8,000 towers that Telenor and Ooredoo each need to provide coverage to 75% of the country by next year, as stipulated in their licenses.

Telenor's Mr. Furberg acknowledged challenges with land rights and bureaucracy but said the company expected those risks. He added that Telenor's subscriber numbers so far exceed its expectations.

Ooredoo says it has set an "am-

bitious pace" for its rollout. Still, Ross Cormack, CEO of the company's Myanmar operations, says Ooredoo remains encumbered by different rules across the country's seven states. "We are working closely with the government and their local government counterparts to address these challenges as and when they arise," Mr. Cormack said.

Deloitte Consulting estimates the company had 2,000 towers as of the end of December. Mr. Cormack declined to comment on the figure.

MPT, on the other hand, has an existing network and can navigate land-ownership issues more easily given its government affiliation, analysts say. The company has 2,000 towers, which it plans to double by the end of 2016, and is being helped by KDDI and Sumitomo to upgrade its existing towers to provide better, faster services. Those efforts seem to have paid off. In Yangon, mobile data speeds on MPT networks are faster than those on its rival's networks.

"MPT has a very sophisticated partner in KDDI-Sumitomo," Olswang's Mr. Stott said. Foreign operators have struggled to hire skilled local employees, with the country's labor pool hindered by an educational system that withered under six decades of military rule. MPT already has an experienced staff of 8,000 employees.

Another challenge for Ooredoo has been the rise of extremist Buddhist nationalism in Myanmar, where several deadly outbreaks of anti-Muslim violence have raised tensions in recent years. Extremist monks have called for a boycott against the Qatar-based company. Ooredoo has spent considerable sums on advertising to counter any negative perceptions, analysts say. Ooredoo acknowledged the issues, but said they haven't interfered with its operations.

—Myo Myo contributed to this article.

Iliad Further Shakes Up French Telecom Market

By RUTH BENDER AND SAM SCHECHNER

PARIS—French telecommunications operator **Iliad** SA Tuesday launched a new entry-level set-top box combining TV, broadband and fixed-line telephony in a new effort to shake up the country's telecoms market.

Iliad's founder and controlling shareholder Xavier Niel, known in France for how he likes to turn the heat up on competition, said the new box would include Android TV, **Google** Inc.'s software for set-top boxes, as well as an ultrahigh-definition broadcasting technology.

"The fixed business is our core,"

said Mr. Niel in a presentation for the new set-top box under Iliad's Free brand at the company's Paris headquarters.

Mr. Niel has a reputation for creating a buzz when he launches new gadgets or offers—the company sparked speculation across the Web Monday when it sent out an invitation for a "surprise" announcement. The statement pushed stocks in telecom groups lower Monday amid speculation that Iliad could again sharply cut prices on the mobile market.

Shares recovered Tuesday on the new box launch. Iliad shares were up 3.4%; Orange, France's No.1 operator, rose 3.7%; **Numericable-SFR**

was up 2.2%; and Bouygues Telecom parent Bouygues SA was up 2.6%.

Iliad added an element of competition to the mobile market as well, saying that subscribers to its triple-play Free boxes could receive up to four—as opposed to just two—mobile subscriptions, at a €4 (\$4.34) discount, or €15.99 a month.

Iliad's new set-top box—which is significantly smaller than the old one—will be available from Tuesday for the same price as the old one, €29.99, and will exist alongside the company's more high-end boxes.

The announcement is also a step forward for Google's television ambitions. The company has been developing software to power TVs and

set-top boxes for years in an effort to muscle into the lucrative TV advertising market and turn its YouTube video website into more of a TV destination. But the Californian firm has had difficulty gaining wide adoption—particularly from TV operators who view Google as a potential competitor.

The tide may be turning in France, however. In addition to Iliad, competitor Bouygues Telecom has said it would launch an Android-based set-top box that will be available in its stores in coming weeks.

It is also a turnaround for Iliad, which sparred with Google in early 2013 over who should pay to in-

crease the bandwidth of the two companies' Internet connections to accommodate the rise in YouTube video viewing. At one point, Iliad installed software on its subscribers' boxes that blocked Google-sold ads as a warning shot, but backed down when the government stepped in.

Iliad said Tuesday that the new box—despite being its lower-end model—would include new features of the Android TV software, including the ability to control the TV or change channels via voice control. The new software is also important for Google because it builds in direct access to Google's Play store for movies, apps and games, as well as other services.

Europe Needs More Union to Defend Itself

By JAVIER SOLANA AND STEVEN BLOCKMANS

Jean Monnet, one of the founders of the European Union, once said that "Europe will be forged in crises, and will be the sum of the solutions adopted for those crises." Today European security and defense is approaching what could be such a formative crisis as multiple emergencies and rapidly evolving global trends have undermined the EU's role as a security actor.

The EU's 28 national armies are too fragmented to deal effectively with today's threats.

Russia's annexation of Crimea, destabilization of eastern Ukraine and provocations of EU member states' maritime and air defenses have delivered a blow to the post-Cold War security order and have revived awareness about the possibility of military attack and occupation in Europe. Meanwhile, the conflict in Syria is bleeding far over that country's borders. Libya is rapidly descending into violence: Armed smugglers are processing ever-greater numbers of migrants

hazarding the journey across the Mediterranean, and jihadi extremists are constantly staging terrorist attacks. Extremism in the neighborhood

and radicalization at home are blurring the difference between what is internal or external to the EU. Rather than being surrounded by a ring of friends, the EU is surrounded by a ring of fire stretching from the Sahel to the Horn of Africa, through the Middle East, the Caucasus and up to the new frontlines in eastern Europe. No other global player is facing so much mayhem in its strategic neighborhood.

This highlights the extent to which security and defense are the weakest links in the European integration project. Years of uncoordinated cuts in military spending have eroded the EU's role in what is now a multipolar world. Differences among member states about perceived threats, divergences in intentions and preferences, and, in some cases, a lack of mutual trust and solidarity prevent the emergence of a common strategic culture and hamper the creation of joint structures, procedures and assets.

Yet the EU Treaty demands and permits a great deal more in terms of common security and defense activities. Member states' political leaders have not only been in denial about the threats faced by the EU, they have also underestimated the sentiment of the European public, which for the past decade has consistently polled over 70% in favor of a broad European defense project.

It's time the EU took bold and concrete steps toward an improved



UNITED THEY STAND A European Defense Union would support NATO in providing territorial defense.

framework for military cooperation. The cost of poor defense coordination in terms of wasteful duplicative spending—currently estimated at €26 billion (\$27.87 billion) per year in a 2013 European Parliament Report—could rise to €130 billion as the security environment worsens. Member states could achieve much more value for the €190 billion they spend maintaining 28 national armies comprising roughly 1.5 million service personnel. In addition to the obvious economic costs, political, moral and strategic imperatives compel the EU to improve its efforts in full coordination with NATO.

The EU needs to strengthen its strategic and institutional capabilities, as well as cooperation over resources. Ultimately, this should

amount to a European Defense Union (EDU), which would support NATO in providing territorial defense. Moreover, an ambitious EU foreign policy aimed at reducing instability and state fragility at its borders would take on security responsibilities through the use of military force and rapid response. It should also stimulate investment in innovative research programs, leading to the creation of a competitive industrial base.

At its summit in June, the European Council should define a roadmap with practical and realistic steps to move from the blueprint to the launch of the EDU. To that end, EU leaders should appoint an independent committee to propose such a roadmap, including criteria for harmonization and mandatory milestones for up-

grades in each of several areas. Those would include developing a new European Security Strategy in the context of the continuing strategic review of EU foreign policy; creating a permanent structure to facilitate cooperation between able and willing member states to facilitate political and military decision making, as well as pooling and sharing of capabilities; revising and simplifying the financing mechanisms to allow for faster and better deployment of EU operations; and reglazing the technological and industrial base of European defense.

Bringing more structured cooperation and, where appropriate, closer integration to the European armies will certainly be a complex process. But the numerous crises facing Europe today have made change necessary and possible. It is an opportunity for the EU to secure a more peaceful and prosperous future and meet the expectations of its citizens and international partners.

Mr. Solana is a distinguished fellow at the Brookings Institution and was the EU High Representative for Common Foreign and Security Policy (1999-2009) and secretary-general of NATO (1995-1999). Mr. Blockmans is head of EU Foreign Policy at the Centre for European Policy Studies. This column is based on the report "More Union in European Defense" published in February by CEPS.

America's Dangerous Defense Cuts

By JOHN MCCAIN AND MAC THORBERRY

Providing for national defense is the highest constitutional responsibility of the federal government, which congressional Republicans now share in equal measure with President Obama. We believe that the country cannot meet this responsibility within the caps on defense spending imposed by the 2011 Budget Control Act (BCA) and sequestration. If Washington does not change course now, Republicans will share the blame for the national-security failures that will inevitably result.

There is no national-security basis for sequestration. In the past year Russia has challenged core principles of the postwar order in Europe by invading and annexing the territory of another sovereign nation. A terrorist army that has proclaimed its desire to attack the U.S. and its allies now controls a vast swath of territory in the heart of the Middle East.

Iran continues its pursuit of nuclear weapons while expanding its malign influence across the region. And China has stepped up its coercive behavior in Asia, backed by its rapid military modernization. Every year since the Budget Control Act was passed, the world has become more dangerous, and the threats to the nation and to U.S. interests have grown. We do not think this is a coincidence.

And yet, under the BCA with sequestration, the U.S. must cut defense by nearly \$1 trillion over

10 years. These cuts are seriously undermining the capabilities, readiness, morale and modernization of the armed forces. The senior military leaders of the Army, Navy, Air Force and Marine Corps have all testified to our committees that, with defense spending at sequestration levels, they cannot execute the National Military Strategy. These military leaders warned in January that sequestration is putting American lives at risk. This is a crisis of Washington's own making.

Threats are rising around the globe, yet the U.S. is poised to cut \$1 trillion from the Pentagon over 10 years.

Some advocates of the BCA are willing to overlook its damage to national security because, they claim, at least it cuts the debt. But it doesn't even do that in a meaningful way.

Military spending is not to blame for out-of-control deficits and debt—it is now 16% of federal spending, the lowest share since before World War II. By 2020, it will be 13%. Interest on the debt soon will consume a larger portion of the federal budget than will military spending. Yet national defense took 50% of the cuts under the Budget Control Act and sequestration. The true drivers of the nation's long-term debt—entitlement

programs like Social Security, Medicaid and Medicare—took none. Heaping nearly \$1 trillion in cuts on the U.S. military while ignoring entitlements is not conservative fiscal policy and will not solve the problems of deficits and debt.

There is widespread concern that Defense Department spending is too wasteful. Of course there is waste in the Pentagon—as everywhere in the federal government—and efforts to eliminate it must continue. But sequestration does not target Pentagon waste. It cuts spending recklessly across the board, good programs and bad. Eliminating waste, fraud and abuse is accomplished through vigorous oversight in Congress and at the Pentagon, not through blind, automatic spending cuts.

Some also believe that the impact of sequestration has been exaggerated. But when it comes to national security, "it isn't that bad" is a dangerously low standard for government policy.

We and our fellow Republicans must also think about the future of the party we love, and from this standpoint as well, sequestration is a disaster. At a time the American people are dissatisfied with the president's foreign-policy weakness, Republicans cannot offer themselves as the responsible national-security alternative so long as they are complicit in gutting national defense.

President Obama's recent budget request proposed the largest budget—\$534 billion—for the De-



INDEFENSIBLE How can the U.S. continue to ask its military men and women to do their jobs while shrinking their available resources?

fense Department in the post-9/11 era. Heeding military commanders' warning that the military cannot execute national military strategy at sequestration levels, the president's budget exceeds spending limits set by the Budget Control Act by \$36 billion in the coming fiscal year.

America faces what Henry Kissinger has called the most "diverse and complex array of crises since the end of the Second World War." How can Republicans—the party of Ronald Reagan and "peace through strength"—possibly justify a lower defense budget than that of President Obama?

We must aim higher by adopting a budget worthy of our party's best traditions of strong national defense. Given the severity of the challenges facing the nation, we recommend eliminating sequestration entirely with a defense budget

of \$577 billion, the level set by the Budget Control Act before the debilitating effects of sequestration.

There is nothing conservative or Republican about pretending that Washington can balance the budget by cutting defense spending. The new Republican majorities in Congress should not allow such reckless policy.

Continuing to slash defense invites greater danger to national security while shamefully asking the country's military men and women to do their jobs with shrinking resources. Without a course change, history's judgment will be harsh, and rightfully so.

Mr. McCain is a Republican senator from Arizona. Mr. Thornberry is a Republican congressman from Texas. They are, respectively, chairman of the Senate and House Armed Services Committees.

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