

## **Armenia: Crossed Lines Over Telecoms Deal**

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Greek telecom's investment in Armenia turns sour as both sides go to court.

A dispute between the Armenian government and the troubled Greek-majority-owned telephone monopoly in the country has ended up in the courts, bringing to a head a row that analysts say reveals the difficulties of attracting foreign investment to Armenia.

On January 30 Armenia's Economic Court refused a request by the telephone company ArmenTel for its complaint to be heard in the International Court of Arbitration in London. The two sides are going back to court in Yerevan on February 13. Meanwhile, OTE, the Greek company that owns 90 per cent of ArmenTel, is pursuing its own case against the Armenian government in the International Commercial Court, claiming 300 million US dollars in compensation.

When Greece's OTE telecoms company bought its majority share in ArmenTel in 1998, there were hopes it would revitalise the country's decrepit, Soviet-era telephone system. OTE paid 142.7 million dollars up front for a 15-year license as monopoly provider of all services, from pay phones to the Internet. Crucially, it also pledged to make major investments in the company.

Now, the deal is fast unravelling amidst mutual recriminations.

The Armenian government is accusing ArmenTel of breaking the terms of its license by doubling from January 1 the price of tariffs for landline and Internet use.

One minute of conversation on an Armenian land phone now costs 1.4 cents a minute - almost three times as much as in neighbouring Georgia.

The government, which retains the remaining 10 per cent stake in ArmenTel, has also asked parliament to consider breaking up the monopoly - a move which prompted OTE to file its international lawsuit in December.

While Armentel's bid to go to an arbitration court has been blocked in Armenia, Vasilis Maglaras, executive vice-president of OTE International Investment and chairman of the board of Armentel, told IWPR by telephone that he expects OTE's case to be heard outside the country before the end of the year.

"In a dispute between the Armenian government and OTE, judgement of the international arbitration court is obligatory for both parties," Maglaras said.

Andranik Manukian, the minister of transportation and telecommunications, says ArmenTel has not done enough to improve telephone connections, while at the same time raising costs for users.

Ordinary Armenians complain angrily that they have some of the most expensive and unreliable telecommunications in the former Soviet Union - something often attributed to the lack of competition in the sector. The state of the telephone network is also undermining Armenia's ambitions to be a hi-tech centre.

“ArmenTel has done so poorly over the years it is obvious the monopoly’s management and shareholders cannot even be bothered to devise effective ways to increase their own revenues, let alone improve Armenia’s telecommunications,” said Vardan Bagirian, a computer programmer, reflecting a widespread view amongst the public. “Cellular telephones and Internet access are in a pathetic state in Armenia.”

For their part, OTE and ArmenTel insist they have fulfilled their commitments. Asmik Chutlian, a spokeswoman for ArmenTel, said that the company has “already managed to switch 56 per cent of clients to digital technology. ... If you compare that to statistics with other countries in the CIS (Commonwealth of Independent States) then it paints a very positive picture.”

Maglaras said OTE had invested “around 200 million dollars” in Armenia and that ArmenTel was now the country’s largest taxpayer, adding that the Yerevan government had failed to protect the company.

“The Armenians do the following: they give exclusive rights to a company and take the money,” said Maglaras. “Then on Day Two they start discussing removing the exclusive rights. They did this in other cases too.”

He confirmed that OTE was looking to sell up in Armenia, if they were offered “the right sum of money” for their holding in ArmenTel.

Some blame deeper structural problems for the row, which explain why a number of high-profile foreign investment deals in Armenia have run into trouble.

Independent economic analyst Eduard Agajanov blames Armenia’s slack legal framework on the way one company had been allowed to take over a vital monopoly. “There should have been agreement on ArmenTel abiding by Armenia’s anti-monopoly laws. Then these laws themselves should be strict, which they are not. ... That’s why potential large investors are not interested in putting their money into Armenia,” he said. “Armenia does not have a normal investor climate.”

“We have a bad habit of changing our tax rules every year as the new national budget is drafted,” said Sevak Lalayan, an analyst with the International Centre for Human Resources Development. “This means we won’t let investors play according to a fixed set of rules. This way we will only scare our prospective investors away, especially internationals.”

The government defends its record. Gnel Mailian, head of the investment office at the Armenian ministry of trade and economic development, said his goal was to attract at least 200 million dollars of investment annually.

He said more than 167 million dollars in foreign funds had flowed into Armenia between January and September 2003, 117 million of which was direct investments.

But although selling off prized national assets raises money for a weak economy, it also leaves Armenians dissatisfied.

As well as the ArmenTel furore, there has been controversy about the sale of crucial energy facilities to Russian investors, while the sell-off of Yerevan’s famous Cognac Distillery to France’s Pernod Ricard in 1998 almost led to mass disturbances. Although the distillery is now thriving, opponents argued that Armenia’s national pride should not have been sold to the French, at least not for as little as 30 million

dollars.

Polls indicate the majority of ordinary Armenians are opposed to western investment, and cautious when it comes from Russia, which has in the last two years become the country's biggest direct investor. Last year alone, two Russian giants, Siberian Airlines and the utility empire, UES, both invested heavily in Armenia.

Levon Arevshatian, managing director of Intermotor-Armenia, an authorised dealer for DaimlerChrysler cars, says this is not surprising, "Armenia is Russia's close partner. Russian capital feels at home here. In my opinion, this is a purely economic matter devoid of geopolitical issues. Private investors are not regulated by the government; they simply go where they feel secure."

But other analysts see a political motive. "Betting on its only strategic partner in southern Caucasus, Moscow is trying to gain a stronger foothold in the region by expanding its economic interests in Armenia," said political commentator Agasi Yenokian.

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