

Mobile Tariff Regulation in a Transition Market Environment. *The Papua New Guinea Experience*



ITU Regional Seminar on Costs and Tariffs for Member Countries
of the Regional Group for Asia and Oceania (SG3RG-AO)

Bali, Indonesia, 28-30 May 2012

Introduction

Country information

- ❖ Papua New Guinea is a developing pacific island country located on the eastern half of the Island of New Guinea, (the western half being the Indonesian province of Irian Jaya).
- ❖ We have a population of nearly 7 million people and over 900 cultures and languages
- ❖ Our economy is mainly dependent on exports of primary produce and raw materials. Industry constitutes 37.7%, agriculture constitutes 30.3% and services constitutes 32.1% of GDP.
- ❖ Of the recent real GDP growth of 7.6% in 2010 , it has been estimated that about 10.4% of that is contributed by ICT, both directly and indirectly.

PNG's National ICT Policy Objectives

❖ Two main objectives:

- (1) National communication access to every PNGean, and
- (2) at affordable prices.

❖ To achieve these objectives NICTA has set out the following operator licensing conditions;

1. Operators to have network presence in 8 main centers within 15 months from commencement date, 87 administrative districts of PNG within 2 years from commencement dates and 121 small centers throughout PNG within 5 years from commencement date.
2. Application of fair pricing principles, inter-carrier cooperation & non anticompetitive effects.

PNG ICT Statistics

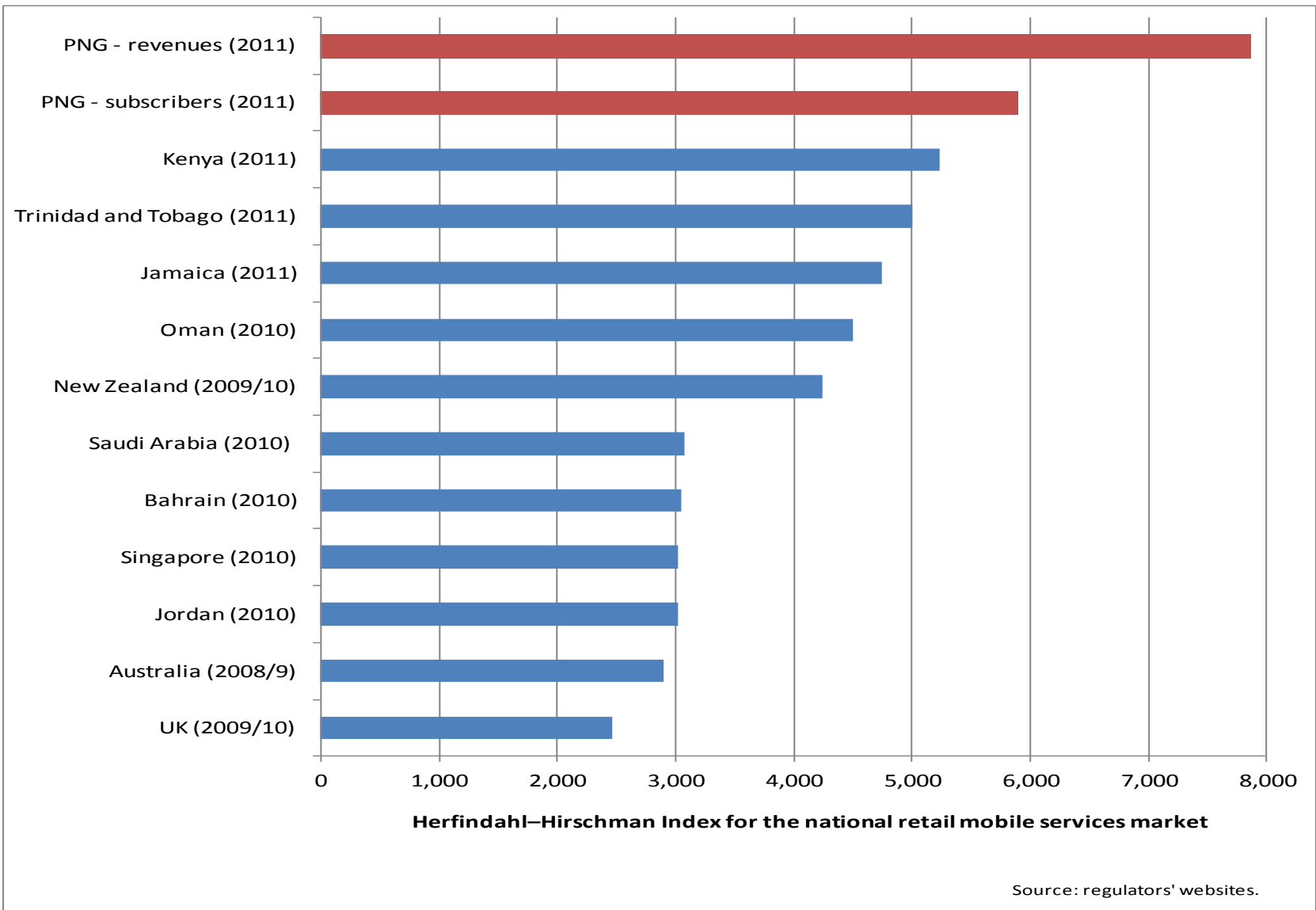
❖ Mobile & Fixed Telephony Markets

- PNG has 3 mobile operators , (Digicel PNG, bemobile & Citifone) & 1 fixed operator (Telikom PNG)
- The mobile penetration levels are 30% and 41% for years 2010 & 2011 respectively.
- Network coverage on average is 24% of total land & 70% of population.
- Digicel PNG has put up 700 BTS & bemobile 157 BTS. Bemobile secured funding from ADB to put up 300 additional BTS.
- PNG's mobile market is highly concentrated with an Herfindahl Hirschman Index of 5888 subscriber base and 7859 revenue based.

❖ Internet Connectivity & Data Services

- PNG has one main supplier of broadband network through fiber optics and 12 ISPs.
- 9 application licenses been recently issued to operators to provide data services via satellite links.
- Currently internet services are accessible to 5% of PNG population.

International Comparison of Herfindahl Hirschman Index in Retail Mobile Market



The Transition

- ❖ The ICT market in PNG has recently went into major change, one mainly being a transition from regulated monopoly to a competitive market.
- ❖ The government desired an ICT industry that was market driven, effective and competitive and that meets the social, industrial and commercial needs of PNG and its people.
- ❖ As a result, the National ICT Act 2009 was developed to establish the National Information & Communications Authority (NICTA) as the regulatory body to pursue these objectives.
- ❖ Certain powers and responsibilities of the Independent Consumer and Competition Commission of PNG were transferred to the new NICTA and additional powers and functions were given to NICTA as the consumer & industry watchdog for the ICT industry.

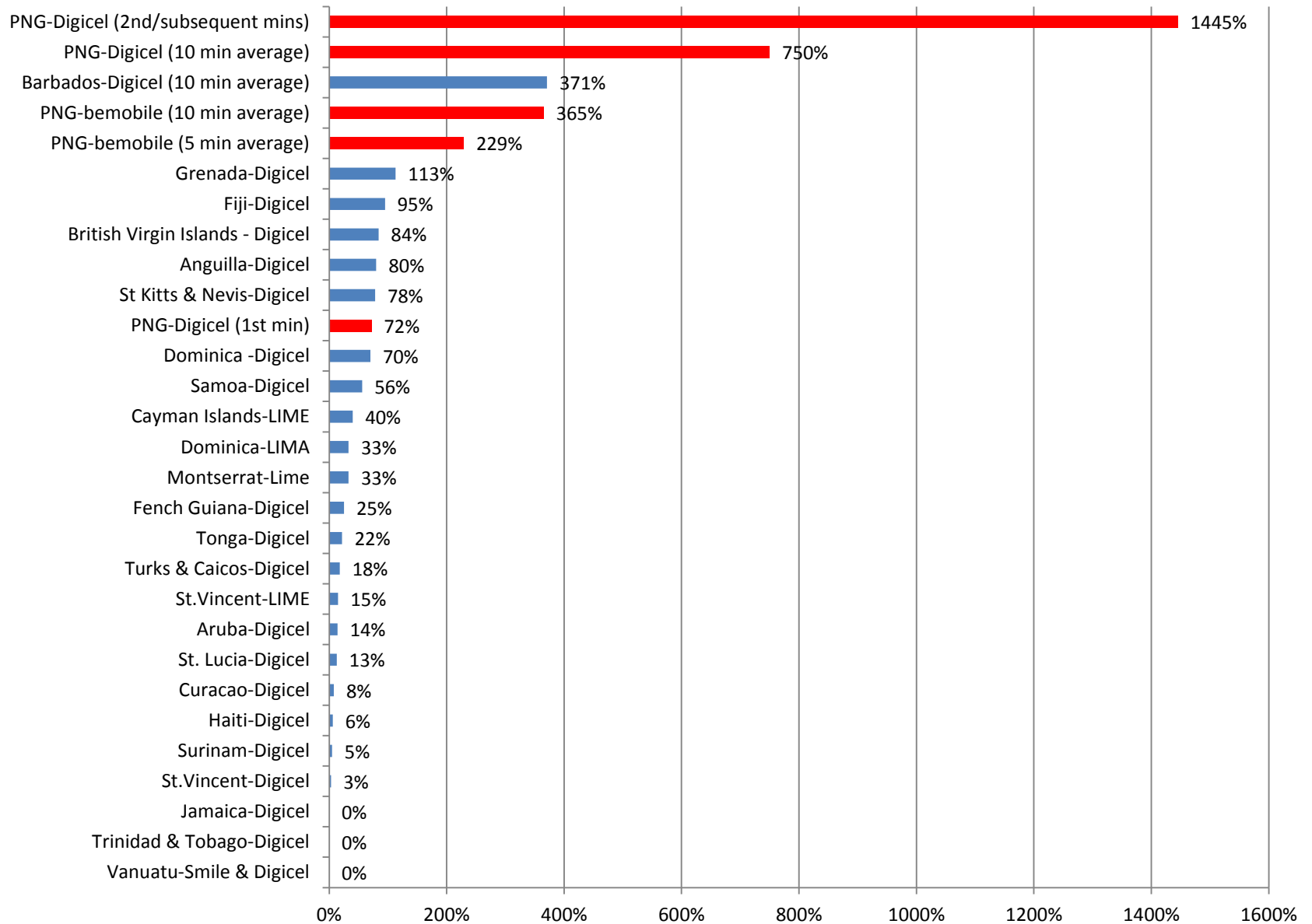
- ❖ The transition included opening up of market to new participants and allowing competition for the first time in 2009.
- ❖ Sections of the former ICC Act that protected the state owned Telikom PNG were to be made obsolete while the new National ICT Act 2009 allowed for competition to begin by issuing new network and application licenses.
- ❖ NICTA has so far issued 3 network, applications and content licenses to operators in PNG.
- ❖ Recently in April 2012, NICTA issued 9 new licenses for operators to supply data services. A service formerly solely allowed to be supplied by state owned Telikom PNG

Competition in PNG's Mobile Market

- ❖ Indicators have shown that PNG's mobile telephony market has yet to reach a desired competitive state.
- ❖ The market is characterized by significant strategic and structural barriers that undermine effective competition in the market.
- ❖ A major strategic barrier is the discriminatory tariff regime where price between off & on-net is very high. In fact, PNG's mobile tariff differences are amongst the highest in the region.
- ❖ Structural barriers include huge sunk costs of network construction, economics of scale and tariff mediated network externalities.



International Comparison of On-off net price Differentials)



Retail Pricing Regulation in PNG

Objective & Approach:

- ❖ Our approach is to leave the market processes to determine the retail prices.
- ❖ Our crucial objective is to monitor and address harmful anti-competitive market practices such as price discrimination, market collusions, predatory and excessive pricing through ex ante regulatory means.
- ❖ Intervene through appropriate regulatory approaches only when anti-competitive practices are detected to be high and harmful to the industry and consumers.
- ❖ For instance, in September 2011 NICTA commissioned an inquiry for Retail Services Determination to address an anti-competitive behavior.

The Retail Services Determination, 2011

❖ Objective of the RSD

Protect the Industry and consumers from harmful effects of anti-competitive market practice by market participants.

❖ After receiving a complain from one mobile operator (bemobile) on anti-competitive behavior by another operator (Digicel PNG), NICTA conducted a public inquiry in Sept 2011 and have reached the following conclusion and determination;

❖ Conclusion:

Digicel PNG having a significant market power, have resorted to high price discrimination between the on-net and the off-net mobile call rates with an intent to discourage subscribers making off-net calls to other operators.

❖ ***Determination:***

Hence, a determination was made that Digicel must not discriminate on the on & off net prices.

- ❖ The determination was made flexible that Digicel was allowed room for price differentials given that such differences are based on cost.
- ❖ The determination was only applied to Digicel and is for a period of 5 years.
- ❖ Expected outcome: Remove strategic barriers harmful to the industry and improve overall welfare of consumers

Wholesale Regulation in PNG

Current Arrangement

- ❖ Due to the recent transition, wholesale regulation in PNG has not taken shape.
- ❖ In 2009, MNOs through a commercial agreement set the MTR at K0.26 per minute.
- ❖ The term was agreed for 10 years

Future Outlook

- ❖ NICTA intends to conduct an inquiry into setting of MTR that is cost based.

- ❖ Different cost models will be assessed and NICTA will decide on the one that is appropriate and suitable to our geography and the availability and access to input data.

Setback

- ❖ The commercial agreements by MNOs is set for a period of 10 years and this agreement is into its 5th year. NICTA may not intervene when the agreement is still effective though we can convene the parties to have them all agreed to revoke the agreement.
- ❖ Collecting and analyzing input data for an appropriate cost model is a complicated task and costly. It will take some time, series of negotiations & seminars with MNOs before an appropriate model is developed.

Conclusion

- ❖ PNG mobile telephony market is still growing and improving to become competitive and effective
- ❖ NICTA is looking forward to developing and embracing the market with minimal regulatory intervention but more vigilant approach to consumer and industry protection from abuse and anti-competitive behavior.
- ❖ NICTA would like to enforce obligatory requirements by MNOs for network rollout so that national penetration and coverage levels are achieved as planned in the next 5 years.