

September 2007

National Government ICT Policy

Refining government policy for ICT sector reform

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Key headlines

Commitment to competition

The National Government should maintain its commitment to competition in the supply of telecommunications services.

Open competition the aim

The Government long term objective should include open competition in all sectors.

Open competition means no restrictions on the form of competition that can take place or the sectors in which it may emerge. Operators may be:

- full facilities-based competitors;
- resellers of services supply by networks operated by others; or
- combined operators with some services supplied by their own network infrastructure and others on a reseller model.

Open competition should be supported by a strong regulatory framework including a regime for Community Service Obligations and mechanisms for interconnection that provide full recovery of costs.

But incumbent must be brought along – Telikom must be transformed

Government policy should recognise that an efficient and viable incumbent and network is critical to achieving the objectives of ICT reform.

This means Telikom must be transformed with upgraded technical capability and increased geographic scope of its network, strengthened management and transformed operational practices.

For this to happen Telikom must be given the opportunity to transform. Immediate introduction of open competition before transformation is well advanced is likely to seriously impede (if not destroy altogether) Telikom's ability to ever transform itself into an efficient operator with an efficient network.

Limiting competition to one sector is not the answer

The risks to Telikom and ICT reform remain even if competition is limited to the mobile sector. Mobile services are increasingly substitutable for services of a general carrier and attempts to protect Telikom by reserving certain rights to general carriers are difficult to enforce, susceptible to legal interpretation and unlikely to succeed. The manner in which the ICCC has effectively expanded the scope of the mobile licenses makes this risk all the greater and jeopardises ICT sector reform in PNG.

Staged introduction of open competition

Therefore a managed approach should be adopted that involves a carefully formulated and staged move towards open competition. Phase 1 of this approach includes transitional measures until open competition can be introduced. During phase 1 there will be competition on a reseller basis (with Digicel and Greencom getting new licences). Also as a temporary measure during Phase 1, Telikom will be the sole owner and/or operator of network assets. Critically, a strict program of transformational change for Telikom will be implemented during Phase 1. There will also be a detailed review of the regulatory framework.

The need for a period of transformation does not mean that the goal of open competition should be abandoned.

Refine earlier policy decisions

Some elements in NEC 188/2007 go further than is needed.

In particular those parts of NEC 188/2007 that limit competition to resale-based competition and which preserve Telikom's network monopoly should be seen as transitional steps required only for the initial phase of the reforms.

Also, the vertical separation of Telikom into NetCo and ServCo contemplated by NEC 188/2007 is not necessary given the current state of development of PNG telecommunications markets.

National Government ICT Policy

Context

The National Government is committed to reform the Information, Communications and Technology (ICT) sector in Papua New Guinea so as to secure the social and economic benefits of an efficient ICT sector.

Competition is a key part of the National Government's recent ICT reforms.

The National Executive Council (NEC) has made two key policy decisions for the introduction of competition in, and reform of, the telecommunications sector:

- 1 **NEC 257/2005** for the early introduction of competition limited to the mobile telecommunications sector – determining the precise details of that policy and its implementation were largely left to the economic regulator, the Independent Consumer and Competition Commission. NEC 257/2005 has been partially implemented (subject to a legal dispute). One operator, Digicel (PNG) Limited has commenced operations (currently without interconnection to Telikom's network) following agreement with the ICC for an early commencement date of its licence. Another proposed mobile carrier, Green Communication has a licence that is currently to commence on 17 October 2007. The mandated rollout requirements included as conditions to the mobile licences allows the new operators to focus in the first 2 years on high value regions and areas currently serviced by the incumbent Telikom PNG.

When approving the introduction of mobile competition, NEC also recognised the need for a broader ICT policy framework to be established. Therefore, on 22 December 2006 (by NEC 280/2005) NEC approved the establishment of an inter-departmental ICT taskforce to facilitate the development of a National ICT Policy. After some delay this led to a decision on 21 June 2007:

- 2 **NEC 188/2007** a comprehensive ICT Policy and Deregulation Blueprint. By this policy:
 - broader policy benefits of ICT sector reform and strategies to achieve those benefits were identified;
 - competition on a reseller basis was to be permitted in all sectors (not just mobile);
 - Telikom would be vertically separated into NetCo (network owner) and ServCo (retail service provider);
 - NetCo would retain an indefinite monopoly on all network assets including infrastructure used by ISPs;
 - NEC 257/2005 was rescinded, the mobile licences issued under that policy were declared to be void and new reseller licences were to be issued to Digicel and Green Communications.

NEC 188/2007 has not been implemented.

Key objectives of ICT Policy

- 1 Secure social & economic benefits of an efficient ICT sector, in such areas as education, health, national security, justice, agriculture, government administration and ecommerce.
 - 2 Efficient ICT infrastructure as the backbone of ICT policy with use of technology appropriate to circumstances of PNG.
 - 3 Increased access to basic telecommunications across PNG with service available at affordable prices.
 - 4 A transformed and efficient Telikom.
 - 5 Effective and sustainable competition:
 - built upon a clear and achievable ICT policy
 - with a path from the current environment to the ultimate aim
 - with appropriate regulator powers and functions and a clear delineation and distinction between policy (which is the responsibility of Government) and regulation
 - with efficient and transparent regulatory processes
 - guided by a strong legal framework.
 - 6 Improved international capacity and connectivity.
 - 7 Increased availability and use of the Internet.
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Commitment to Competition	<p>The National Government should maintain its commitment to competition in the supply of telecommunications services.</p> <p>Indeed, the ultimate aim should be to introduce open competition in all ICT sectors. Open competition provides the best means of delivering benefits to consumers over the long-term by driving:</p> <ul style="list-style-type: none"> • innovation, differentiation & choice; • efficient investment & production practices; and • improvements in service quality and/or lower prices. <p>Alternatives to this are unlikely to be acceptable either to PNG consumers, who have already experienced the benefits that open competition can deliver, or to the wider international community, where multilateral liberalisation through forums such as APEC and the WTO will put PNG under increasing pressure to open its telecommunications sector to competition.</p>
Transform Telikom	<p>But Government should also recognise that an efficient and viable incumbent and network is critical to achieving the ICT objectives.</p> <p>An efficient and viable Telikom:</p> <ul style="list-style-type: none"> • provides essential building blocks for the majority of competitively supplied services, including high-bandwidth broadband; • avoids inefficient duplication of infrastructure, as competitors will have the incentive to use Telikom's network if it capable of providing efficient, high-quality services; • facilitates a variety of competition (by encouraging competitors to utilise Telikom's network), particularly important in PNG given limited market size; • avoids reinstatement of a monopoly as a result of Telikom failing; • allows the Government's social policy and security needs to be met. <p>This means Telikom must be transformed with:</p> <ul style="list-style-type: none"> • upgraded technical capability of network; • increased geographic scope of network; • strengthened management; • transformed operational practices.
Scope of mobile competition	<p>In approving NEC 257/2005 Government expected that Telikom's financial viability would be secured by the retention of Telikom's monopoly over general carrier services and the international gateway.</p> <p>But that expectation assumes mobile and fixed networks are complements rather than substitutes. This does not reflect reality with increasing convergence between the services of a mobile operator and a general carrier business, particularly in PNG where basic voice telephony is the primary service of interest.</p> <p>Even beyond basic voice services there is already evidence of Digicel targeting Telikom's fixed line customers with such services as PABX and broadband internet. It also appears to be utilising satellites and microwave facilities to carry communications across the country and internationally thereby bypassing Telikom's facilities.</p> <p>The model for competition in NEC 257/2005 exposes Telikom to substantial risk that is likely to seriously impede (if not destroy altogether) the opportunity for Telikom to transform itself into an efficient operator.</p>
A transition to open competition is needed	<p>Immediate introduction of open competition would also undermine the financial viability of Telikom as:</p> <ul style="list-style-type: none"> • new entrants target low cost areas and high-value customers; • new entrants provide higher quality and new services; • new entrants under-cut Telikom's pricing due to greater efficiency and more limited geographic scope;

- Telikom is left with high cost, low value customers and stranded assets;
- Telikom's ability to secure funding for network upgrades will be undermined;
- Telikom finds itself unable to secure or retain trained staff;
- Telikom will be unable to transform itself quickly enough to compete effectively with new entrants.

Therefore a managed approach should be adopted to give Telikom enough time to transform itself into a company capable of competing efficiently.

Variations to NEC 188/2007

The need for a period of transformation does not mean that the goal of open competition should be abandoned.

NEC 188/2007 contained two key elements for the competition model:

- competition on a reseller basis only (i.e. no facilities-based competition); and
- an indefinite NetCo monopoly across all telecommunications infrastructure.

These elements were motivated by the recognition that Telikom's network transformation could not be achieved in the face of open competition.

Government should identify these elements as a means to an end with the ultimate objective being open competition.

Limiting competition to resale-based competition and preserving Telikom's network monopoly are transitional steps required only for a period sufficient for Telikom's transformation.

Furthermore, the vertical separation of Telikom into NetCo and ServCo contemplated by NEC 188/2007 is not necessary given the current state of development of PNG telecommunications markets.

Regulator roles

Regulatory framework should ensure a clear delineation of roles:

- Government sets policy which should be prescriptive and drafted with sufficient clarity to ensure it can be effectively implemented;
- rule making should be separate from the regulator;
- regulators implement government policy and apply the law operating under defined regulatory processes. Regulators must be independent and autonomous but also operate with transparency and accountability.

Two phased approach

Government should consider staged approach to the introduction of open competition in all sectors.

Phase 1

- 1 Digicel and Greencom retained as reseller competitors under revised licences (not limited to mobiles and possibility of issuing further reseller licences).
- 2 Establish a strict program for Telikom transformation with clear milestones and KPIs.
- 3 Telikom to be only operator of network facilities during this phase – Digicel assets either purchased or leased by Telikom.
- 4 Regulated retail price controls at levels that prevent monopoly profits but allow the Telikom transformation to take place.
- 5 Wholesale services supplied by Telikom to new operators at "retail-minus" prices.
- 6 Detailed revision of regulatory framework, including CSO mechanisms, interconnection regime and regulator functions.

Phase 2

- 1 Open competition introduced:
- 2 Competition not restricted to any sector or under any particular model i.e. can be:
 - facilities-based; and/or
 - access/interconnection-based and/or
 - resale-based.
- 3 New entrants required to participate in CSO scheme.
- 4 New interconnection regime takes effect.
- 5 New regulatory framework operative.