Senate Standing Committee on Foreign Affairs, Defence and Trade

Inquiry into the main economic and security challenges facing PNG and the island states of the Southwest Pacific

Question taken on notice at hearing 20 November 2008

Department of Broadband, Communications and the Digital Economy

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Response to questions taken on notice at hearing 20 November 2008 about the nature of telecom ownership and the regulatory environment in Pacific Island countries.

Access, competition and regulatory overview

Access to telecommunications
Mobile penetration remains low in the Pacific. In 2007, mobile coverage as a percentage of the total population was as high as 46 per cent in Samoa, but as low as 0.5 per cent in Kiribati – six island countries had penetration rates of less than 10 per cent (FSM, Timor-Leste, PNG, Solomon Islands, Marshall Islands, and Kiribati). Other island countries outside the Pacific have much higher penetration rates. For example, rates are above 70 per cent in Barbados and above 60 per cent in Mauritius.

Competition
While the Pacific as a whole is still lagging in telecommunications access and affordability, the region is starting to catch up, particularly in countries that have introduced competition. Tonga and Samoa were the first to introduce competition and have gone the furthest in liberalising their mobile telecommunications sectors – Tonga in 2002 and Samoa in 2006. A second mobile operator also began operating in PNG in 2007.

In general, phone calls in countries where there is competition (Tonga, Samoa and Palau) are cheaper than calls in countries where there is no competition (Fiji, Vanuatu, Solomon Islands and Kiribati – the Federated States of Micronesia is an exception). In PNG, Digicel, (the new entrant) is undercutting the incumbent, but still charges more than it does in Samoa and Tonga where competition is well established.

The governments of Fiji, the Marshall Islands, Micronesia, Solomon Islands, Timor-Leste and Vanuatu are considering or introducing competition. This involves issuing new policies, reviewing existing (exclusive) licence, updating or drafting new legislation and establishing regulatory bodies. Competition policies have already been issued by Fiji, Solomon Islands and Vanuatu.

New laws are being enacted in some Pacific Island countries to prepare for some opening of competition. This started with Internet access. More recently, it continued with mobile and wireless services with the licensing of Digicel in several countries of the Pacific Islands region.

The impact of competition has been dramatic. In Samoa, only 1.5 per cent of the population had mobile phones in 2002; by mid-2007 this had increased to 46 per cent. During the same period in Tonga, competition increased mobile phone ownership from 3.4 per cent to 30 per cent. In PNG, the introduction of competition in mid 2007 led to a sharp increase in coverage and doubling of mobile phone subscribers in a short period. The PNG Government has estimated that expanding mobile phone services in PNG – from Telikom and Digicel – has contributed around 0.7 percentage points to GDP growth in 2007.

The Pacific island countries which have not yet introduced competition, but which are planning to do so, have already seen significant price reductions.

Tonga was the first Pacific country to admit mobile phone competition, when the Communications Act 2000 ended the previous monopoly franchise arrangement. In 2002, TonFon was awarded a licence to provide mobile services. In the same year it launched a Global System for Mobile Communications (GSM) service providing mobile coverage across Tonga's main islands. Within a year, the tariff for almost all services dropped by more than one-fifth and the number of mobile subscribers doubled.

In 2005, the Government of Samoa passed a new Telecommunications Act allowing for competition and creating the Office of the Regulator. The government also negotiated its own telecommunications contract with TSC, a joint venture between the state-owned enterprise, SamoaTel, and Telecommunications New Zealand. TSC gave up its exclusivity in return for a licence to operate GSM technology. In 2006, the government issued two other licences to operate mobile phone technology – one to Digicel (which also bought up TSC) and the other to SamoaTel.

Subscriber numbers began to rise in 2003 as the Government began planning to introduce competition, but they increased greatly once it was introduced, growing from 22 000 in March 2006 to 80 000 a year later. Now half the population has a mobile phone.

Changing existing licences is difficult for technical and political reasons due to the long-term, exclusive arrangements which must be renegotiated if competition is to proceed. Solomon Islands has exclusive licences which expire in 2018. The remaining telecommunications companies with exclusive licences are generally not government owned. This makes renegotiations more difficult, as new agreements with private companies must be voluntary.

The transition to competition in the telecommunication sector is proving to be difficult in some Pacific island countries. Liberalisation in the Solomon Islands has been held up in the courts since 2006 when the incumbent mobile provider challenged the granting of new licences. In PNG the situation is in flux. While a new entrant, Digicel, is now operating, there were lengthy delays in permitting interconnectivity with the existing Telikom PNG network.

Yet, as the Samoan experience and other global experience shows, unwinding monopolies in telecommunications can be achieved through a consensual approach. The most recent developments are Fiji and Vanuatu. Following agreements with their monopoly providers (in November 2007 and February 2008 respectively) both countries have announced the introduction of competition.

Independent Regulatory Agencies

Samoa now has an independent regulator and a full set of telecommunications regulations. PNG established the Independent Consumer and Competition (ICCC), an independent multi-sector regulator; a technical regulator, PANGTEL, handles spectrum and licensing issues. Fiji, Solomon Islands, Vanuatu and Timor-Leste are considering establishing separate regulatory bodies.

International Gateway Access
The international gateway is a monopoly in every case. "This monopoly situation is often only a de facto situation as the regulator would have the right, by law, to give out international gateway licences."[1] Samoa is moving in that direction: the monopoly situation there is expected to end in 2009. PNG, on the other hand, has recently made legal moves to strengthen the monopoly on the international gateway.

Sources:
AusAID Pacific Economic Survey 2008.
World Bank draft report 'Regional telecoms backbone network assessment and implementation options study' 2008.

[1] World Bank report p17.

Ownership and operator overview

COUNTRY	FIXED	MOBILE
Fiji	Monopoly	Monopoly*
PNG	Monopoly	Competition
Solomon Islands	Monopoly	Monopoly
Samoa	Monopoly	Competition
Tonga	Monopoly	Competition
Vanuatu	Monopoly	Monopoly*
Kiribati	Monopoly	Monopoly

* Competition planned
Source: AusAID Pacific Economic Survey 2008

Fiji
Fixed: for domestic – Telecom Fiji Ltd (TFL) (100% owned subsidiary of Amalgamated Telecom Holdings Ltd*)
for international – Fiji International Telecommunications (FINTEL) (private company, jointly owned by Government of Fiji and Cable and Wireless Plc).
Mobile: Vodafone Fiji

*Amalgamated Telecom Holdings Ltd (ATH) was established in 1998 to consolidate the government's investment in the telecom sector as part of the public sector reform program. It is the holding company for a portfolio of Fiji telecommunications companies. The ATH group includes: Fiji Telecom (100%), Vodafone Fiji (51%), Fiji Directories Ltd (90%) management rights in FINTEL.

The Fiji National Provident Fund (FNPF) now owns 58.2% of ATH, with the balance held by the government (34.6%) and other institutional and individual investors (7.2%).

PNG
Fixed: Telikom PNG (100% government owned).
Mobile: Pacific Mobile Communications Ltd (PMC) (100% owned subsidiary of Telikom PNG); Digicel (private company, foreign owned).

Solomon Islands
Fixed and mobile: Solomon Telekom (joint venture between Solomon Islands National Provident Fund (SINPF), Cable & Wireless and the Investment Corporation of the Solomon Islands (ICSI)).

Samoa
Fixed: SamoaTel (100% government owned).
Mobile: GoMobile (subsidiary of SamoaTel); Digicel Samoa (private company, foreign owned).

Tonga
Fixed: Tonga Communications Corporation (100% government owned). *Mobile:* Tonga Communications Corporation (100% government owned); Shoreline Communications (private company, foreign owned); TonFon*, (acquired by Digicel in 2007, private company, foreign owned).

*TonFon also provides internet and cable TV.

Vanuatu
Fixed and mobile: Telecom Vanuatu Ltd (TVL) (private company owned in equal shares by the Government of the Republic of Vanuatu, France Telecom Group and Cable &Wireless plc).

Kiribati
Fixed and mobile: Telecom Services Kiribati Ltd (TSKL) (100% government owned).