

# Challenges in achieving sustainable competition in an open Telecommunications market

8<sup>th</sup> March 2012

Port Vila



# Agenda

- 0830 - Registration and coffee
- 0900 - Chairman's Introduction - Moses Stevens
- 0915 – Disruptive performance of competition – Bruno Viani
- 0930 - Private Sector Consumer - Shane Freeman, CEO, ANZ Bank
- 0940 - Government as a consumer – Fred Samuel, CIO
- 0950 - Regulatory Experience – Alan Horne, Regulator
- 10.00 - Summary points –Simeon Athy, DG PM
- 1010 - Debate
- 1100 - Close and Coffee



# Speakers

- Bruno Viani – Economist from Washington, specializing in Telco sector regulation and competition over past 14 years
- Shane Freeman – 10 years with ANZ Bank Melbourne, Singapore India, Sydney and now CEO of ANZ Vanuatu prior to Banking Shane was in mining and oil and gas industries in the US and Australia
- Fred Samuel – Was in TVL 12 years, an engineer by training, now Heading the Governments Office of the Chief Information Officer reporting into the PM Manages the Broadband network.
- Alan Horne – 40 years in Telco sector, worked in more than 30 countries in developing competitive environment for telcos, government and regulators. Was President of Arab League of Regulators, won awards for Regulator in Bahrain.
- Simeon Athy – 4 DG PMO, 12 years Reserve Bank, 5 MoF economist



# Introduction - Objectives

1. To discuss and understand requirements of GOV to ensure that we continue to enjoy the fruits of a competitive market in telecommunications and ICT services
2. To obtain feedback from stakeholders on the experience of competition
3. Happy International Ladies Day



# 4 Priority Action Agenda

- The Priorities and Action Agenda (PAA), 2006 – 2015 sets out a number of Policies and Goals concerning Telecommunications
- Section 9.2 of the PAA states “the improvement of telecommunications services will be largely the responsibility of the private sector with government involvement being in setting up the regulatory environment.
- The PAA sets out goal to:
  - reduce the cost of services, particularly of electricity and communications including internet;
  - improve the regulatory framework to more effectively enforce contract conditions, and encourage additional competition in where possible;
  - promote the use of renewable energy, especially where these can be used effectively in remote locations;
  - extend communications services to remote areas by using innovative technology options;



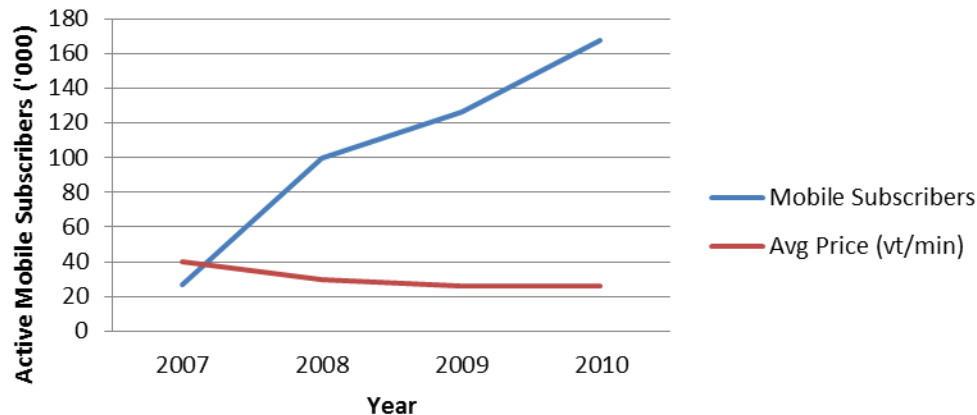
# The Path to liberalisation & competition

- Settlement Agreement with TVL 2008 – GOV gave up its 33.3% shares to FT & C&W for nothing
- Licence Issued to Digicel in 2008 with obligation to cover 85% of population and contribute to a Universal Access Policy Fund
- Telecommunications & Radiocommunications Act No 30 2009
- S 1 (a) Facilitate the development of the telecommunications sector in order to promote national social and economic development
- Establishment of Regulator
- Results.....

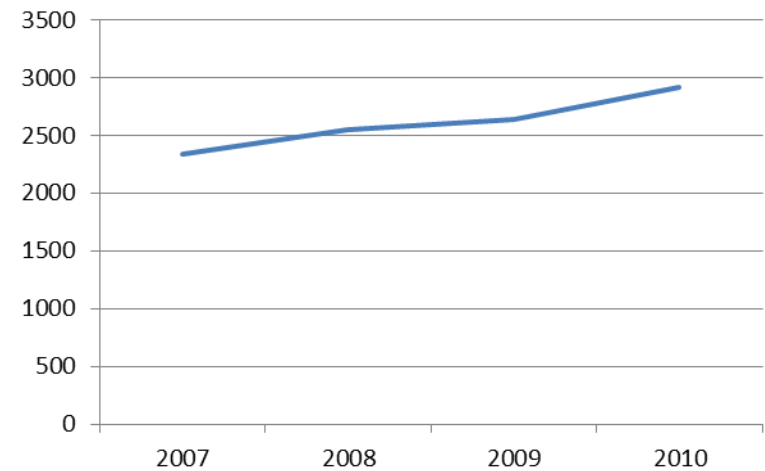


# Mobile customers & Price

**Number of Active Mobile customers & Falling Mobile retail prices from 2007 to 2010**

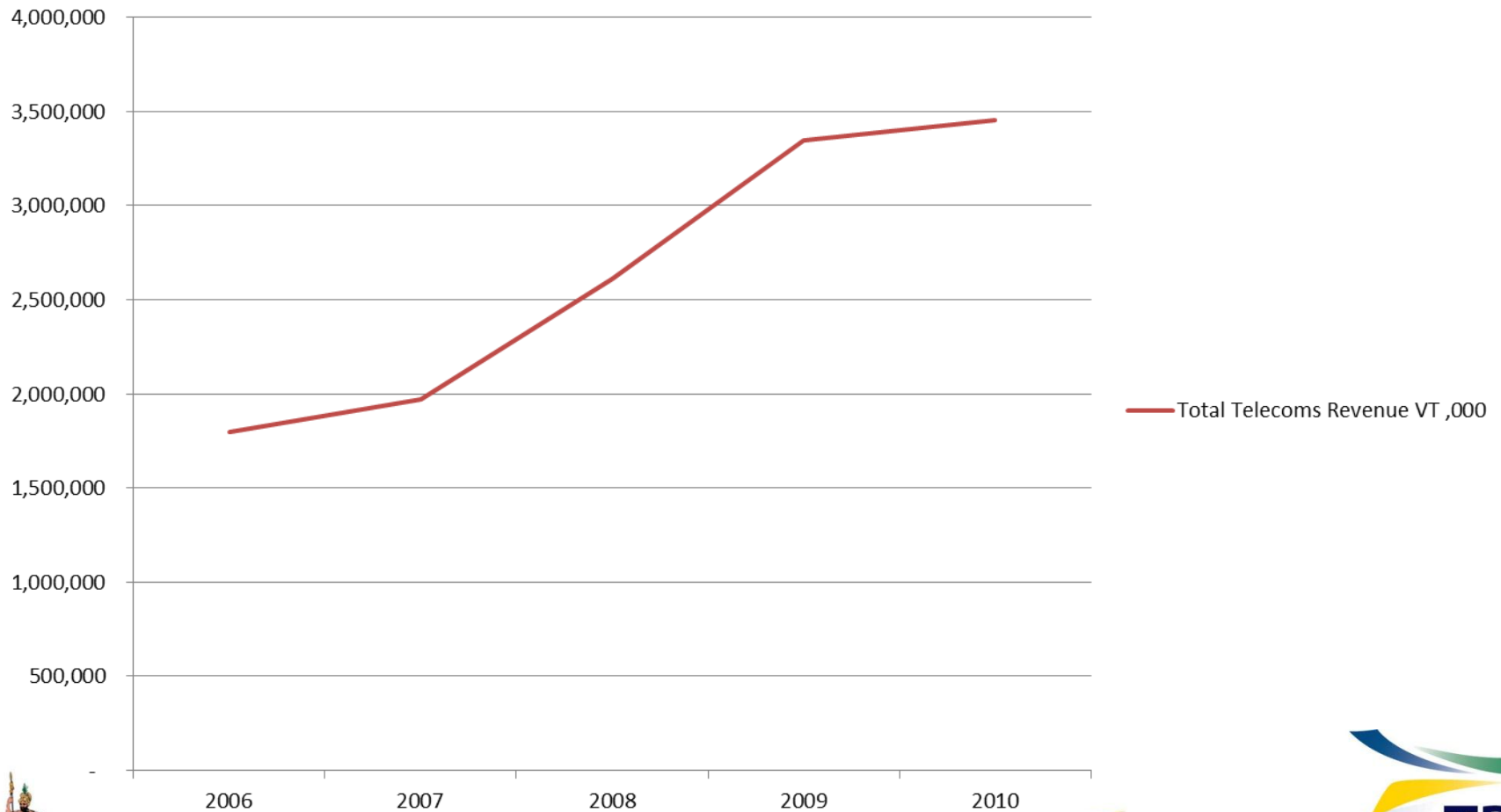


**GDP per capita US \$**



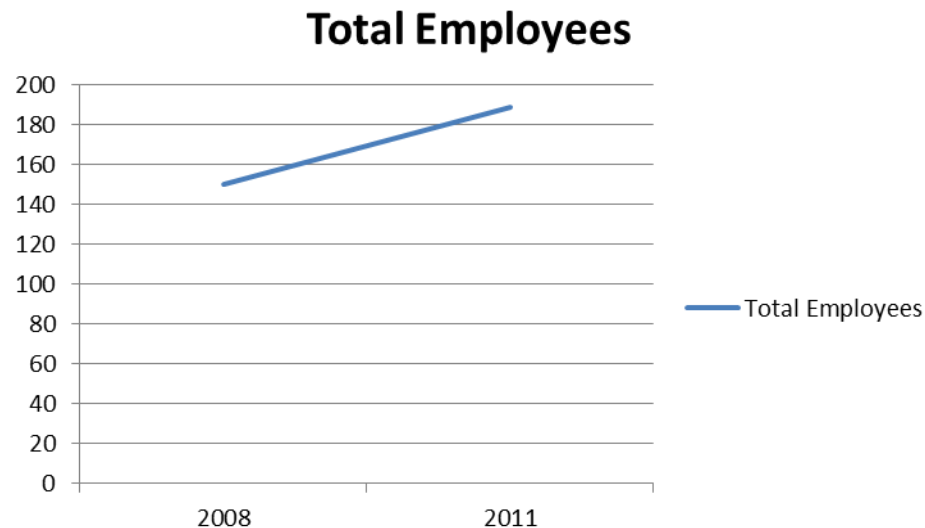
# Telecoms Market Revenue

**Total Telecoms Revenue VT ,000**





# Employment

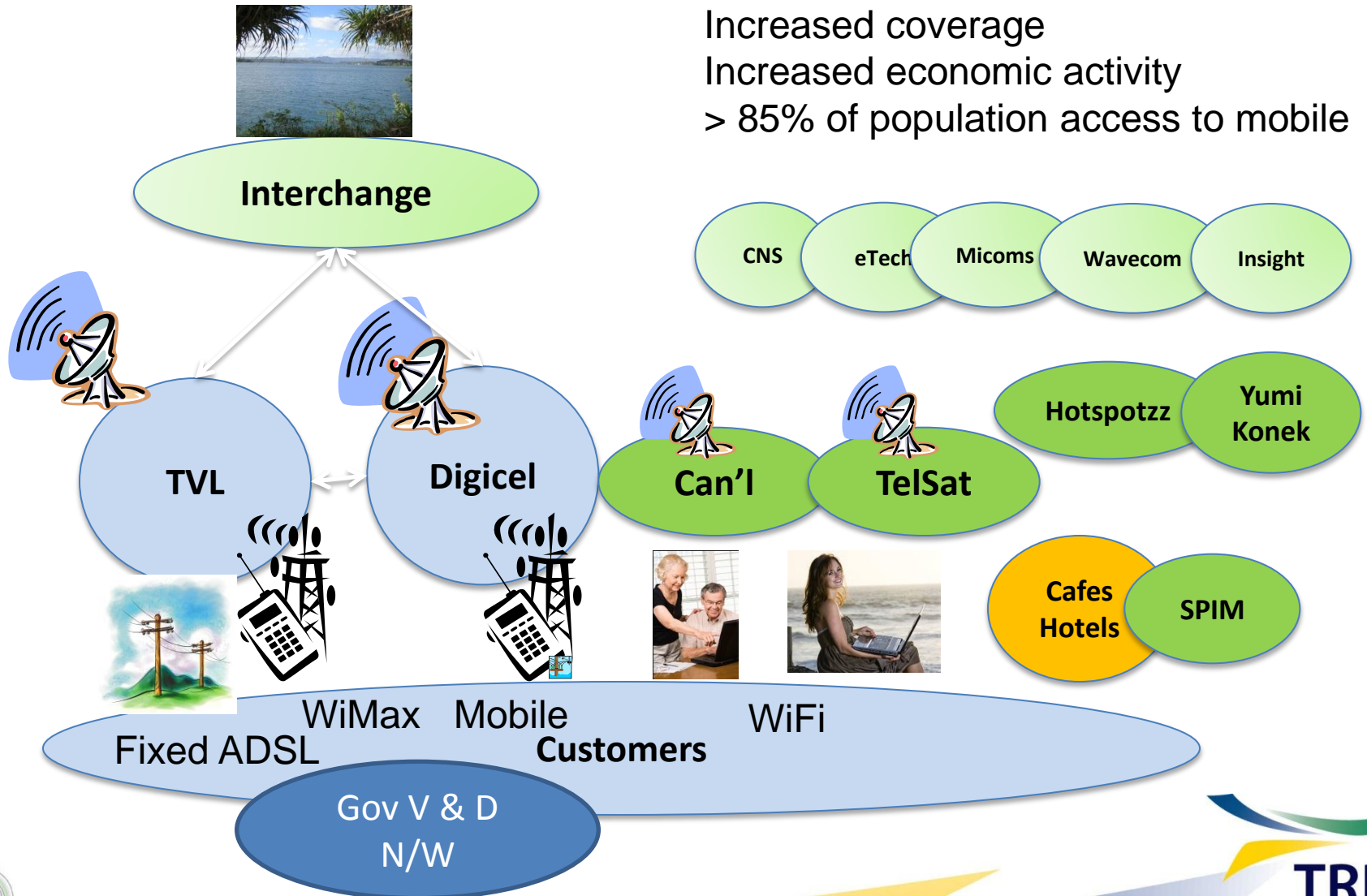


- More than 140 countries have gone down the path of liberalisation
- More than 500 ni vanuatu people are employed in the sector – direct and indirect
- ICT seen as a key Enabler to the economy
- Investment in ICT critical



# Telecoms Market

Real Choice  
Falling Prices  
Increased coverage  
Increased economic activity  
> 85% of population access to mobile



# **TELECOMMUNICATIONS: THE DISRUPTIVE FORCES OF COMPETITION**

Bruno Viani, Ph.D.

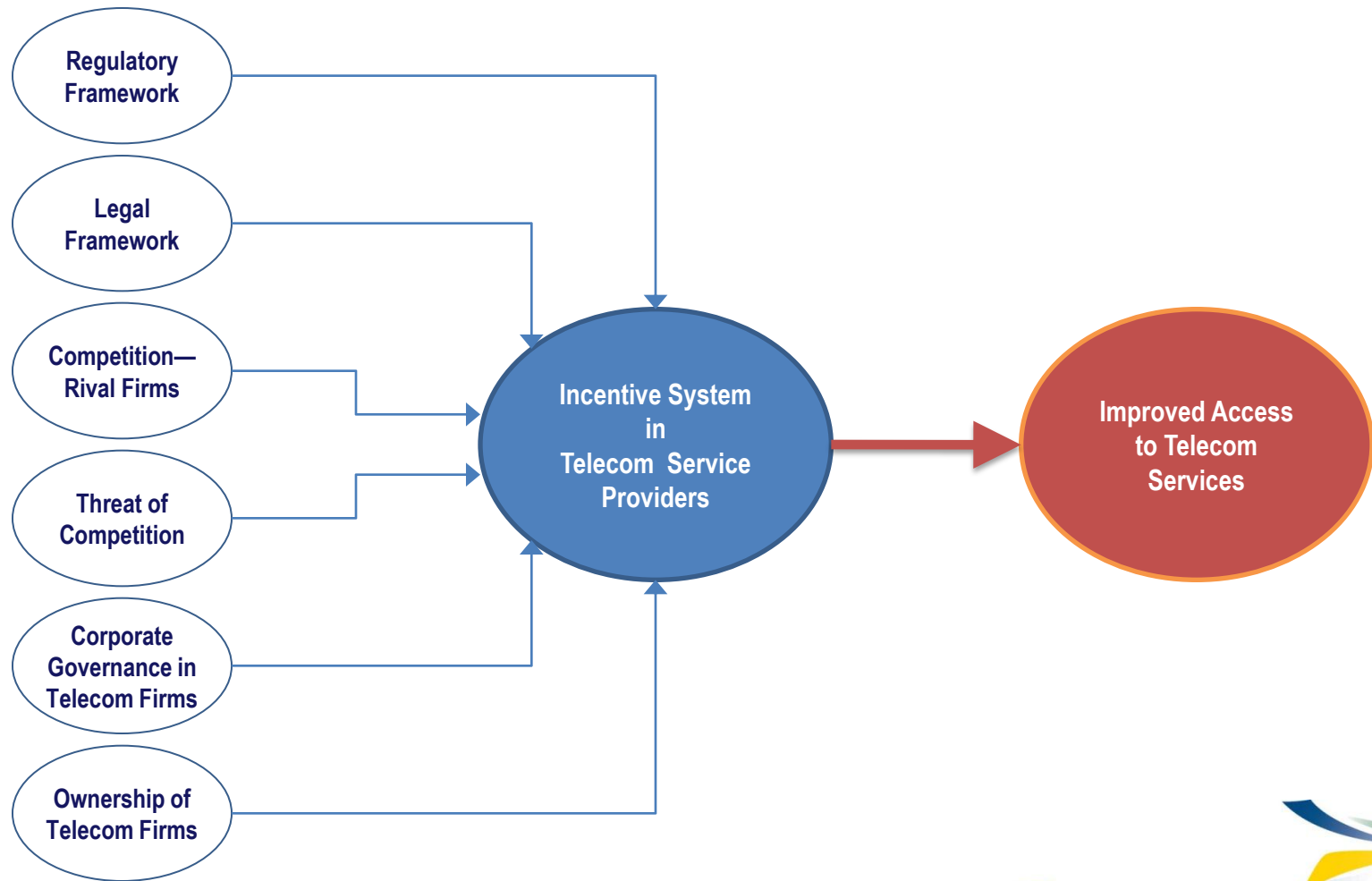
Nathan Associates, Inc.

# Part I: Key elements to foster growth in telecommunications services

Bruno Viani, Ph.D.

Nathan Associates, Inc.

# Institutional foundations



# 1. Legal and regulatory framework

## Foster competition

- Open entry and flexible licensing system
- Network interconnection
- Minimum interference in the decisions of service providers
- Market allocation of frequency licenses
- Flexible frequency licenses and spectrum allocation

## Secure stability of rules, property rights and contractual performance

- Secure equal access conditions for network interconnection
- Secure property rights and contract performance
- Open and transparent regulatory proceedings
- Secure stability of rules and non discriminatory treatment (rule of law)

## Prevent fraud and anticompetitive behavior by firms

- Prevent fraudulent activity that harm customers, other firms, or the government
- Prevent anticompetitive behavior



## a) Competition lower prices

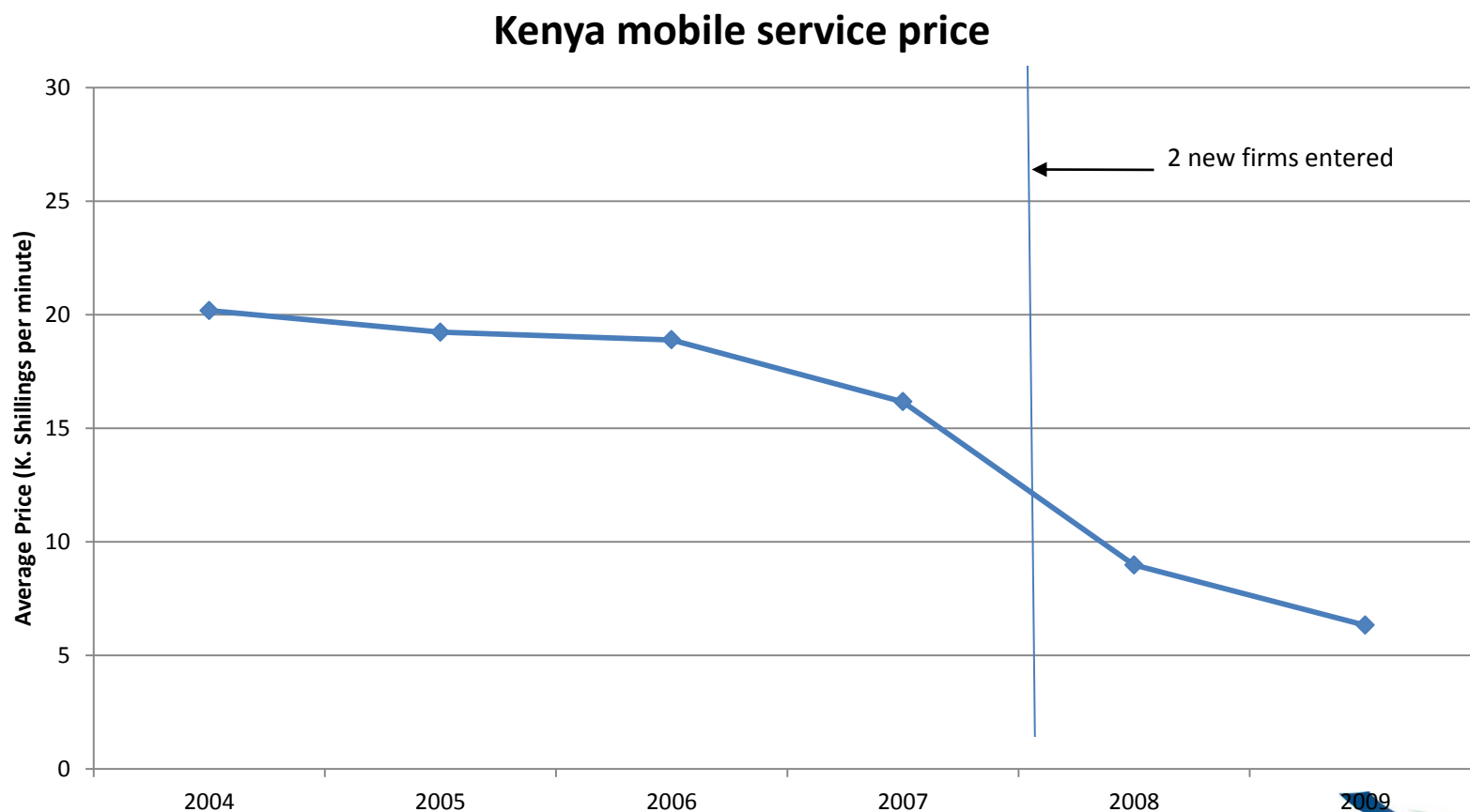
### Change on market power as the number of firms increase: Cournot model of competition

<i>No. of Firms</i>	<i>Degree of market power (mark-up)</i>	<i>Ratio market price to competitive price</i>
2	0.50	2.00
3	0.33	1.49
4	0.25	1.33
5	0.20	1.25
10	0.10	1.11
100	0.01	1.01

*Assumes price elasticity of demand = -1*



# Competition lower prices

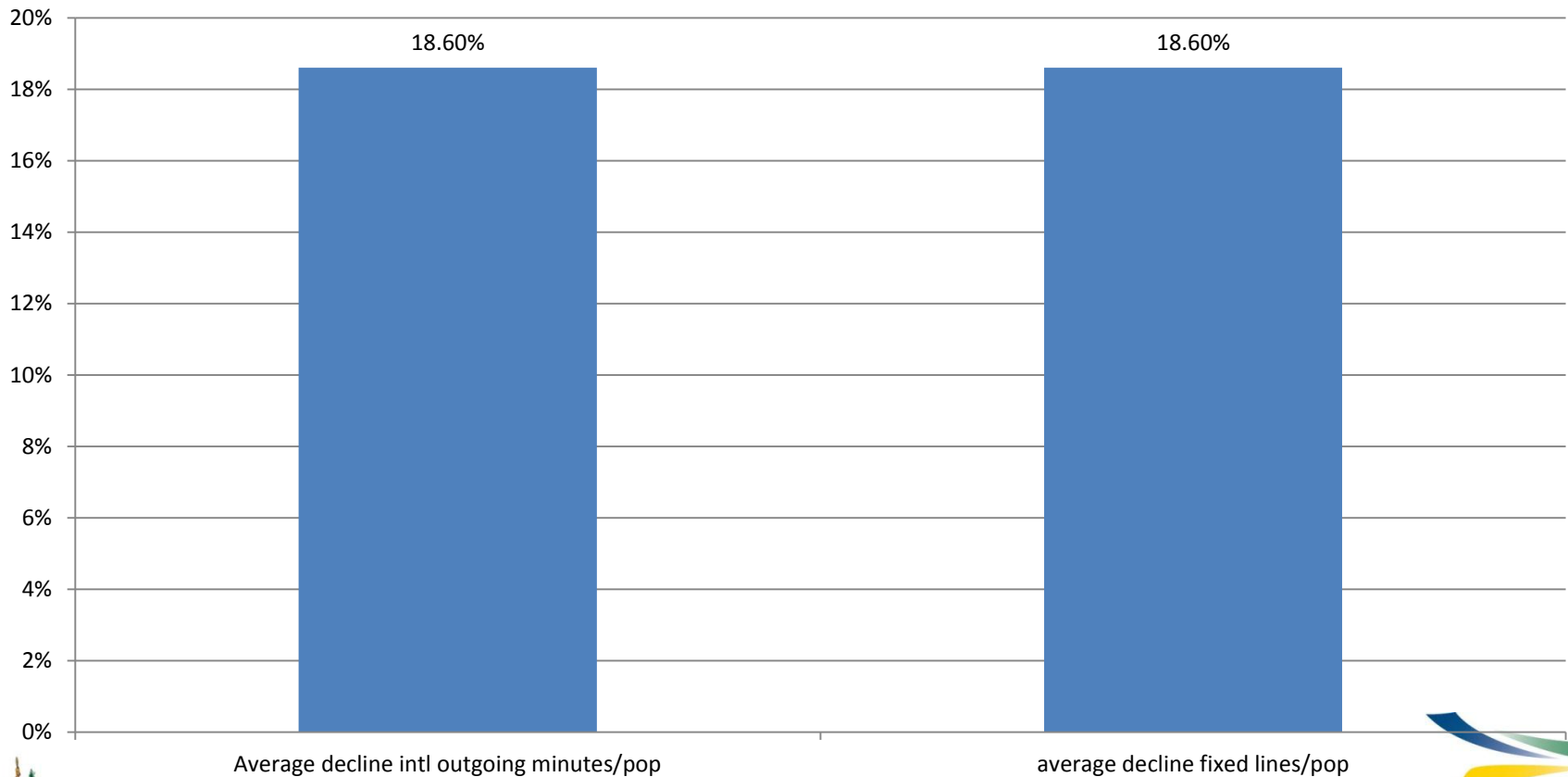


Karen Ellis and Rohit Singh. *Assessing the Economic Impact of Competition*. July 2010, Overseas Development Institute.



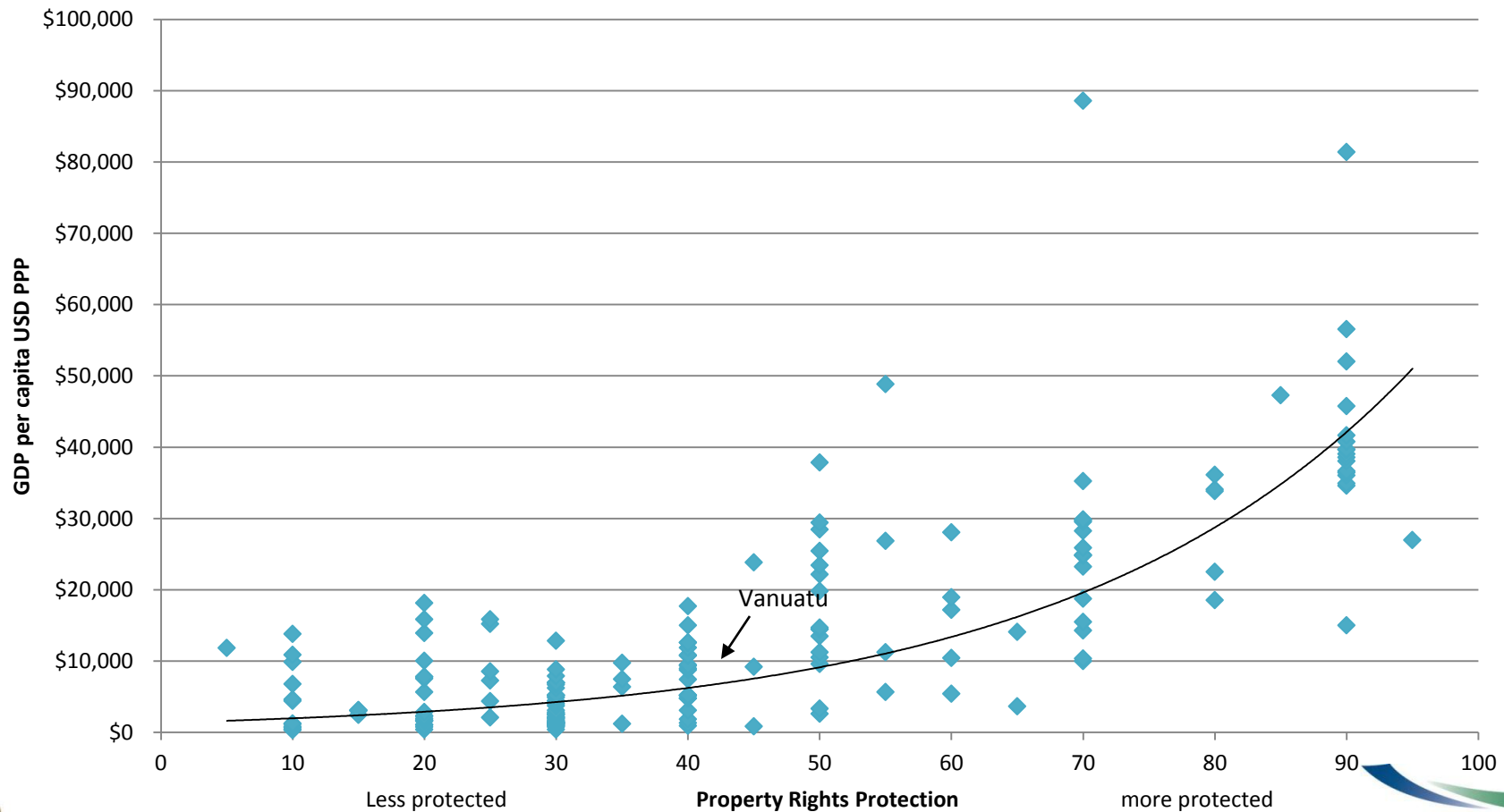
# Interference with firms (mandating separation) harms users

**Countries mandating vertical separation**



Source: Bruno Viani, Presentation to the National Telecommunications Regulatory Authority of Egypt. Cairo Nov. 11, 2007.

# b) Secure property rights and contracts



# Predictable rules increase investment

Investor's mind: If  $NPV > 0$ , then invest!

$$NPV = \text{Present Revenue} - \text{Present Cost}$$

	Case 1: Certainty	Case 2: 50% chance gov. will expropriate
Investment.	-1,000	-1,000
Revenue	2,000	2,000
Cost	-500	-500
NPV	$-1,000 + 2,000 - 500 = \$500$	N.A.
Expected NPV	Same as NPV = \$500	$-1,000 + 0.5 * 2,000 - 500 = -\$500$
Invest?	Yes!	No!



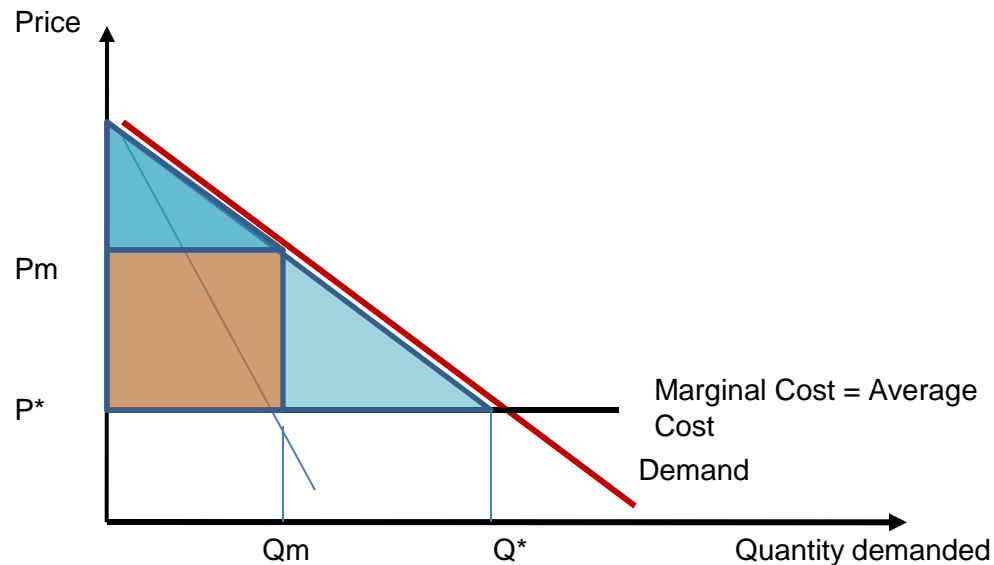
## c) Fraud reduces welfare of society

- Free exchange (trade) benefit both sides. After exchange; Mary is better off and John is also better off.
- If fraud is present; one side is worse off. No gains from voluntary exchange!



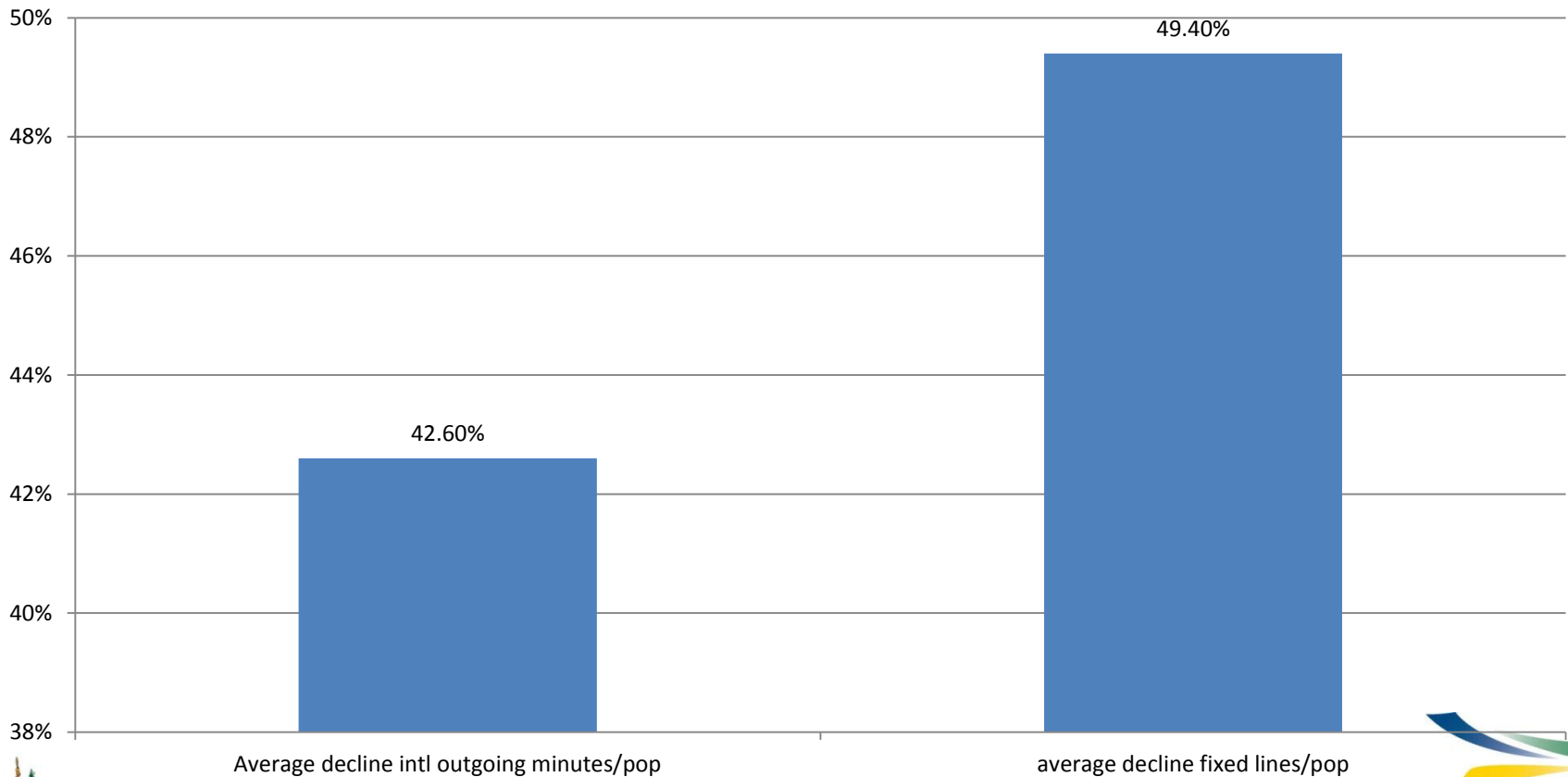
# Anticompetitive behavior also harms society

- Imagine firms collude (cartel) instead of compete. Prices ( )



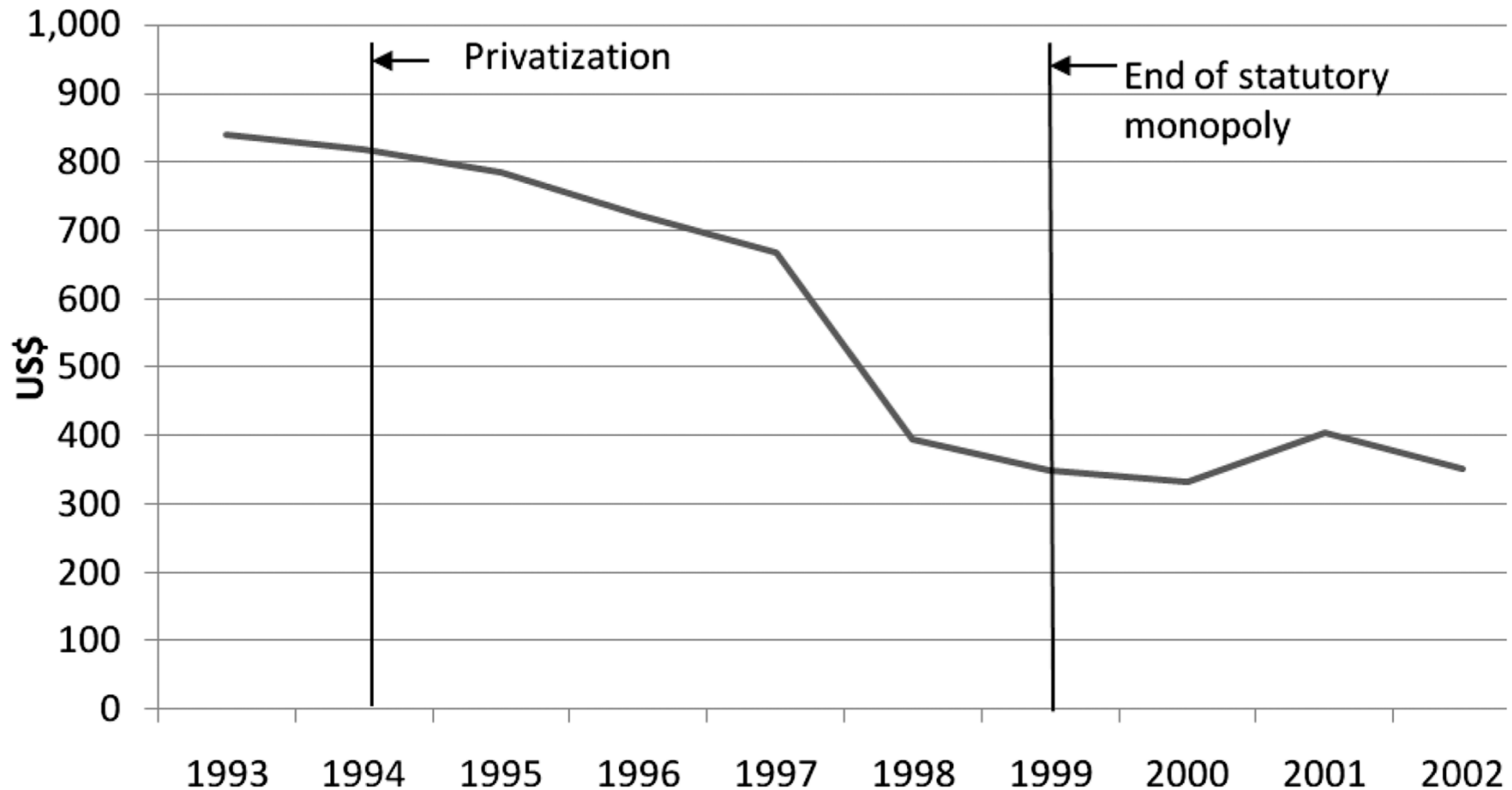
# 2. Competition increases use of services

## Countries with monopoly



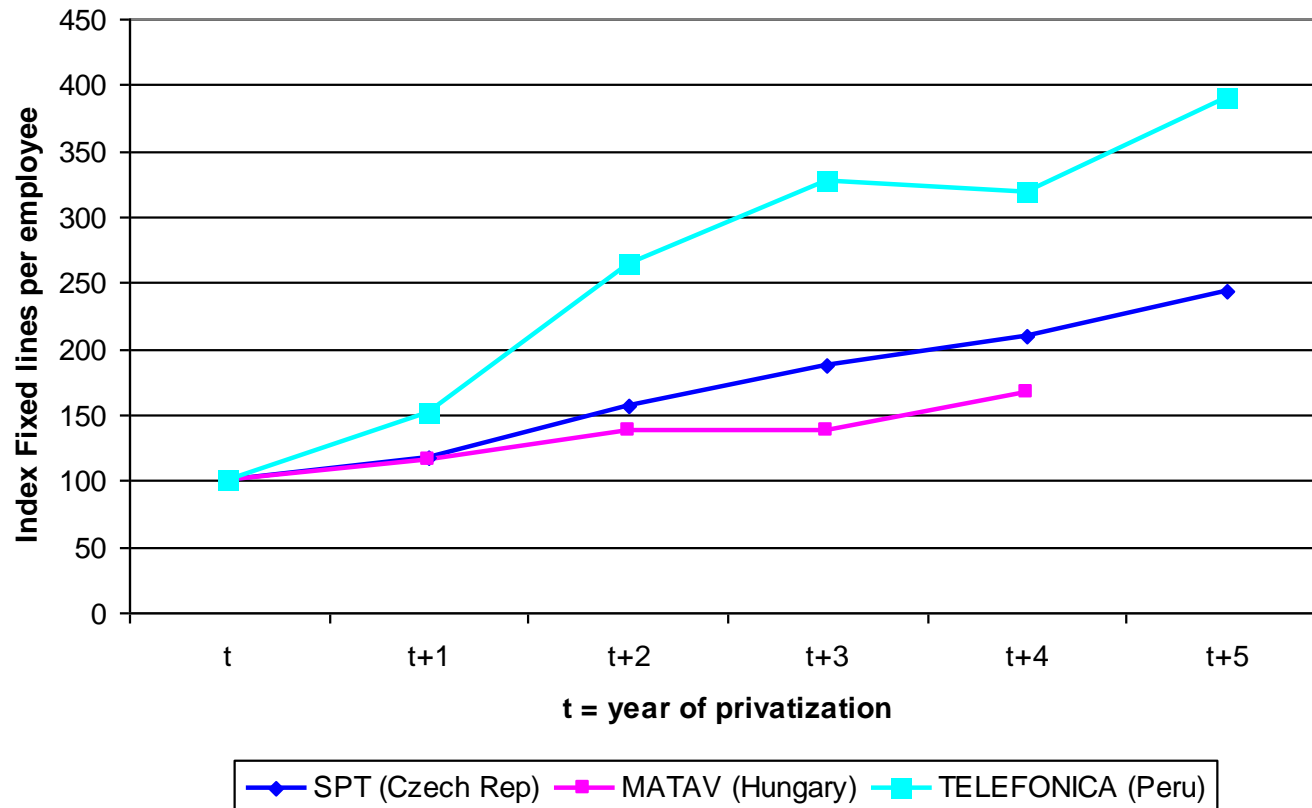
Source: Bruno Viani, Presentation to the National Telecommunications Regulatory Authority of Egypt. Cairo Nov. 11, 2007.

# Threat of competition reduce prices of fixed service - Peru



Bruno Viani. 2011. Consequences of Vertical Separation and Monopoly. Evidence from the Telecom Privatizations. *Journal of Media Economics*. Vol 24.

### 3. Private ownership increases labor productivity in telecommunications

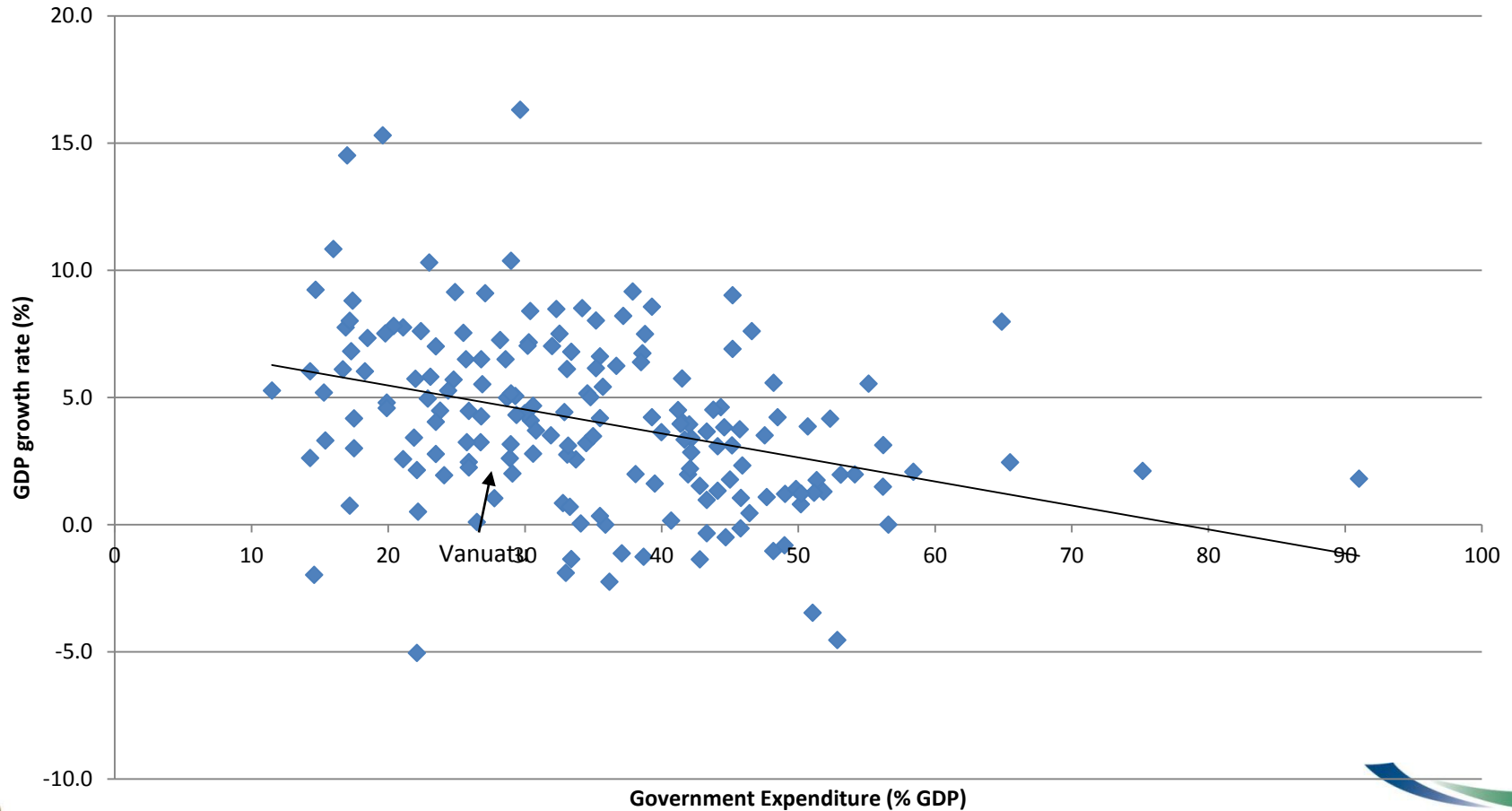


Source: Bruno Viani, Presentation to the National Telecommunications Regulatory Authority of Egypt. Cairo Nov. 11, 2007.





# As government participation in the economy expands growth declines



Source: Heritage Foundation. 2012 Index of Economic Freedom



# Part II: The disruptive forces of competition

Bruno Viani, Ph.D.

Nathan Associates, Inc.

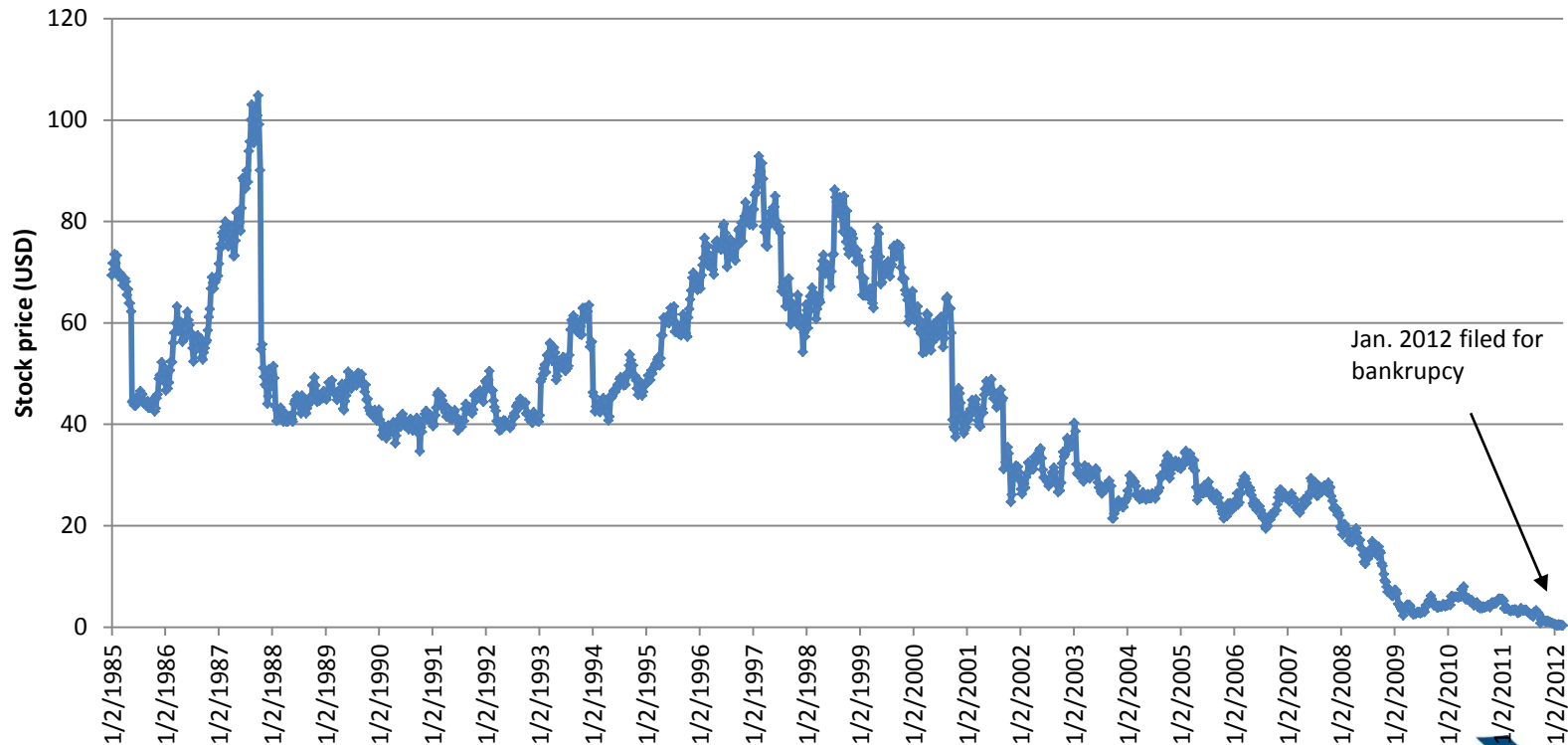
# Creative destruction

- Competition creates new products and forms of organizations which replace old ones
- Firms that dominated entire industries may soon lose their dominant position
- Old forms of production are replaced by newer ones



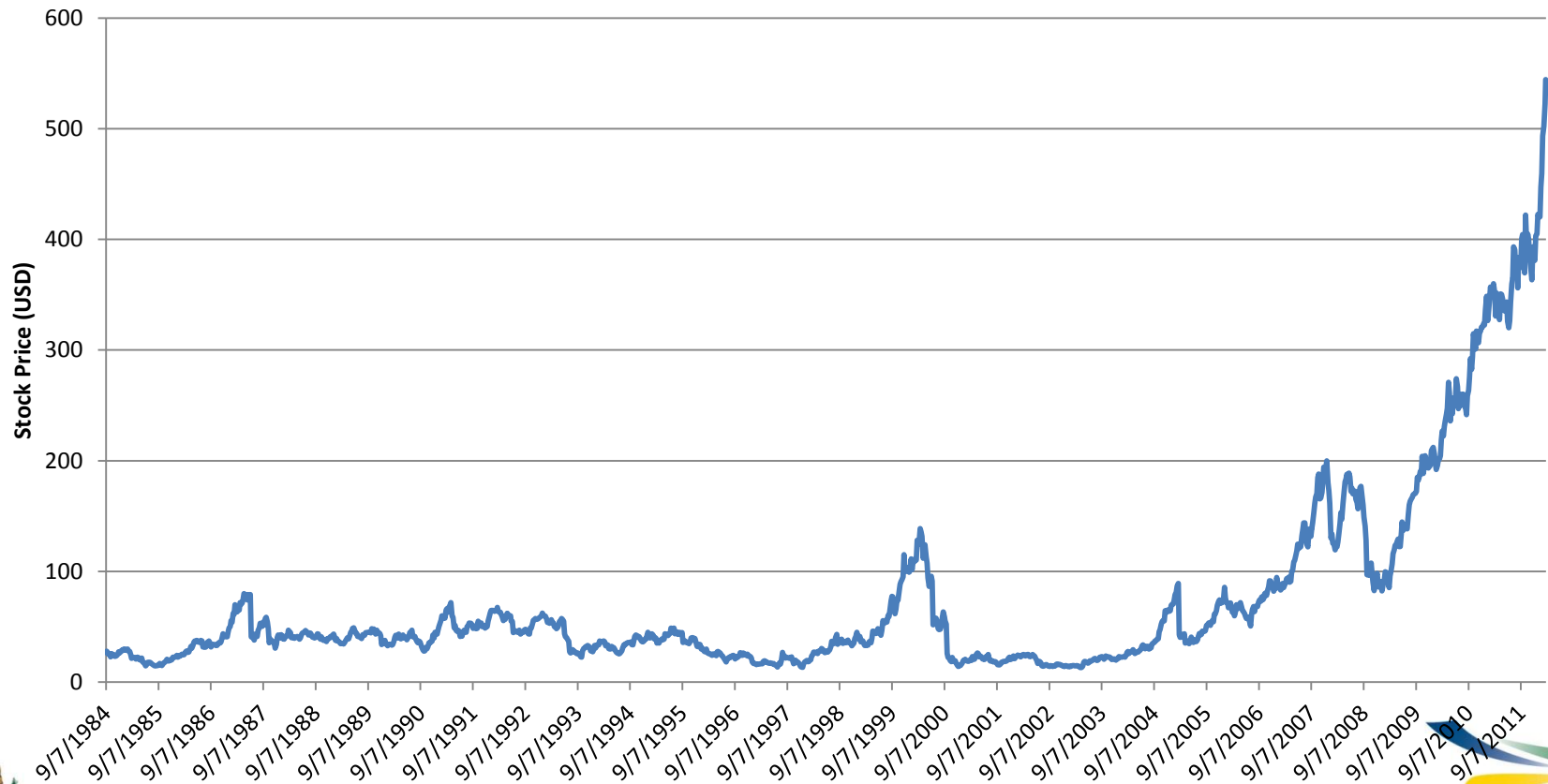
# The fall of Eastman Kodak

Eastman Kodak Stock Price



# And the rise of Apple

Apple Inc. Stock Price



# Creative destruction

- This process of creative destruction transform societies in a profound way
- People will oppose change but ultimately change will come about



# Creative destruction: The old telephone switch board



Bell Systems switch board



# Creative destruction

- In 1970 in the US 421,000 workers as switch board operators
- They handled 9.8 billion long-distance calls
- Today there are more than 100 billion long-distance calls and only 78,000 operators
- The destruction of nearly 350,000 manual jobs did not leave society worse off
- In fact more jobs were created of higher skill level and higher wages in the newly created competitive businesses





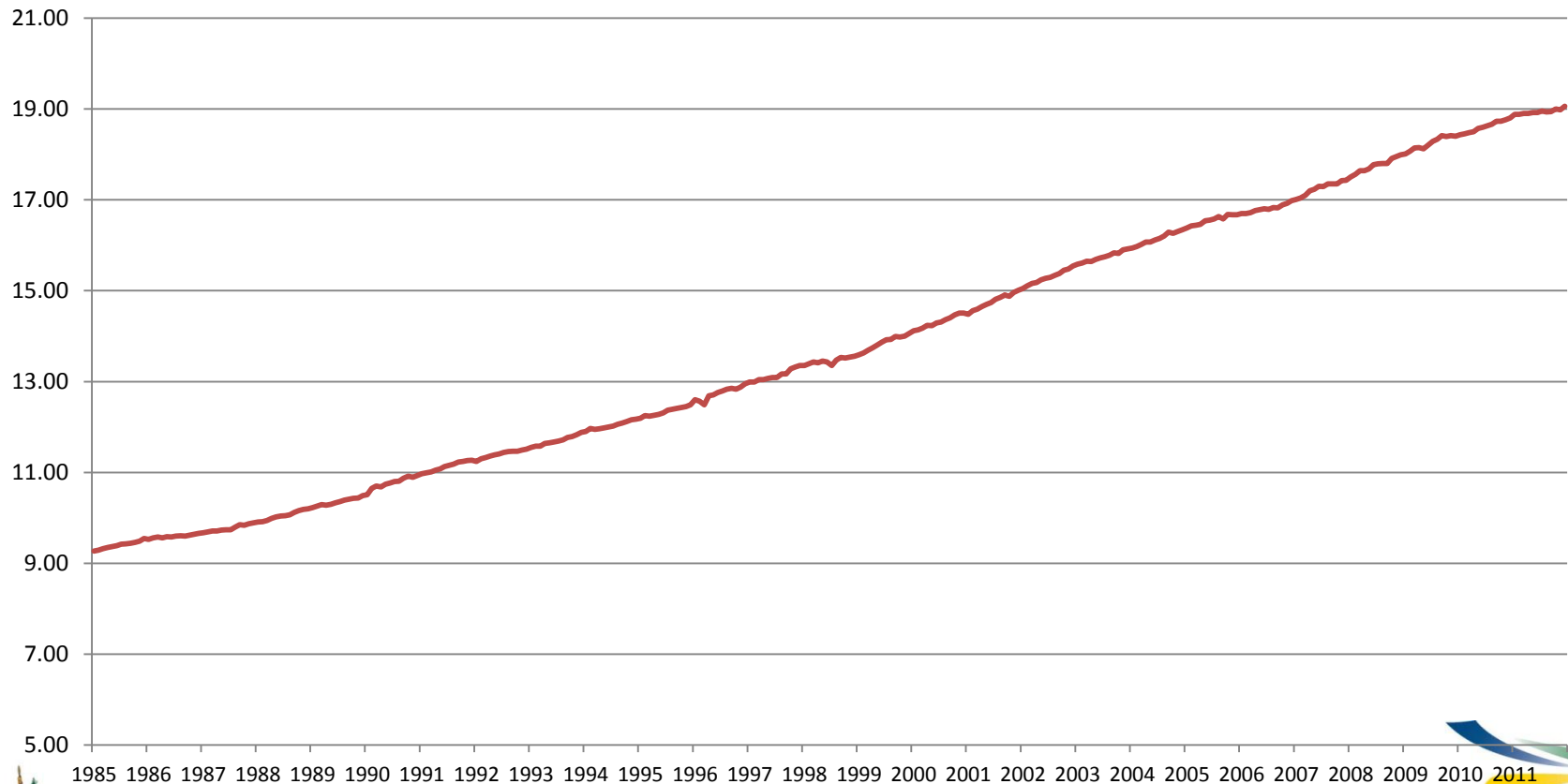
# Creative destruction

- Most people that lost their jobs got new jobs doing other things for which their skills were demanded
- Consumers were left better off as the cost of long distance call today is only a tiny fraction of what it was in 1970
- Moreover, technological change increases labor productivity and this in turn increases wages



# Creative destruction

Hourly Earnings (US\$) in the Manufacturing Industry



Source: US Bureau of Labor Statistics. [www.bls.gov](http://www.bls.gov)

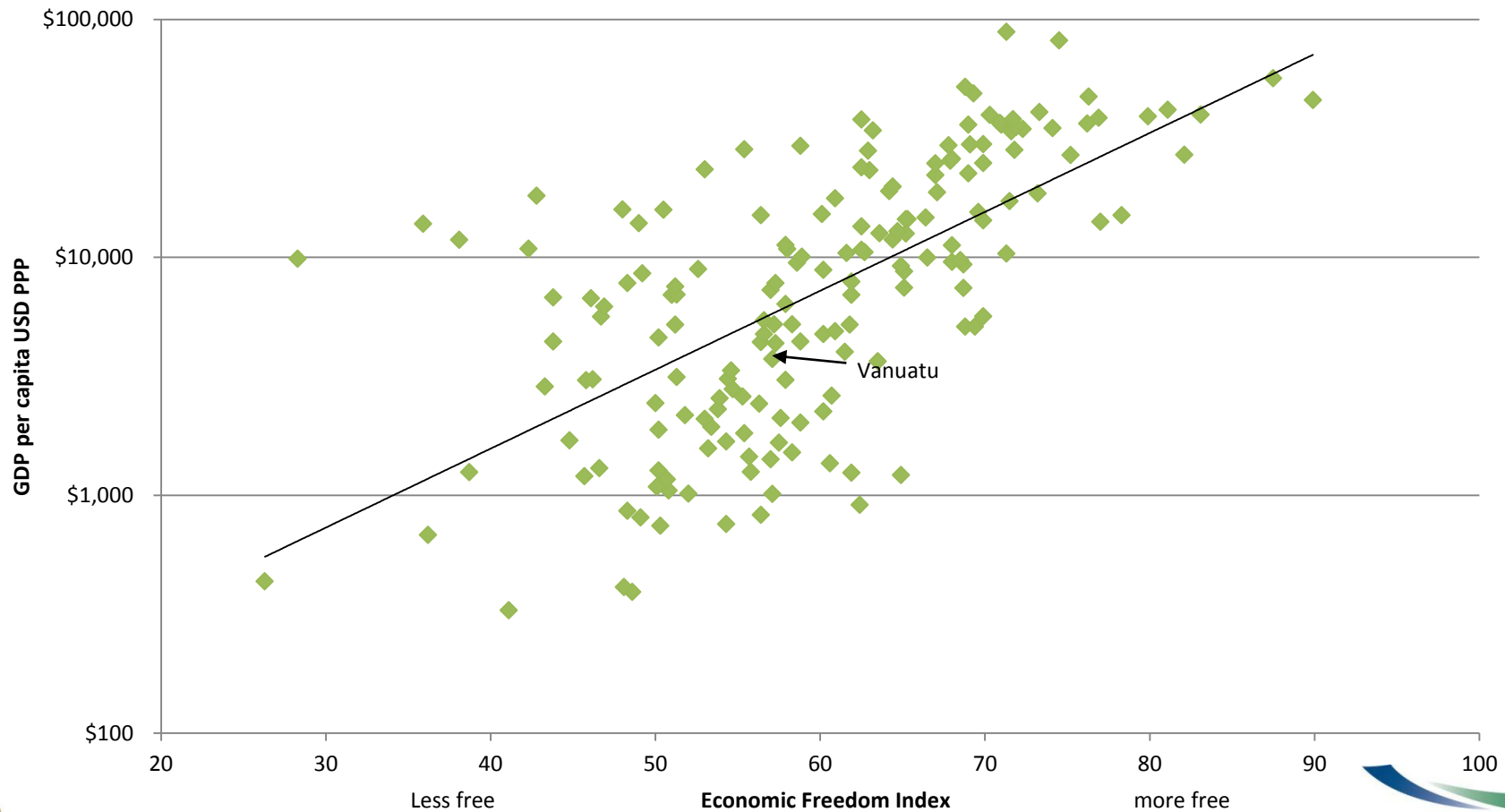


# Creative destruction

- Interest groups will try to use government to oppose these changes. They will retard it but not stop it
- This is impossible to stop because of the laws and supply and demand
- Best thing for long run prosperity is to embrace competition under a system of rule of law



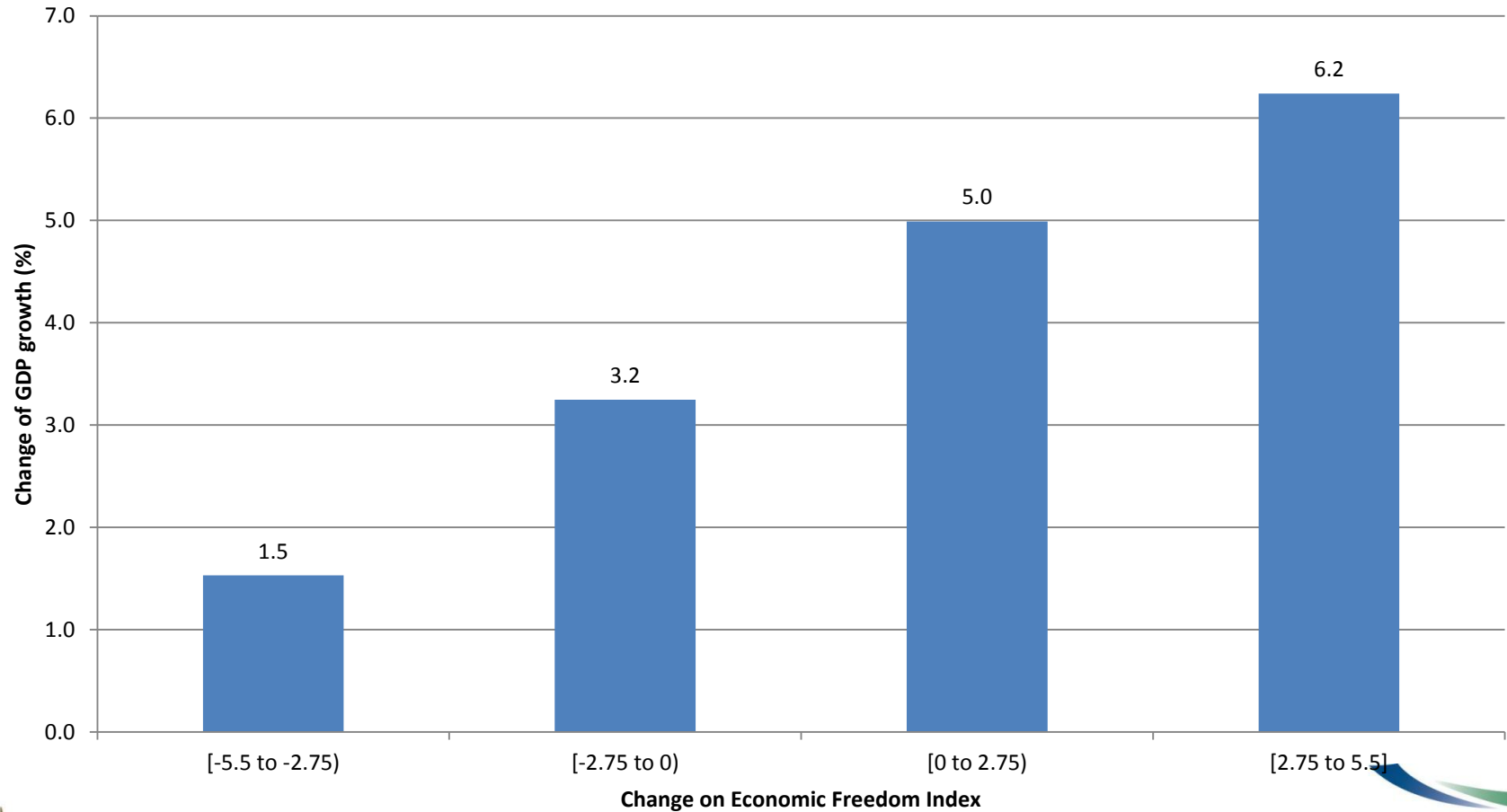
# More economic freedom leads to overall increase in income



Source: Heritage Foundation. 2012 Index of Economic Freedom



# Increases in economic freedom accelerates growth



Source: Heritage Foundation. 2012 Index of Economic Freedom



# Private Sector Viewpoint

- Shane Freeman, CEO of ANZ Bank, Vanuatu set out the benefits of competition to the Bank including:
  - Better value for money
  - Faster response times and more reliable services
  - Improved customer service from the telcos with proactive ideas as to how the Bank can better use telecommunications services to improve it's own effectiveness



# Government as a customer

- Fred Samuel, Government CIO set out the benefits of competition to the Government as the most significant customer of the competitive telco suppliers
- He explained why the Gov Broadband Network had been established, a decision if made today might have been different as competition has resulted in lower costs and increased reliability and greater coverage.



# Regulator's Viewpoint

The broad objectives of the Regulator are to:

- (a) act in the capacity of Regulator as defined in the Acts
  - Support Minister on Policy
  - Protect Consumer
  - Encourage sustainable and fair competition
  - Issue Licences, numbers, codes, Domain names
  - Manage Radio Spectrum
- (b) facilitate the development of legal, Regulatory, and technical expertise to support the establishment of fully-functional oversight institutions for telecommunications; and
- (c) support sector policymaking capacity, by strengthening the technical expertise of the PMO, and other relevant agencies, including the Department of Economic and Sector Planning and State Law Office, and provide exposure to international best practices;
- (d) manage an industry and donor financed program to provide sustainable telecoms/ICT access in rural and remote areas and outer islands, that will enhance the economic development of Vanuatu.





# Vision



- A communications environment that enriches the social, cultural, customs and commercial fabric of Vanuatu



# Regulator's Viewpoint (1)

1. Clear Government Policies which set high level goals for the sector;
2. Well written Law(s) which are technology neutral;
3. Clear separation of Policy, Regulation and Operation to avoid conflicts of interest;
4. Government support of compliance of the Laws and Institutions;



# Regulator's Viewpoint (2)

4. Operators who are prepared to work within their Licence conditions, Laws and follow protocol competing fairly but enthusiastically;
5. An independent entity Regulating the sector with its own income from the sector it is regulating with competitive employment terms and remuneration;
6. Capable staff within the regulator who are knowledgeable about the Big Picture, adaptable and effective programme and project managers;



# Regulator's Viewpoint (3)

7. A Regulator with effective processes and procedures to manage the tendering for expert support. The type of support changes as the market develops.
8. An incumbent who is allowed to operate in a free market and not constrained by historic practice;
9. Financial incentives to encourage private sector investment which are stable and do not change without consultation and within investment planning cycles;



# Regulator's Viewpoint (4)

10. Mechanisms to finance un-served or underserved communities and geographic areas;
11. A clear set of Regulatory Guidelines covering the key areas of Competition, Consumer Protection, Spectrum Management, Licensing, QoS, Internet, Content, Interconnection, and Infrastructure sharing;
12. An appeal process enabling Licensee to resolve any disputes with each other and/or with Regulatory Decisions
13. An educated Consumer understanding the choice and taking steps to ensure they understand the T&Cs and in case of issues escalating to Operator followed by Regulator;



# Summary Points (1)

- International experience demonstrated that competition is good for everyone and benefits Vanuatu
- The Government of Vanuatu took the step to break the monopoly and open the market for competition – Learning from international experience
- We created the Act and the institution of the Telecommunications Regulator
- Licenses were issued to Operators giving rights and obligations
- Government stepped out of operation concerning public telecommunications services



# Summary Points (2)

- Our Priority Action Agenda envisages that rural as well as urban areas are fully connected and that we deliver effective Government services
- Government has succeeded in creating a competitive market benefiting the consumer
- We fully recognize the dangers to competition from the conflicts of interest which arise if Government gets involved in Licensed Operators
- Government has to remain neutral and allow the market to work



# Summary Points (3)

- The Regulator, as the government's instrument, to ensure that consumers' are protected and that competition works fairly
- If any operator does not like a Decision of the Regulator then we have built into the Act and the Licences the safeguards of internal, external and Judicial reviews





# Summary Points (4)

- Operators must work to internationally accepted standards and adhere to their Licences and the Laws of Vanuatu, setting the lead in Good Governance
- Government does and will set Policy Direction
- Government is a major consumer of telecommunications and benefactor of competitive supply of services and can assist in pulling through new services
- Only through collaborative working between Government, Regulator and private sector will we ensure fair and sustainable competition is maintained and that we achieve our Vision of “ICT for all”



# Debate

1. Are you clear of the importance of competition to you?
2. How satisfied are you with the working of competition in the telecommunications sector?
3. What improvements would you like to see?
4. Is the importance of the Regulator understood?
5. Any other questions?



# Conclusions - Chairman

- Good presentations and debate
- Good move of Government to liberalize market
- Recognize benefits of competition
- Thanks to operators for investments and achievements
- Recognize benefit of Regulator
- Need to finalise National ICT Services Policy
- Need to finalise Universal Access Policy
- Need to speedily get the submarine cable
- Still major education task to do on ICT - Need to work together on education of our community on use and benefits of ICT
- Only together – all stakeholders to work together to sustain competition and achieve ICT for all
- I wish the PM and his staff well in leading the ICT sector, I wish the Regulator and his staff the best in taking balanced decision
- I wish the PM a fast recovery
- Thank you all for your participation





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