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By Email & By Hand Delivery

Dear Mr Gulo-Vui

Submission on Retail Service Determination discussion paper

We refer to NICTA's consultation on Retail Service Determination.

Please find enclosed Digicel's submission in response.

Yours faithfully
Digicel (PNG) Limited

A handwritten signature in blue ink, appearing to read "Michael Henao".

Michael Henao
Head of Legal & Regulatory

DIGICEL (PNG) LIMITED

Submission to NICTA

***Public consultation into whether a recommendation should be made to the
Minister for a retail service determination for voice and data services***

Issued on 18 March 2022

03 June 2022

***This submission is provided to NICTA for the purpose of the current public inquiry only and
may not be used for any other purpose***

A. Introduction

1. This submission sets out Digicel's initial comments with respect to NICTA's Discussion Paper titled *Public consultation into whether a recommendation should be made to the Minister for a retail service determination for voice and data services* (**Discussion Paper**), which was issued on 18 March 2022 and the attached Report titled *Retail Tariffs for Telecommunication Services in PNG* dated October 2021 (**Tariff Report**).
2. Digicel understands that the current proceeding was initiated by NICTA as a result of a request from the Minister and his indication to NICTA that "*he wished to see benefits to customers and end-users as a result of the commissioning of the Coral Sea Submarine Cable in the first half of 2020*"¹.
3. Digicel further understands that the current proceeding is being conducted in accordance with NICTA's duties and powers pursuant to Section 157(1) of the *National Information and Communication Technology Act 2009* (**Act**).
4. Relevantly, the Minister's request to NICTA was made nearly two years ago and much has happened in the Papua New Guinean market in that time, not the least of which are the planned sale of Digicel Pacific Limited to Telstra Corporation and the entry of Vodafone PNG (**Vodafone**), an extremely well resourced, publicly listed, multi-national operator that has established a substantial network and launched its services to the public on 22 April 2022. Digicel understands from Vodafone's own statements that it currently operates 500 base stations in Papua New Guinea with planned investment of PGK 3 Billion, which will see that coverage expanding to 1,200 base stations over the next 12–18 months and cater to 90% of the population.
5. NICTA has made indirect reference to Vodafone's entry into the market² but has not made any apparent attempt to assess its impact other than to suggest it is "*a reason not to take precipitate regulatory action to impose price caps or similar market controls at this stage in the retail voice and data markets*". Digicel agrees and submits that any near-term regulatory intervention is unwarranted and cannot be justified on any objective basis. We therefore propose that the current proceeding be suspended pending further analysis of the current market realities.
6. NICTA has correctly identified that the criteria for recommending a retail service determination (**RSD**) to the Minister, as set out in Section 158 of the Act which provides:

"The "retail regulation criteria" are as follows –

(a) that making a retail service determination for the retail service in respect of an operator licensee for a particular period will further the achievement of the objective set out in Section 124 but disregarding Section 124(2); and

¹ Discussion paper at section 1.1.

² Ibid at section 8.

(b) specifically, in relation to the competition objective, that –

(i) that operator licensee has a substantial degree of power in the market within which the retail service is supplied; and

(ii) in the absence of the retail service determination for that period, that substantial degree of power is likely to

–

(A) persist in the market over that period; and

(B) expose retail customers to a material risk of higher prices and/or reduced service where they acquire the retail service from that operator licensee during that period; and

(c) specifically, in relation to the efficiency objective, that the operator licensee will not be prevented from achieving a return on assets during that period sufficient to sustain investment necessary to supply the retail service; and

(d) the aggregate likely benefits of making that retail service determination outweigh any aggregate likely detriments.” (our emphasis)

7. However, Section 159 of the Act further clarifies that NICTA may **only** recommend to the Minister that an RSD be made if NICTA is satisfied “*all of the retail regulation criteria would be met by subjecting, or continuing to subject, a retail service to a retail service determination in respect of a particular operator licensee on particular terms*”. In the event that any single criteria is unable to be satisfied in respect of a proposed service, NICTA is not permitted to recommend any RSD.
8. In this submission we show that NICTA has not objectively demonstrated **any** of the retail regulation criteria, and that therefore a recommendation to impose an RSD in respect of any service is not warranted at this time.
9. Instead of seeking to impose retail price regulation on Digicel, we submit that the people of Papua New Guinea would be better served if NICTA focussed on the need to actively enforce licensees’ existing network rollout obligations, and further that it ensures that any new entrants are treated consistently and transparently in this regard.
10. We also consider NICTA should urgently address the activities of unregulated overseas “Over the Top” (**OTT**) application service providers such as Meta (Facebook), Google and many others and the continuing negative impact that they are having on network and service investment and affordability.

11. Those negative impacts have previously been brought to NICTA's attention by Digicel. They have, once again, been highlighted in a report from the GSM association titled *The Internet Value Chain 2022*, May 2022³. That report summarised the situation as follows:

*"In summary, although the internet value chain is growing strongly, the benefits and returns are flowing principally to players in the online services segment, while the telecom operators building and running the connectivity infrastructure which underpins these services are not benefitting as strongly as one might expect. **Although the operators continue to invest in extraordinarily complex networks that enable the entire ecosystem, the low returns raise questions about the robustness of continued investment in capacity, coverage and speed of the networks to connect internet users with services.** Business leaders and policymakers need to consider the interdependence of the many services making up the internet to ensure that market distortions, regulatory requirements or other factors do not limit the ability of participants across the internet ecosystem to make sufficient returns and that the right incentives are in place to promote the long-term growth of the value chain and to realise the full potential of technology and service innovation."*

(emphasis added)

12. In Digicel's respectful view, the current consultation is a distraction from the much more serious issues that currently face the industry and the customers they serve.

B. Specific Comments on the Discussion Paper

13. Section 5 (Voice and Data Services – discussion)

- a. NICTA has sought to conduct its investigation on the basis of four broad categories of service. In doing so, NICTA has acknowledged that "*technological and market developments may suggest that the categories are melding and are less distinct than they were once considered to be*" and questions "*whether it is appropriate to continue to treat voice as a separate service from a regulatory perspective, or whether it would be better to treat voice as simply another application and as part of the data service category*".
- b. However, NICTA has made no attempt to further analyse this fundamental issue and has instead proceeded on the basis that it is up to "*stakeholders to present evidence which tips the balance*".
- c. Nor has NICTA attempted to estimate the degree to which OTT internet based messaging and voice services now substitute for traditional voice services.

³ The Report is available at <https://www.gsma.com/publicpolicy/resources/internet-value-chain#:~:text=This%20new%20edition%20of%20the,dynamics%20playing%20out%20across%20it>.

- d. Without having established such fundamentals, it is difficult to understand how NICTA could reach any conclusions in respect of any operator's market power or whether making an RSD would satisfy any of the retail regulation criteria.
- e. In Digicel's submission, this apparent reversal of the burden of proof is inappropriate. The onus should be on NICTA to properly establish the nature of the specific retail services that it proposes should be considered as candidates for a potential RSD, rather than seek to force operators to demonstrate why a particular service should not be regulated.
- f. This is particularly the case in the light of the objectives and regulatory principles enshrined in Sections 2 and 3 of the Act which, among other things, recognise the need for regulatory measures to reflect the potential for convergence of technologies and the need for ICT licensees to respond to dynamically changing market forces.
- g. Unfortunately, it is not possible to measure the degree of substitution based on network data alone and any detailed assessment would require further work to be done in terms of customer surveys and usage analysis. However, there is no doubt that substitution is having a material impact on both traditional voice and messaging services. We therefore submit that it is premature for NICTA to make any conclusions and that further independent analysis of customer preferences and usage is required.

14. Section 6 (Application of Retail Regulatory Criteria)

- a. Respectfully, NICTA has incorrectly concluded that Digicel has a substantial degree of market power.
- b. NICTA's incorrect conclusion stems directly from its lack of actual analysis and faulty reasoning that arises solely as a result of it being "market leader", "*Digicel ... has the capacity, in the absence of regulation, to set its own terms and conditions for service without being unduly constrained by the actions of its relatively-weak competitors or by the actions of its customers and end users. Digicel is comparatively well financed compared to its current competitors and has the resources to withstand the rigours of competition much better than they do*".
- c. There is simply no evidentiary basis for any of the assumptions that are made in the above statement. In particular:
 - i. No evidence has been provided to support the statement that Digicel can (or has ever been able to) set its own terms and conditions of service in the absence of regulation and without being unduly constrained by its competitors. If that was actually the case, then there is no rational explanation for NICTA's own acknowledgement that Digicel has made more tariff changes between January 2018 and August 2021 than any of its

competitors⁴. The reality is that Digicel faces competition from many sources, including existing market participants, prospective market participants and evolving technologies and services, including OTT services;

- ii. The assertion that Digicel is comparatively well financed compared with its competitors is also not supported by any evidence and is wrong in fact. Digicel's competitors in Papua New Guinea include members of the KTH Group, which is owned and supported by the Papua New Guinean Government; and Vodafone PNG, which is owned by an extremely well resourced, publicly listed, multi-national operator that has a market capitalisation⁵ of around PGK 1.4 Billion and in which the Fijian Government has a 17.29% stake.
- iii. Similarly, no evidence has been provided to support the assertion that Digicel "*has the resources to withstand the rigours of competition much better than [its competitors] do*".
- d. Digicel is proud to say that it has been successful in growing its business and is currently market leader. However, that success has nothing to do with any unassailable advantage as has been suggested by NICTA. The fact is that Digicel has never been the "incumbent" mobile operator in Papua New Guinea, and when it entered the market in 2007 it was itself the new entrant with zero market share. Digicel grew its market share on the basis of extensive, risky private investment, world class management and operations and a strong belief that the customer always comes first.
- e. Digicel has always operated its business based on the belief and expectation that real competition either existed or would exist and has effectively constrained its conduct because of that.
- f. Consequently and with respect, NICTA has erred in its conclusion that Digicel currently has a substantial degree of power in any market in Papua New Guinea, and – as such – the retail regulation criteria cannot be considered to have been met in this regard.
- g. Interestingly, at Section 6.2 of the Discussion Paper, NICTA seems to acknowledge the potential for future entry and competition to impact on the market power that has purportedly been ascribed to Digicel and states "*whether, in the absence of a retail service determination for three years, Digicel's current substantial degree of power in the voice market is likely to persist for that period (criterion in Section 158(b)(ii)(A)) is unclear*".
- h. Digicel applauds NICTA for its acknowledgment that it does not have any confidence that any existing market power held by Digicel (the existence of which Digicel

⁴ Tariff Report at page 6.

⁵ See <https://www.spx.com.fj/Market-Statistics/Daily-Quotes>

denies) will persist during the period of any potential RSD. NICTA's uncertainty has now clearly been borne out by Vodafone's entry into the market.

- i. Given NICTA's uncertainty and the recent entry by Vodafone, Digicel submits that NICTA cannot reasonably be satisfied that Digicel's alleged substantial degree of power is likely to persist in the market over the proposed period of the RSD, and therefore the retail regulation criteria cannot be considered to have been met in this regard.
- j. NICTA has correctly concluded that, on the basis of the analysis that has been undertaken, it cannot be satisfied that the retail regulation criteria regarding a material likelihood of higher prices or reduced service will be met. In fact, all of the evidence available to NICTA points towards retail prices continuing to reduce and service levels continuing to increase. Accordingly, the retail regulation criteria cannot be considered to have been met in this regard.
- k. NICTA asserts at Section 6.4 of the Discussion Paper that it "*is not contemplating any action that would prevent Digicel from achieving a return on assets sufficient to sustain investment necessary to supply retail voice service during the next three years, via a retail service determination*". However, NICTA has not undertaken any analysis to assess whether this might be the case, and so it is not in a position to be able to reasonably determine whether the retail regulation criteria can be considered to have been met in this regard.
- l. Finally, NICTA does not provide any evidence, analysis or comment on whether it believes the remaining two retail regulation criteria specified in Sections 158(a) and 158(d) of the Act would be met by an RSD. Without any evidence or analysis, Digicel submits that NICTA cannot reasonably be satisfied that these retail regulation criteria can be considered to have been met.
- m. Given the lack of analysis or any supporting evidence, Digicel submits that the only reasonable conclusion that can be reached is that none of the retail regulation criteria would be met by the imposition of an RSD in respect of retail voice services.
- n. For the same reasons, Digicel does not agree that it has a substantial degree of market power in the market for retail mobile data services or that the retail regulation criteria are otherwise met in respect of such services.
- o. Digicel therefore, albeit for different reasons, supports NICTA's preliminary conclusion that "*in respect of price and quality terms and conditions of service, the retail regulation criteria in the Act, are unlikely to be met for retail voice and data services*".

15. Section 7 (Retail pricing study by NICTA)

- a. Digicel has reviewed the Tariff Report that was prepared by NICTA and makes the following comments in relation to it:

- i. Digicel agrees that the “bundled packages” (**Bundles**), such as the Digicel *1Tok Prime Bundle*, which include voice, data, messaging and other internet based services, have become the norm in Papua New Guinea. They provide excellent and continually increasing value for customers and, in Digicel’s case, are available for prices from as low as PGK 3 per day up to PGK 15 per day with a variety of “7 day” and “30 day” Bundles also available. Regular promotions drive prices down even further.
- ii. Digicel disagrees that the Tariff Report provides either an accurate or an up to date reflection of retail prices in Papua New Guinea. It misrepresents Papua New Guinea’s standing in terms of the value that is offered to customers compared with other countries in the Pacific Region. For example, the Tariff Report fails to mention Vodafone or its retail prices which are now publicly available.
- iii. Digicel has not applied any “freeze” to any of its tariffs as is stated in the Tariff Report. Instead Digicel has focussed on developing new tariffs and Bundles for customers to choose from. These new tariffs and Bundles now represent a significant proportion of Digicel’s service revenues.
- iv. Digicel objects to the unfounded assumption that “*25% of the allowance is forfeited on average for each of the bundles*” when no objective analysis has been undertaken to support it. We are also concerned that the focus appears to be entirely upon Digicel without taking into account the usability of services offered by Digicel’s competitors. Digicel’s understanding is that it continues to offer the best value for money services in Papua New Guinea, especially when taking into account service quality and availability.
- v. Digicel also objects to the position taken in the Tariff Report that Papua New Guinea tariffs “*should be similar to those across the Asia Pacific region*”. There is no reasoned basis for such an assumption, particularly when Papua New Guinea’s circumstances (population density, urbanisation, GDP per capita, infrastructure rollout and maintenance challenges and international capacity costs) differ markedly from its regional neighbours.
- vi. Relevantly, Papua New Guinea’s international capacity costs are still the highest in the region. This is despite the fact that the heavily subsidised CS2 cable has now been deployed and is available for use. For example, Digicel currently purchases bandwidth services (similar to CS2 cable) from some other cable operators in the region at rates up to 30 times cheaper than that provided by DataCo. For a purchase of capacity from Hurricane Electric from NZ/AU to USA the cost price for a 5Gbit/s link is \$1.50 USD per Mbit/s per month whereas the same amount of capacity on the CS2 cable is priced by DataCo at over \$50 USD per Mbit/s per month.
- vii. It is therefore very disappointing that the Tariff Report uses an emotive assertion in “Question 6” at page 11 of the Tariff Report that “*with CS2 now providing the operators with access to vastly increased international*

capacity at lower unit costs, the effective price per GB of data should now fall rapidly towards the Regional benchmark level". A simple comparison of regional capacity prices would show that Papua New Guinea still suffers from very high international capacity pricing. In such circumstances it is unrealistic to expect that retail prices will be at the same level as countries such as Fiji that have entirely different cost structures.

- viii. The comparison between the various prices paid for service Bundles around the region also cannot be taken at face value as the service details vary country by country. Digicel cautions NICTA against using such simplistic analysis as a basis for reaching any conclusions or for recommending any proposed regulation.
- b. In Digicel's submission, the Tariff Report in its current form cannot be relied upon as the basis for any regulatory intervention in Papua New Guinea.

16. Section 8 (Potential New Entrant and Potential Change of Ownership)

- a. At Section 8 of the Discussion Paper, NICTA refers to a possible new entrant in Papua New Guinea and states that "*the imminent entry into the market by a well-resourced and experienced new service provider is an important factor to take into consideration. The improvement of customer and consumer welfare through competition, with consequent reduction in effective prices and improvements in service, is to be welcomed and preferred over regulation*".
- b. Digicel agrees and notes that actual competitive entry of Vodafone into the Papua New Guinean market is a highly relevant factor that should have given cause to NICTA to consider the utility of proceeding with this consultation.
- c. Vodafone, an extremely well resourced, publicly listed, multi-national operator that has established a substantial network and launched its services to the public in Papua New Guinea on 22 April 2022. Digicel understands from Vodafone's own statements that it currently operates 500 base stations in Papua New Guinea with planned investment of PGK 3 Billion, which will see that coverage expanding to 1200 base stations over the next 12 – 18 months and cater to 90% of the population.
- d. Whether Vodafone's investment plans are based on its own commercial assessment of market opportunities or simply reflect network coverage obligations imposed by NICTA is unclear as nothing has been published by NICTA in that regard. This is in itself is concerning, especially if it reflects some sort of preferential treatment of Vodafone over existing operators. Nevertheless, NICTA must have been well aware of Vodafone's plans, including the substantial network rollout that has occurred during the past year and it is surprising that, knowing its launch was imminent, NICTA proceeded anyway with the commencement of the consultation process six weeks ago.

- e. Now that Vodafone has publicly launched its services and confirmed its investment plans, it is obvious that there will be a material impact on competition with likely flow on effects into pricing and services.
- f. It is also highly relevant that Vodafone entered into the market at a time when there was no retail service regulation. That is, it must have assumed it would be able to compete commercially in the Papua New Guinean market and it did not require or assume the existence of a regulatory crutch to ensure its competitive success.
- g. In Digicel's submission, NICTA should let Vodafone's competitive entry play out and, in accordance with the Act's objectives and regulatory principles, place primary reliance on commercial negotiations and the greatest practicable use of industry self-regulation, subject to minimum regulatory requirements consistent with the objective of this Act.

17. Section 9 (On-Net/Off Net Price Differentials)

- a. Digicel is concerned that NICTA is even considering "On-Net/Off-Net Price Differentials" when it has already reached a preliminary conclusion that an RSD would not meet the retail regulation criteria.
- b. Digicel further submits that it is inappropriate for NICTA to seek to rely on reasoning that it used in 2018 as a basis for intervention in 2022 when:
 - i. market circumstances are entirely different now compared with the circumstances that prevailed four years ago;
 - ii. NICTA's reasoning in 2018 was itself flawed and sought to rely on irrelevant information and outcomes from an RSD that was imposed in 2012, a decade ago. Relevantly, an independent economic expert report by Dr Aaron Schiff⁶ stated in relation to the proposed 2018 RSD:

"The proposed RSD effectively replaces an earlier RSD from 2012 that also constrained Digicel's ability to engage in on-net pricing (up to a 40% differential between on-net and off-net prepaid prices was permitted while postpaid prices were not regulated). Using network activity data from Digicel I find that the earlier RSD appears to have had no impact on market outcomes such as market shares and the proportion of calls made by Digicel's customers that are on-net.

In particular, the proportion of on-net calls made by Digicel's postpaid customers has been consistently lower than the proportion of on-net calls made by Digicel's prepaid customers, despite the fact that the 2012 RSD applied only to prepaid pricing. This suggests that customer characteristics are more important than retail price regulation in determining the

⁶ Dr. Aaron Schiff, *Regulation of retail mobile prices in Papua New Guinea*, 8 February 2018

propensity to make on-net calls and another RSD will again have little or no impact on the calling patterns of Digicel's customers.

Similarly, while expiry of the 2012 RSD and subsequent pricing changes including the introduction of "unlimited" prepaid bundles have led to a large increase in on-net calling by Digicel customers, market shares have not yet changed, and inter-network traffic volumes are constant.

All of this evidence suggests that other factors such as coverage, network quality and reliability, and customer service, have been much more important than the 2012 RSD in determining consumers' choice of mobile network in PNG. Digicel has built around four times as many cellsites in PNG as either bmobile or Telikom and this coverage advantage likely explains much of Digicel's market share advantage. It also explains why Digicel has a higher proportion of on-net calls than its market share, as in many areas outside the main urban centres in PNG, Digicel is the only available network.

The Discussion Paper does not demonstrate how the proposed RSD will offset the difference in coverage and service quality caused by Digicel's greater investment in its mobile network compared to the other two networks. This raises doubts about whether the proposed RSD will be beneficial for competition and consumers in PNG. Based on the historic effects of the 2012 RSD, and changes in market outcomes after its expiry, the proposed RSD runs the risk of reducing consumer welfare while having little or no impact on competition.

The Discussion Paper also includes a high-level analysis of the benefits and detriments of the proposed RSD. In my view, the Discussion Paper does not contain sufficient analysis for NICTA to be satisfied that the proposed RSD meets the criteria in section 158 of the Act. Very little has been done to tie this analysis to the commercial realities of the mobile market in PNG. Among other issues, the benefits and detriments analysis:

- *misunderstands the general impacts of price discrimination on consumers and profits;*
- *lacks any quantification of benefits versus detriments;*
- *does not recognise that the proposed RSD creates risks for Digicel that will reduce its incentive to offer innovative pricing such as "unlimited" bundles; and*
- *does not recognise potential detriments to Digicel's customers of the proposed RSD arising from changes to bundles and promotions in order to increase the effective*

- on-net price per minute to satisfy the conditions of the proposed RSD.”* (emphasis added);
- iii. NICTA’s 2018 recommendations were the subject of legal challenge at that time; and
 - iv. an RSD was not actually implemented in 2018.
- c. NICTA’s apparent attempt at this shortcut towards regulation also ignores the current market realities whereby:
 - i. Digicel continues to be the only operator to have met (and exceeded) its network rollout obligations mandated in the *Standard and Special Conditions of Individual Licences Rule, 2011* when it is clear that factors such as coverage, network quality and reliability and customer service, have been decisive in determining consumers’ choice of mobile network in Papua New Guinea; and
 - ii. Vodafone, as a new entrant that also appears to appreciate the importance of coverage as being a critical factor in its success, also chooses to discriminate between on-net and off-net call pricing for both its standard plans and its bundles yet would not be “caught” by any retail price regulation now being contemplated by NICTA.
 - d. In short, there is objective basis for seeking to regulate on-net/off-net pricing in Papua New Guinea at this time and to do so would fail to meet the retail regulation criteria and would therefore be unlawful.
 - e. Instead, of seeking to regulate Digicel to compensate for its competitors’ shortcomings, Digicel urges NICTA to actively enforce other licensees’ existing network rollout obligations and to ensure that any new entrants, such as Vodafone, are also treated consistently and transparently in this regard.

18. Section 10 (Offers to Low Income Users)

- a. Digicel welcomes and agrees with NICTA’s preliminary conclusion that “*inequitable treatment of low usage customers is not an issue in PNG at present, and that no action via a retail service determination on that matter is appropriate at this time*”.
- b. Digicel has made very substantial investments in Papua New Guinea over the last 15 years to develop its network and provide services to enable people across Papua New Guinea to be able to communicate with each other and with the outside world, often for the first time. Those investments have been risky and have often been made in trying circumstances that would have defeated most other operators.
- c. As well as its investment in its network and services Digicel has, through sponsorships, community initiatives and through the Digicel Foundation made

substantial investments in the communities and people that it serves. These initiatives include funding and support for sports, health and education.

- d. A critical part of Digicel's approach has been to ensure that its pricing and services are sustainable and affordable and are designed to grow the market.
- e. It is therefore gratifying that NICTA has gone some way to recognise this by recognising that an RSD is not required to be imposed as a means to "protect" the interests of low income users.

C. Conclusion

- 19. Digicel agrees with what we understand to be NICTA's preliminary conclusions that the imposition of an RSD would not satisfy the retail regulation criteria that are enshrined in the Act.
- 20. This is especially the case given recent market developments, including Vodafone's public launch in Papua New Guinea only a few weeks ago.
- 21. Digicel is concerned that NICTA apparently wishes to pursue an RSD in respect of on-net/off-net call pricing, especially when there has not been any objective evidence or analysis introduced that would support such a proposal.
- 22. In the circumstances, Digicel proposes that the current proceeding be suspended indefinitely and that it only be revisited in the event that market outcomes demonstrate that competition has failed to deliver reasonable customer outcomes.
- 23. NICTA should focus on much more important issues, such as enforcement of network rollout obligations and the real and ongoing impact of OTT service providers who continue to hamper the development of the industry in Papua New Guinea.