

Private & Confidential

2nd June, 2022

The Chief Executive Officer
NICTA Head Office
Section 43, Lot 19 & 20
Frangipani Street
Hohola, Port Moresby
Papua New Guinea

Dear Sir

Re: Submission to public consultation into whether a recommendation should be made to the Minister for a retail service determination for voice and data services

Key points

- Vodafone agrees that NICTA's focus in making a recommendation should be on identifying areas where competitive market forces may be insufficient, in the identification of persistent market power.
- Although Digicel has a strong market position in the mobile market, PNG will benefit from the recent entry and competitive pressure imposed by Vodafone PNG.
- We support NICTA's conclusions that retail regulation is largely unnecessary, while supporting its pro-competitive proposal with respect to on-net/off-net pricing differentials.

Introduction

Vodafone PNG is pleased to make a submission to NICTA regarding NICTA's public inquiry into whether it should make a recommendation to the Minister that a retail service should be subject to a retail service determination in respect of an operator license.

As NICTA is aware, Vodafone PNG is committed to providing its customers with high quality services which ensures that it will remain competitive as a supplier of mobile broadband and voice services.

Accounting for 90% of internet usage, mobile networks are the primary channel through which PNG citizens access the internet.¹ Yet, only 41% of the population received 3G network coverage², and internet penetration remains at 15.2% in January 2021.³ It is therefore critical that policies are supportive of increasing the availability and penetration of mobile broadband, and Vodafone PNG considers this is best driven through network competition. At present, the best prospects for challenge to Digicel's market dominance (it has maintained a market share above 80% since 2009,⁴ currently over 90%)⁵ arise from the entry of efficient competitors such as Vodafone PNG.

¹ Deloitte, Connecting Papua New Guinea: The Dawn of the Digital Era, 2019, p.5.

² Deloitte, Connecting Papua New Guinea: The Dawn of the Digital Era, 2019, p.5.

³ <https://datareportal.com/reports/digital-2021-papua-new-guinea>

⁴ <https://restofworld.org/2021/papua-new-guinea-calling/>

⁵ <https://www.afr.com/companies/telecommunications/why-digicel-is-a-new-front-in-australia-s-security-strategy-20210723-p58c8s>

NICTA's consultation document provides 9 questions, and we will limit our responses to those areas, after some preliminary comments.

Preliminary comments

In Vodafone PNG's view, NICTA's approach to the retail pricing determination is suitably nuanced and addresses the right questions. In particular, we agree with the approach that:

- regulation should primarily focus on the wholesale level, to promote retail competition
- competitive market forces must be given time to emerge.

Competition should be treated as a dynamic process. While there are entrenched firms with high market shares, we agree with NICTA that this is an inadequate indicator, by itself, of the effectiveness of the future competitive process. This is particularly so given substitution between fixed and mobile services is high in PNG.

As an example of the benefits of more competition, Vodafone PNG notes that it has already offered significant reductions in data rates in the market across all the data plans and propositions introduced after the network launch. Vodafone PNG now offers up to 400% more data compared with competitor plans at similar price points, and offers high value data plans at significant lower prices than existing competitors.

In contrast, a regulatory approach that aggressively seeks to lower retail prices would not promote more competition. Indeed, it would come at significant risk to competition and delivery of consumer benefits in the longer term. Risks arise because regulated pricing reduces returns to suppliers and can therefore inhibit efficient and much-needed network investment. It can also arise because regulation often does a poor job at responding to consumers' needs, for example, it might limit pricing flexibility to allow suppliers to identify the kinds of offers that are attractive to consumers, including low usage customers.

Vodafone PNG recognises that the pace of change in PNG can appear slow. However, we do agree that the "wait and see" approach to allow time for market forces to reflect the lower costs of CS2 being commissioned and going into commercial operation is appropriate.

Question 1: Do you agree with the approach that NICTA is taking to voice and data services for the purposes of this public inquiry, that it considering retail voice as a single service, with retail mobile data and retail fixed data as separate services? Please state your reasons including your reasons for any alternative approach that you consider should be adopted.

Question 2: Do you agree that the retail regulation criteria in Section 158 of the Act are satisfied in the case of retail voice service? Please state your reasons.

Question 3: Do you agree that Digicel has a substantial degree of power in the market for retail mobile data services? Do you consider that the other retail regulation criteria in Section 158 of the Act are satisfied in respect of retail mobile data services? Please state your reasons.

Question 4: Do you consider that Telikom has a substantial degree of power in the market for retail fixed data services? Do you consider that the other retail regulation criteria in Section 158 of the Act are satisfied in relation to retail fixed data services? Please state your reasons.

Question 5: Do you agree with NICTA's preliminary conclusions that, in respect of price and quality terms and conditions of service, the retail regulation criteria in Section 158 of the Act are not met or are unlikely to be met for retail voice and data services? Please state your reasons.

Vodafone PNG generally concurs with the findings of NICTA in the relevant sections of the paper. While market shares are suggestive of market power, the market dynamics do not support a sufficient degree of market power that could readily be maintained through increases in prices. Market shares can move rapidly in dynamic mobile markets. For this reason, we do not think that the retail regulation criteria in the Act are likely to be met. The main exception is in relation to on-net and off-net voice calls, which can be used as an entry or expansion barrier, as discussed in Question 8.

Question 7: Do you wish to make any comments or observations in relation to new entry and change of ownership in relation to the retail service markets under discussion? In particular, do you consider that these are relevant matters for NICTA to take into account in considering regulatory intervention in these markets? Please state your reasons.

Vodafone PNG agrees with NICTA's findings regarding entry and the bad incentive effects of price ceilings. Competitive entry is the primary means by which PNG consumers can expect sustained reductions in pricing and increases in service quality.

Question 8: Do you agree that the retail regulation criteria in Section 158 of the Act are satisfied in relation to a retail service determination to prohibit on-net/off-net price discrimination of retail voice calls, or, at least, retail mobile voice calls? Please state your reasons.

Vodafone PNG agrees with NICTA's analysis of on-net/off-net price differentials. Vodafone PNG recognises that regulation should generally apply at the wholesale level. However, it is clear that a strong incumbent with high market share can price strategically to disadvantage rivals through relatively low-priced on-net offers. Such prices will encourage consumers to stay with the incumbent to increase their probability of cheaper on-net calls and reduce the probability of more expensive off-net calls. While other operators can make similar offers, with a small market share the probability of a call being off-net (i.e. to the incumbent) is much higher and so the offers cannot be as attractive.

Once market shares are closer, a low on-net pricing strategy has a less asymmetric effect. At this point, such regulations are not likely to be required. Vodafone PNG expects to rapidly win market share. However, it is clear that the conduct has its greatest effect on new entrants, and proposed regulation can promote competition in this early stage of competition. The regulation can also limit conduct without significantly disadvantaging consumers. This is because the regulation would still leave it open to the incumbent to set low prices on all types of calls.

Vodafone PNG therefore agrees that the retail regulation criteria in Section 158 of the Act are satisfied.

Question 9: Do you agree that no action needs to be taken in relation to the price or other terms of low usage voice or data service offers or bundles at this time? Please state your reasons.

Vodafone PNG agrees with NICTA that no action is needed at this time. Competition at all levels of usage is strong and there are incentives to bring on all kinds of users that can produce incremental returns for suppliers.

Yours sincerely



Pradeep Lal

Regional Chief Executive Officer