



**TELIKOM PNG LIMITED**

*“our communication company”*

**Feedback regarding Public Inquiry into the need for a Retail Service  
Determination regarding certain mobile telephony services**

**31<sup>st</sup> January 2012**

## Summary

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Telikom's views can be summarised as follows:

- Telikom does not agree to Retail Service Price Determination of the mobile call and SMS services because retail price regulation is not considered necessary in most cases if there is existence of competition as is the case in telecommunication sector in PNG. However, we are also aware that if fair competition cannot constrain price than regulation is justifiable.
- In a situation where retail price regulation is justifiable, we would suggest that any such intervention be absolutely minimal.
- Telikom agrees with all the principles developed by NICTA except that we have offered an alternative view to Principle 2, which is discussed further in this feedback.

## Discussion

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### 1) Do you agree with the analysis and the conclusion about the definition of the relevant market for this inquiry?

Yes, we agree with definition of the relevant market being off-net market for call & SMS services by public mobile service operators. However, we defer from NICTA's reasoning/grounds as stated in page 11 of the Inquiry document, which is reproduced as follows:

*“ NICTA does have some grounds for concluding (albeit tentatively) that price increases of 5–10% by Digicel for off-net calls and SMS might be profitable, as follows...(i) Occasional callers from Digicel to bemobile might simply pay the increased retail price imposed by Digicel. International experience suggests that subscriber and customer inertia and acceptance are usually under-estimated...”*

This may be true but NICTA need also to be mindful that reduced off-net charges/price can also be a major factor in increase in calls from Digicel to bemobile users. Further NICTA stated as follows:

*“(ii) Because of the relative market shares of Digicel and bemobile it would be more likely that a Digicel caller will call another Digicel customer than a bemobile*

*customer. As a consequence, the chances that Digicel customers will accept the price increase for off-net calls may be greater.”*

We do not disagree with this reasoning because studies have shown that customer choice of service operator is determined by choice of their contacts as they gain more utility from these than switching networks and currently, Digicel has extensive network coverage and therefore a much bigger customer base than other operators. However, sometimes other than accepting the price increase of off-net calls, customers use other operator’s services less frequently (maybe for receiving calls only) and then quit altogether. If price is the deciding factor for this action then it can be considered anti-competitive.

We agree with NICTA’s third ground but in relation to the fourth ground as stated in page 11, we wish to state that this may be the market trend at the moment but if the off-net charge is reduced, other factors being constant, this atrophy effect can be contained and is perhaps a matter NICTA need to consider further.

**2) If you disagree with the market definition relevant to this inquiry, what market(s) would you consider to be the relevant market(s)?**

N/A

**3) Do you agree with the criteria for dominance and the way they have been applied (as far as the evidence allows) by NICTA?**

Telikom agrees with most of the criteria for dominance that indicated Digicel’s SMP in the relevant market.

**4) Are there different conclusions on any of the criteria for dominance that you would draw and, if so, what are they?**

We would urge NICTA to consider the following suggestions:

- (i) *Highly developed Sales and distribution network:*  
Digicel may have dominance in this aspect which is evident in flex card being the only prepaid top up being available in remote areas, smaller retail outlets,

street corners and homes. Also there is a huge range of mobile handsets easily available at retail outlets nationwide.

Though product and service diversification may not be indicator of dominance, the homogeneous service (e.g, data services like internet, facebook, etc) provided by other operators is not used by bulk population who don't have easy access to prepaid cards. However they used Digicel's prepaid data (internet) services due to availability of recharge cards.

(ii) *Technological Advantage & Superiority :*

To some extent, Digicel may also have dominance in this area because although we can say that other operators are using technology from overseas vendors, Digicel seem to be the leader in introducing to the market VAS services & SMPP services (*that other operators do not provide or are followers in providing such service*). Examples of SMPP services would be: Check Balance \*120# call key, recharging credits \*121\*card no # then call key and credit transfers from phone to phone has been introduced by Digicel, and later on bemobile adopted the same format for these SMPP services. Other SMPP services like 'Credit Me/ Credit Request and Call back (Please call me) are very functional, desirable and popular service that no other mobile operator is offering at the moment. Other VAS that Digicel took the lead in introducing to the market are different music ring tones, mobile internet, SMS promotions, SMS news & promotions broadcasting etc. It always takes a lead in introducing a variety of different mobile handsets ranges giving customers flexibility in choosing according to their affordability.

**(5) Are there other criteria for dominance that should be considered, and, if so, what are they and how should they be applied in this case?**

The other criteria for dominance that we suggest that NICTA consider are "Brand presence". Digicel can be considered to have brand dominance in the market given its massive advertisement campaigns in signboards, bill boards at most public and frequented arenas as well as its building paintings and its roll out of its community obligations efforts in supporting development of sports, gender equality, education, better community etc. Though other mobile service providers also engage in brand promotion, we can say (albeit tentatively) that Digicel's presence is widely known in conjunction with network coverage areas.

**(6) Do you agree with NICTA's preliminary treatment of the arguments based on the relativities of national mobile and international call charges? If not, please explain how, in your view, the relativities can be used to show that Digicel is abusing a position of dominance in a market?**

Telikom would agree with NICTA's preliminary treatment of arguments, specifically the point that *'...The cost of international minutes has fallen rapidly in recent years as a consequence of the vast increases in international cable capacity, the use of IP technologies by carriers and competition, including from VoIP services. Further, if it is assumed that the international call rates of bemoible and/or the Telikom are reasonable relative to cost, and that Digicel has simply achieved a better commercial deal with its international correspondents.'*

However, Telikom considers that it is desirable for NICTA to provide further evidence for this argument.

**(7) Do you agree with NICTA's preliminary analysis on whether Digicel is cross-subsidising in a manner that could be or is an abuse of dominance? If not, please provide your own view and analysis, including what NICTA should do about it.**

Telikom agrees to some extent. It seems likely that Digicel may be cross-subsidising, though a weak statement to make without facts; however, whether it is done in a manner that it abuses its position of dominance cannot be clearly defined. Service tariff should and are mostly cost-oriented. Digicel has been spending millions of kina on national network roll-out, new technologies, and its VAS services to its customers and might be cross-subsidising to cover cost for some free VAS service it provides like +555 (voicemail), SMS broadcasts etc and so it may be using the revenues from some service to off-set losses sustained in provisioning of such services or its unprofitable services. In this circumstance, it may be legitimate cross-subsidy.

**(8) Do you agree with NICTA's preliminary view and analysis that there is no evidence that Digicel is predatory pricing? If not, please provide your own view and analysis, including what NICTA should do about it.**

We reserve our views at this time.

**(9) Do you agree with NICTA’s preliminary view and analysis on whether Digicel is engaging in excessive pricing? If so, what should be done about it by NICTA? If not, please provide your own view and analysis.**

Based on the analysis provided, Telikom agrees with NICTA’s preliminary view that Digicel is engaging in excessive pricing. Indeed if fair competition cannot constraint price than regulation is justifiable. Accordingly, it may be necessary for NICTA to introducing a price cap (after considering factors like price cap index, expected efficiency savings & inflation, etc) on off-net calls & SMS services so as to promote fair competition among players, customer protection and long term viability of the industry. We are aware that introducing a price cap is not likely to affect Digicel’s SMP position as well as the operator’s profit margins. However, customer will be the biggest winner and would be at liberty to make calls using any mobile cellular network in the country to make a call without being apprehensive of the high charges associated with cross-network calls.

**(10) In your view, is there any indication of anti-competitive price discrimination by Digicel?**

Telikom does not consider that there is indication of anti-competitive price discrimination by Digicel, though it does practice price discrimination just like bemobile & Telikom’s Landline & Citifone. There is evidence of price discrimination between off-net and on-net SMS and Call services of all operators, however we do not have empirical evidence to indicate that either Digicel or other 2 operators for that matter practices are anti-competitive.

**(11) How should NICTA assess whether or not retail customers will be exposed to ‘a material risk of higher prices and/or reduced service’ in the absence of a retail service determination for the purpose of section 158(b)(ii)(B) of the Act?**

We reserve our comments at this time.

**(12) What are your views on the 6 principles proposed by NICTA that guide its intervention in pricing retail markets?**

Telikom agrees with Principle 1. Price regulation is not considered necessary in most cases if there is existence of competition as is the case in telecommunication sector in PNG.

In regard to Principle 2, we wish to suggest for NICTA to consider an opposite view, which is that normally when a market is moving from a monopoly environment to a competitive one is a gradual and painstaking process, always characterized by a discernible transition period between the commencement of the liberalization process and the establishment of robust competition within the industry. Industry regulators may need to regulate the pricing of telecommunications services during the early stages of market liberalization when competition is at its infancy. The fundamental objective of this initial regulation is always the protection of the consuming public from damaging manifestations of market failure, such as the hidden manipulation of market forces and prices through collusive practices between competitors, or the unwitting substitution of a public monopoly with a private monopoly in the provision of services. When more entrants in the market and viable competition begin to take firm root within the industry, then regulators can gradually scale back the level of their involvement in determining service prices. It is up to NICTA to decide whether or not the PNG mobile market is in its infancy stage.

Telikom also agrees with Principles 3, 4, 5 and 6 as enunciated by NICTA.

**(13) Do you agree or not with the terms of reference for this inquiry? If not, what changes or additions would you make?**

Telikom agrees with the terms of reference of this inquiry.