



**TELIKOM PNG LIMITED**  
*“our communication company”*

**TELIKOM PNG’S SUBMISSION  
ON  
NICTA CONSULTATION PAPER  
ON  
RETAIL PRICING OF ENTRY-LEVEL BROADBAND SERVICES**

11 September 2014



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19<sup>th</sup> September, 2014

**Mr. Charles S. Punaha**  
Chief Executive Officer  
National Information & Communication Technology Authority  
P.O Box 8444  
**BOROKO**  
N.C.D

Dear Mr. Punaha,

**REF: CONSULATATION PAPER - RETAIL PRICING OF ENTRY-LEVEL BROADBAND SERVICES**

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Telikom PNG Limited ("Telikom") acknowledges NICTA's invitation for comments and submissions regarding the above and we hereby submit our views in the following attachment.

Should you require any clarification and or explanation on any aspect of this submission please contact Paulus Ain, Manager Regulatory on 300 4017.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "David Kulu", with a horizontal line underneath.

**Mr. David Kulu**  
Company Secretary

## General

1. Telikom PNG acknowledges NICTA's Public Consultation Paper on the topic of "Retail pricing of entry level broadband services" and also recognizes NICTA's role in line with the current PNG Government's newly introduced National Broadband Policy and the goals and objectives set out within that Policy.
2. Telikom PNG also acknowledges the Governments recognition that high quality, affordable broadband services are essential to future social and economic development in PNG as envisaged in the National Broadband Policy.
3. NICTA stated in its consultation paper's executive summary that it would prefer that the broadband policy objectives are achieved through market forces alone. Telikom supports this statement and reiterates that market forces should in fact be allowed to drive the objectives of the broadband policy without the need for regulatory intervention unless truly warranted by circumstances of market failure.
4. Telikom notes also NICTA's statements regarding improvements in the pricing and value of retail broadband services which have come about as a result of the recent declaration of the International cable transmission capacity by The Minister in March, 2013. In light of this, Telikom queries if NICTA has given sufficient time to fairly assess how the retail market (ISPs and other service providers) have responded to the declaration in terms of the services they provide (broadband or otherwise) and if whether or not publishing a consultation paper on entry level broadband services, which may well lead to regulatory intervention, is now appropriately warranted?

## Question 1:

### How should NICTA assess the affordability of entry-level broadband services?

Telikom notes NICTA's assessment of the term 'affordability' within the context of this consultation as defined by the Broadband Commission for Digital Development, and notes NICTA's intention to adopt the ITU's methodology and benchmark of 5% of GNI per capita as an internationally accepted measure of 'affordability' against the price of broadband services.

Nevertheless, Telikom is of the view that it would have been fair for NICTA to have also independently researched and presented other alternative methods of measuring entry level broadband affordability in this public consultation and also discuss their advantages and disadvantages prior to selecting their preferred method of measurement.

Broadband penetration rates have soared in most developed countries over the past several years, benefiting gross domestic product (GDP) growth by up to several tenths of a percentage point per annum. A logical question is whether this growth can be matched in developing countries.

Broadband affordability is widely regarded as a major inhibitor to growth because many developing countries have per-capita GDPs that are often less than 10% of those in many developed countries. A country's income distribution can also inhibit growth; only a limited share of the population in countries with highly skewed income distribution can afford broadband. To forecast the broadband penetration rate in developing countries like PNG, it is necessary to determine which specific subset of the population can actually afford broadband.

The economic barrier remains a key factor in limiting broadband adoption and it is Telikom's strong view that NICTA should conduct a practical assessment of the specific subset of the population and it could be able to adopt an appropriate method of measuring entry level broadband affordability apart from the methodology recommended by ITU.

Telikom indeed appreciate NICTA's intention to adopt the ITU recommended methodology, but the question is; does it measure the population's income distribution well. In our view, to measure PNG population's income distribution, an ideal methodology that NICTA may consider would be the utilisation of the Gini Coefficients Methodology, as it measures the equality of a country's income distribution across its entire population. That would assist NICTA to form an independent view of the PNG population's affordability level and NICTA would be in a better position to assess whether or not the ITU's methodology and benchmark of 5% of GNI per capita is appropriate for our economy.

**Question 2:**

**What initiatives or actions by NICTA could help broadband service providers reduce their costs and improve the value of the retail broadband services supplied to end-users?**

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Telikom proposes that NICTA consider, amongst others, the following initiative or actions that could potentially assist the broadband service providers in reducing the cost of broadband services and improve broadband services.

**(A) Facilitate Effective Competition**

Telikom is of the view that NICTA should continue to promote and provide the market conducive for aggressive and effective competition rather than considering regulatory interventions.

**a. Competition through UAS**

NICTA can encourage and stimulate the general usage and adoption of broadband services through a greater emphasis on state funded UAS projects and/or government subsidies to telecoms operators dedicated specifically to developing broadband access in rural areas that are not economically viable for operators to establish an initial network presence.

This may have the effect of generating consumer interest in broadband adoption and usage among rural areas/populations that will further encourage the private sector to invest further in developing broadband facilities and increasing broadband coverage.

**b. Allow market forces to work**

Currently, there are no restrictions on who should provide the broadband service, it is open to competition but there are only few operators offering the broadband services. Over time, that market could potentially grow and when there are multiple service providers offering broadband service then they are better served by competition. Increased competition is deemed beneficial because it increases the likelihood that consumers will have a range of differentiated service options to choose from and that they will benefit from the beneficial impact of competition on retail pricing and service quality.

With respect to service quality, the benefits from more intense competition will increase service quality and the reduction in price. For example, providers may be inclined to target investments in improving service quality to markets where consumers face more alternatives and the providers feel greater pressure to keep their subscribers happy.

**(B) Infrastructure sharing by Licencees**

Over the last decade, the telecommunication sector worldwide witnessed a first wave of reforms resulting in the introduction of competition in some or all service segments and the result has been unprecedented take-up of mobile voice services in developing countries. However, despite these impressive gains, much of the world's population still remains without access even to voice services, and very few citizens in developing countries have access to multimedia broadband services including Internet. Regulators around the world are considering infrastructure sharing as a tool to promote infrastructure deployment, in particular IP backbones and broadband access networks.

Infrastructure sharing also has great impact on competition. Market becomes more attractive to new players for decreased entrance barriers. Such players can enrich the competition while investing effectively. By alleviating pressure of network deployment, sharing allows operators to turn their attention to improved innovation, better customer service and eventually better commercial offerings and healthier competition that results in reduced pricing.

**(c) Infrastructure sharing by other Utilities**

The sharing of alternative infrastructure owned by other utilities are available but it requires considerable effort in the coordination of civil works across utilities (e.g. water, electricity) and the lack of an appropriate legal basis, and the lack of know-how and experience. Infrastructure sharing is regarded as a pro-competitive means of promoting broadband because it reduces the high costs of deploying infrastructure.

**(D) Tax incentives on infrastructure**

Telikom Proposes that NICTA and the government need to cooperate to reduce taxes on services, devices and equipment which will in turn increase penetration levels and pave the way for increased demand of broadband services.

Tax incentives and other forms of cost reduction are powerful tools used especially in those areas where marketplace economics do not presently justify deployment.

More broadly, targeted fiscal incentives to providers of broadband networks, services and equipment, whether fixed or mobile, can be granted to stimulate a robust and competitive broadband marketplace, such as relief from certain financial levies for a certain period (i.e., spectrum fees in specific areas of interest); application of a single preferential import duty on equipment and materials; exemption from value-added tax on imported equipment and material that is sold locally; and tax deductions for those directing resources at research and development.

**Question 3:**

**What are your views on the appropriateness of the parameters in Figure 4 for the purposes of selecting from, and standardising, the least expensive products of different licensees for the purposes of assessing the affordability of entry level broadband?**

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Telikom notes the parameters offered in figure 4.

Telikom offers the following comments to NICTA comments in the consultation paper.

Telikom is fully aware of the Government's desire of having broadband services available at an affordable price and it is deploying every effort and resource in attempting to deliver this objective. At what time, that objective will be realised entirely dependent on the market circumstance.

However, NICTA indicated in the consultation paper that it may consider regulatory intervention if the monitoring does not show improvement over time. Whether the market will improve or otherwise is something for the future, NICTA should continue to allow the market forces to decide. By making such a statement or comments like this increases fear and uncertainty into the market and it affects investment and business planning decisions.

Telikom is currently undertaking huge capital expansion to rollout the broadband services and the costs incurred are expected to be recovered over time while NICTA expects some improvements through its monitoring role. Ideally, a regulator would continue to encourage and promote efficient investment that translate into efficient service delivery and consequently end user realise price reduction.