



Spotlight with NRI

Development Issues, Policies, and Trends

August 2007

Vol.1 No.4

THE NEED FOR COMPETITION IN THE MOBILE COMMUNICATION MARKET

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The ‘tug of war’ over the introduction of competition in the mobile phone market has intensified in the recent past.

Just like a ‘Court of Law’, two opposing sides have been putting forward their cases. On one side, the custodian of ‘competition promotion’, the Independent Consumer and Competition Commission (ICCC) has stood its ground on its decision to introduce competition into the mobile phone market. The opposing side, which comprises the Government, the Independent Public Business Corporation (IPBC) and Telikom, seem to be somewhat hell-bent on delaying or curtailing competition.

In the interest of public welfare, as well as the need to strengthen the role of the private sector in development, this paper argues that competition in the mobile phone market must be allowed to take its course in order to allow for:

- efficiency and reliability of communication services (for businesses, the government and civil society/public);
- fair pricing (for both the service providers and users); and
- facilitation of growth and development.

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Background

The debate over whether to allow and licence competition in the mobile phone communications in Papua New Guinea market has intensified in the recent past. The Government, the Independent Public Business Corporation (IPBC), and Telikom are strongly opposing the introduction of competition into the telecommunications industry. On the other hand, the Independent Consumer and Competition Commission (ICCC), which is entrusted with promoting competition in the economy, has defended its decision to issue two new mobile phone licences to Digicel (PNG) Ltd and Green Communications Ltd, respectively. The National Court and an independent international appeals panel have both ruled in favour of the ICCC.

This paper presents an economic analysis of the relevant issues, as well as adding theoretical and empirical perspectives to support the argument that competition must be promoted in order to allow for efficiency, better service, and fair pricing in the mobile phone market.

Ownership

An important issue which determines the ability of a firm or company to deliver a good or service in a market is the nature of its ownership — whether it is a public or private entity. Public entities are ‘owned’ indirectly by the people, through the State or the government. Given the loose nature of ownership by the people, the custodians of public companies — governments and managers of the public entities — are not directly accountable for the decisions which they make, even when such decisions adversely impact on the citizens — the owners — as well as users of the service. Moreover, the public have little direct power to ensure that the Government is acting in their best interests. Public entities are invariably prone

to inefficiency.

In contrast, a private entity is owned by shareholders who have a direct relationship with the company by way of documented evidence (*ownership certificates*). As such, the shareholders have more say (as opposed to the public entity) in how the firm is run. Through the explicit nature of their ownership, shareholders ensure that the management acts in their (owners or shareholders) best interests. Efficiency, product quality and diversity, and reliability are the hallmarks of private enterprise, which are not matched by public entities.

The case for competition

Promoting competition is an important role for the State in order to ensure:

- *efficiency and reliability of services*, because competition drives competitors to strive to be the best in what they do; and
- *fair-pricing*, because prices that are determined in a competitive market are more welfare enhancing (for both the supplier and consumer) than under a less competitive market or a monopoly; and
- *facilitation of growth and development*, because efficient communication will facilitate the production and distribution of goods and services (both economic and social).

Strong competition in a telecommunications market will lead to:

- improved service delivery;
- diversified products (phones, text messaging, and the internet);
- wider consumer choice;
- fair pricing, for both sellers and consumers; and
- reliability and efficiency of services.

In the absence of competition, the above benefits are unlikely to be realised.

Telikom and the need for competition

Since Independence, Telikom has been the sole supplier of telecommunications services in Papua New Guinea. This monopoly has resulted in:

- *constant service disruption*, which depicts an inefficient, unreliable communications service;
- *unfair prices*, which are high and exorbitant compared to the small neighbouring Pacific island countries, such as Fiji and Tonga (which have allowed competition, despite their relatively smaller markets);
- *increased communications costs* to businesses and individuals;
- *heavy reliance* on government subsidies at the expense of essential spending on basic services, such as health, education, and transport infrastructure; and
- *insufficient service coverage*, even within the National Capital District.

Collectively, these deficiencies depict an inefficient telecommunications company, which is a burden on the public, businesses, and individuals. This is a constraint to welfare enhancement, economic growth, and national development. Since the announcement by the ICCC to grant two new mobile phone licences for Papua New Guinea, the following benefits have surfaced or are expected:

- efficiency, reliability, and fair pricing, as has been the case since the launch of Digicel;
- a recruitment drive by the new companies, which has created new employment opportunities for Papua New Guineans;
- the entrance of foreign firms, resulting in a substantial injection of capital and foreign exchange into the economy; and
- spin-off benefits, such as subcontracting, which are needed and will boost economic activities.

The recent government decision

In its recent decision in June 2007, the National Government has:

- rescinded its previous decision of 2005 to allow new competitors into the mobile phone industry;
- delayed industry competition for a further 12 months, which is the second such delay; and
- split Telikom into two entities — *Netco* for wholesaling and *Servco* for retailing.

From an ownership perspective, the rush to split Telikom into two new entities (without wider consultation with the citizens, who are the owners) raises significant questions about due diligence, which is an important requirement for major investment decisions.

From a business and public welfare point of view, the decision potentially undermines and curtails healthy competition (and the benefits), because the two entities are only differentiated from an operational perspective; that is, there is still one owner. Consequently, elements of a monopoly — (and its adverse impacts) — will still exist. To guard against this, competition must be introduced in both the wholesale and retail market place, if the full benefits of competition are to be realised.

Actions required

Given the issues that have been raised, the following actions are recommended:

- the role of ICCC, as a promoter of competition, should not be undermined, especially by the institution which established it— the Government. The ICCC must be left to carry out its duty as a promoter of competition;
- the decision to restructure Telikom should not dictate whether or not competition should be introduced into the industry. Competition must be allowed to take its course;
- the current ploy and attempts to

- delay the introduction of competition in the mobile communication industry should be withdrawn, if efficiency, fair pricing, and reliability of services to the public are to be realised; and
- more importantly, the role of the Government must be redefined. Is it to be a service provider or a facilitator of service delivery? In our opinion, the Government should leave the running of businesses to the pri-

vate sector, because the private sector knows best how to conduct efficient business.

About the Authors

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Announcements

The National Research Institute (NRI) is advertising an **Open Call for Research** proposals to be considered for funding. The Institute is specifically looking for **desktop, systematic reviews** concerning issues which affect Papua New Guinea's development, including, but not limited to:

- Promoting basic education;
- Issues in population growth;
- Supporting the informal sector—promoting production linkages between the informal and formal economies;
- Improved governance—political and administrative structures in the Melanesian context, and the capacity of local level governments; and
- Analyses of economic growth constraints and possibilities.

Open Call projects will require budgets to be less than K10 000, and projects will commence from August 2007. NRI will cover the costs of necessary travel and consumables, and will consider payment of a small honorarium.

Applications are invited from individuals who can demonstrate that they can conduct rigorous, methodical research and can critically evaluate and report on their findings, or can arrange to collaborate with others who can. Organisations can also apply on behalf of nominated researchers, under the same conditions.

An Open Call proposal requires the submission of a completed three-page application form, which can be downloaded from the NRI website, www.nri.org.pg.

Proposals will be assessed by the Selection Panel against the following weighted criteria:

- Merit and relevance of the proposed research to PNG development needs (40 %);
- Quality of the research methodology to achieve the outcomes (20 %);
- Track record and quality of the researcher/research team (20 %); and
- Cost and value (20 %).

Contributions to Spotlight should be addressed to the Director, NRI:

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Further information on the National Research Institute can be obtained from the Institute's website—www.nri.org.pg