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18th Floor, Three Cyberpod Centris-North Tower, EDSA corner Quezon Avenue, Quezon City
Tel: 372-1291, 372-1292 • http://www.pids.gov.ph

Erlinda M. Medalla
PIDS Senior Research Fellows
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Additional thoughts for the Agenda on <u>Senate Resolution 213</u>

The Telecommunications industry, particularly given new and constantly changing ICT techonologies, is a very complex sector. The industry involves the use of bandwidths (radio frequency spectrum), a public resource, which the government needs to regulate judiciously to benefit the consumers in the most efficient and equitable manner. Establishing platforms and essential facilities that would make use of this resource is very capital intensive. There are also many different platforms, based on technology and particular bandwidth/spectrum utilized. It involves a wide range of ICT services, along the various segments of the network.

There are growing concerns about the state of the ICT, which has left the country behind many of our neighbors, for example, in terms of internet speed, quality of services rendered and costs to consumers. These escalated with the PLDT and GLOBE acquisitions of the San Miguel Telecommunications assets.

On the whole, what is needed is a combination of liberalization, competition and regulatory reforms. This is a major task of the newly formed Philippine Competition Commission (PCC), together with the NTC, and other relevant branches of government, such as the National Economic and Development Authority (NEDA) and the Department of Information and Communications Technology (DICT).

Introducing competition elements in the sector is a major policy element. Toward this end, it is important to look at what is the current market structure, how has this been affected by the PLDT and GLOBE acquisitions?

Given that there is now only two major players in the market, how can the government impose competition discipline and make sure that efficiencies and consumer benefits can be derived?

On competition, reducing barrier to entry is a key element of policy. How can we make the sector open to a third major (maverick) player? How can we reduce barriers to entry? In particular:
1. Is it a given that only said spectrums be returned?
2. It difficult to recall, return unused (unpaid) radio spectrum that has already been assigned?

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3. Based on technical aspects, how much available spectrum is necessary for open entry of third player?
4. Players cite huge costs of regulations and procedures- especially at local level. How can these be reduced?
5. Foreign equity limitation is a major constraint

As discussed in Serafica (forthcoming in PIDS journal) priority actions of a comprehensive strategy to induce upgrading and expansion include (i) addressing the barriers to their growth (particularly in terms of relaxing foreign equity restrictions, providing infrastructure needs, and removing burdensome regulations and procedures); (ii) subjecting service suppliers to stringent demand conditions through consumer protection and quality of service standards; and (iii) curtailing anti-competitive practices.

Solutions are not easy to find, gauged and calibrated. One needs to look at various forms of competition in telecommunications introduced in other countries to determine what could work for the Philippines.

Among the recommendations found cross-countries experience is network (facilities) sharing.

Studies find that Network sharing-promotes competition, as more players are encouraged to enter in different segments of the network. This leads to reduced prices and wider range of services. It is found to reduce costs, for example in terms of lower capital and operational expenditures for operators due to the sharing of rent and other costs.
However, there are also possible costs and problems arising from network sharing. This pertains to the difficulty in coming up with a win-win situation for most players, especially with respect to how to compensate for capital expenditures for infrastructures built by incumbent operators. There is also higher monitoring costs in the performance and quality management systems.

These costs could be addressed by finding the right regulatory setting and suitable contract/agreement structures (including a cost-based pricing) which requires that the NTC should have enough mandate, capability, independence and power to execute. On the part of the PCC, it needs to ensure that the laws are non-discriminatory and contain competitive safeguards.