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# **GOVERNMENT POLICY ON COMPETITION IN THE INTERNATIONAL TELECOMMUNICATIONS MARKETS**

**(As at 13 February 2008)**

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## **1. INTRODUCTION**

This is a Government policy for further liberalization of the international telecommunications markets in Samoa.

Competition Policy<sup>1</sup> is a mandate of the Office of the Regulator. However, the Ministry of Communications and Information Technology may establish and issue policy in regard to any restrictions on the number or type of telecommunications licences issued in Samoa pursuant to Article 8(1) of the Rules on Licensing Telecommunications Services dated 21 March 2006. In this instance, the Government is concerned about the possible financial impact of liberalizing this market on SamoaTel, a State Qwned Enterprise (SOE). This requires Government policy to be established to set firm policy statements for the introduction of further competition in this most important area.

## **2. POLICY OBJECTIVE**

The main objective for this Government policy is to identify firm policy statements for the international telecommunications markets. These policy statements complement an analysis of the current international traffic in the telecommunications markets in Samoa.

The main policy objective considers the following policy issues in the international telecommunications markets environment:

- a. International Fixed Line Traffic
- b. International Internet Access
- c. Undersea Cable Landing Station and other Gateways
- d. Voice over Internet Protocol (VoIP)

## **3. CURRENT SITUATION ANALYSIS**

At present, the telecom SOE SamoaTel has a monopoly on all international traffic used for fixed line voice and Internet service connections to and from Samoa (the current SamoaTel license containing the exclusivity clause expires on the 30<sup>th</sup> of June 2009).

The telecom SOE SamoaTel exclusivity for carriage of international traffic was partially removed by the issuance of a Global Service for Mobile (GSM) license to Digicel in 2006 which contains approval for Digicel to install and operate an international gateway for carrying international traffic to and from their GSM network.

The SamoaTel exclusivity in the international market is expected to be further challenged this year and in the immediate future in a number of areas including:

- a. Digicel is expected to apply for approval to add Internet traffic on their international gateway system. They are also expected to re-apply to carry other international traffic later this year.
- b. Telecom New Zealand (PacRim East) are actively promoting an undersea cable project that would provide connections between Samoa and American Samoa and then to Hawaii. Another submarine cable project is proposed by South Pacific Islands Network (SPIN) that would provide connections between Fiji, Wallis and Futuna, Samoa and American Samoa.

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<sup>1</sup> Telecommunications Act 2005, Part VI, Competition Policy

- c. The current speed and quality of international Internet connections to and from Samoa provided by SamoaTel are considered to be inadequate to provide the required level of services for the Internet users in Samoa.

### **3.1. The Impact of Liberalization on SamoaTel**

Prior to April 2007, SamoaTel carried all fixed and mobile international traffic to and from Samoa. This traffic is very profitable for SamoaTel since they gain revenue from both incoming and outgoing calls<sup>2</sup>.

SamoaTel lost a significant portion of this revenue when the Digicel gateway came into service in April 2007. Further loss of revenue may also be expected if the international market is further liberalized to allow competing operators to carry international traffic to and from fixed line subscribers in Samoa.

Faced with a reduction in these very profitable revenues, SamoaTel may well be forced to consider an earlier than planned increase in line rentals and local call charges in an effort to maintain overall profitability. This will certainly have a negative impact on local consumers who are already complaining about fixed line tariffs.

Significant price increases at the consumer level may also drive more people to abandon fixed line service in favour of mobile usage - which in turn would further exacerbate SamoaTel's fixed line revenue problems and could result in reductions in the level of service provided or the number of staff involved. The Government would also be directly affected by the reduced capacity for SamoaTel to pay dividends and the subsequent reduction in share values until such time as the lost fixed line revenue is replaced by increasing revenues from Go Mobile and other services.

The extent of the impact on SamoaTel's revenues resulting from the opening of the Digicel gateway is significant due to the very high number of minutes involved; however, the reduction in revenues from mobile calls is somewhat academic since the Digicel license has already been issued.

The main issue now is to consider the additional impact that may be expected if full competition is allowed for the carriage of all types of international traffic.

### **3.2. Competition For Fixed Line International Calls**

This section has been divided into separate sections to discuss the issues associated with Digicel carrying fixed line traffic and then addresses the expected results if any undersea cable project eventuates.

#### **3.2.1. Digicel (Samoa) Limited**

Digicel could add international traffic destined for fixed line subscribers to their gateway facilities with very little additional cost. This would allow them to receive fixed line traffic from New Zealand (and possibly other major routes) for which they would enjoy the in-payments currently received by SamoaTel. The incoming traffic would then be forwarded to SamoaTel over the existing interconnection route for which Digicel would pay SamoaTel an

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<sup>2</sup> SamoaTel bills locally for outgoing calls and receives payments from other countries for each minute of traffic sent to Samoa via the SamoaTel international gateway facilities.

interconnection rate. This is currently around 8 sene per minute for calls from mobiles to fixed lines. Digicel would then retain the difference between the in-payment and the payment to SamoaTel. This could amount to a significant sum of money given the very large number of minutes per month likely to be involved.

In effect, this would be a direct transfer of revenues from SamoaTel to Digicel for almost no added investment on behalf of Digicel. Subscribers in Samoa would not benefit from this change since all call billing for incoming international calls takes place overseas.

The Digicel network could also handle outgoing international calls from fixed line subscribers. This is unlikely to have much impact on SamoaTel or subscribers in the short term since SamoaTel is currently under no obligation to deliver international fixed line traffic to Digicel. This could change if a regulatory order was issued forcing SamoaTel to divert some of its international traffic to Digicel in interests of fostering competition in this area by allowing customers to select their choice of international carrier.

### ***3.2.2. Undersea Cable Project***

The advent of a cable landing station in Samoa will present a different set of questions since the station operator will (presumably) not be associated with any license to provide mobile or fixed services in Samoa. In other words, the cable operator will be looking for a license to provide international gateway services rather than combining this feature with other services.

If SamoaTel were to be the investor and/or sole client in the Samoa end of the cable, there would be no change to the competitive situation. On the other hand, allowing the cable operator to offer international connectivity to other operators and/or major consumers in Samoa on a competitive basis presents a number of questions regarding both licensing and the previously mentioned SamoaTel exclusivity.

In an ideal competitive environment, the cable operator would be able to offer dedicated international capacity to whoever wanted to pay the price. This represents the preferable long term solution since it will allow full competition in the international market in Samoa which in turn should provide cost and/or quality of service benefits to Samoans. On the other hand, this brings us back to the question of SamoaTel exclusivity referred to above. It would also raise the question of who would provide the connections between the cable landing station and the premises of each of the cable operator's customers. This could be handled by leasing capacity from SamoaTel or by allowing other companies, possibly including the cable operator, to provide dedicated leased lines on a local basis.

The latter question is relatively easy to resolve since the Telecom Act specifically encourages competition and it would be a simple matter to arrange for any qualified company wishing to provide the local leased lines with a suitable license. Handling of the SamoaTel exclusivity are given in the final section of this Government policy.

The far greater bandwidth available from the cable system would enable Voice over IP (VoIP) to become a commercial reality in Samoa. This service is currently not permitted on a commercial basis since it acts as a direct bypass of SamoaTel's international facilities and would further reduce the quality of internet access to other users due to the amount of bandwidth required for a VoIP call. The introduction of commercial VoIP will have a significant impact on both mobile and fixed international traffic due to the very low rates charged for this type of service.

### **3.2.3. Subscriber Access to Competitive International Carriers**

Subscriber access to competing international operators is usually handled by one of two methods: the first allows subscribers to choose their preferred international carrier by dialling a prefix number before dialling the international number. The second method is by pre-selection of a preferred carrier. In the latter case the subscriber notifies the fixed line operator of his or her preference to place all international calls via a specified international carrier and the local exchange is then programmed to automatically route each outgoing international call to the selected long distance or international carrier.

Depending on the country involved, customer billing may be done by the company whose subscriber initiates the call. Alternatively, the cost of the call may be charged in separate components by each operator involved (e.g. the local company charges an access fee and the international operator charges subscriber for the cost of the international section of the call). Inter-operator charges for handling the outgoing calls are established between the operators involved via standard interconnection agreements.

Incoming calls are handled by interconnection agreements that state the cost of terminating an incoming fixed line or mobile call on the local network. Payments for these calls are then worked out between the operators based on the total number of calls and/or minutes per month.

These matters can be readily resolved by normal regulatory procedures, however, once again, the impact on SamoaTel revenues could be significant if other operators were allowed to carry all types of international traffic to and/or from Samoa.

### **3.2.4. The Impact on the Consumer**

The advent of competition in the carriage of international mobile traffic is expected to result in some reduction in international call charges as both Digicel and SamoaTel continue to vie for share of the mobile market; hence some consumer benefit may be obtained in the short term. On the other hand, the loss of revenue by SamoaTel could have a negative affect on fixed line subscribers as discussed in section 3.1.

Allowing competition in the fixed line traffic could also result in lower international call charges; however, any savings here could be more than offset by the increased cost of line rentals and local call charges if competition is allowed to commence without providing SamoaTel some lead time to adjust to the situation. This would have a bigger impact on lower income subscribers who have make few, if any, international calls that would otherwise offset increases in local costs.

## **4. STRATEGY TO ATTAIN POLICY OBJECTIVE**

As a result of the current situation analysis of the international telecommunications markets in Samoa, the Government strategise on the four major policy issues; international fixed line traffic, international Internet access, undersea cable landing station and other gateways and Voice over Internet Protocol (VoIP). This is further discussed as follows:

#### **4.1. International fixed line traffic**

SamoaTel needs to be given reasonable advance notice of the fact that they will lose their exclusivity. This should give them some time to manage the transition by developing or improving other revenue streams.

#### **4.2. International Internet Access**

SamoaTel needs to be given notice that consideration has been given to issuing competitive international Internet licenses. This lead-time should be sufficient to allow SamoaTel to finalize planned improvements to their Internet network in preparation for any subsequent competition.

#### **4.3. Undersea Cable Landing Station and other Gateways**

Undersea cable is the most pressing issue at this point in time. Other applications to install other satellite or terrestrial gateways are also expected to follow in due course. It is in the best interest of the government to look at all possible avenues to increase capacity. It is envisioned that commercial activities will need to increase in the near future, as Samoa makes access to World Trade Organisation (WTO), and graduating to developing country status.

The Government needs to decide on the most economical undersea cable option, rather than committing to both proposed cable providers (SPIN & PacRim East). SPIN is the preferred option, due mainly to the 25 year life of the cable. PacRim East cable life is 10 years.

Policy will need to be formulated if the gateway to be used by Digicel or others to carry Internet traffic or any traffic to or from SamoaTel fixed line or mobile subscribers. Policy should also be defined to cover the possible provision of international leased line services to major end users such as Yazaki, UNDP, and others.

The policy regarding carriage of competitive fixed line traffic will be largely governed by the decision [reference made to the SamoaTel exclusivity raised in section 3 above]. Government policy will therefore need to contain a contingency clause to cater to early launching of the cable gateway if it would otherwise be preferable to allow SamoaTel a longer period to adjust to the advent of competition.

There is a need to continue allowing private gateways. Policy regarding provision of international leased line facilities by a commercial gateway operator essentially represents the same type of service and should therefore be permitted without the need for advance notice to SamoaTel. Separate licensing will be required for operation of the connections between the cable landing or other gateway site and the consumers if this is not included in the actual gateway license itself

#### **4.4. Voice over Internet Protocol (VoIP)**

The introduction of commercial VoIP services would represent a direct bypass of the SamoaTel and Digicel networks. The government should continue with the moratorium on provision of commercial VoIP services in accordance with the policy set forth in section 5.5 below.

## **5. GOVERNMENT POLICY STATEMENTS**

As a result of strategizing on the four major policy issues above, this Government Policy on Competition in the International Markets sets forth the following policy statements:

### **5.1. Government Policy Statement on International Fixed Line Traffic**

- 5.1.1. SamoaTel is to be notified before the end of February 2008 of the Government's intention in further liberalization of the international fixed line voice and facsimile market;
- 5.1.2. SamoaTel is required to provide a business plan detailing the impact of allowing further competition in the international voice and facsimile telecommunications markets. The business plan shall be submitted to the Ministry no later than **31<sup>st</sup> MARCH 2008**, and shall identify specific strategies for overcoming any reduction in revenues resulting from the introduction of additional competition in the international market;  
  
The plan must quantify revenue changes (both reduction and new streams) on an annual basis for the next four years; and
- 5.1.3. The Government shall review the business plan to assess the overall impact on SamoaTel. Following this review, the Government shall determine the date on which further competition will be allowed in the international fixed line voice and facsimile market. These policy guidelines will then be reissued stating firm dates for the introduction of competition in this area. The action points listed in this clause, shall be completed no later than **1 MAY 2008**.

### **5.2. Government Policy Statement on Licenses issued on International Traffic and Carriers.**

- 5.2.1. The licenses to carry fixedline international traffic may be granted to financially and technically qualified applicants following the date determined in accordance with 5.1.3
- 5.2.2. Licenses for additional gateways for mobile network to carry their own international traffic may be granted to financially and technically qualified applicants following the date determined in accordance with 5.1.3
- 5.2.3. Any financially and technically qualified firm may apply for a license to act as a carrier between a customer's premises and a gateway point of interconnection.

### **5.3. Government Policy Statement on International Internet Access.**

- 5.3.1. Licenses to provide competitive international Internet access may be considered for financially and technically qualified applicants following the date determined in accordance with 5.1.3;
- 5.3.2. Internet Gateway licensing may be opened to Internet Service Providers (ISP's) and other financially and technically qualified firms, and may be granted following the date determined in accordance with 5.1.3.

### **5.4. Government Policy Statement on Undersea Cable Landing Station**

- 5.4.1. The government to decide in the near future on either the South Pacific Islands Network (SPIN) or PacRim East undersea cable provider at completion of analysis; and

- 5.4.2. Undersea cable landing station or International Transit Operator (ITO) to be owned by the government. The operation of the ITO may be carried out by a government agency or leased to another organisation at the sole discretion of the government.

## **5.5. Government Policy Statement on Voice over Internet Protocol (VoIP)**

- 5.5.1. The current moratorium on provision of commercial VoIP services be continued until such time as:
  - 5.5.1.1. The SamoaTel exclusivity clause has been removed; and
  - 5.5.1.2. Sufficient international Internet bandwidth is available to support commercial VoIP operations without detriment to the Internet speed and quality of service experienced by other users.

## **5.6. Government Policy Statement on Retail Internet Service Providers (ISP's) Services**

- 5.6.1. No limitation is to be placed on licenses for Retail Internet services, and licenses may be granted to financially and technically qualified applicants following the date determined in accordance with 5.1.3.

## **6. POLICY REVIEW**

This Government Policy on Competition in the International Markets shall be reviewed on an annual basis.

## **7. OBJECTIVITY AND TRANSPARENCY**

This Government policy is to be seen as being objective and transparent in order to avoid criticism from the international community, and to minimize the possibility of subsequent legal action by industry participants.