White paper: Peluang usaha di bidang penyelenggaraan telekomunikasi

(Plan to Open Business Opportunity to Develop Local Fixed Network, Long Distance Fixed Network, and International Fixed Network.)

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1.0 General Comments

1.1 LIRNE*asia* commends the DGPT for issuing the White Paper No. 140 that indicates the Indonesian government's intentions of undertaking major reforms of the fixed line sector to promote greater competition and in doing so to stimulate network development and provide greater choice at lower prices.

1.2 However, despite these noble intentions, the White Paper has been issued without addressing the fundamental problems besetting the current licensing framework or putting in place access regimes that would foster competition. The current initiative has put the proverbial cart before the horse. Before issuing any license, the Indonesian government must first fix the current licensing framework that is flawed and completely unsuited to the converged landscape, as I have pointed out on a number of occasions[1]. Last week, the Indonesian government hinted at transitioning to an Unified Access Regime when it announced new national licenses for Fixed Wireless Access providers with an additional promise of GSM licenses. However, the current White Paper is considering issuing licenses as per the old licensing framework that makes rigid distinctions between fixed, mobile, access and network providers. With Fixed-Mobile convergence round the corner, does it make sense to continue to license the services separately? For the long term growth of the Indonesian telecom sector, the policymakers must consider a forwarding-looking framework like Unified Licensing that can deal with a myriad of competitive issues in a technology neutral manner. Since the move towards convergence is inexorable, it is desirable to have a licensing framework in place that can deal with the present and future rather than continue with a regime where new regulations have to be issued every time a new problem crops up.

1.3 Based on what rationale is market entry being considered for only one entrant? Should more far-reaching reforms be considered that liberalize market entry in all telecom sectors where access to scarce resources is not an issue? The government needs to develop coherent policy objectives along

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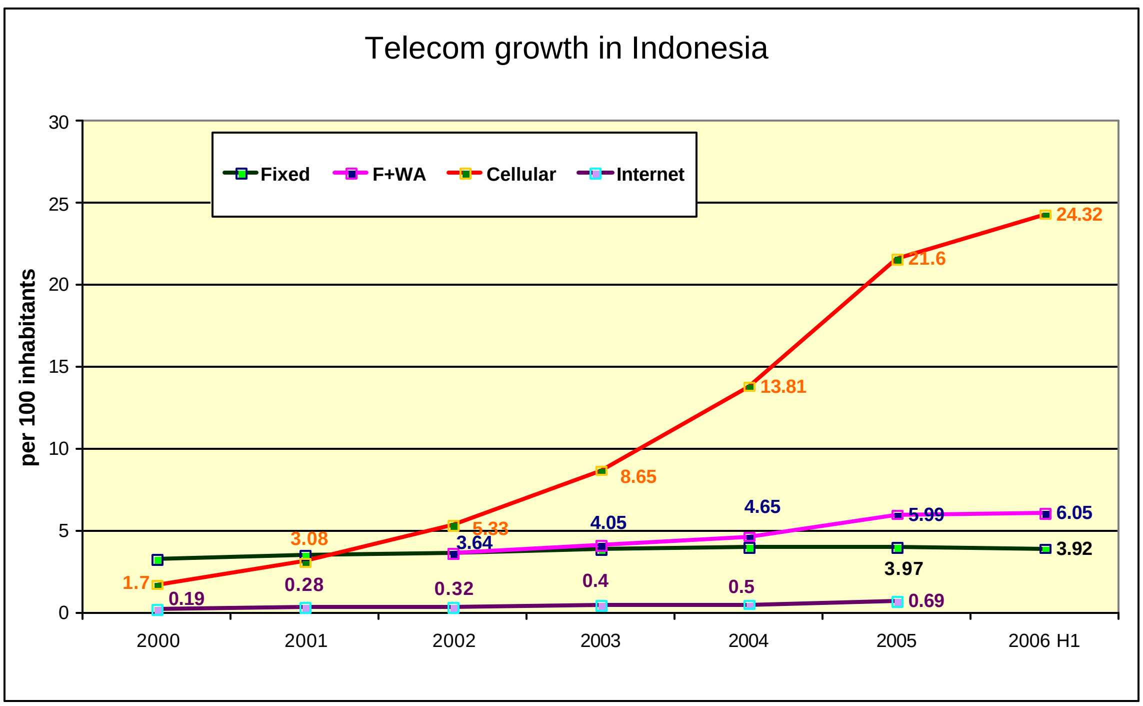
[1] Presentation at Hari Bhakti POSTEL seminar in September 2006, Jakarta, Indonesia and Wi-Fi Innovation in Indonesia: Working around hostile market & regulatory conditions

with a roadmap on how to achieve those objectives. If the objective is to move towards an Unified Access regime, is there enough frequency available to accommodate CDMA operators who may want to provide GSM services and vice versa? In the absence of such a roadmap, licensing in this ad hoc manner as the White Paper intends to do, will create instability in the regulatory environment and discourage operators from risking their investment and dissuade potential investors.

2.0 Local Fixed License

2.1 As the White Paper mentions, the duopoly model has not worked for Indonesia in connecting those who are not connected, in rolling out fixed network infrastructure or for giving Indonesian citizens choice or quality of service. As can be seen in the figure below, wherever there is competition one can see growth; in the fixed sector with a de facto monopoly, there is no growth. In fact, in 2007, fixed lines penetration (fixed line telephone per 100 inhabitants) will register negative growth!



Source: LIRNEasia, based on company annual & quarterly reports

2.2 Rigid regulation of fixed line retail tariffs below cost has acted as a disincentive for PT Telkom to offer fixed line services to new customers. Although policymakers may have gloated about Indonesia having among the lowest fixed line tariffs in the world, this policy action has inflicted serious long-term damage on the fixed line sector. This is the primary cause[2] for the new entrant, Indosat being unable to enter the fixed line market when prices offered by the incumbent are below cost. The current initiative to license a new license for local fixed network will fail to foster fixed line growth unless the above problems are fixed. The new entrant will face the same challenges that Indosat faced and will be unable to compete when the incumbent's prices are below cost. The Indonesian government must cease to regulate retail tariffs for the fixed line market, as it has for all other markets in the telecom sector. It must allow Telkom to rationalize fixed line tariffs on the basis of cost of providing the services.

2.3 Since Internet access in Indonesia, both dialup and broadband, are primarily provided over fixed lines, the stagnant growth of fixed lines has also affected Internet penetration. Currently, Internet penetration is abysmally low at 0.69 percent considering the average per capita income of Indonesia. Total broadband subscribers of less than 50,000 (ADSL) is very low for a country with 222 million inhabitants. The success or failure of the current licensing initiative to stimulate fixed line growth will also have a bearing on Internet growth.

2.4 The requirement in IV 1c that obliges the new fixed local operator to build network infrastructure using cable is not technology neutral hence inconsistent with the principles of Unified Licensing regime.

3.0 Long Distance Fixed License

3.1 The White Paper makes a valid point that new backbone operators must have their own customer base in order to generate traffic on its network. This would to an extent mitigate the investment risks of the new backbone provider. However, this is not a practical solution that can be implemented. It will be an uphill task for a new entrant tasked to build backbone throughout the country to establish a retail customer base in a currently monopolistic fixed line market.

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[2] Lack of mandated and cost-oriented interconnection regime was another reason why Indosat may have been reluctant to enter the fixed line market. This problem has been recently fixed.

3.2 In the United States, AT&T could thrive as a long distance carrier since the regional bell operating companies "Baby Bells" had presence only in their respective regions and did not own end-to-end networks connecting their region with other regions or other countries. AT&T played an indispensable role since it connected the Baby Bells to each other and through its submarine cable consortium to the rest of the world. In the case of Indonesia, the situation is very different and an independent long distance carrier will perish. Currently, PT Telkom and PT Excelcom and to a lesser degree PT Indosat have end-to-end networks and will not have to rely on the new backbone provider's network to carry traffic from their access network to a domestic or international destination. It is doubtful if any new operators without existing backbone will be given this long distance license.

3.3 In my view, this license is designed to fit one player that has extensive backbone infrastructure in Indonesia but does not have a long distance license to carry voice traffic over its network. That operator is Excelcom.

3.4 If the objective of the Indonesian policymakers is to stimulate roll out of backbone infrastructure, this license will not do the job.

4.0 International Fixed License

4.1 It is imperative that an access regime that mandates non-discriminatory and cost-oriented access to the incumbents' (PT Telkom and PT Indosat) international gateway facilities and landing stations is put in place BEFORE any new international licenses are given out.

4.2 The most effective way to reduce international bandwidth prices is to open the international gateway market to competition and licensing a large number of resellers of international bandwidth, like India has done. Since the liberalization of the international gateway market in India, international bandwidth prices for many routes have fallen by more than 50 percent. There is no good reason why the international gateway market in Indonesia should not be opened fully to competition.

4.3 Indosat and Telkom have currently between them about 7 cable landing stations in Jakarta, Surabaya, Medan and Batam. Requiring the new entrant to build additional cable landing stations is a wasteful duplication of capital-intensive infrastructure. It would be a better use of resources to mandate the incumbents to provide non-discriminatory access to their cable landing stations to the new entrant. What is important is not the number of cable landing stations per se, but the number of cables that are landed in the stations.

4.4 The Indonesian policymakers may have misunderstood the concept of asymmetric regulation. Asymmetric rules place additional burdens on dominant group of providers that other operators are not subjected to. In the current White Paper, many additional burdens are imposed on the new entrant that are not imposed on the two incumbents, PT Telkom & PT Indosat. Requirements for building FO from Indonesia to TIER-1 IP backbone, building domestic FO to Internet Exchange, building 10 Indonesian Central Gateway etc should be applied to all international gateway operators or to none at all.