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-- Session IV: Competition Issues in Telecommunications --

Contribution from El Salvador (Grupo de Trabajo de Política de Competencia en la Integración
Centroamericana)

9-10 September 2009, Santiago, Chile

The attached document from El Salvador is circulated to the Latin American Competition Forum FOR DISCUSSION under session IV of its forthcoming meeting to be held in Chile on 9-10 September 2009.

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**LATIN AMERICAN COMPETITION FORUM
- 9-10 September 2009, Santiago, Chile -**

Session IV: Competition Issues in Telecommunications

**Contribution from El Salvador
Grupo de Trabajo de Política de Competencia en la Integración Centroamericana**

1. This paper is based mainly on the Report on the Current Status of Competition Policy in the Telecommunications Sector in the Central American Region, prepared by the consultant, Marcos Avalos, and funded by the ADAPCCA/SIECA program set up by the Third Central American Forum on Competition. The copyright of this document is held jointly by the Central American Economic Integration Secretariat (SIECA) (holder of the ownership rights) and the consultant Marcos Avalos (holder of the moral rights).

Complementarity between competition policies and regulation in the telecommunications sector

2. The fact that competition policies and regulation complement each other does not necessarily mean that there is no disagreement between regulators regarding the performance and direction of the telecom sector. Clearly, this complementarity between competition policies and sector regulation used not to exist in Central America, because the countries of the region embarked upon telecom sector liberalization without legislation or competition authorities, or both.¹ Moreover, in most Central American countries (except El Salvador, Nicaragua and Panama) the competition authorities do not intervene much in the telecom sector, since competition issues are part of the sector regulator's brief. As a result, the regulatory frameworks in some countries make it hard to ensure effective competition in the sector since the competition authorities have little power to correct regulatory failings.

3. Nonetheless, in Costa Rica, although the regulator (the Telecommunications Superintendency) is responsible for prosecuting and sanctioning anti-competitive practices in the telecom sector, the

¹ Except in the case of Panama and Costa Rica. In Costa Rica, liberalization of the telecommunications market in 2008 was completed through the promulgation of Law No. 8642, the General Telecommunications Act.

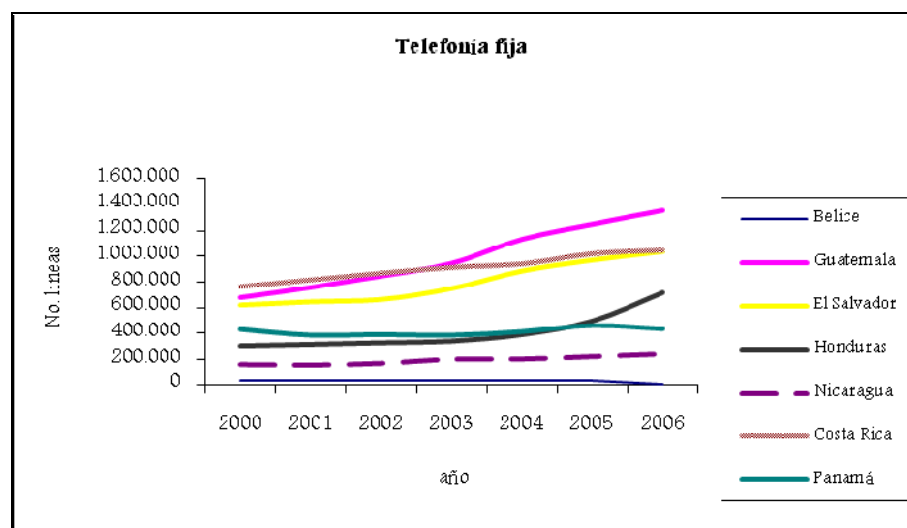
competition agency (COPROCOM) is consulted on the merits of any competition case, and if SUTEL decides to depart from that criterion, it has to justify its position.

4. Rivera (2008) shows that the Central American countries that decided to open up the telecom sector, did so via a variety of processes and paths. Nicaragua and Panama privatized and deregulated the sector by granting three-year concessions to the new owners; exclusivity included fixed-line and long-distance (LD) phone services; and they were also allowed to operate a mobile telephone licence. Guatemala and El Salvador decided to open up the sector to competition. El Salvador split the fixed and mobile phone segments and sold them to different operators, while Guatemala granted both segments in concession to a single integrated private-sector firm. Lastly, Honduras introduced the "*Telefonía para Todos*" (TpT) [Telephony for All] programme, which created a "marketing sub-operator" (which received an extension of the monopoly rights granted to Hondutel by law, to allow it to provide telecom services), and also ended service provision segmentation, since the "sub-operator" can use the same infrastructure to provide the various services.² Costa Rica opened up its the telecom market by passing the General Telecommunications Act in 2008, as part of its commitments under DR-CAFTA. This allowed new enterprises to supply Internet, cell-phone and private network services, while the traditional basic telephone service was reserved for the State-owned *Instituto Costarricense de Electricidad* (Costa Rican Electricity Institute).

Current status of the telecom sector in the region

5. As shown in figure 1 below, countries can be divided into two groups in terms of the number of phone lines. The first group, in which the number of lines has been growing in the period 2000-2006, is headed by Guatemala and followed by Costa Rica and El Salvador. The second, slower-growing, group consists of Honduras, Panama and Nicaragua, although Honduras has seen a significant acceleration since 2005. The performance of Belize has been relatively poor in contrast.

Figure 1



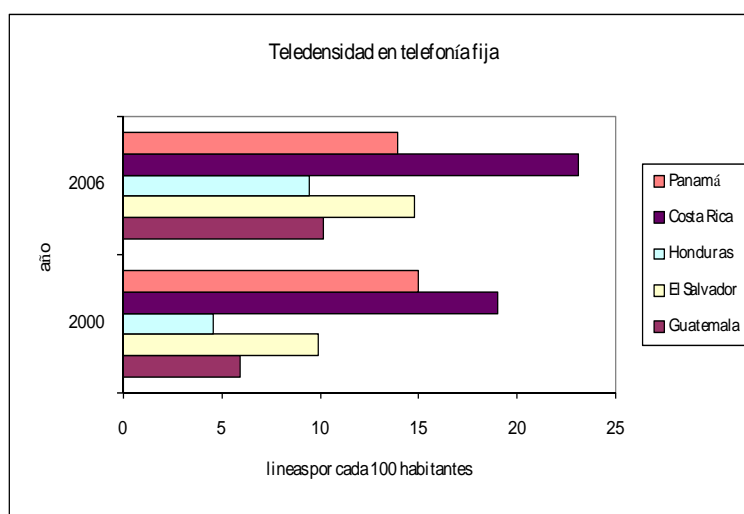
Source: Prepared by the author on the basis of information provided by COMTELCA.

Chart legend: Fixed Telephony
No. of Lines Year

² For a wide-ranging discussion on the consequences of privatization and liberalization models in the telecom sector in Central America, see Rivera (2008).

6. Nonetheless, the number-of-lines indicator alone does not reflect the comparative performance of the relevant fixed-line phone services market at the regional level, since it does not take account of market size. In contrast, the tele-density indicator (which measures the penetration of the fixed phone service per 100 inhabitants),³ does provide a measure of market growth. Figure 2 shows the tele-density of fixed-line phone services per 100 inhabitants for two-years, 2000 and 2006. As can be seen, Costa Rica, El Salvador and Panama are the best performing countries, with 24 and 14 lines per 100 inhabitants respectively. Guatemala and Honduras in 2006 had made significant progress in relation to the 2000 figures, with the number of fixed phone lines per 100 inhabitants rising from 6 to 10 in Guatemala, and from 4 to 9 in Honduras.

Figure 2



Source: Prepared by the author on the basis of information provided by COMTELCA.

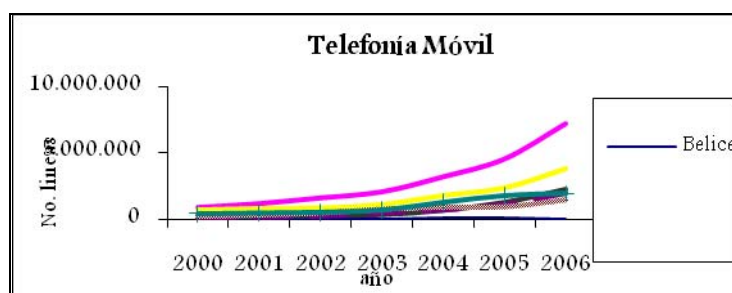
Chart legend: Fixed phone tele-density
No. of lines per 100 inhabitants

Mobile telephony

7. Figure 3 shows the number of mobile phone lines. In Guatemala and El Salvador the number of lines grew by a substantial 26% per year on average between 2000 and 2006, rising from 856,831 lines in 2000 to 7,178,745 in 2006. In Costa Rica, while the fixed-line market grew by an average of 59% in 2000-2006, average growth in the mobile phone segment has been slower at 35%, with the number of lines rising from 205,27 in 2000 to just 1,465,293 in 2006. Panama is the third best performing country in terms of the growth of lines, having experienced a major expansion since 2003. Albeit less pronounced, the number of mobile lines in Nicaragua has also been trending positively, to reach a level of 247,862 in 2006, with an average annual growth rate of 61% between 2000 and 2006.

³ The tele-density indicator is calculated as the ratio between the number of phone lines and population size.

Figure 3

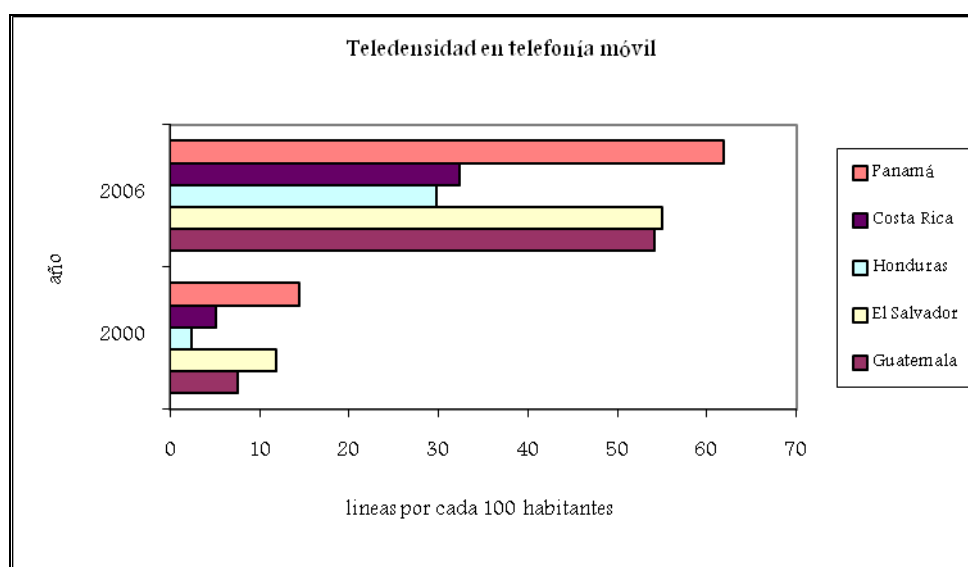


Source: Prepared by the author on the basis of data provided by COMTELCA.

Chart legend: Mobile Telephony
No. of lines Year

8. The tele-density indicator for the mobile phone service in 2000 and 2006 is shown in figure 4. As can be seen, Costa Rica, El Salvador and Panamá also have the largest number of mobile lines per 100 inhabitants, but Guatemala and Honduras also posted very significant growth in 2006 with respect to 2000.

Figure 4



Source: Prepared by the author on the basis of information provided by COMTELCA.

Chart legend: Mobile Phone Tele-density
Year No. of lines per 100 inhabitants

9. El Salvador has been one of the most successful countries in terms of investment and quality improvements, not only in the regional context but also within the FTA. As in Guatemala, the market for mobile phone services has clearly outpaced fixed telephony in terms of growth and coverage.⁴

⁴ Based on the World Economic Forum's telecommunications infrastructure quality index (See, WEF, 2008).

Technological convergence is one of the future challenges facing the Central American region in terms of competition policy in the telecom sector.

10. The telecom sector has undergone radical innovation during the last few years everywhere in the world. New trends in services and technologies, together with regulatory changes, have stimulated competition both within and between platforms, in a phenomenon referred to as technological convergence.⁵ This means that all components of images, video, data, voice, etc. are transported over the same communication and telecommunication networks, thereby enabling users to access them at a variety of terminal points.

11. Technological convergence has begun in several countries of the world, and its implementation has a number of common results. Competition in providing the phone service has increased thanks to effective compliance with requirements on inter-connection and inter-operability and the provision of network infrastructure services. The authorities have provided permanent incentives to improve competition in the provision of these services; as a result, pay-TV, Internet and telephone service prices have fallen and quality has improved. International experience, albeit brief, shows that convergence leads to greater competition and benefits consumers.

12. Introduction of the Voice-over-Internet Protocol (VoIP)⁶ in Latin America has elicited regulatory changes to encompass the new technology. In Central America thus far, only Nicaragua and El Salvador have introduced VoIP.

Conclusion

13. The level of competition in the telecom sector varies widely across the region. While El Salvador, Guatemala, Nicaragua and Panama have introduced the highest level of competition, El Salvador and Panama have benefited more from sector liberalization than Guatemala and Nicaragua. Although it only started to open up this market recently, Costa Rica now has six firms authorized to provide the various services in the telecom sector, thereby ending the State monopoly that had existed for over 45 years, in which only the *Instituto Costarricense de Electricidad* was authorized to provide services in this market. It also has a legal framework and authorities enabling the State to regulate the sector, to ensure that no abuses occur that affect users. Honduras is an "intermediate" case, having taken major steps in some markets, while others, such as long-distance telephony (both domestic and international), have thus far been neglected.

14. Lastly, with regard to the commitment made by the Central American Competition Policy Group in Central American Integration at the third Central American Competition Policy Forum, to intensify the search for permanent mechanisms of coordination, harmonization and dialogue between the competition authorities and the telecommunication sector regulators, it is essential to deepen the analysis of this sector

⁵ Technological convergence involves two aspects. Firstly, consumer access to the same service through different networks: (i) Access to voice through the fixed-line switched telephone network (STN), or through mobile phone and cable networks; (ii) Access to TV through the fixed STN network, as well as by cable and satellite; and (iii) Access to Internet through the fixed STN network, cable and PLC. Secondly, the capacity of a single network to provide various services, which were previously supplied through different platforms: (i) STN adapted for access to broadband Internet and TV; and (ii) Third-generation mobile phone networks.

⁶ **VoIP** consists of a group of resources that make it possible for a voice signal to travel over the Internet, using an Internet protocol (IP). This means that the voice signal is sent in digital packets rather than being sent (in digital or analog form) through circuits that can only be used for telephony, such as a conventional public phone company or a Public Switched Telephone Network (PSTN).

to ensure that efficiency gains in this sector are passed on to the benefit of consumers. This report represents a first step in that direction.