



Regulatory Reforms in Telecom Services

- Korean Experience -

2002. 10. 17

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KISDI

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2. Characteristics of Regulatory Reforms

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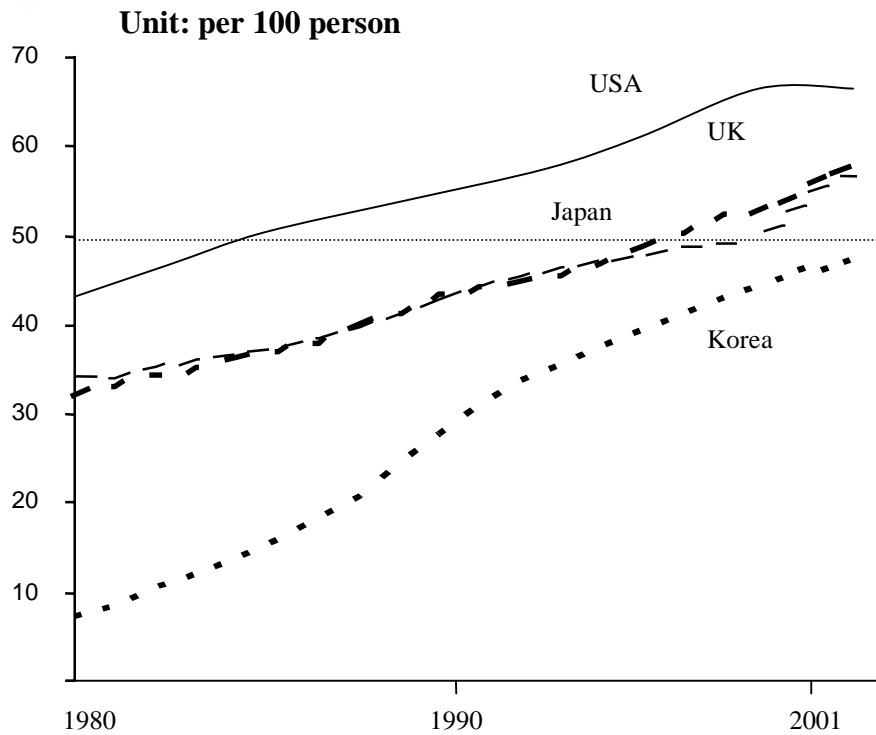
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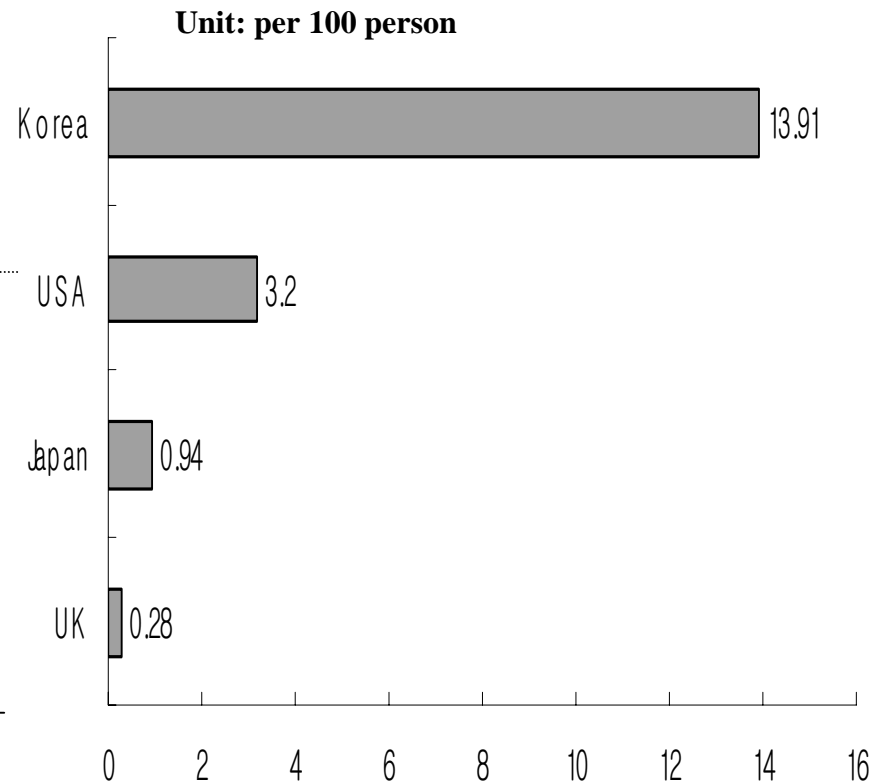
Industry Performance (I)

Teledensity (1980~2001)



Source : ITU(2001)

Broadband Penetration Ratio



Source : ITU(2001)

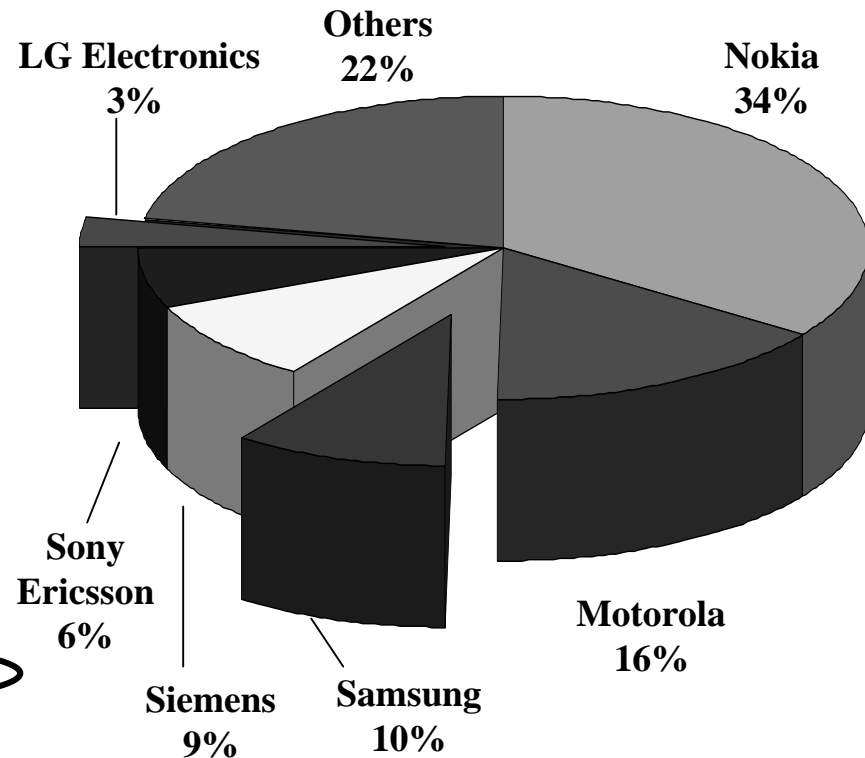
Industry Performance (II)

Worldwide Cellular/PCS Ranking

No.	Country	No. of Subscribers (thousand)	Penetration (%)
1	China	144,812	11.17
2	USA	127,000	24.70
3	Japan	72,796	57.17
4	Germany	56,245	68.29
5	Italy	48,698	83.94
6	United Kingdom	47,026	42.00
7	France	35,922	60.53
8	Korea	29,046	60.84

Source : ITU (2002)

Worldwide Handset Market Share



Source :Gartner, 2002

Different Approach / Same Principle

Deregulation Methods

- ✓ **Early Liberalization and Privatization**
 - Privatize the incumbent early
 - Full competition in early stage
 - ex: USA, UK
- ✓ **Progressive Liberalization and Privatization**
 - Pursue liberalization and protection of incumbent
 - Step-wise Liberalization
 - ex: Korea, Singapore, Japan
- ✓ **Late Liberalization and Privatization**
 - Secure the competitiveness of incumbent
 - Set up the privatization date
 - Progressive Liberalization
 - ex : Germany, France

Same Principle

- ✓ **Separation of Service operator from the government**
- ✓ **Paradigm Shift from monopoly to Competition**
- ✓ **Anti-competitive Safeguards**
- ✓ **Consumer Protection**
- ✓ **Universal Service**

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Textbook Approach

Privatization

- Establishment of KTA(1981)
- Separation of specialized service operators from KTA
 - Dacom (1982)
 - Korea Mobile Telecom (1983)
 - Korea Port Telephone (1995)
- Privatization of KMT(1994)
- Privatization Act (1997)
- Full Privatization (2002)

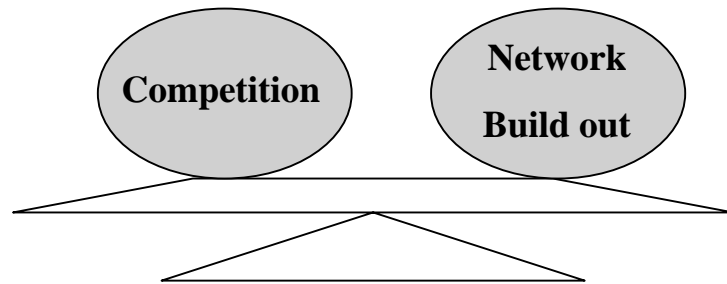
Liberalization

- Gradual introduction of competition in basic telecom service
 - International(1991)
 - Long-Distance (1995)
 - Mobile(1994)
 - Local Service(1999)
- Full liberalization of value-added service(1990)
- Resale(1997)
- Foreign Ownership Limit up to 49% including KT (2001)

Deregulation

- Interconnection Regulation
- Licensing Framework
- Price Regulation
- Carrier Pre-selection (1997)

Facility-based Competition



Network Sharing enhances the service competition but reduces the incentive of network build-out.

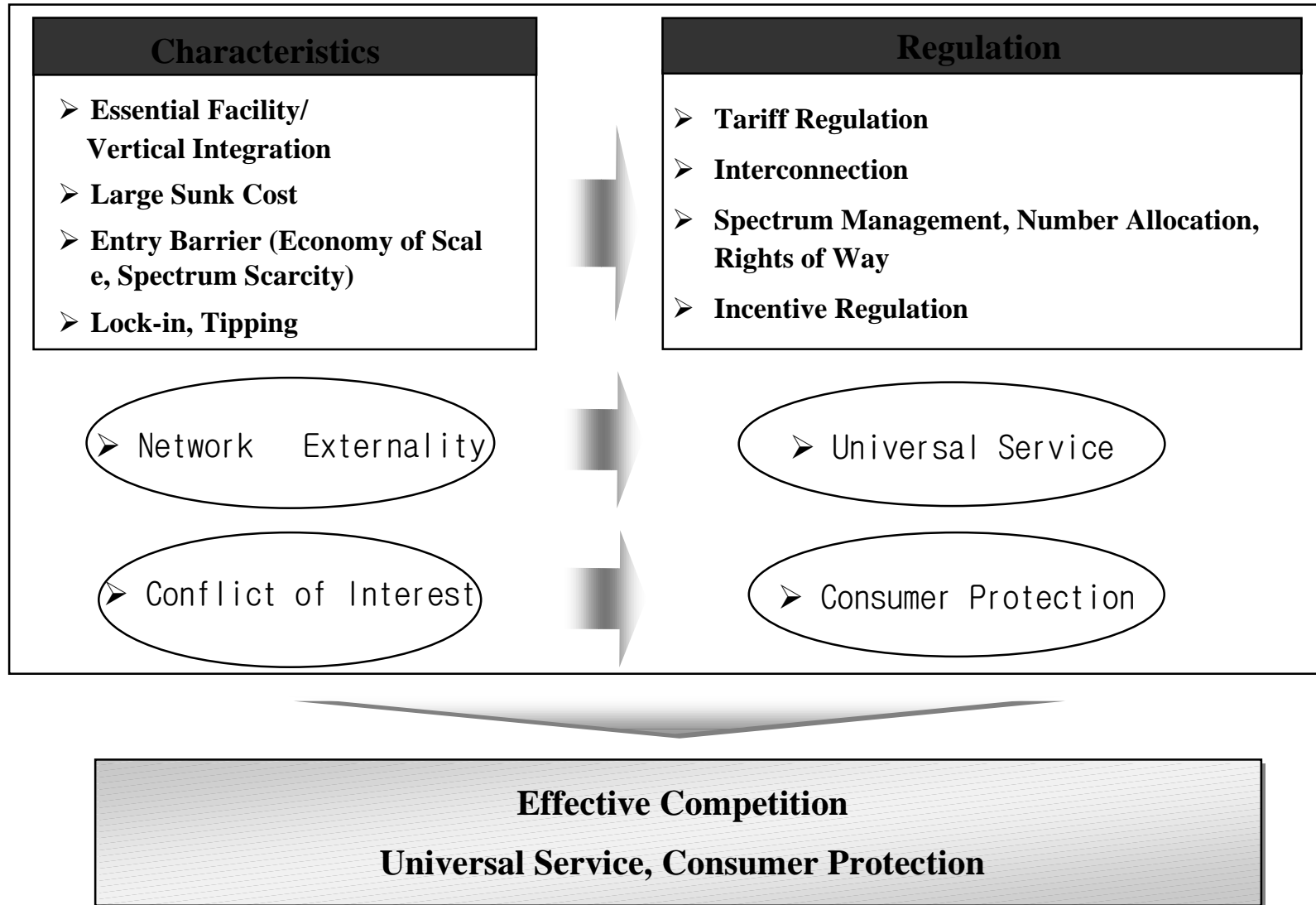
Korea Approach

Introduce network sharing measure such as LLU after witnessing the effective competition in network.

Ex:

**PCS License,
Classify the broadband
as value-added service**

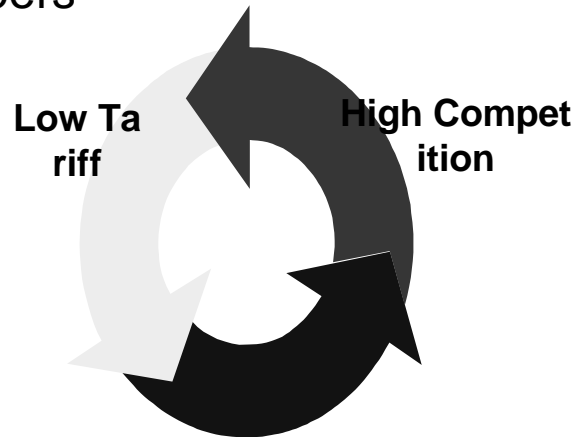
Regulations on Demand



Virtuous Cycle

Increase in number of mobile telephone subscribers

Improvement in service quality



Low Subscription costs & R&D Support

Increase in handset demand

Action taken

- Development of Digital Switch Exchange
- Selecting CDMA for 2G Standard
- Dual Standards for 3G
- R&D Support

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Effective Competition

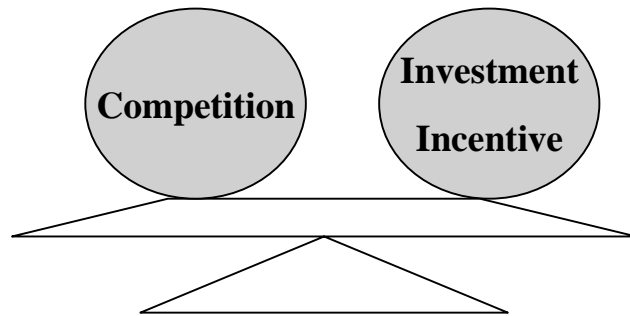
Telecom Market Structure (End of 2001)

Long-distance	KT (85%)	Dacom (11%)	Onse (4%)
Leased Line	KT (66.7%)	Others (33.3%)	
Wireless (3)	SKT (52.3%)	KTF (33.3%)	LGT (14.7%)

Actions Taken

- **LLU (2001)**
 - finalized the details of the obligation and a relevant pricing scheme
- **Number Portability**
 - local telephony (2003)
 - Wireless (3G service)
- **LRIC (2004)**

Incentive Regulation



Asymmetric nature of regulations for the effective competition reduces investment incentive.

Actions Taken

- **Privatization Act (1997)**
 - remove the government influence on procurement, business plan and business function
- **Tariff Deregulation**
 - Continuous tariff deregulation
 - Plan to implement Price Cap on local Telephony(2001)

Conflict of Interests

Challenges

- Conflicts between operators and manufacturers
- Dual Policy Objectives
 - possibility of government influence on operators
 - market inefficiency

Actions Taken

- Eliminate lump-sum contribution(2002)
- Reduce the annual contribution to 0.5%
- Strengthening the KCC's function and independence

Digitization and Convergence

Challenges

- Balance between business opportunity and Anti-competitive behavior
- Consumer Welfare
- Dual regulatory structure for the same service

Actions Taken

- Classification of new services based on Telecom Business Act
- Allow the cross entry
- Safeguards for the dominant player

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Lessons

Lessons

- Textbook Approach
- Facility- based competition
- Concrete Competitive Safeguards
- Responds to environmental changes
- Following the international standards

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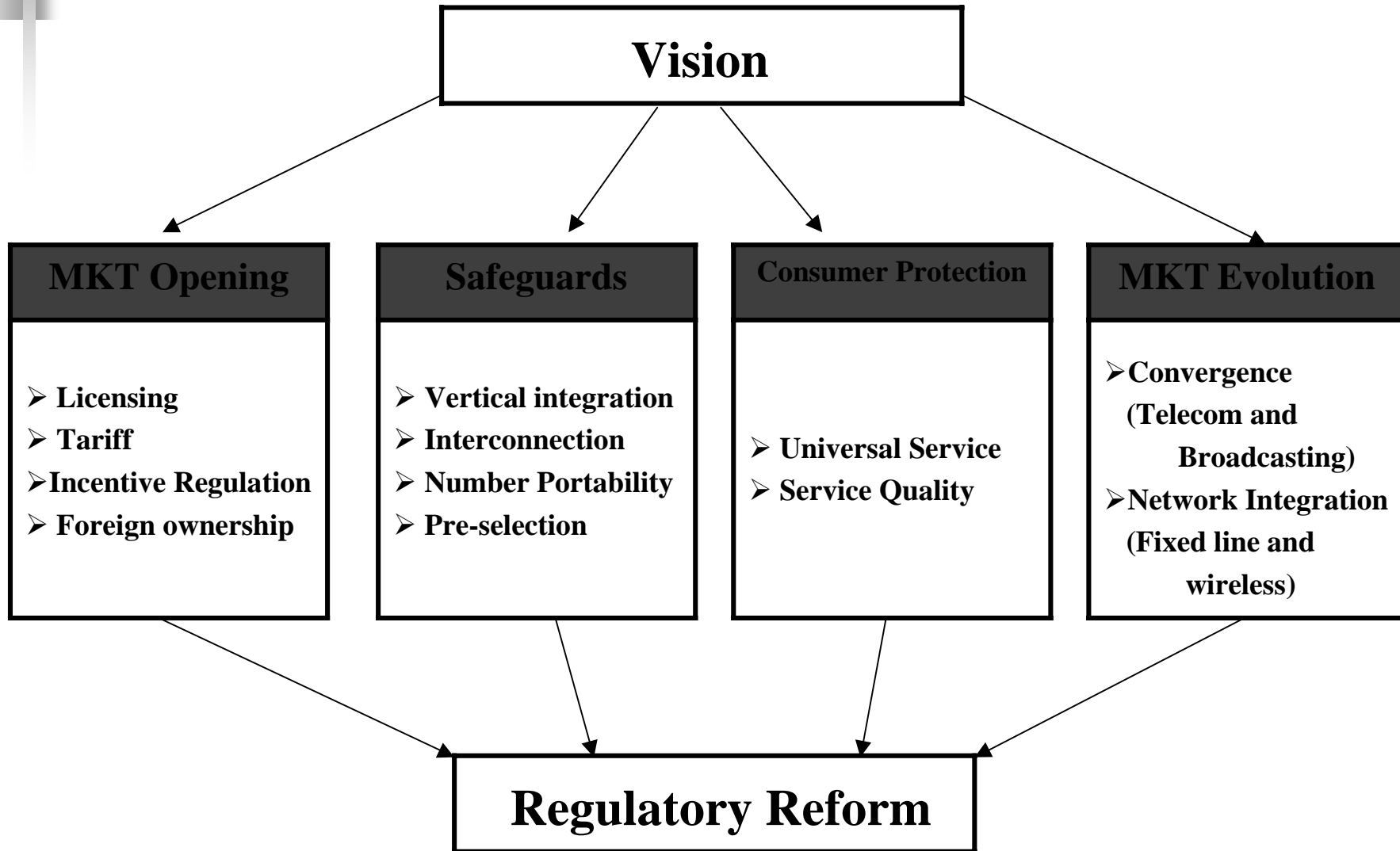
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Conclusion





THANKS

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