Pakistan's new telecoms policy: market players must review their strategy to seize the opportunities

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- *The Pakistan Telecom Policy 2015 will create a significant amount of work for the Pakistan Telecommunication Authority (PTA), but existing players will also face a period of intense regulatory effort. Early and constructive engagement with the PTA is likely to be more profitable than a "wait-and-see" approach.*

The new policy document issued by the Government of Pakistan in December 2015 is Pakistan's most comprehensive overhaul of the telecoms market since 2003. The implications for existing players are far-reaching: they present substantial opportunities for new revenue streams and cost optimisation as well as competitive threats from liberalisation and potential new entrants.

The Pakistan Telecom Policy 2015 sets out comprehensive, ambitious plans that are also complex to implement

The Telecom Policy 2015 is the long-awaited update to the IT Policy of 2000 (and the De-regulation Policy of 2003), and takes inspiration from state-of-the art European regulations, including a large number of regulatory measures covering most aspects of the telecoms landscape. The policy is comprehensive, ambitious and complex, as summarised in Figure 1:

Figure 1: Summary of Pakistan's Telecom Policy 2015 characteristics [Source: Analysys Mason, 2016]

COMPREHENSIVE	Most topics are covered, from market structure to spectrum, including satellite, international bandwidth, rights of way, universal service and more innovative OTT regulation
AMBITIOUS	The policy sets urgent goals to put Pakistan on a par with best-of-breed European regulatory frameworks. It sets some aggressive deadlines for the telecoms regulator, the PTA, to implement a proper EU-like market review framework to establish dominant players (within 6 months of December 2015) as well as to review the licensing framework (by December 2016)
COMPLEX	Given the number and breadth of the new measures proposed by the government, it may be difficult to prioritise among a large number of measures which are individually complex to implement, but which also need to be implemented in a consistent way in order to be fully effective

Not only will this policy create a significant amount of work for the PTA, but existing players will also face a period of intense regulatory effort. In our experience, providing a robust response to consultations on market review for all telecoms markets will require (possibly at short notice) 2–3 full-time resources with economic and legal expertise over a period of four to six weeks.

Overall, the framework step-up that Pakistan is now planning has taken some Western European regulators more than ten years to get right.

The many policy opportunities as well as risks expand beyond the simple regulatory space

Local players may decide to follow the PTA's (likely slow) pace of implementation by responding to consultations on an ad-hoc basis and addressing each regulatory evolution as it is implemented. However, early and constructive engagement with the PTA is likely to prove more profitable than a "wait-and-see" approach.

The new policy document presents significant opportunities for all types of players:

- For the three mobile operators,[1]
  - a forward-looking spectrum strategy as well as a new framework for spectrum sharing and trading may allow operators to launch better services and optimise their spectrum costs
  - predictability and transparency on how the Universal Service Fund (USF) will be used would provide an opportunity to expand mobile coverage incrementally (coverage has recently been stalling well below 90% of the population)
  - clarity on Wi-Fi offloading and the use of unlicensed spectrum (LTE-U) may provide further opportunity to optimise network investments.
- For PTCL,
  - the clear push towards fibre can create an opportunity to lower network deployment costs, which may then allow for coverage expansion, in the context of clearer guidelines on rights of way, in-building cabling and a co-ordinated deployment of outside plants with other utilities
  - further regulation on VoIP and OTT providers may lead to better monetisation of such services, as suggested by the policy document (Section 5.5)
  - a clearer public Wi-Fi framework may present new opportunities for incremental revenue.
- For smaller local loop (LL) operators,
  - the development of a more vibrant wholesale market with cost-oriented access to wholesale fixed infrastructure will allow them to increase their service footprint or reduce opex
  - the development of an Internet exchange point should make peering easier and reduce IP transit costs while enabling an increased quality of experience for users
  - stricter price control remedies (e.g. on a cost-oriented basis) on termination rates for dominant players may provide more retail price flexibility or opportunity for greater voice margins.
- For other players,
  - a six-monthly review of "what the market can absorb" (as phrased in the policy document) in terms of new licences may provide an opportunity for market entry in a currently quite rigid market
  - the new satellite licensing rules can clear up the competitive landscape and enable a more favourable business environment through a reduction of the informal market.

Opportunities for some are risks to others, reinforcing the need to be proactive:

[1] In this article, we consider Mobilink/Warid as a single player.

- One of the first steps dictated by the policy is a market review in order to identify dominant operators in a set of "relevant markets". Subsequently, a number of ex-ante obligations will be imposed on such dominant players. For instance, if PTCL is deemed dominant in the fixed voice market while the LL operators are not considered to be dominant, then this will result in PTCL's fixed termination rates (FTRs) being regulated on a cost-oriented basis, while the FTRs of LL operators will continue to be unregulated.[2] A similar outcome is possible in the relevant national roaming market. Findings of dominance may lead to further regulatory remedies in the future.[3] All operators will seek not to be found dominant or, where dominant, will seek markets defined in the narrowest possible way.
- Such a regulatory overhaul may also generate market entry, as the licensing framework is revisited and as the PTA searches for any opportunity to introduce new licences and new landing stations. In addition to new licences, entry may be facilitated by regulation-led wholesale market stimulation.
- The new policy document suggests an increased regulatory burden on operators.

Importantly, these opportunities and risks expand beyond the simple regulatory space and will affect the corporate strategy of all market players.

As operators are determining their strategies for responding to the new regulations, they need to consider the approach that they will adopt on the market review, and the resources that they will need. Analysys Mason has been providing regulatory support to operators for over 30 years, and we are able to bring this experience to bear on regulatory strategy reviews, regulatory scenario planning, consultation support, cost modelling and regulatory benchmarking.

2 While the practice in the EU is that each operator is deemed to have significant market power on the market defined as the termination on its own network, in other jurisdictions, such as Morocco, small fixed operators have been regarded as non-dominant in the fixed termination markets.

3 As an example, in Oman, the Telecom Regulatory Authority (TRA) conducted a similar dominance designation determination in mid-2013 with an initial set of regulatory remedies. However, additional obligations, such as the obligation to publish reference offers, including for mobile virtual network operator access, are still being imposed in 2015–2016, years after the initial dominance determination.