



# **Regulatory Reforms in Telecom Services**

**- Korean Experience -**

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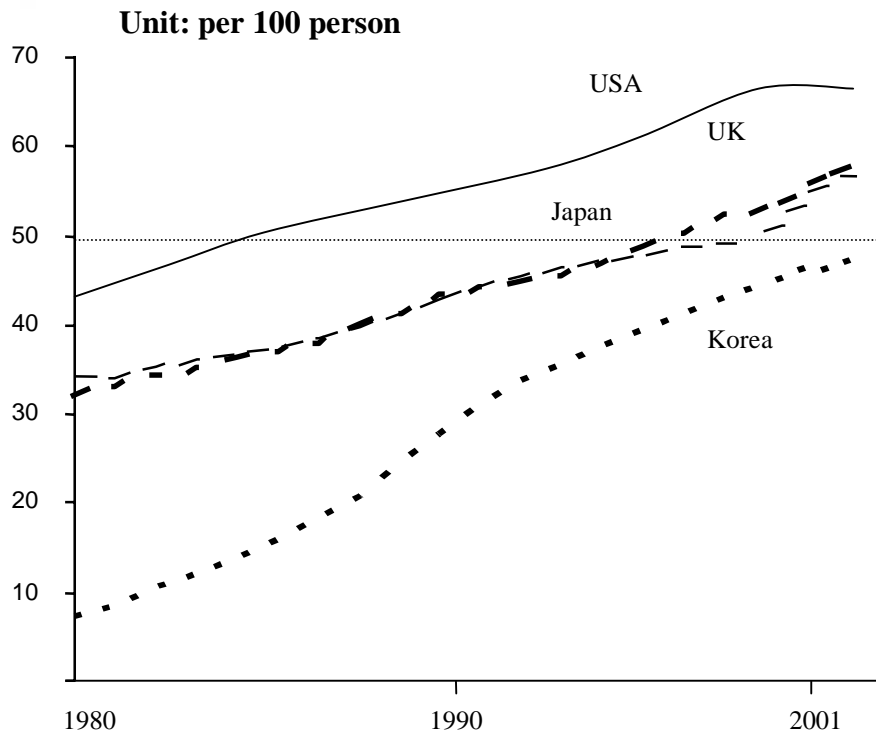
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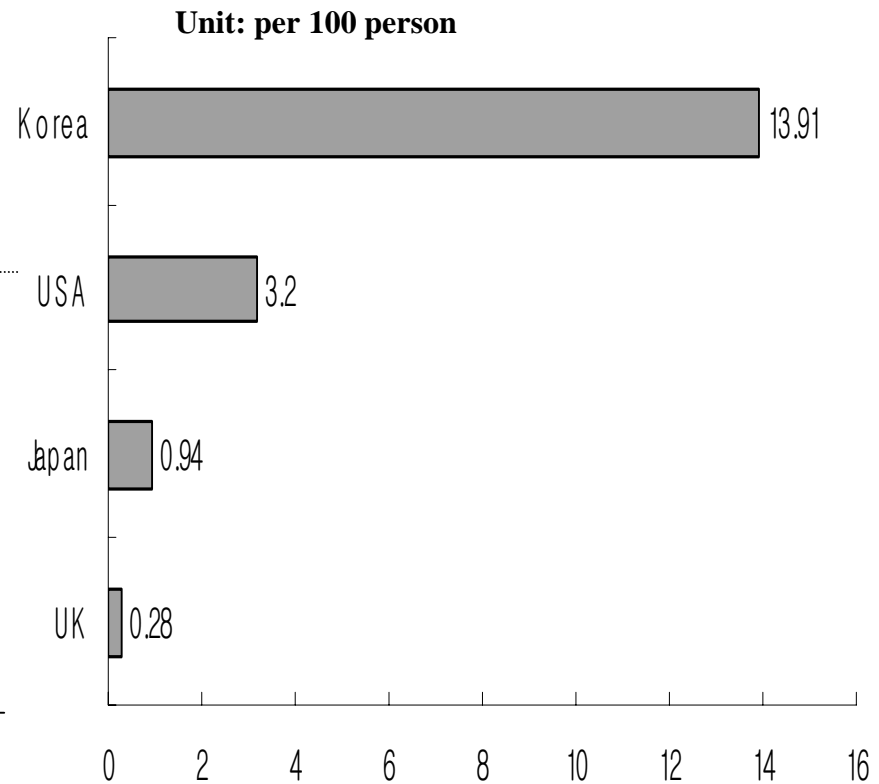
# Industry Performance (I)

## Teledensity (1980~2001)



Source : ITU(2001)

## Broadband Penetration Ratio



Source : ITU(2001)

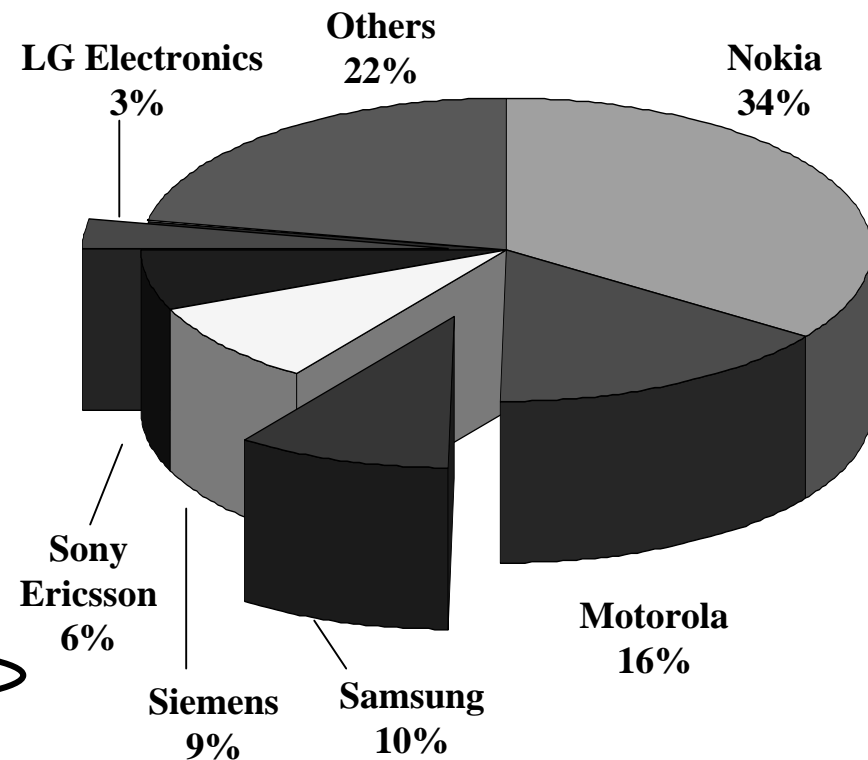
# Industry Performance (II)

## 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
<b>8</b>	<b>Korea</b>	<b>29,046</b>	<b>60.84</b>

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

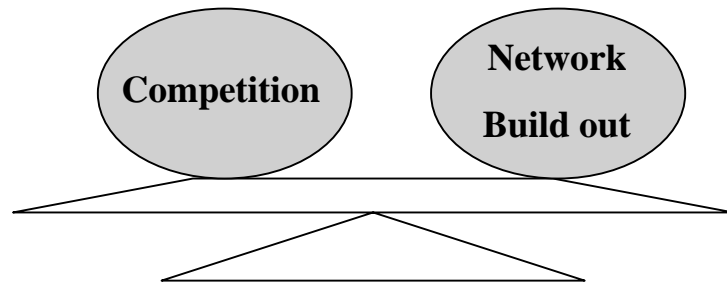
- Gradual introduction of competition in basic telecom service
  - International(1991)
  - Long-Distance (1995)
  - Mobile(1994)
  - Local Service(1999)
- Full liberalization of value-added service(1990)
- Resale(1997)
- Foreign Ownership Limit up to 49% including KT (2001)

## 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.**

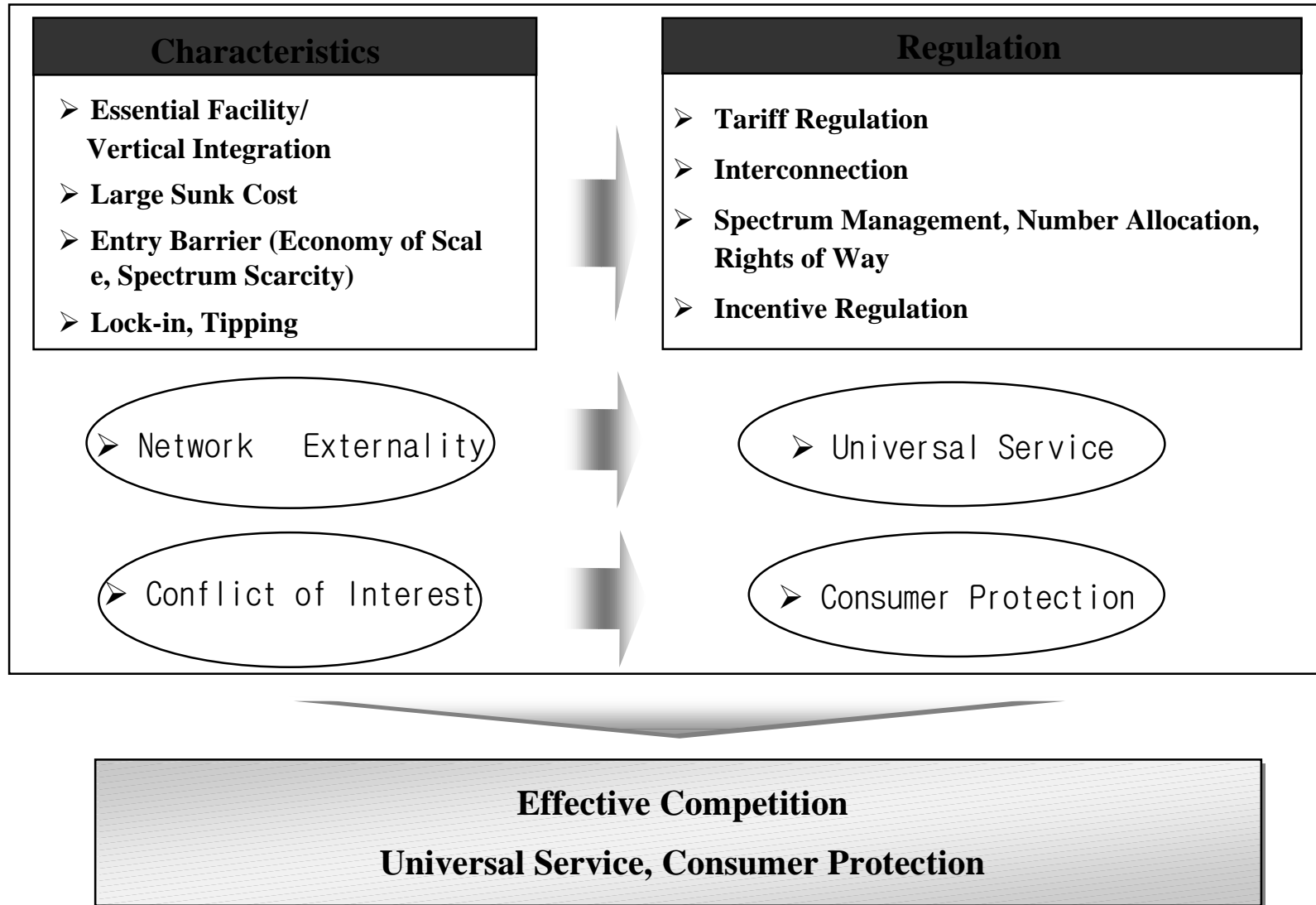
## Korea Approach

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

**Ex:**

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

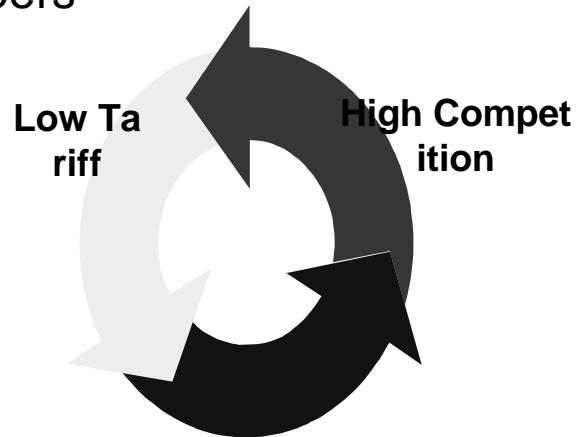
# Regulations on Demand



# 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

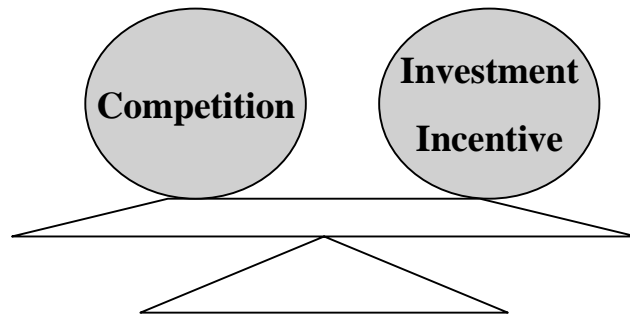
## Telecom Market Structure (End of 2001)

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

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## Lessons

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

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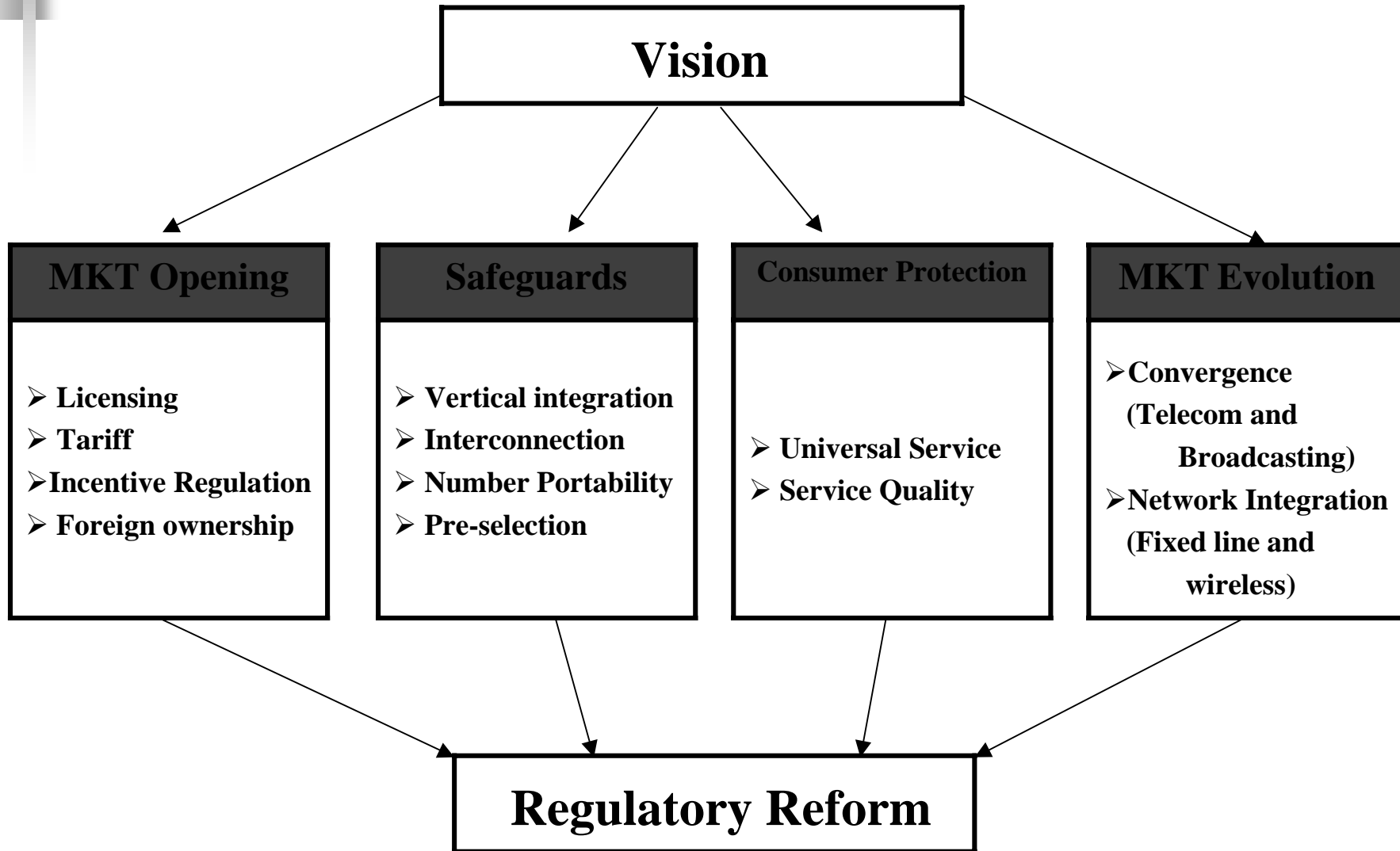
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# Conclusion





# THANKS

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