Telecommunications Commission of the Solomon Islands

Annual Report 2010

Telecommunications Commission of the Solomon Islands

| CONNECTING THE SOLOMON ISLANDS |

Taeasi Sanga
Clerk to the Parliament
Parliament
Honiara

31 March 2010

Dear Madam,

I am pleased to provide the first Annual Report of the Telecommunications Commission of the Solomon Islands (TCSI) for the year ending 31 December 2010.

This report is prepared in accordance with section 23 of the *Telecommunications Act 2009*. The report provides a summary of the activities of the TCSI including:

- gazetted determinations, orders and directions;
- material procurement and consulting activities;
- register of telecommunications licences;
- register of frequencies issued; and
- TCSI's financial statements.

Section 23 of the Act requires that the report be tabled in Parliament within three months after the end of each financial year.

The Annual Report will also be published on the TCSI's web page at www.tcsi.org.sb and which I recommend as a source of information on the TCSI's activities and duties.

Yours sincerely

Nicholas Williams

Nicholas Williams
Telecommunications Commissioner

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INTRODUCTION

2010 was a significant transitional year in the telecommunications market of the Solomon Islands. Since 1988, only Solomon Telekom Limited (STL) has been permitted to provide telecommunications services under a series of exclusive licences. But from 1 April 2010 an additional mobile service provider was allowed to offer commercial services.

The advent of competition, albeit still limited, followed from a relatively hectic 2009 for telecommunications. Between the period of June to end December, 2009, the Government reached an agreement with STL for STL to surrender its exclusive licence to provide services (26 June 2009); the Telecommunications Act was passed and commenced (11 September 2009); BMobile Limited, subsequently BMobile (Solomon Islands) Limited ("bemobile") was awarded the second mobile licence (18 December 2009); and the Solomon Islands first Telecommunications Commissioner, Nicholas Williams, was appointed (21 December 2009).

The Telecommunications Act ("the Act") was the principal agent for change. Under the Act, the second mobile operator was allowed to launch service from 1 April 2010 and further market entry was permitted from 1 April 2011. It was also the Act that established the Telecommunications Commission as the sector regulator, charged with liberalisation of the market, the management of key regulated assets, such as radio frequencies and numbers, and the future regulation of market players.

Market developments

It would be misleading in the extreme to suggest that by the end of 2010 the Solomon Islands telecommunications market was anything but a laggard in world terms. With mobile penetration[1] of around 25%, compared to that for the Asia Pacific region as a whole at 67% and global penetration at 76%[2], and fixed penetration standing at around 2%, connectivity in the Solomon Islands remains far too low.

But 2010 did see important improvements.

STL reacted to prospective competition and customer complaints by substantially upgrading and replacing many elements of its mobile network, including the core network. New sites were built and equipment brought in which has substantially put to rest the congestion problems that had made the network almost unreachable on some days, particularly Friday afternoons. The new sites and network upgrade was brought in from May 2010 and, after additional network optimisation work, both reliability and quality have been much improved.

bemobile launched their network on 31 August 2010, initially on Guadalcanal, Malaita and Western. Potential subscribers were faced then with a wider choice of handsets and with differing tariffs. Some price competition was introduced and STL reacted with a 50% reduction of its standard SMS tariff.

[1] The proportion of the total population with a mobile subscription measured as total subscriptions/total population

[2] Source: TCSI estimate (for Solomon Islands) and WCIS Informa (Asia Pacific and global estimates)

In December, STL launched its 3G mobile network in Honiara and Auki, giving the opportunity for data and internet access.

Taken together, these actions clearly do not promise to resolve all of the Solomon Islands connectivity issues. But they show an initial benefit from the policy of liberalisation.

If the mobile sector advanced, it should not be allowed to mask the reality that the data market remains poorly served. ADSL speeds are poor, often far below the advertised speed for the product. STL has enough international capacity such that this should not be the bottleneck. But still speeds are limited and the reliability of the service unexceptional. Moreover, 3G tariffs do not appear to be priced to compete with, and thereby cannibalise, the traffic over ADSL.

The brevity of the market overview is an indication of the problem facing the Solomon Islands. Without more players and greater consumer choice, the pressures to upgrade services, diversify products, price competitively and extend networks is muted. The Internet Service Provision (ISP) segment is one key area that the TCSI hopes will advance substantially in 2011 as liberalisation is introduced.

Even with greater competition, the ISP market still faces a high cost floor because of the reliance on satellites for international connectivity. During 2010, the World Bank and Asian Development Bank have promoted a project to secure financing, including potential donor funds, to bring a submarine fibre-optic cable to the country. The cost of the project is not small and prospective shareholder engagement has been limited so far, but the need for a cable to ensure the continued competitiveness of the Solomon Islands *vis a vis* its international neighbours is recognised by industry.

ACTIVITIES OF THE COMMISSION

ESTABLISHMENT

The TCSI was established by the Telecommunications Act and came into being on 1 February 2010 when the first Telecommunications Commissioner, Nicholas Williams, took up his position. RAMSI and AusAid provided AUD600,000 of funding to rent offices, acquire necessary furniture and equipment and to support the initial operational costs, including salaries, of the TCSI. Offices were found initially at Victory Building, Honiara from 1 March 2010 and then, in December, at the Hyundai Mall in Honiara. The key determinant in selecting offices (and subsequently moving offices) was to control and limit operational costs associated with any property; no consideration was given to acquiring permanent premises as the TCSI did not have access to sufficient funds for that to be a plausible option.

Recruitment of staff began in February 2010, when four posts were advertised locally. The TCSI had little problem finding suitably qualified applicants; three posts were subsequently filled by local staff and the fourth by an expatriate already resident in the country.

Organisationally, the TCSI is split into two parts, with the Commissioner responsible and accountable for both. The Project Management Unit is essentially responsible for the back-office management of the TCSI, dealing with financing, procurement, office management, contracts, HR and training. The other part is the operations piece dealing with the rationale for a TCSI. Such matters as Regulatory Resource Management (spectrum, domain names and numbering), market intelligence, competition, licence enforcement and regulation are addressed. In time, matters like number portability and universal access will be considered and the operations of the TCSI may be expected to expand in future years.

FUNDING

The Telecommunications Act foresees the TCSI being funded primarily from a levy of up to 2% of gross revenues on licensed telecommunications service providers. However, until 15 October 2015, at the latest, all service provider licence fees must be paid to STL as part-payment of the Government's debt to the company for surrendering its exclusive licence. Consequently, the TCSI is dependent on donor funding.

Throughout 2010 funding of the TCSI consisted of the following grants:

- accountable cash grant (reference 54180) of AUD$300,000 from AusAID;
- accountable cash grant (reference 53736) of AUD$300,000 from RAMSI; and
- International Development Association (IDA) grant (reference P113148) of USD$5.99M (payable for a five year period).

The AusAid and RAMSI grants were, as previously mentioned, ring-fenced to meet the initial start-up costs of the TCSI. Appendix K provides a full financial review of the TCSI in 2010.

In order to have access to the IDA funding, the TCSI has had to meet certain conditions, including the appointment of a Project Coordinator, Finance Manager and Procurement Manager suitable to the

World Bank. These positions were filled. Subsequent reviews by the World Bank have approved of the management of the project funds.

PROCUREMENT

The TCSI is funded by an IDA Grant, part-financed by the World Bank. Consequently, it must follow World Bank procurement guidelines when acquiring capital assets and consultancy advice. The guidelines are extensive and the procurement processes inevitably very lengthy. As an example, it took six months to procure legal advice for a licensing regime. While such exactitude in the procurement process ensures that funding is not misplaced, misdirected or inefficiently used, the operational effect is that the TCSI has taken longer than it would like to take forward necessary work.

Appendix E sets out the individual procurement processes begun - though not necessarily completed - by the TCSI during 2010. While the TCSI is careful not to become over-reliant on consultancy advice, the practical reality at this time in the development of a regulatory regime in the Solomon Islands is that such consultancy is invaluable. Access to capable advisors gives the TCSI's staff the opportunity to develop their own regulatory skills while pursuing immediate operational goals expeditiously.

ENFORCEMENT

The biggest regulatory issue facing the TCSI during 2010 was enforcement of the coverage obligation in bemobile's licence.

Bemobile was awarded its licence on 18 December 2009 after a competitive selection process or 'beauty contest' in which it was required, amongst other things, to offer a coverage commitment and an associated demand guarantee or performance bond. The coverage commitment offered by bemobile is represented in its licence as a coverage obligation. The obligation is split into four thresholds. bemobile has guaranteed compliance with the obligation by lodging a Demand Guarantee of US$10M. Any failure to meet any of the coverage thresholds can see the TCSI exercise up to US$2.5M in lieu of coverage foregone. If bemobile fails to meet all thresholds, then the full US$10M is, of course, at risk.

The first threshold required bemobile to provide services to 25% of the population by 18 June 2010. In the event, they had not built any base stations by that date and were not in a position to launch a commercial service. Consequently, the TCSI exercised the demand guarantee in the amount of US$ 1.5M. In doing so, it took into account the Government's desire for rapid launch and that bemobile's launch commitment was a key factor in it being awarded the licence, while being mindful of the importance of maintaining an incentive for bemobile to launch its services as soon as possible. Accordingly, the TCSI did not exercise the full amount of US$2.5M, but informed bemobile that it would exercise the remaining US$1M balance of the first tranche of the demand guarantee if bemobile still failed to comply with its first coverage threshold by 31 August 2010. When bemobile launched services on 31 August 2010 covering more than 25% of the population, the TCSI released the US$1M balance of the first tranche under the demand guarantee.

bemobile then failed to comply with its second threshold of 50% population coverage by 18 September 2010. In light of bemobile's initial late launch, the TCSI considered the consequent difficulty bemobile faced in getting back on track to meet that second threshold. Under those circumstances and again in order to maintain an incentive for bemobile to meet that second threshold as soon as possible, the TCSI did not exercise the second tranche of the demand guarantee. Instead, with bemobile's agreement, the TCSI amended bemobile's licence obligations. The requirement of the 50% threshold was delayed to 1 December 2010 without any consequent draw-down under the demand guarantee, and the requirement of the 75% threshold was advanced from 18 March 2011 to 1 February 2011. When the TCSI found that bemobile met the 50% threshold by 1 December 2010, it released the entire second US$ 2.5M tranche of the demand guarantee.

The enforcement of bemobile's licence has entailed much discussion, legal advice, correspondence and meetings with the company. As at March 2011, bemobile is again in breach of its licence, having failed to meet the third threshold by the due date of 1 February 2011 and the rectification period of 14 February 2011.

SPECTRUM MANAGEMENT

A key component of the Government's 2008 telecommunications policy was to transfer regulatory functions such as spectrum and numbering management to an independent regulator. Throughout 2010 the TCSI worked on developing a National Radiofrequency Band Plan. This included engaging a consultant through the International Telecommunications Union (ITU) and a stock take of frequency allocations in the Solomon Islands. The plan is designed to bring the Solomon Islands into line with the ITU Regional Regulations and is consistent with the principle objective of the Act. The TCSI has commenced the National Spectrum Band Plan consultation process and expect the process to be completed by April 2011.

Under the terms of the settlement agreement between STL and SIG, it was agreed that a thorough review of STL's spectrum could commence at any time within three months after the entry of the 2nd mobile service provider, bemobile. The TCSI commenced this review in November 2010 with the objective of rationalising the allocation to STL of spectrum bands that are expected to be required by other service providers and where STL has more spectrum than it would be reasonably be expected to require for the provision of a commercial telecommunications service. The TCSI has requested STL to review its current spectrum allocation and justify its need for the current allocation by March 2011.

BROADCASTING

The TCSI is responsible for licensing all radio frequencies in the Solomon Islands. It is not, however, responsible for licensing the provision of radio and television broadcasting. The former is not regulated at all, whereas the latter is regulated by the TV Act 1996. The TCSI will not release frequencies to a television broadcaster that does not have a licence to provide television services issued by the TV Board under the TV Act but for the caveat below.

For much of 2010, no Television Board was constituted. TV broadcasters were consequently unable to renew their television broadcast service licences. The TCSI has been willing to renew related spectrum licences where the broadcaster previously has had a television broadcast licence and might be expected to renew it were a Television Board constituted. It would be a great assistance to the TCSI and to prospective television broadcast service providers if a new Television Board was appointed and met.

INTERNET DOMAINS

The Act requires the TCSI to assume responsibility for the registration and allocation of all internet domains under the .sb ccTLD (country code top level domain). Work has begun within the TCSI, with much assistance from STL (the current manager) to review management of the .sb ccTLD. During 2011 the findings from this review will go out for consultation including where ultimate responsibility for domain name management should reside. Any decisions may still require the endorsement of IANA (the Internet Assigned Names Authority).

NUMBERING

Under the Act the TCSI is responsible for the national numbering plan. The Act precludes the TCSI from amending the current national numbering plan before 11 September 2011 (two years after the Act's commencement date). There were no significant issues raised about the numbering plan in 2010. For the record, the Act also precludes the introduction of number portability - the action of maintaining a number even after changing service provider - before 1 April 2012. The TCSI did not view number portability as a priority for the Solomon Islands market during 2010 and has no current plans to consider its introduction.

LICENCES

At the end of 2010, there were two licensees to provide telecommunications services in the Solomon Islands: Solomon Telekom Limited ("STL") and BMobile (Solomon Islands) Limited ("bemobile"). Both had received their licences in December 2009.

No new licences were issued in 2010. This reflected the moratorium imposed by the Telecommunications Act on further market entry until after 1 April 2011.

As noted earlier under "Funding", service providers are required under the Act to pay an annual licence fee of up to 2% of their gross revenue related to the provision of telecommunications services. During 2010, the TCSI discussed the definition of 'gross revenues' with both bemobile and STL. Subsequently, a regulation was made on 27 October 2010 setting out how 'gross revenues' is to be calculated.

THE WAY FORWARD IN 2011

The principal objective for 2011 is the successful introduction of full market liberalisation. Issues to be addressed are:

- **the licensing regime:** as at the end of March 2011, a consultation is continuing on a class licence that will permit any qualifying registrant to provide any telecommunications service in the Solomon Islands. Should they need radio-frequencies, they will need to apply separately for a spectrum licence. The class licence should be issued by Order before the end of April 2011;

- **third mobile licence:** the process for an award of a third mobile licence is currently suspended to allow time to consult with incumbent operators. Should it restart, the TCSI will have to ensure a smooth licensing round and judge whether, if any application is received for the licence, any licence should be awarded and on what terms;

- **licence enforcement:** this will continue to be a key theme in 2011 and may be heightened if a third mobile service provider is licensed. There will be a significant administrative burden placed on the TCSI to ensure it has adequate processes to keep track of registered licensees and to ensure all licence fees are collected on time;

- **dispute and appeals panels:** the TCSI is identifying prospective members of a Dispute and Appeal Panel, as required under the Act;

- **market intelligence:** the TCSI has contracted a company to help it create a sustainable database of market intelligence in the Solomon Islands and the wider region;

- **spectrum monitoring:** the TCSI will buy equipment and software to enable it to enforce spectrum licences and monitor instances of interference. Currently, procurement processes are being followed to acquire both software and hardware;

- **domain name management:** a consultation will be published imminently on this matter. Alongside it, the TCSI will also consult on the effects of IP version 6 for the country;

- **numbering:** the current number plan is arguably inconsistent with best practice and may come under stress if value-added service providers enter the market. Consideration will be given to revising the numbering plan but a full consultation with industry, including a cost-benefit analysis will need to be conducted before any decisions are made;

- **universal access:** there is no pressing need to introduce a Universal Access regime in the Solomon Islands at this time. Liberalisation will reveal the extent of uncommercial coverage and users. Until that time, which may be another two years from now, any intervention would be premature and potentially distorting. However, it is necessary to consider