

# **Palau Telecomm Landscape & Fiber Optic Cable Project**

*Pacific Update Conference  
19 July 2016  
Suva, Fiji*

# Current Legal & Regulatory Framework

- The Telecommunications Legal and Regulatory Framework in Palau is a highly disaggregated patchwork of multiple legal instruments:
  - Treaty – Compact of Free Association
  - Legislative – Statutes and regulations for telecom and business matters
  - Executive – Presidential Policy directives
  - Contract – RUS Loan agreements (mortgage, note, pledge, contract)
  - Corporate – The self-regulation by PNCC embodied in its tariff and standard operating procedures

# Gaps in Current Legal and Regulatory Framework

- ***Discrimination*** - Entry into the market for telecommunications services in Palau is theoretically “open,” in that a general business license and investment board approval in the case of foreigners are all that is required, but the various PNCC exemptions is an asymmetric regulatory regime that favors PNCC
- ***Lack of Transparency*** – PNCC obligations to report to the OEK and the President are limited and it has no obligation to report to any Executive Branch agency; nor is it obligated to publish its company information, only to make it available for inspection upon request
- ***PNCC Exemption*** – The complete exemption from radio regulation is a significant gap, given the increasing importance of wireless networks for meeting access/service objectives and delivering voice, data, and Internet services to subscribers in the market generally.
- ***Interconnection*** – Title 15 makes no provision for the regulator to impose interconnection obligations between and among operators

# Proposed New & Modern Framework

- Independent Regulator-Establish an autonomous independent regulatory body in Palau, reporting to the OEK, with a stand-alone budget and primarily self-financing
- Consultation & Dispute Resolution Mechanism-Fair, transparent, and efficient regulatory processes are critical tools in the regulator's arsenal to ensure that its oversight and administrative regulation of the sector inspires public trust
- The UAF is to be funded from contributions from all licensed service providers; usually a proportion of net annual sales.

# Proposed New & Modern Framework

- Licensing- Five types of licenses used to license telecommunications network operators and service providers: individual licenses, class licenses, registrations, notifications, and open entry
- Numbering- a key commercial enabler that is key competitive factor for the telecommunications market with central role played by regulators in the coordination of telephone numbers for interconnected operators
- Management of Radio Frequency Assignments- to assign adequate assignments of radio frequencies for all wireless services needed

# Proposed New & Modern Framework

- Interconnection & Access Regulations- Impose obligation to all service providers.
- Retail Price Regulation- Do not regulate retail prices; rely on competition to bring prices down (adjusted by quality) or at least not to increase.
- Competition Policy- Regulator needs authority to impose safeguards to prevent anti-competitive practices

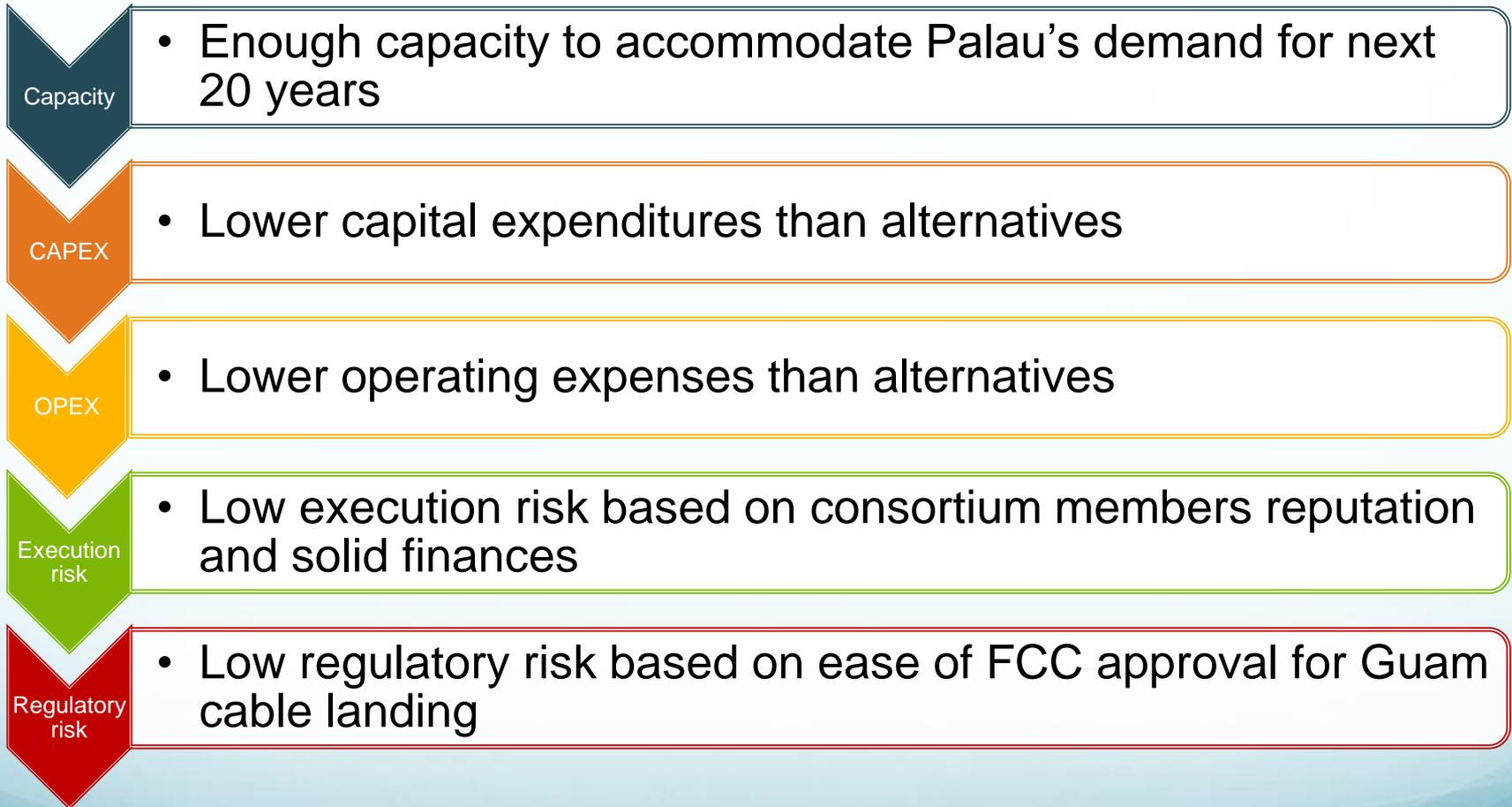
# Comparison of cable options

	Option 1	Option 2	PYG (recycled and new)
<b>CAPACITY</b>	2.5Gbps to Palau	100Gbps	100Gbps
<b>CAPITAL EXPENDITURES (est.)</b>	\$20.5Million	\$19.5Million	\$24 Million (new) \$18 Million (recycled)
<b>OPERATING COSTS (est.)</b>	\$0.9Million	\$1.0Million	\$1.7Million
<b>EXCECUTION RISK</b>	High; patch work of firm ; consortium members not as good reputation as those in Option 2	Low; very reputable and solid consortium partners	Medium
<b>REGULATORY RISK</b>	Very high; need FCC approval – Huawei may lead to no approval or delays	Low	Low

# The Submarine Cable



# Desirable characteristics of cable options



## Ranking of options

	Option 1	Option 2	PYG New cable	PYG Recycled
CAPACITY	Inadequate	High	High	High
CAPITAL EXPENDITURES (est.)	Medium	High	Low	Medium (recycled cable)
OPERATING COSTS (est.)	High	High	Low	Low
EXCECUTION RISK	Low	High	Medium	Medium
REGULATORY RISK	Low	High	Medium	Medium

*Note: High = most preferred; Low = least preferred*

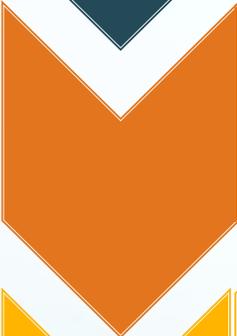
# Future Palau Submarine Cable

## Future Cable Company in Palau

- Will own and operate the Palau assets on the cable system
- Will receive 100% revenue from sale of wholesale capacity
- Will repay loan to lender
- Initially 100% government owned; shares held by SOE BSCC
- BSCC by law will be allowed to sell shares to private investors **not to exceed on aggregate 49% after first 10 years of operation**

# Desirable governance characteristics of future cable company

- 
- No one or two service providers shall control the board of directors

- 
- Efficient operation and maintenance

- 
- Sale of wholesale cable capacity based on open access principles (non-discrimination, transparent and cost-based) even if new telecom law not passed

# To prevent submarine cable abuse monopoly position

## Modern Telecom Law

- Mandate cable to sell capacity under open access principles
- Non-discrimination
- Transparency
- Cost based

## Effective Regulation

- Independent competent regulator with power to enforce open access regulations

## Governance in Submarine cable

- No single telecom service provider should control the board
- Board with incentive on having a well functioning cable company

## Rank of Public, Private, Mixed?

<b>Desirable characteristics of future Palau submarine cable</b>	<b>100% Private</b>	<b>100% Public</b>	<b>Public/Private</b>
<b>No one or two service providers shall control the board of directors</b>	Low	High	High (with limits)
<b>Efficient operation and maintenance</b>	High	Low	High
<b>Sale of wholesale cable capacity based on open access principles (non-discrimination, transparent and cost-based) even if new telecom law not passed</b>	Low	High	High

## Conclusion

- Present proposed Telecomm Framework legislation to OEK later this year or early next year
- Cable RFS next end-2017
- Effective and efficient cable company, BSCC, before or after passage of framework legislation with clear regulations on open access
- SOE Legislation to complement operation

Thank you