

# **Telecom Market Liberalization & Market Entry**

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# **AGENDA**

- I. History of Market Liberalization**
- II. Current Licensing Regime**
- III. Market Access for Foreign Investments**
- IV. Results of Liberalization**
- V. Policy Direction**
- VI. Lessons from Korea's Experience**

# I. History of Market Liberalization

# 1. Specialization by Service : 1980s

## ❖ Priority : Provision of Basic Telephony Service

- Construction of Basic Telecom Network
- Separation of Operation from Government
- Specialization by Service

## ❖ Market Entry : Designation

## ❖ Monopoly in Each Service (Specialization)

- Korea Telecom : wired ('82)
- Korea Mobile Telecom : wireless ('84)
- Korea Data Comm : value-added ('82)
- Korea Port Telephone ('88)

## ❖ 1 Line/1 Household (10 mil lines) : Sep 1987



## 2. Introduction of Competition : 1990s

### ❖ Gradual Introduction of Competition

- Completion of Building Basic Telecom Network
- Globalization of Telecom Market

### ❖ Market Entry (Facilities-Based)

- 1991~1994 : Designation, Licensing
- 1995 ~1997 : Licensing (Prior Notification)
- 1998 ~ present : Licensing (Open)

### ❖ New Entry

- International (3) : Dacom ('91), Onse ('97)
- Long Distance (3) : Dacom ('95), Onse ('99)
- Mobile (5) : Shinsegi ('94), 3 PCS ('96)
- Local (2) : Hanaro ('99)

### 3. Effective Competition : 2000~present

#### ❖ Establishment of Full Competition

- Market Restructuring : M&As

#### ❖ New Entry

- IMT-2000 (3) : KT ICOM (00), SK IMT (00), LGT (01)
- Leased Line (14) : Hanaro (00), Dream Line (00)  
SIT (00), Thrunet (00), Daehan L3 (01)

#### ❖ New Regulatory Framework

- Price Regulation
- Local Loop Unbundling
- Number Portability
- Interconnection & Access Charge
- Accounting System

## II. Current Licensing Regime

## ❖ Relevant Laws

- Telecom Business ACT (Article 4)
- Notification on Licensing Criteria and Procedures for Facilities-based Telecom Service Provider

## ❖ Application

- 2/year : 3.25~3.31, 9.25~9.30
- Application Form, Business Plan, Technology Development Plan, etc

## ■ Decision on Feasibility of Licensing

- Based on Public Interest, Laws and Regulations, Availability of Spectrum
- Notification : 4.30, 10.31



## ❖ Licensing Procedure

- Phase I : Qualification, Business Plan
  - Foreign Ownership (up to 49%)
  - 60 pts/Criterion(financial & technical capability, user protection), 70 pts on Average
- Phase II : Spectrum Fee

## ■ Notification of Selection

- 6.30, 12.31

## ❖ Issue of License

- Registration of Corporation, Deposit of Capital, Deposit of Spectrum Fee, etc., according to relevant laws

### **III. Market Access for Foreign Investments**

## ❖ Fulfillment of Commitment to WTO Agreement 3 months~2years ahead of Schedule

		Before 1998	WTO Commitments (1997.2.15)	Currently
Limitation on Aggregate Foreign Ownership	KT	Prohibited	20% from 1998	33% from July 1998
			33% from 2001	49% from April 2001
	Other Carriers	Wired:Prohibited Wireless:33%	33% from1998	33% from 1998
			49% from 2001	49% from July 1999
Limitation on Individual Ownership	KT	1%(only Koreans)	3% from 1998	15% from 1999
	Other Carriers	Wired: 10% Wireless: 33%	No limits from 1999	No limits from 1999
Largest Foreign Shareholder	KT	Prohibited	Prohibited	Prohibited
	Other Carriers	Prohibited	Permitted from1999	Permitted from 1999
Foreign ownership on Resale	Voice Resale	Prohibited	49% from 1999 100% from 2001	49% from 1999 100% from 2001
	Others	No limits	100% from 1998	100% from 1998

## IV. Results of Liberalization



# 1. Overview

## ❖ KT Monopoly to Full Competition (2001)

- Facilities-based operators : 34
- Non-Facilities-based operators
  - Special : 314, Value-added : 2,877
- Users : 16 mil ('91) ▲ 53 mil ('97) ▲ 116 mil
- Revenues : 4.5 tril won ('91) ▲ 32 tril won (US\$ 25 bil)

## ■ Consumer Benefits & Effects

- Wide Usage of New Services & Market Growth
- Improved Services, Lower Tariffs
- Development and Export of Core Technology
- Building Infra for Information Society

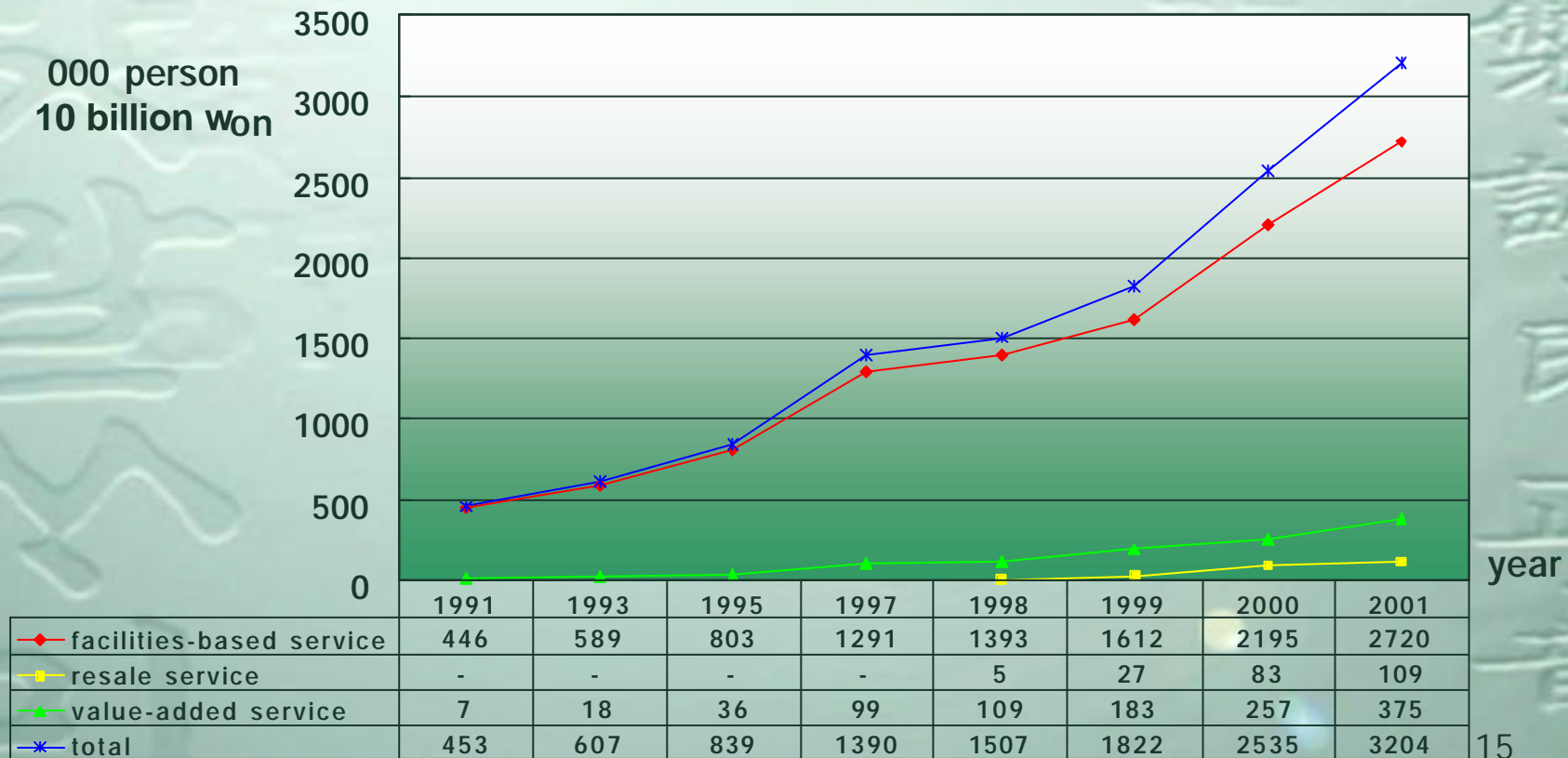
## ❖ Market Status (Facilities-based, Dec 2001)

- Number of Operators : 34
  - Local, Long Distance, International, Leased Line, Cellular, PCS, GMPCS, TRS, Paging, Wireless Data, B-WLL, IMT-2000
- Revenues : 27 trillion won (US\$ 21 bil)
  - Wired 12 tril won, wireless 15 tril won
- Market Share

<b>Local (2)</b>	KT (97%)	Hanaro (3%)	
<b>Long Distance (3)</b>	KT (85%)	Dacom (11%)	Onse (4%)
<b>International (3)</b>	KT (51%)	Dacom (30%)	Onse (19%)
<b>Leased Line (14)</b>	KT (67%)	PowerComm (10%)	Others (23%)
<b>Broadband (7)</b>	KT (50%)	Hanaro (26%)	Others (24%)
<b>Mobile (3)</b>	SKT (52%)	KTF (33%)	LGT (15%)

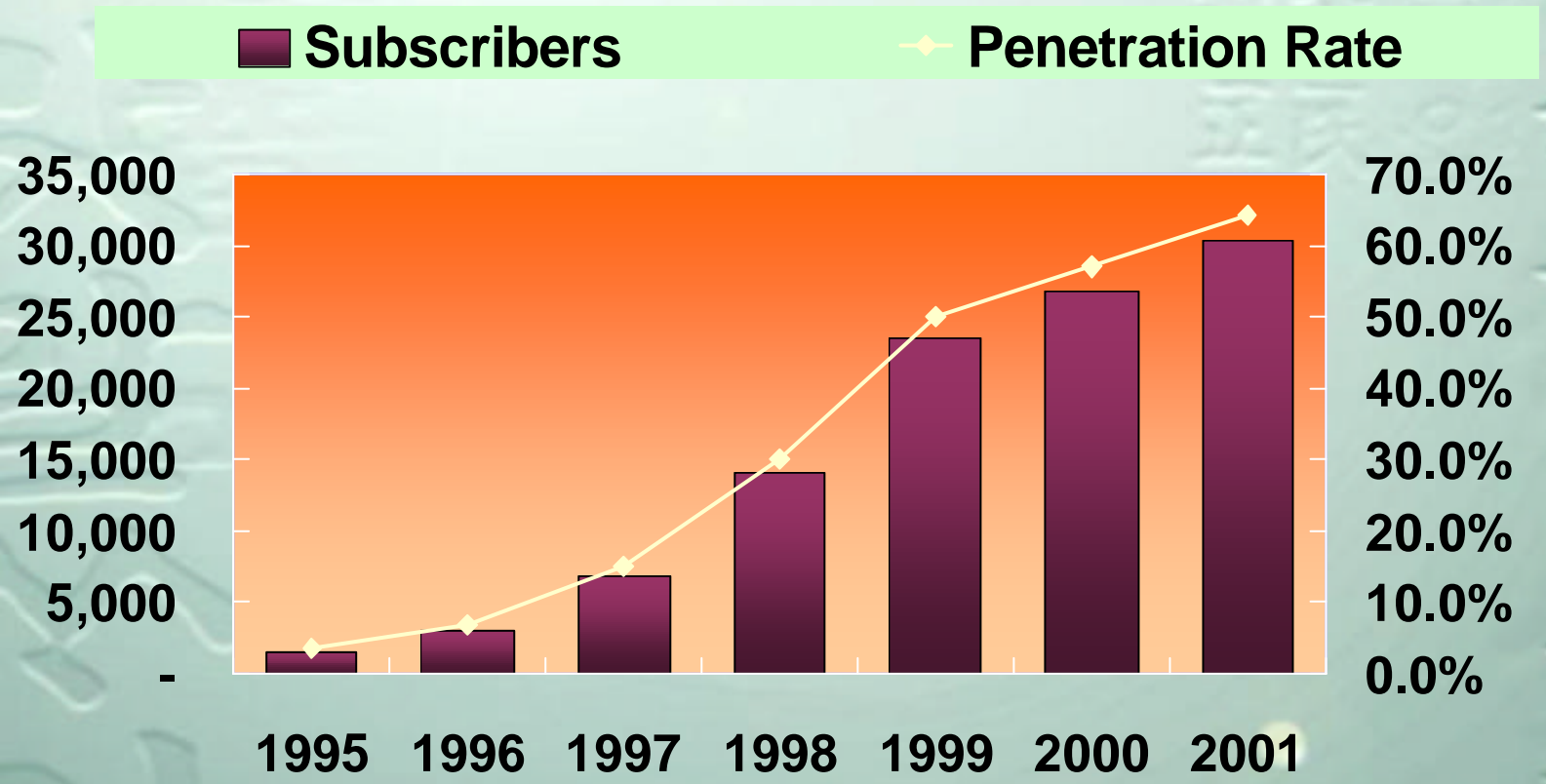
## 2. Growth of Telecom Service Marekt

### ❖ Rapid Growth of Revenues Following the Introduction of Competition



### 3. Growth of Mobile Telecom Service

❖ 32 mil Subscribers in Jun 2002 (65% of pop)





## ❖ Success Factors

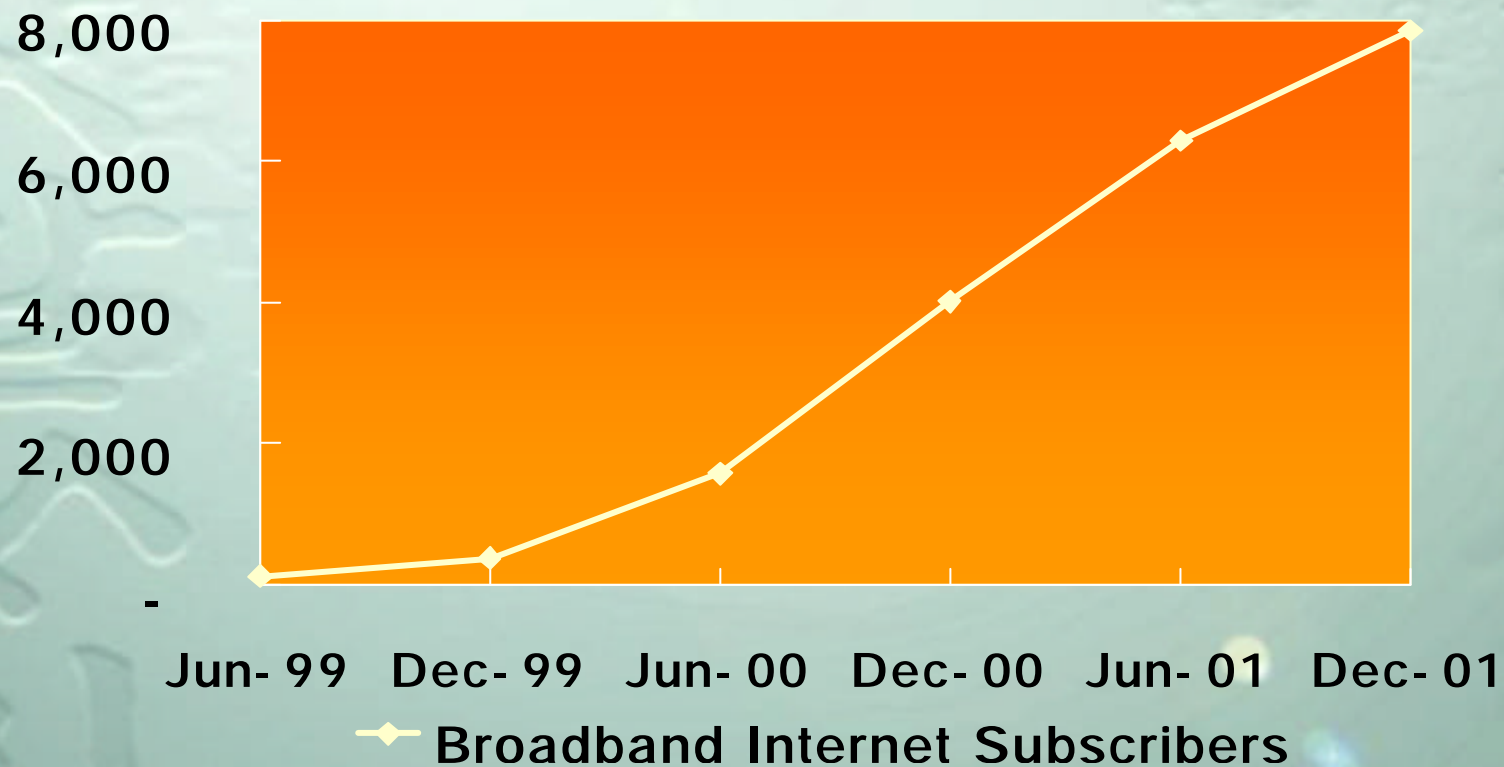
- High Competition
- Low Tariff and Subscription Cost
- Core Technology Development Driven by Government & Telecom Operators
  - TDX, CDMA, Handsets

## 4. Leader in CDMA Market

- ❖ **World First Commercialization of CDMA**
  - Most Advanced Technology
- ❖ **World First Commercial IMT-2000 Service**
  - cdma2000-1x (144Kbps) from Oct 2000
    - 10 mil subscribers by Jun 2002
  - cdma2000-1x EV-DO from Feb 2002
    - 20,000 Subscribers as of Jun 2002

## 5. Growth of Broadband Internet

- ❖ 8.7 mil Households Jun 2002 (60%)
  - 7.8 mil Subscribers, 2.2 tril won in 2001



## ❖ Success Factors

- High Internet Penetration (25.7 mil users, Jun 2002)
- High Population Density In Urban Area
- High Market Competition (7 operators)
- Low ADSL Installation Cost
- Government Role
  - Low Tariff Policy
  - Informatization Promotion Policy

## ❖ Successful Business Model for Worldwide Telephone Service Providers



# V. Policy Direction

# 1. Changes in Market Environment

## ❖ New Players & Heated Competition

- Lower Efficiency in Resources Use
- Stronger Market Power thru M&As
- Transfer of Market Power to New Market

## ■ Full Privatization of KT in Jun 2002

- Strong Market Power in wired Market

## ■ Emergence of New Services

- Convergence of wired & wireless, voice & data, telecom & broadcasting

## 2. Improving Licensing Regime

- ❖ **Strengthening Competition Analysis**
  - Frequency, Licensing Criteria, Evaluation Method
- **Closer Examination on M&As and New Entry**
  - Evaluation on Restriction of Competition
  - Imposition of Conditions for Fair Competition and User Protection
- ❖ **Licensing Policy for New Services**
  - Integrated Wired-Wireless Service, Telecom-Broadcasting Convergence Service, Power Line Telecom Service, etc.

### 3. Tasks for Effective Competition

- ❖ Strengthening Korea Communication Commission
- ❖ Local Loop Unbundling
  - Introduction of Open Access in 2002
- Number Portability
  - Local : Second Half of 2003
  - Mobile : 3G ▲ 2G
- Interconnection & Access Charge
  - Long-Run Incremental Cost Method
- ❖ Price Regulation
- ❖ Accounting System



## VI. Lessons from Korea's Experience

## ❖ Importance of Government Role

- Construction of the Basic Telecom Infra
- Gradual Introduction of Competition
- Revision of Laws & System

## ■ Major Policies

- Localization of Major Technology
- Expansion of Network Capacity
- Mass Demand & Supply
- Low Tariff

## ■ Effective Competition

- Experience in Mobile & Broadband
- Privatization of State-owned Enterprise
- Renewal of Regulatory Framework

**Thank you.**