Competition a slow train coming

Mike Pickles explains how, in the face of a government's deregulatory policies, to hang on to a monopoly, Filipino style

As in many countries of the Asia-Pacific region, the oft-repeated aim of the Philippine government is to liberalise the entry, operation and expansion of telecommunication enterprises. While 94 per cent of the telecommunications traffic in the Philippines is carried by a single privately-owned carrier, the Philippine Long Distance Telephone Company (PLDT), the current situation is that of a regulated monopoly. The government's involvement in the sector is basically through two agencies; the Department of Transportation and Communications (DOTC) is the policy-making body, while the National Telecommunications Office (TELOF) is the operating arm which provides limited telegraph and telephone services in rural areas.

The monopoly

Despite the inevitably slow incursions into its domain by competitors, particularly in the field of international services by Eastern Telecommunications Philippines (ETPI) and Philippine Global Communications, the PLDT's net income for 1990 surged 55 per cent. The news was met with criticism from the new Transportation and Communications Minister, who charged the PLDT with "raking huge profits against its insufficient, dismal and inadequate service." With a backlog of 300,000 telephone applications in Manila alone, the strongest consumer complaint against PLDT has been its slow response to requests for telephone connections.

No matter how much the government wants to break the virtual monopoly of the PLDT, by far the largest of the 56 entities providing telephone services, there is a realisation that working with them offers the only feasible option if the objective is a rapid expansion of telecommunications in the short to medium term. The PDLT managed to delay the expansion of its only cellular competitor, Extelcom, for 15 months by obtaining a temporary restraining order on the grounds of an irregularity in the latter's operating licence.

Following a change of attitude by the Philippine government towards cellular telephones which occurred after the 1990 earthquake, when all landline telephone connection with Baguio City was lost leaving cellular as the only working system, the PLDT decided to boost the capitalisation of its rural operating subsidiary, the Philipino Telephone Corporation (Piltel). The company was then projected into the cellular arena to apply for a nationwide operating licence. Piltel became the first company to hold a provisional nationwide authority, helped along by its giant brother which vacated the cell sites around Manila in order to be replaced by Piltel's new Mobiline system.

PLDT moved as fast as possible to get its system up and running. Piltel was signing up 200 subscribers per day in May, and the 'Mobiline' network was being extended to the islands of Cebu and Mindanao.

New kid on the block

The Express Telecommunications Company inc. (Extelcom), was set up some 30 years ago when it was granted a 50 year licence to provide radio frequency services. The original founders sold their shareholding in 1986 to the present joint-venture company in which Millicom Incorporated and Comvik International AB together have a 40 per cent share. The Philippine partners, headed by Ruby Tiong Tan, own 60 per cent of the company, according to Philippine regulations.

'the government wants to break the virtual monopoly of the PLDT ... working with them offers the only feasible option'

Millicom announced on 21 December 1988 that the joint venture had been granted a licence to build and operate a cellular system "initially serving metropolitan Manila and other points on the island of Luzon with later expansion to other areas of the Philippine islands". At that time the company had been granted a provisional authority by the National Telecommunications Commission (NTC) to install, operate and maintain a cellular mobile telephone system as Phase I of its system in Metro Manila only.

On 12 December 1988 and again on 8 May 1989 the NTC ordered the two cellular operators, PLDT and Extelcom, to interconnect.

Immediately following the installation of its Motorola-supplied system in February 1990, a temporary restraining order was issued by the court against Extelcom, applied for by PLDT on the grounds that the NTC had no right to order the two companies to interconnect, and that Extelcom was operating on a franchise that was obtained 30 years before by the original owners, not the present joint venture.

Extelcom appealed to the Supreme Court on the basis that it was the company that was granted the franchise. The Supreme Court in October 1990 upheld the two orders directing the PLDT to permit Extelcom to interconnect with its wireless and wireline systems.

The company has been unable to charge its 200 customers for the use of its system since February 1990, but offered virtually free use of its closed-loop cellular network to any purchaser of a terminal. When the restraining order was finally lifted, Extelcom went ahead with its application for provisional authority to implement Phases II, III and IV of its proposed Nationwide Cellular Mobile Telephone Systems using the AMPS-B band. An Interconnect Agreement was finally signed with PLDT on 8 March 1991, but was not in place even in mid-June due to 'technical problems'.

More legal battles

Extelcom's legal battles may not be entirely over despite the Supreme Court's landmark ruling. On the heels of the ruling, the Rizal provincial prosecutor filed a civil case in the Makati Regional Trial Court on behalf of five private stockholders of PLDT again seeking the annulment of Extelcom's franchise. That court issued yet another restraining order against Extelcom.

The Solicitor General has asked for the case to be dismissed on the grounds that only the Solicitor General has the authority to file such a case, and claiming that the provincial prosecutor's case was against public interest. The outcome of this latest desperate salve fired by the PLDT has still to be fully resolved. Extelcom's fortitude in the face of mounting costs and the relentless opposition of its huge adversary is little short of incredible.

Mike Pickles is the Regional Editor Asia-Pacific of "World Cellular Markets Products Report"