



PERU

Telecommunications Regulator OSIPTEL Sets Extra Measures to Advance Competition

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Additional regulatory measures set forth by OSIPTEL in 2005 are gradually taking effect in 2007, as the old telecom model of pre-selected long-distance carriers remains suspended between April 19th and July 1st. The suspension is intended to ease the transition process into a new telecom model that will allow Peruvians to choose their carrier from a pool of 15 companies in a June 2nd through October 31st timeline – free of charge. These extra measures are part of OSIPTEL’s 2005-2009 institutional strategy, designed to transform the existing telecommunications industry into a more competitive, pro-investment, anti-monopolistic framework by achieving the following objectives:

1. Increase competition
2. Drive and promote universal access
3. Educate users about their rights, obligations, and insure regulations are exercised
4. Reach a higher level of efficacy, efficiency, and transparency

According to OSIPTEL’s President, Guillermo Thornberry, 1.5 million people will benefit from a 16% reduction in household landline prices, i.e., from US\$17 to US\$12 in the near future (2008-2010). Moreover, Peru’s telecommunications industry has, and will, show a large improvement in: service quality, tariff reduction, and network expansion. However to do so, there is a necessity to increase competition in an industry dominated by one company.

Telefónica del Perú (TDP) is the leading firm in the telecommunications industry – by a large margin. In 2006, TDP installed over 136,000 lines and over 2 million were in service. That is, since 2005, TDP has installed 138,000 more lines and is servicing over 2 million more than its nearest competitor – Telmex.

Market share is no different. In 2006, TDP controlled 95% of landline services and more than half of the long distance services market, both domestic (68%) and international (56%). 99% of Internet ADSL services are provided by TDP.

Lines Owned By Company

Company	2005		2006	
	Installed	In Service	Installed	In Service
Telefónica del Perú	2,509,789	2,156,638	2,645,895	2,294,900
Telmex	55,052	17,436	80,416	21,919
Telefónica Móviles	71,828	71,828	71,981	71,981
Americatel	5,200	3,776	6,160	4,796
Impsat	855	850	3,622	3,622
Millicom	0	0	84	55
Gilat To Home	434	393	690	646
Infoductos	0	0	2,593	2,593
Total	2,643,158	2,250,921	2,811,441	2,400,512

Source: OSIPTEL and Companies listed

OSIPTEL speculates that its key 2006-2010 regulation challenges are in telecom accessibility and convergence, the former being a more recent issue while the latter is likely to become of greater importance in 2 to 3 years.

Currently only 8% (just over 2 million people) of the population has access to a fixed telephone line. By December 2006, only 16 out of 100 habitants in Lima and Callao had access to fixed lines while 4 out of 100 habitants in the remaining parts of Peru had access.

To address the existing low-level of access, OSIPTEL approved the *Tariff Procedure for Fixed Telephony* act, expected to generate a gradual increase in fixed telephone access by: (1) Creating new and more market-

segmented calling plans, and (2) modifying the 'price cap' outline for redistributing the productivity factor¹ to areas with no access to telecom service.

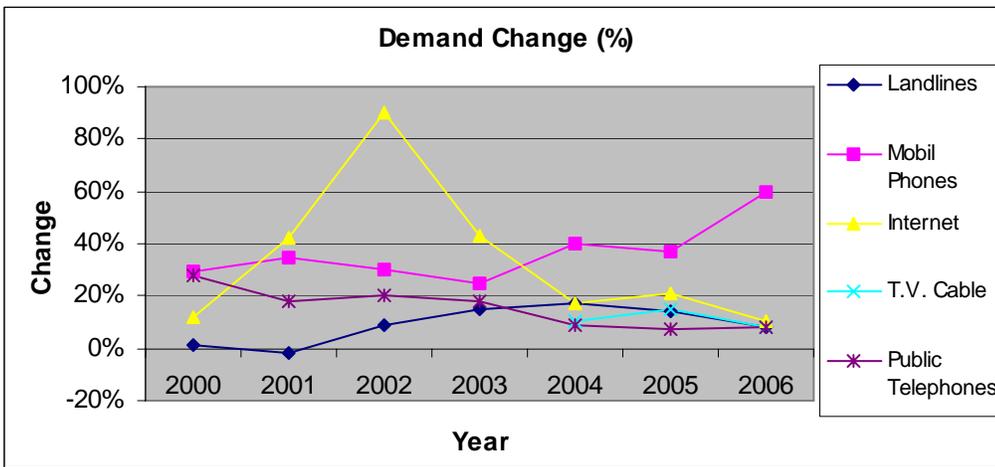
Additionally, OSIPTEL and the Ministry of Transportation and Communications (MTC) are carrying out a pilot project and government-sponsored initiative that enables wireless telephony access to 38,000 inhabitants in the Huarochiri province. Furthermore, according to analysts, market penetration will improve as Peruvian demand shifts from Ethernet port technology to WiFi and Wimax technology.

Accordingly, Peruvians in hard-to-reach areas (i.e. small communities in the highlands and jungle – places that lack the needed infrastructure for Ethernet technology) will begin to connect wirelessly to the Internet and use promising communication technology such as Voice Over Internet Protocol (VoIP), which allows users to communicate at highly low costs.

OSIPTEL estimates that Peruvian telecom industry sales increased from US\$800 million in 1995 to approximately US\$2 billion in 2006. The graph below shows that Peruvians are moving to a more wireless lifestyle as demand for mobile services has increased since 2003. Other markets, such as landlines and public telephones, have

experienced a lesser degree of growth and are not expected to break pattern in the near future (2007-2010).

Demand for mobile phone services increased 69% in 2006, while Telefónica Moviles maintained a superior market share of 57%, dwarfing its nearest competitors, America Moviles and Nextel, with 38% and 4% respectively.



Source: Osiptel and Telecom Companies

Long Distance Services

As noted before, the long distance market will be experiencing a notable competitiveness shift as OSIPTEL pushes its new anti-monopolistic regulation.

A brief overview of the long distance market shows:

- Since 2003, domestic long-distance calls have grown on average 9% until 2006. Not surprisingly, Telefónica de Perú controls 68% of the market followed by IDT and Americatel, with their 10% and 7% respective shares.
- From 2003 to December of 2006, international calls leaving Peru and entering Peru have increased 102% and 56% correspondingly. As of 2006, Telefonica services 56% of all in-coming international calls, while IDT, Americatel, and Telmex service 11%, 7%, and 3% of all calls respectively.
- As for all international out-going calls, Telefónica de Perú controls 56% of the market followed by, IDT, Americatel, and Telemex with, 11%, 7%, and 3% shares correspondingly.

¹ The Productivity Factor represents the output growth not accounted for in the growth of inputs

In retrospect, after 12 years of enabling market incentives for private investment, great advances have been achieved in telecom quality, tariff reduction, and network expansion. With help from the MTC and its branches (i.e., Gerencia de Políticas Regulatorias y Planeamiento Estratégico and Gerencia de Fiscalización), OSIPTEL will continue applying new regulatory measures to progress the existing Peruvian telecommunications industry into a more lucrative and competitive venture for Peruvian and U.S. companies – In hopes that, U.S. companies will have the opportunity to take a strong hold in a telecom market dominated mainly by one company.

For More Information

For more information on OSIPTEL's 2005-2009 institutional strategy, please download their report [here](#), or visit their website www.osiptel.gob.pe.

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