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Stakeholders Agree on the Handset Distribution Structure Improvement Act, with Samsung Electronics Opposing Some Parts

- need to improve the distribution structure centered on high-priced handsets
- need to prioritize consumer benefits and win back consumer confidence
- need to come up with sub-rules to realize the purpose of the Act properly

- The Ministry of Science, ICT and Future Planning (MSIP, Minister Choi Mun-Kee) and the Korea Communications Commission (KCC, Chairman Lee Kyeong-Jae) hosted a meeting at the Korea Press Center on December 5, to collect opinions of the stakeholders about the Handset Distribution Structure Improvement Act (proposal).
- o The meeting was joined by the MSIP and the KCC, as well as manufacturers including Samsung Electronics, LG Electronics and Pantech; mobile operators such as SKT, KT and LGU+; consumer advocacy groups like the Consumers Union of Korea and YMCA Korea; and related associations of the Korea Budget Phone Operators Association and Korea Mobile Communications

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Distributors Association, all of whom have stakes in the proposed Act and presented their positions on it.

- Minister Choi of the MSIP emphasized in his opening remark that “the stakeholders are urged to put the benefits of the public before their own interests,” and continued “at the moment, depending on where and when to buy, mobile phones cost differently by more than 200 ~ 300 percent, and expensive premium phones priced at KRW 900,000~1,000,000 are mainly distributed in the market, increasing consumers’ communications expenses. Thus, the players need to work to alleviate the public’s burden of buying an expensive handset, through promoting the use of low and mid-priced handsets.”
- o In his turn, KCC Chairman Lee Kyeong-Jae said “the Government has placed focus of its policy on cooling down the overheated handset market in the aspect that consumers should not be discriminated against or shortchanged unfairly, while acknowledging the importance of the interests of manufacturers and mobile operators, and the KCC is totally supportive of the proposed Act, and with regard to some of the matters against which issues have been raised, the Commission will work hard to produce a reasonable solution after collecting the opinions of stakeholders.”
- The following paragraphs show the positions of those who joined the meeting.
- o Consumer groups demanded consumers be provided with price information in a transparent manner and the expensive premium phone-focused market structure improve.
- (Consumers Union of Korea) Some time ago, consumer organizations announced that they support the proposed bill in unison. Price disclosure is

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tremendously important in terms of ensuring market transparency, and in order to dispell the concern that it is to downsize the amount of subsidy, it is imperative to launch plans where consumers can choose fee reduction in place of receiving subsidy. In addition, the proposed bill is necessary to lower the handset prices in Korea and restructure the smartphone-oriented market. When enacted, the proposed will have to be implemented faithfully so that consumers may buy mobile phones without falling victim to discrimination and enjoying increased benefits.

- (YMCA Korea) The handset market in Korea is excessively biased toward premium models, i. e. more than two to three times so compared to other countries. Samsung Electronics has too big a market dominance, virtually controlling market prices. Low-priced phones that may suit the needs of the elderly and the like cannot be purchased in the market. This bi-polarization comes down to the issue of market dominance after all. The local handset distribution market is distorted failing to ensure competition and consumer choice. A law should be enacted that will make sure a healthy handset distribution ecosystem guaranteeing diversity and a wider range of choices.

o Manufacturers

- (Samsung Electronics) Basically, we are not opposing the proposed bill itself. We simply make suggestions on some of the clauses causing concerns to us. If the domestic subsidy rates are known, we have to take serious loss to our global business, and it is desirable to deal with manufacturers' unfair practices within the existing legal framework. These opinions were conveyed to the MSIP, and we hope that the Ministry will examine such views thoroughly so that all stakeholders may enjoy a win-win solution.

* JH Kim, Director-General of the Telecommunications Policy Bureau, MSIP said that trade secrets contained in the submitted materials will not be disclosed to the public under the Official Information Disclosure Act and the Ministry had already reached an agreement with the Korea Fair Trade Commission regarding who does what.

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- (LG Electronics) We basically agree on the proposed Act. How to deal with trade secrets and so on will be able to be resolved through further discussions about sub-regulations and the like. The core purpose of doing the manufacturing business is to provide quality goods through quality services and we will do our best to that end.

- (Pantech) We support the purpose and goal of the proposed law and sympathize with the point that the current handset market structure need to change. Still, we wish the position of the manufacturers will be fully considered throughout the actual implementation of the Act.

o Mobile operators will work hard to help restructure the market so it can provide consumers with benefits and restore their confidence.

- (SKT) Regardless of business interests, it is not easy for anyone to oppose the proposed bill that aims to safeguard consumer interests, and we fully support the policy that benefits consumers. What is important is whether the purpose of the bill will be realized properly. Thus, we believe more analysis and discussions are necessary at the level of sub-rules such as an enforcement decree or notification to prevent side-effects from emerging when enforcing the Act.

- (KT) We fully support the proposed Act. Consumers have the right to access price information in a transparent manner, and the handset distribution structure also need to be reorganized to be a healthy one, as it is losing consumer confidence, which justifies the enactment of the proposed bill. Only when each brand is required to be differentiated in terms of price at the time of being launched, manufacturers will be incentivized to produce low-end cheap handsets as well. As a telecommunications service operator, we hope that a foundation will be laid where competition happens not against subsidies but against service, product and quality.

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- (LGU+) We agree to the bill. Of the two policy goals of consumer protection and promotion of competition, the subject bill seems to be more focused on the consumer protection aspect. We ask for a fair and proper enforcement so that it may not solidify the current mobile market shares as a side-effect in terms of competition.
- o (Korea Budget Phone Operators Association) A new law is necessary to lower the burden of households caused by high communications fees through promoting low and mid-priced handsets and budget MVNO phones.
 - Budget phones and the blacklist system were introduced to ensure consumers' choice of phone plans and handsets, thereby helping reduce household communications fees, and for that, the enforcement of the new law is imperative.
 - It was confirmed through post offices selling budget phones that there is a high demand from consumers for low and mid-priced phones, i.e. more than 70 percent, but because of lack of low-end phones, we have difficulty doing business.
 - A consultative body was formed to jointly source budget phones under the blacklist system, but local manufacturers do not seem to have much interest in it. We ask them to produce and supply low and mid-priced phones as well that meet the needs of diverse consumer groups.
- o (Korea Mobile Communications Distributors Association) The law is necessary to restore consumer confidence and protect small merchants in the mobile telecommunications market.
 - Merchants meet 54 million consumers face to face, but they have difficulty doing business because of frequently changing handset prices and policies of mobile operators and manufacturers changing everyday, many of which cannot be understood by consumers.
 - Our focus will be on restoring confidence on the part of consumers. Sellers are mostly poor self-employers, and thus we request a safeguard measure be

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prepared that will protect them from the impact of the distribution networks of large companies. We need to prevent the occurrence of the recent case where large company-owned dealerships disturbed the market. We propose a body be formed to receive consumer complaints and opinions and the measures be put in place that will ensure the fairness and effectiveness of the operation of the sub-regulations.

- Closing the meeting, MSIP Minister Choi Mun-Kee said, "it seems no one opposes the adoption of the handset distribution improvement act and as I understand it, the participants mostly want the potential concerns to be properly dealt with when the law comes into effect." He continued to say "we will try our best to make a system where all the stakeholders win when the new law is enforced, aiming to satisfy them at least 90 percent, not to say 100 percent."
- The MSIP and the KCC urged the participants to consult each other about the concerns raised in the meeting with reasonable options, and vowed to continue the consultation with stakeholders including manufacturers over the course of enacting the law and its enforcement decree in the future.

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