



13 September 2016

Parliamentary Portfolio Committee on Telecommunications and Postal Services
Parliament
Attention: The Committee Secretary
 Per email: hsalie@parliament.gov.za

Dear Committee Secretary

ISPA Submissions on the Cost to Communicate

1. ISPA refers to the advert issued by the Honourable Chairperson of the Portfolio Committee on Telecommunications and Postal Services ("the Committee") inviting submissions on the cost of electronic communications in South Africa.
2. ISPA notes that the scheduled hearings form part of the broader programme mandate of the Committee to investigate the impact of high costs-to-communicate to the public, and we welcome and thank the Committee for the opportunity to bring our position on this critical issue to the attention of the Committee.

Regulating voice costs as part of the broader effort to reduce the cost to communicate

3. The Committee notes in its advertisement that "despite reduced mobile termination rates, the cost to communication in South Africa is still high and competition remains fragmented".
4. This echoes a passage in the Report of the Portfolio Committee on Communications (as it then was) adopted on 4 February 2014¹ ("the PCC Report"), after the completion of the previous sets of hearings into the cost to communicate undertaken around the country

*"It was widely reported that the cost of communication is still high in South Africa and is mainly due to a lack of competition in the market. And that despite ICASA's regulatory intervention to regulate the Call Termination Rates (CTRs) for both Mobile Termination Rates (MTRs) and Fixed line Termination Rates (FTRs) regime, the cost of communication still remains high while competition remains fragmented with anticompertitive conditions for new entrants and challenger networks."*²

¹ PCC Report on Cost to Communicate in RSA, 4 February 2014

² PCC Report on Cost to Communicate in RSA, 4 February 2014 p5

ISPA Board:

Graham Beneke, Anthony Engelbrecht; Guy Halse, Mlindi Kgamede,
 Duncan Martin, Mike Silber, Andre van der Walt, Warwick Ward-Cox

5. The Committee remains concerned about call termination rates, and it is correct that the interventions undertaken to reduce these have not resulted in greater scope for competition in the provision of voice services with resulting reductions in cost.
6. There is, however, limited scope for further cuts which would be effective in further introducing competition into this specific market, and the Committee is encouraged to broaden the scope of its investigation into other aspects of electronic communications.
7. **ISPA submits that the core focus going forward of an investigation into the cost to communicate should be the cost of access to broadband.**
 - 7.1. This would take into account and facilitate reaching the targets set out in the South Africa Connect National Broadband Policy.
 - 7.2. It would also recognise that the trend of declining revenue from voice services against increasing volume for data services noted in the PCC Report remains strong. Services such as Voice over Internet Protocol (VoIP) and packages such as the recently announced Telkom FreeMe package reflect that voice will increasingly be a data product and there are predictions that costs for basic voice services will tend towards zero over the next few years. ISPA notes that progress in this regard has, however, been stifled by the mobile network operators' entrenched practice of contractually preventing VoIP providers from providing VoIP service over the mobile network operators' networks.
 - 7.3. Furthermore, ISPA refers to the hearings conducted by the Committee into so-called "Over-The-Top" or "OTT" services and reaffirms that OTT services tend towards disrupting the market in a manner which lowers the cost to communicate and provides South Africans with greater choice amongst competing services. The cost of the broadband connection required to enable South Africans to use these services is accordingly critical.

ISPA's 2013 submissions on the cost to communicate

8. ISPA participated in the previous set of hearings conducted by the Committee. In its 2013 submission, ISPA raised the following³:
 - 8.1. there are still many challenges relating to facilities-based competition in the fixed-line infrastructure market;
 - 8.2. despite high penetration of access devices, affordability is still an inhibiting factor which limits how people use services;
 - 8.3. implementation of Local Loop Unbundling (LLU) will not only require massive capital investment by operators that want to participate, but will also cause such operators' business models to change;
 - 8.4. the Department and ICASA are fundamental to progress in lowering the cost to communicate but both appear to be under ongoing constraints in terms of their ability to deliver on their mandate;
 - 8.5. there is a need to distinguish between "universal service and access" on the one hand, and "universal affordability": South Africa has an "affordability gap" rather than an "access gap";
 - 8.6. there are conflicting statistics about coverage and penetration of networks in RSA;

³ As summarised on p17 of the PCC Report

- 8.7. ISPs still have no proper access to last mile infrastructure;
- 8.8. the so-called “last mile” - constitutes the key infrastructure-based obstacle preventing wide-spread take-up of broadband services in South Africa;
- 8.9. in the short term the single-most important bottleneck is access to radio frequency spectrum suitable for the delivery of broadband services given the lack of fixed network broadband; and
- 8.10. ICASA has achieved successes in some areas but it remains true that without structural and budgetary reform the communications regulator will continue to struggle to perform its role in introducing competition and lowering the cost to communicate and therefore there is a need to review legislation that governs the regulator in order equip it appropriately to be efficient and relevant to regulate operators.

9. ISPA proposed to the Committee that:

- 9.1. there is a need for greater competition in the provision of mobile broadband services;
- 9.2. there is a need for greater competition in the fixed-line broadband services market;
- 9.3. ICASA must conclude regulations introducing wireless LLU;
- 9.4. the IP Connect product offered by Telkom is prohibitively costly and it is necessary to take steps to ensure that new fixed access networks – which will be predominantly fibre – are offered on an open access basis;
- 9.5. there is a need to promote the expansion of last mile access infrastructure and technologies to the premises and home and make spectrum available for mobile broadband applications;
- 9.6. subsidies should be given to companies that invest in last mile infrastructure on an open access basis; and
- 9.7. Government undertake and release the results of a radio frequency spectrum audit as a premise for efficient management and use. The full list of proposals is detailed under attachment.

Reviewing our 2013 submissions

10. The table below provides a high-level update of ISPA’s position as set out in its 2013 submissions to the situation in 2016:

2013 Submission	Position in 2016
reduce Telkom IPC costs	Subsequent to the separation of Telkom’s wholesale (OpenServe) and retail divisions ISPA members report a vast improvement in the service and pricing being received from OpenServe.
need for greater competition in the provision of mobile broadband services;	NO PROGRESS
need for greater competition in the fixed-line broadband services market	
introduction of wireless LLU	
expansion of last mile access infrastructure and technologies	
incentivise infrastructure deployment on an open-access basis	
undertake and release results of a spectrum audit	

Facilitating deeper competition in the mobile broadband services market: Universal access and service vs. universal affordability

11. ISPA submits that there is a need to distinguish between “universal service and access” on the one hand, and “universal affordability” on the other.
12. As regards the former it is clear that substantial challenges remain, particularly in terms of national backbone and fixed local access networks. This is notwithstanding the explosion in the roll-out of optical fibre networks taking place in South Africa, mainly centred on the metropolitan areas
13. ISPA submits that – irrespective of which figure is used for current mobile phone broadband usage -a comparison of coverage against uptake unequivocally indicates that currently there is a significant percentage of the population which is able to access mobile broadband services but which is not able to afford to use such services or has to use them in a limited manner. This also means that if VoIP providers were not restricted from providing their services over the mobile networks, they would be able to provide much more affordable options to everyone that has mobile network coverage.
14. It follows that South Africa has an “affordability gap” more than an “access gap” – and one that is created by two very simple factors – the cost of mobile broadband data and the restriction on the provision of VoIP over such service.
15. ISPA notes that it is generally accepted that a lack of competition in the provision of mobile broadband and other services has resulted in South African consumers experiencing far higher prices than their peers elsewhere in Africa and submits that **the promotion of competition in the provision of mobile broadband services should be an explicit priority in any programme to reduce the cost of communication in South Africa.**
16. Any intervention specifically targeted at lowering the cost of broadband and other services obtained from the mobile networks will have the largest impact on increasing the uptake of broadband and voice services in South Africa in the short term.
17. ISPA submits that the clear lesson to be learnt from the fixed-line broadband services market is that the key intervention is the introduction of greater competition.
18. ISPA wishes to state its case for greater mobile services competition in the following simple terms:
 - 18.1. In the fixed-line broadband market there has been a massive pricing and service benefit to ADSL customers over the past two years as a result of strong competition in the fixed-line broadband services market.
 - 18.2. Consumers have seen per GB pricing falling from R70 to current pricing which is as low as R8 per GB. At the same time competition from aggressive ISPs has seen the explosion of uncapped broadband product, with an uncapped 2 Mbps account now costing as little as R169 per month excluding line rental costs.

- 18.3. It is no exaggeration to say that full competition has revolutionised the provision of fixed-line broadband services in South Africa. This has created significant value for consumers and facilitated productivity in the SMME and corporate markets which typically use ADSL as their primary broadband connection (with fibre to the business also being a fast growing trend).
 - 18.4. This is amply illustrated by the manner in which ISPs immediately passed on to their customers the benefits of the reductions in the cost of the IPC wholesale product provided by Telkom indicative of a market in which the benefits of full competition are being absorbed by consumers.
 - 18.5. The Department of Telecommunications and Postal Services, in partnership with industry, has set an objective of universal access to broadband services for all South Africans by the year 2020.
 - 18.6. There is agreement that the vast majority of South Africans, who currently do not have access to broadband access will, initially at least, obtain such access through a mobile network using a smartphone or other handset.
 - 18.7. Service competition is largely absent in the mobile services sector outside of the incumbents, notwithstanding that there are a substantial number of new entrants who would enter the mobile services resale market were the incumbents to create opportunities to do so.
 - 18.8. Although some wholesale solutions are currently available from mobile operators these are not price competitive, making it impossible for ISPs or other operators to resell mobile broadband at competitive prices. In fact, it is cheaper to buy mobile broadband in the open market than it is to buy it from the mobile operators on an APN solution.
 - 18.9. Currently there is also no regional breakout at competitive pricing.
 - 18.10. ISPA notes the contrast between the immediate passing on by ISPs of the reduction in the wholesale IPC rate and the failure of the major mobile network operators to reduce pricing in response to the reductions in another wholesale rate – the call termination rate. Telkom Mobile and Cell C's recent pricing initiatives are only now providing an inkling of the potential benefits of competition in this sector.
19. The form of intervention to be made is relatively simple and, with sufficient political will, easy to implement.
 - 19.1. ISPA strongly suggests that the mobile network operators should be regulated to offer wholesale solutions on their networks to ISPs at prices below current retail pricing, taking into account overhead charges and a profit margin.
 - 19.2. This will create a fully-competitive reseller market below the mobile network operators, in the same manner that such a market exists below Telkom.
 - 19.3. Properly regulated, we have no doubt that this will have a substantial impact on broadband penetration and usage in South Africa.
 - 19.4. Once a fully-competitive reseller market has been established, ISPA suggests that ICASA conclude regulations introducing wireless local loop unbundling, commonly known as MVNO Regulations.

Facilitating deeper competition in the fixed-line services market

20. As noted above, ISPA is of the view that the fixed-line services market is far more competitive than the corresponding mobile services market. As the Portfolio Committee is aware, however, there are still many challenges relating to facilities-based competition in the fixed-line infrastructure market.

What is open access?

21. ISPA submits that there needs to be a debate about the meaning to be given to the term "open access" as a fundamental principle of communications policy.
22. ISPA urges the Committee to investigate the manner in which fibre networks are currently being deployed in South Africa and the stark differences between the manner in which "open" and "closed" networks serve the interests of consumers. Providers such as Dark Fibre Africa, Link Africa, Vumatel, Frogfoot and RSAWeb deploy networks on an open-access basis, allowing licensed ISPs to compete with each other to provide broadband services to consumers. This has resulted in pricing which is lower than ADSL pricing and substantial consumer benefit.

Local access networks

23. Local access networks - the so-called "last mile" - constitute the key infrastructure-based obstacle preventing wider-spread take-up of broadband services in South Africa.
24. ISPA agrees that, in the long term, broadband services need for the most part to be delivered over fixed networks. Access to radio frequency spectrum suitable for the delivery of broadband services is, however, in the short term, the single-most important bottleneck to be addressed in expanding local access to affordable broadband in South Africa.
25. ISPA believes there needs to be:
- 25.1. Explicit recognition of the need to promote the expansion of last mile access infrastructure and technologies to the premises and home.
 - 25.2. Acknowledgement that fibre optic access networks will be the core solution to South Africa's long-term broadband requirements, supplemented by wireless and satellite connectivity where required.
 - 25.3. Acknowledgement of the urgent need to make radio frequency spectrum available for mobile broadband applications to facilitate greater competition in the provision of wireless local access networks and thereby address the comparatively high prices charged for mobile broadband services in South Africa.
 - 25.4. Explicit recognition that it is policy to promote infrastructure and service-based competition in South Africa.
26. For broadband to achieve its potential and for the Internet access industry to grow and create jobs, consideration should be given to the awarding of subsidies to companies that invest in last mile infrastructure. Because such investment in infrastructure will benefit the entire country, ISPA believes that such subsidies can fall within the ambit of the Universal Service and Access Fund (USAF).

27. Such subsidies should be made subject to the condition that infrastructure built with subsidies are open to all licensees and subject to proper pricing principles, allowing for a level playing field for all.

Radio frequency spectrum

28. ISPA submits that allocation and assignment of radio frequency spectrum must advance competition in the provision of wireless local access services in South Africa.
29. ISPA finds it regrettable that South Africa still does not have a clear idea of current levels of usage and availability of radio frequency spectrum and calls on the Department of Communications and/or ICASA to release the results of the audit of radio frequency spectrum usage undertaken during 2012.
30. Industry stands ready to utilise this spectrum to deepen broadband penetration. While the IMT-Advanced standards will not solve all of the challenges, it is imperative that South Africa takes steps now to allow the deployment of technologies which are spectrally efficient and suitable for broadband service provision in rural areas.

Conclusion

31. ISPA appreciates the time and energy which the Committee has invested into this process and trusts that the Committee will find the above submissions of value.

Regards

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