

Ms. MT Kubayi
Portfolio Committee on Telecommunications and Postal Services
Parliament Street
Cape Town
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13 September 2016

Dear Chairperson Kubayi,

NEOTEL'S SUBMISSION ON THE COST TO COMMUNICATE IN SOUTH AFRICA

1. We refer to the above matter.
2. Kindly find enclosed Neotel's submission on the on the cost to communicate in South Africa.
3. Neotel remains at the Portfolio Committee's disposal should any clarification be required in relation to the above matter
4. Neotel would appreciate being provided with details regarding the hearings on the matter to be held in Parliament on 20 – 21 September 2016 on order to plan accordingly.

Yours sincerely,



NEOTEL (PROPRIETARY) LIMITED

Per: Ms Candice Breval-Green

General Manager: Legal & Contracts



**SUBMISSION TO
PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA
ON THE COST TO COMMUNICATE IN SOUTH AFRICA**

Submission date: 13 September 2016

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1. INTRODUCTION

1. Neotel welcomes the Portfolio Committee's initiative to continue the debate on the cost to communicate in South Africa. Notwithstanding the success of previous interventions, such as the reduction in call termination rates, there remains much room for improvement.
2. As a product of legislation establishing a competitive fixed-line telecommunications sector in South Africa, Neotel has been able to drive down the cost to communicate, whilst delivering new technologies and substantial value to businesses and consumers over the past decade. The impact of Neotel's investment and innovation has not always been obvious to end users, since it has often been indirect, through other players in the sector (wholesale), businesses that depend on communications, or government services. Neotel has continually reduced the price of broadband and telephony to its own subscribers, and has never increased these tariffs, not even by the inflation rate.
3. Competitive investment in both fixed and mobile telecommunications infrastructure and services over the past few years has enabled the majority of South Africans to communicate in ways previously not dreamt of, and to use telecommunications services in many places that previously lacked access. Whilst mobile networks have dramatically extended the reach of communications, it is competitive fixed line networks that have seen the most spectacular increases in bandwidth and reductions in the price of bandwidth and the price of telephone calls.
4. However, the fixed line sector is still dominated by a single state-owned player, and a number of opportunities to level the playing field for smaller players have been lost over the past few years ('local-loop unbundling' being the most widely acknowledged).
5. Policy and legislation as an enabler is central to competition and consumer welfare, including the facilitation of infrastructure deployment and sharing, reducing the costs of regulation, and resolving the role of state-owned companies in the sector.
6. Cost discussions need to be located within broader policy debates including, inter alia, institutional reform, policy review, access to spectrum and universal service and access. Co-ordination of policy, legislation and appropriate regulation remain critical to the success any of these initiatives.

2. REDUCTION IN TERMINATION RATES

7. The first round of call termination rate reductions enabled Neotel to reduce its retail call prices by nearly half, tracking the glide path reduction of termination rates. The second round, which concludes in October 2016, will enable further discounting and price reductions.
8. Although the rates following this round will be much more reflective of underlying cost and ongoing technology changes, as voice becomes an application rather than a basic

service, improvements in efficiency make further reductions in termination rates feasible, and even desirable.

9. The growth of 'over-the-top' voice services represents a new kind of competition for operators who have relied on high call tariffs in the past. Together with the dramatic rise in data demand, these will drive bundled offerings in response. Call termination rates, even at current levels, will increasingly become a barrier to competitive bundled offerings that enable communication between networks (off-net as well as on-net calls).

3. WHOLESALE, INFRASTRUCTURE-BASED COMPETITION

10. Leveraging its substantial investments in international, national and local telecommunications infrastructure, Neotel has actively participated in the wholesale market, providing bulk rates and aggregated bandwidth models for connectivity and Internet to Electronic Communications Network Service and Electronic Communications Service licensees in South Africa.
11. Wholesale products made available from Neotel include metro, national and international point-to-point connectivity services and Internet bandwidth covering both local and international transit.
12. Neotel has participated in building (or procuring capacity in) all of the submarine cable systems (a total of 5 cables) that currently land in South Africa, and has passed on significant savings to other players in the market, and to end users of broadband.
13. The impact of wholesale, infrastructure-based competition is best illustrated by an example. Since 2006 (when there was still an effective monopoly), the wholesale cost of international bandwidth has fallen by over 95% as multiple players (including Neotel) have invested in new submarine cable systems. This has enabled a continuous reduction in the price of Internet bandwidth to end users, and facilitated ongoing massive growth in the bandwidth consumed, tracking demand. Similarly, there has been substantial investment in competing national backbone networks, with somewhat smaller, but significant reductions in the wholesale cost of national bandwidth.
14. In local access networks, there has been somewhat less competition, constrained by the level of investment required, but significantly also by regulation, as noted below.

4. INFRASTRUCTURE SHARING

15. Neotel believes that infrastructure sharing is one of the most effective ways to facilitate competition and drive price reduction in the sector. The most successful examples include:
 - Co-build of fibre backbone infrastructure, such as the joint national long distance network built by Neotel, Vodacom and MTN; and
 - Joint investment in international submarine cable consortia, as noted above.

16. Notwithstanding the lack of local-loop unbundling to drive competition and reduce pricing for access to fixed line services, including broadband, there is still scope for stronger regulation to ensure open access to incumbent infrastructure. For as long as one fixed line player with significant market power dominates the local access market, such regulation can help to reduce the cost to communicate.
17. Similarly, regulation should facilitate access to municipal infrastructure, including ducts and poles, to reduce the cost to deploy new, competitive telecommunications infrastructure.

5. SPECTRUM

18. The regulation of spectrum, as for infrastructure, should facilitate pooling, sharing and trading amongst competitors.
19. Just as investment in new technology and infrastructure reduces the unit cost of services, so does the availability of additional spectrum. High-demand spectrum remains a source of much debate within the sector, and multiple approaches have been suggested. There is clearly a need for a policy that releases spectrum in order to enable operators to upgrade and grow their mobile and fixed networks, and hence deliver globally competitive services, so as to reduce the cost to communicate.

6. THE ROLE OF GOVERNMENT

20. Government's objectives are best achieved by participating in the telecommunications sector on the demand side, rather than the supply side. With few exceptions, direct government investments in telecommunications infrastructure globally, including in South Africa, with the aim of supplying services to the market, have been costly, inefficient, and often wasted.
21. In contrast, where government has purchased services from competitive bidders, or established public-private partnerships based on such purchases, the result has been better government services, and a reduction in the cost to end users. By purchasing services as an anchor tenant, government can make new investment commercially viable.
22. The ongoing involvement of various levels of government in building telecommunications infrastructure typically conflicts with the competitive market structure that has been created to deliver telecommunications services, and ultimately drives up the cost to communicate. Instead, government should be a facilitator, removing barriers to investment and enabling the rapid deployment of infrastructure.
23. In areas where the deployment of new infrastructure is simply not economically viable, the Universal Service Fund should be used to fund network build.

7. RAPID DEPLOYMENT

24. Neotel supports the development of a Rapid Deployment Policy as being undertaken by the Department of Telecommunications and Postal Services and concurs with the conclusions drawn in the discussion paper published in August 2015.
25. With regard to fixed line infrastructure in particular, the greatest challenge is the lack of local access infrastructure, and this policy is essential to enable the multiple players in the industry to build new infrastructure, and particularly local access fibre and wireless infrastructure, as rapidly and cost-effectively as possible.
26. Amongst the causes of significant delays in telecommunications infrastructure rollout are the following:
 - Environmental Impact Assessments for new high sites can take 18-24 months;
 - A network build that crosses any body of water requires a Water Use Licence, which can currently take 18 – 24 months to obtain;
 - Rights of way from municipalities typically take 30-40 days to obtain; and
 - Access to property by landlords is often problematic with associated demands for rental fees, which leads to delays.
27. Fortunately, with regard to access to property, the Constitutional Court, in its judgement of 23 September 2015 in the case of City of Tshwane Metropolitan Municipality v Link Africa (Pty) Limited and Others, upheld the provisions of the Electronic Communications Act that allow ECNS licensees to enter any property without the consent of the land owner for the purposes of constructing and maintaining an electronic communications network or facilities, provided that they exercise these rights respectfully and with due caution. Nevertheless, the reference in the judgement to 'equitable compensation in appropriate circumstances' continues to create uncertainty in this regard.
28. There are various possible interventions in legislation and regulation that can facilitate the rapid deployment of telecommunications infrastructure, including:
 - Regulatory controls on wayleave application requirements and timelines;
 - Co-ordination amongst operators and other role-players by municipalities;
 - Pro-active sharing of trenches when work is being undertaken;
 - Greater urgency from state-owned companies in access to infrastructure;
 - Co-ordination on standard duct configuration and specifications;
 - A common database of all infrastructure, with controlled access by providers;
 - Simplified, automated wayleave applications and approvals; and
 - Deemed wayleave approvals if there is no objection within 10 days.

8. CONCLUSION

29. Neotel believes that the competitive telecommunications market structure that has been created, particularly in fixed line telecommunications, is the key to reducing the cost to communicate. Neotel in particular has reduced costs by:

- Deploying and leveraging its own infrastructure;
- Co-building infrastructure with other players;
- Leveraging this infrastructure and partnerships to reduce data costs; and
- Passing on call termination rate reductions to consumers.

30. There is an ongoing need for some regulation in telecommunications, and particularly in markets (such as fixed line) where there is one or more players with significant market power. This may include:

- Further reductions in call termination rates;
- Implementation of toll free / share call framework and non-geographic porting;
- Access to incumbent infrastructure where there is significant market power;
- Policy, legislation and regulation to enable rapid deployment of infrastructure; and
- Regulation to facilitate spectrum sharing and trading.

31. Beyond such interventions, what will drive the growth of telecommunications services and reduce costs will be less regulation, and more incentives, including government positioned on the demand side, playing a key role as an anchor tenant.

32. Neotel is at Parliament's disposal to clarify any issues relating to this submission.