



Reducing the Cost to Communicate & Addressing Market Failures in South Africa's Telecommunications Sector

**Address to the Portfolio Committee
on Communications
15 September 2009
Department of Communications**



Presentation Format

- ① Background
- ① Benchmarking
 - ① Fixed telephony
 - ① Mobile telephony
 - ① Data services
- ① On the analysis we will look at tariffs, usage and access, quality of service
- ① Programme of Action
- ① Way forward

Background



- 2005: DOC hosted Colloquium on Telecommunications Costs
- 2006: Former President Mbeki pronounced on high communication costs in the State of the Nation Address (SONA)
- 2006: ECA enacted, empowering ICASA to establish “...a framework for wholesale interconnection rates to be charged for interconnection services ...” (Chapter 41)
- 2007: Former President Mbeki announced government’s intent to address high communication costs in the SONA
- 2007: ICASA issued draft regulations on interconnection
- 2008: DOC commissioned an international peer benchmarking study
- 2009: Study results analysed internally, with relevant SOE and the economic cluster; Programme of Action developed – to be presented to Cabinet in October 2009



Project Methodology

- Undertook detailed comparative reviews of tariffs, usage, access and quality of services in the 5 nominated peer countries namely Chile, Korea, India, Brazil and Malaysia
- Compiled appropriated policy recommendations

Chile



Korea



RSA



India



Brazil



Malaysia



Summary of findings

Fixed Telephony: General status



- ① Fixed line access generally dominated by incumbent operator:
 - ① Brazil: Regional domination (Telesp, Brasil Telecom, Oi) with some Wireless Local Loop competition
 - ① Chile: CTC with some regional operators
 - ① India: BSNL (Bharat Sanchar Nigam Ltd) with MTNL (Mahanagar Telephone Nigam Limited) in Delhi and Mumbai and some Wireless Local Loop competition
 - ① Korea: Korea Telecom (90%) of lines, one other nationwide competitor
 - ① Malaysia: Telekom Malaysia
 - ① South Africa: Telkom; new competitor with Neotel
- ① Domestic & international long distance markets generally open; indirect domestic long distance competition from mobiles
- ① Brazil, Chile, India and Korea pretty competitive with a number of facilities-based long distance operators i.e. operators who have their own networks and can provide interconnection for national and international calls.

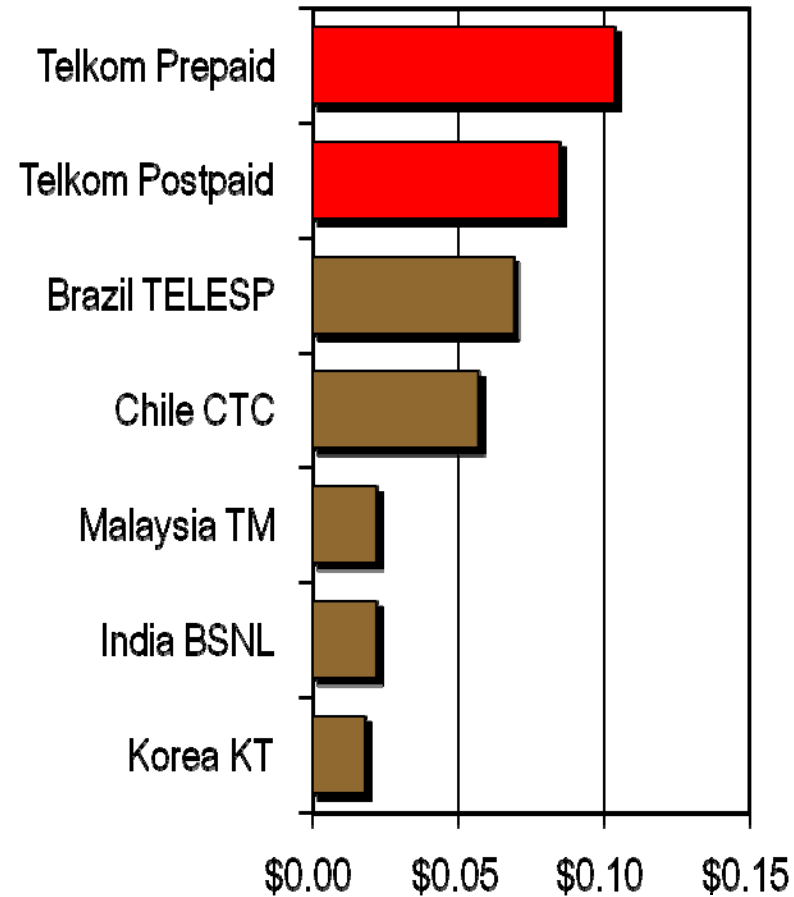


Summary of findings

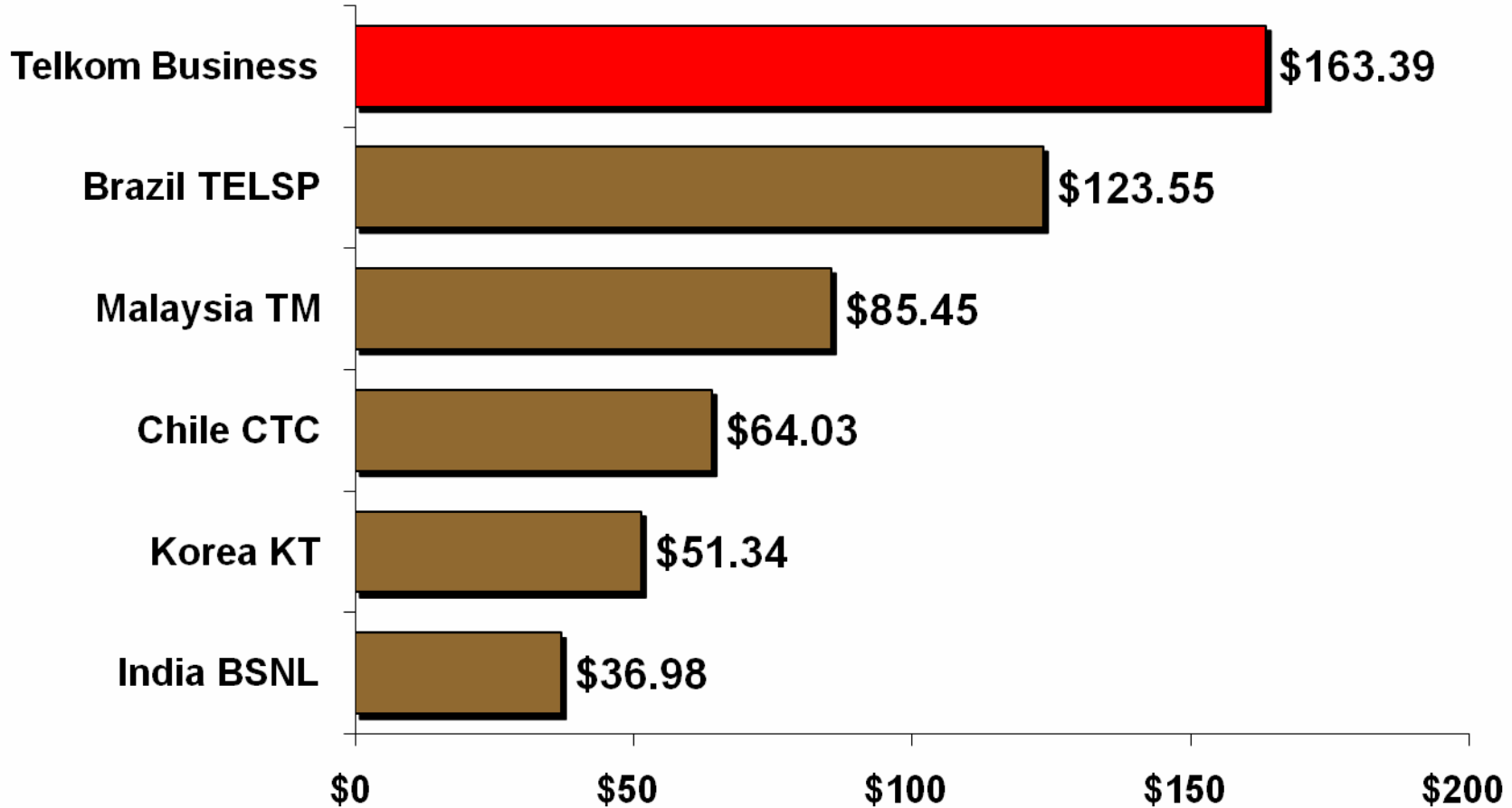
Fixed Telephony: Status South Africa

- ① South Africa is with some notable exceptions a high, and in some instances, very high cost to communicate country in relation to its peer group of countries.
- ① Fixed Telephony
- ① Long distance relatively cheap in South Africa compared to benchmarked countries, but is generally high
- ① However other fixed charges are relatively high in South Africa
- ① Fixed penetration is lower today in South Africa than in 2000
- ① Neotel difficult to benchmark due to multi-play packages (voice and internet and mobile-like pricing structure)

Fixed local call rate per minute (PPP)



OECD fixed business basket
August 2008, PPP, excluding taxes

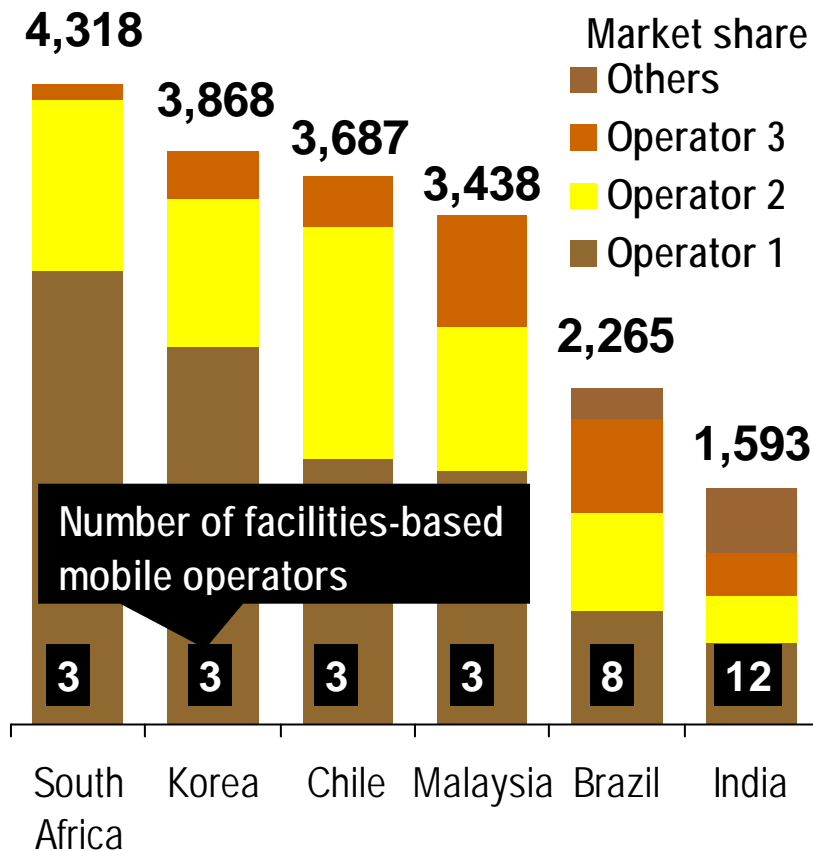


Summary of findings

Mobile Telephony: General status



Herfindahl-Hirschman Index
December 2007



- ① South Africa has the most concentrated mobile market
- ① Most of the benchmark countries, like South Africa (Vodacom, MTN, Cell C), have 3 nationwide operators
- ① Brazil and India have a larger number of mobile groups although not all operate nationwide

Summary of findings

Mobile Telephony: South Africa

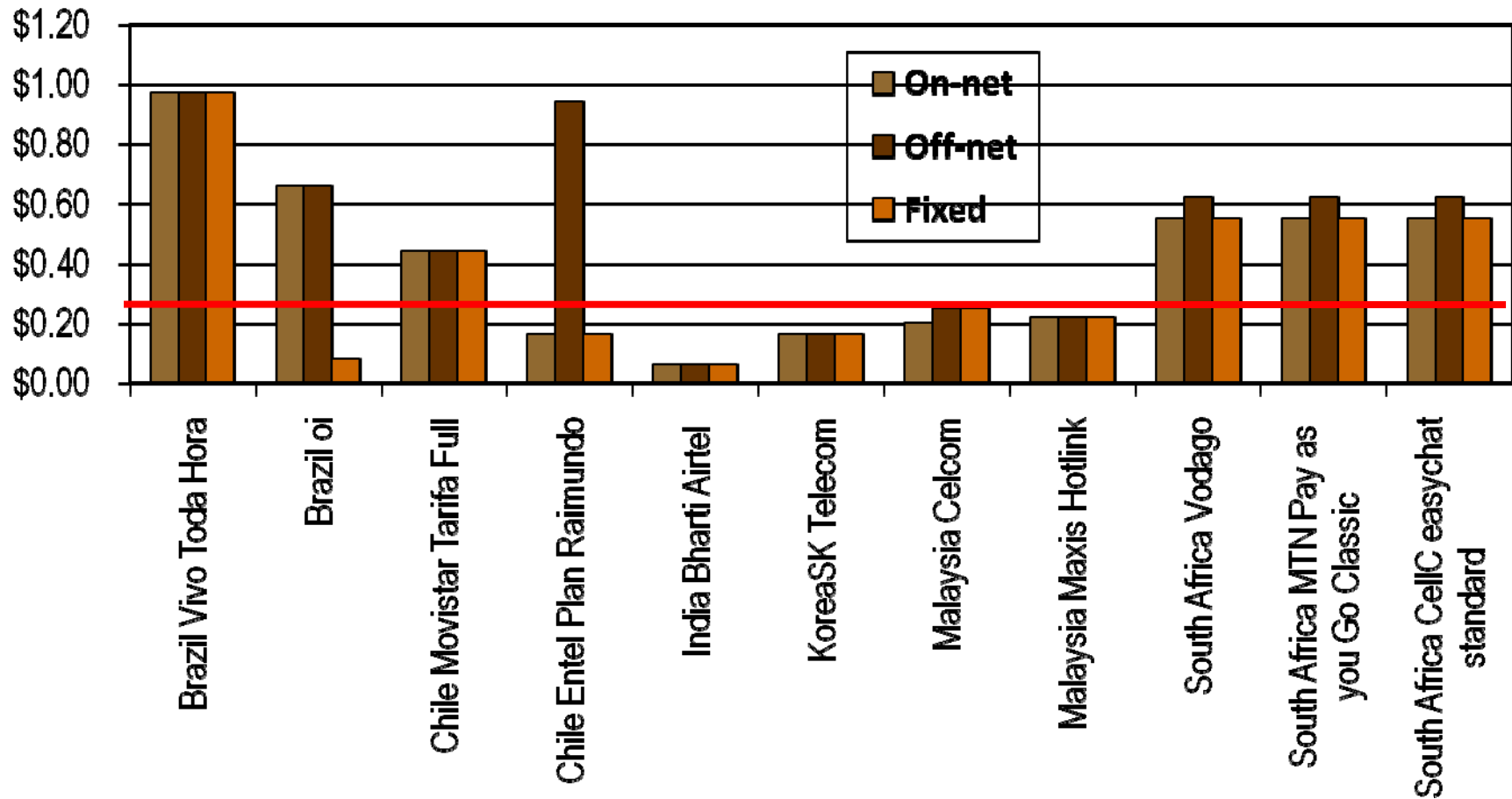


- ① Mobile penetration has grown impressively in South Africa. It has risen from the fourth ranked country among the benchmark nations in 2000 to first in March 2008.
- ① South Africa top ranked despite relatively high tariffs
- ① However usage in South Africa is low
- ① Mobile broadband tariffs for high volumes (>2GB) expensive in South Africa due to lack of uncapped plans which are available in the other benchmark countries



Prepaid mobile prices

Peak rate, August 2008, PPP

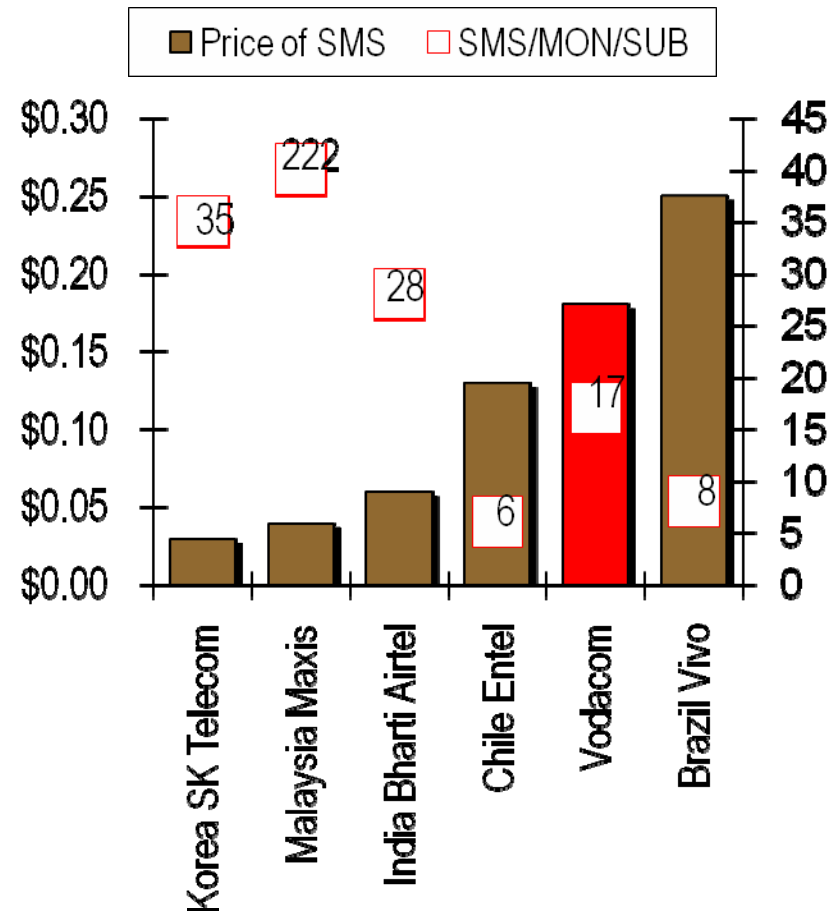


Summary of findings

Mobile Telephony: SMS



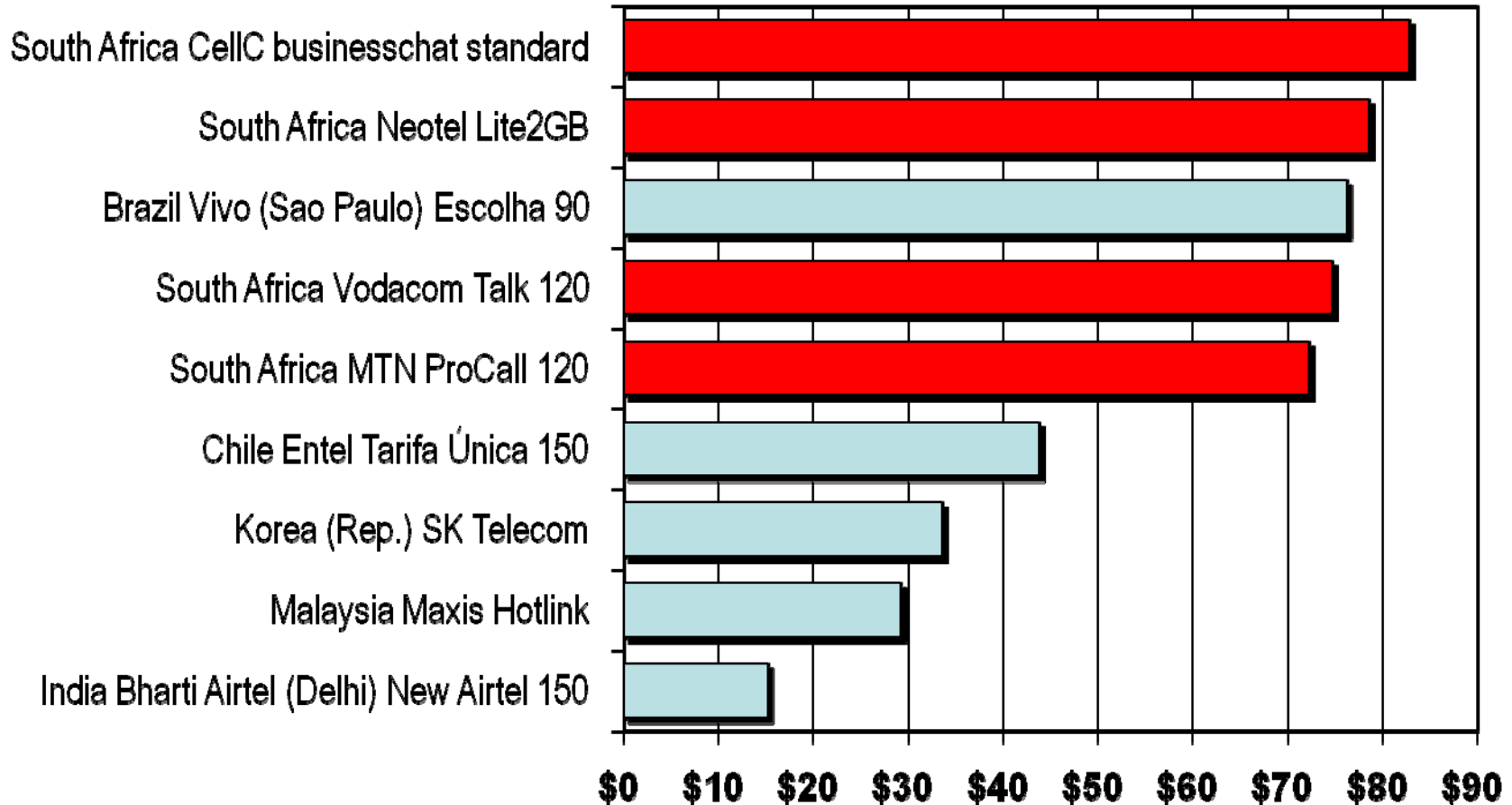
- 1 South Africa has second highest SMS prices
- 1 Usage is higher in South Africa than Chile or Brazil
- 1 Malaysia has highest usage by far





Postpaid mobile tariffs

OECD medium usage basket,
per month, August 2008





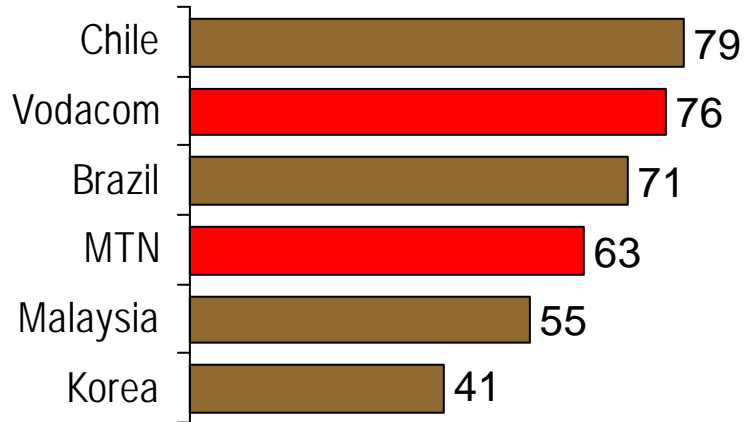
Summary of findings: Internet

- ① South African tariffs consistently high
- ① Unlike other countries, no uncapped plans in South Africa
- ① Level of South African access relatively low and slower growth than other countries

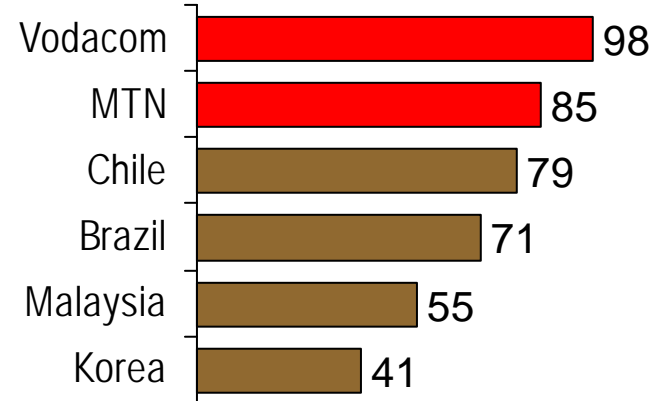


Broadband tariffs

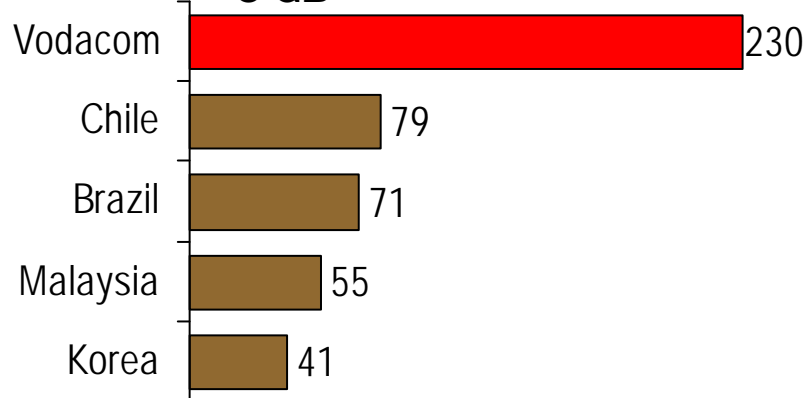
1 GB



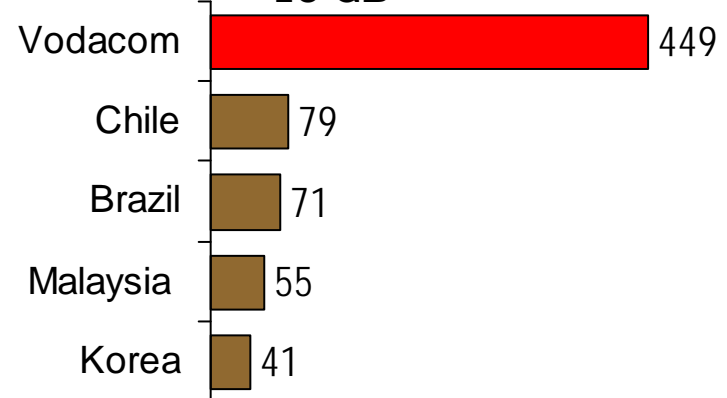
2 GB



5 GB



10 GB



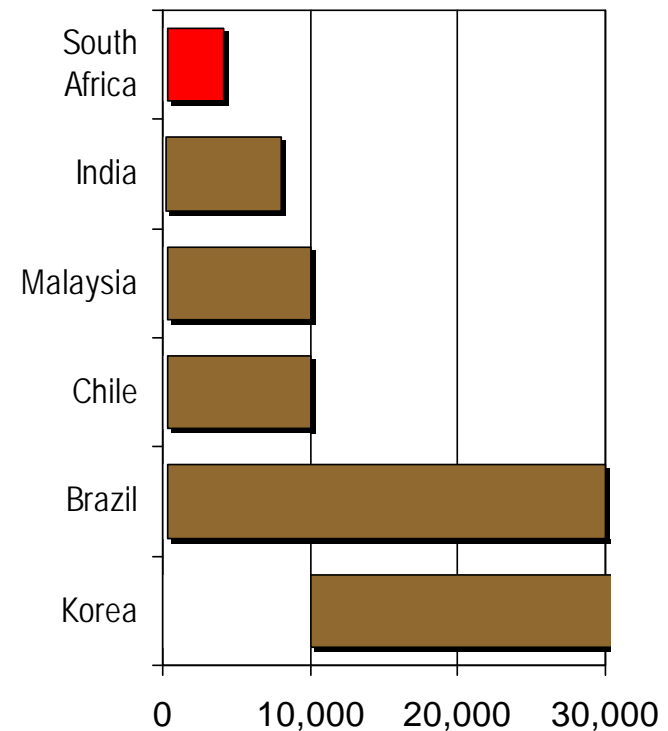
Summary of findings

Internet: Speed



- ① All of the countries have maximum broadband speeds faster than South Africa
- ① Korea offers 100 Mbps fiber optic/LAN connections whereas Brazil offers 30 Mbps
- ① In contrast, the fastest DSL speed in South Africa is 4 Mbps

Range of slowest & fastest broadband speeds available, kbps



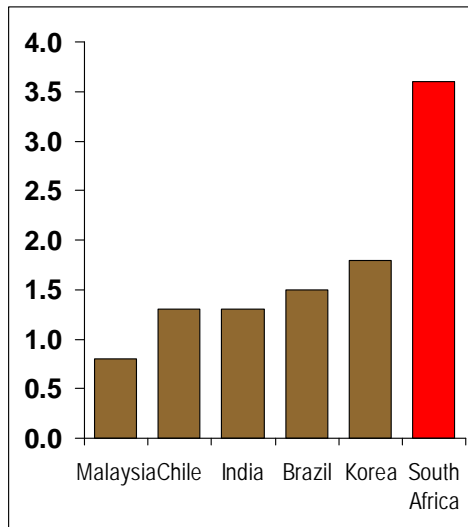


Summary of findings

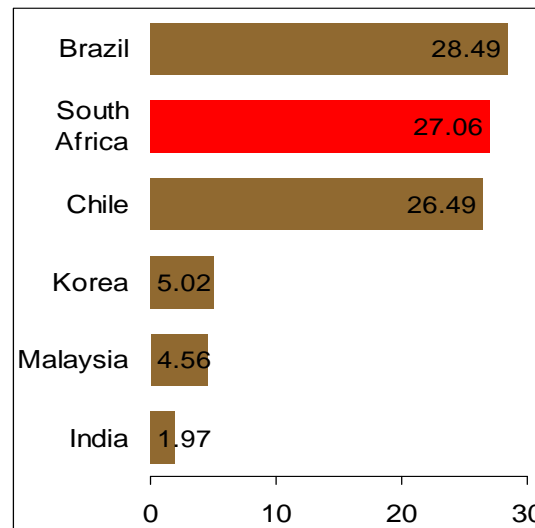
Wholesale

- 1) South African fixed and mobile termination rates high
- 1) South Africa has the highest price for an international 2 Mbps leased lines – it is twice as much as the next most expensive country
- 1) Very low international bandwidth compared to benchmark countries

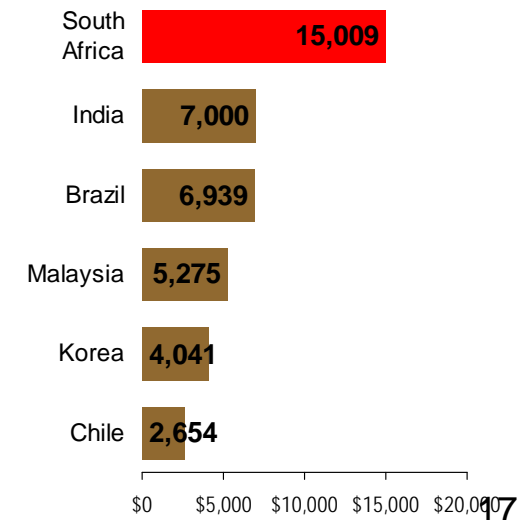
Fixed termination rates, PPP cents per minute, 2007



Mobile termination rate, PPP cents per minute, 2007



Price of 2 Mbps international leased line to USA, half-circuit, PPP, 2008





General results (1)

- ① South Africa more often than not aligns with high cost countries (Brazil & Chile) in tariff comparisons
- ① South Africa expensive for fixed local access but inexpensive for fixed domestic and international long distance
- ① South Africa and Malaysia only two countries with less fixed lines today than in 2000
- ① South Africa has most concentrated mobile market
- ① South Africa has relatively high mobile penetration
- ① Mobile tariffs expensive in South Africa
- ① South Africa has lowest mobile usage

General results (2)



- ① South Africa has low Internet penetration and market has grown slowly compared to other benchmark countries
- ① Mobile and DSL broadband expensive at high usage (>3GB)
- ① Wholesale fixed and mobile termination expensive in South Africa
- ① South Africa compares favorably for domestic leased lines
- ① International private leased lines (2Mbps) expensive in South Africa



RECOMMENDATIONS



Promote competition

- ① Global best practice shows that there is no single dominant model
 - ① Big bang
 - ① Roadmap
- ① Muni & provincial networks
 - ① Govt must actively support initiatives arising around these networks
 - ① Must be financially viable with a sound business case
 - ① In line with national broadband strategy
 - ① Muni & provincial networks must be focused on govt service provision and digital inclusion goals
 - ① Apart from internal use for govt service provision, these networks' role should be restricted to that of open access wholesale facilities provision and not enter the retail services provision space
 - ① Allow ECS players to do retail part
- ① Establish rules for wholesale open access to essential facilities



Promote competition

- ① Accelerate Local Loop Unbundling
- ① Facilities leasing
 - ① Establish process (ICASA)
 - ① Make more public facilities available (see infrastructure-based competition)

Develop a national broadband policy



- ① Improve coordination between various departments, agencies, local authorities etc
- ① DOC to take leadership
- ① Requires extensive consultation with all stakeholders, including industry, civil society and government
- ① Align to industrial policy
- ① Start immediately with a draft framework that can serve as a consultative document

Regulate Mobile Termination Rates



- ① Essential in order to achieve competitive pricing (NB)
- ① Coordinated intervention including CompCom, ICASA and other industry players
- ① Preferably based on international benchmarking rather than cost-based determination – pragmatism essential, for timely and incisive cost reduction (NB)
- ① Critical that the saving filters to the consumer in the form of reduced tariffs



Finalise the spectrum policy

- ① Maximise benefits of 'digital dividend' spectrum harvest
- ① Under-utilised spectrum needs to be timeously re-deployed



Review Universal Access Policy



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- ① Size and deployment of the fund – holistic framework required
- ① Harmonisation of different initiatives i.e. ICASA/Operator obligations and USAASA initiatives
- ① Subsidisation in special instances



Role: State

- ① Act in instances of market failure
- ① Focus on
 - ① creating an enabling environment for services and applications development,
 - ① selected open access wholesale provision of essential facilities
 - ① addressing digital divide, priority customers and needy persons
- ① Not to operate directly in retail services
- ① State needs to enable competition
 - ① Assist with services to uneconomical and underserved areas
 - ① Facilitate access to infrastructure
- ① Unify the role of ICT-related SOE
- ① Ensure harmonisation of networks and services



Role: Private sector

- ① Competition should be enabled (DOC/ICASA)
- ① Role is to provide both wholesale and retail services
 - ① On request can lease wholesale facilities from muni & provincial networks and SOEs





Role: Authorities

- ① Ensure effective coordination between CompCom and ICASA
 - ① Essential in order to avoid jurisdictional ambiguity and 'forum shopping'
 - ① Learn from Brazil

- ① Strengthen the Regulator



Programme of Action (1)

	OBJECTIVE	RESPONSIBILITY	TARGET DATE
3.1	To reduce telecoms prices and foster competition in the market		
3.1.1	Regulate mobile interconnection charges in line with ECA and based on international benchmarking (best practices)- ICASA to fast-track the finalisation of the Interconnection and Facilities Leasing Regulations published for public comments in 2007	ICASA & DOC	March 2010
3.1.2	Set mobile termination rate in line with international best practice	ICASA & DOC	March 2010
3.1.3	ICASA to review the composition of the basket of services for mobile tariffs with the view to review mobile price filing model	ICASA & DOC	March 2010
3.1.4	ICASA to streamline services to be included in the CPI basket in order to customise the basket to be telecoms-relevant (specific)	ICASA & DOC	March 2011
3.1.5	Introduce a public consultation process in respect of tariff setting		



Programme of Action (2)

	OBJECTIVE	RESPONSIBILITY	TARGET DATE
3.1	To reduce telecoms prices and foster competition in the market		
3.1.5	Review ECA and licencing conditions to ease barriers to entry in a manner that reflects current realities without disadvantaging new entrants	ICASA & DOC	March 2010
3.1.6	Effect legislative or institutional changes to tighten coordination between Competition Commission and ICASA & avoid 'forum shopping'	DOC, ICASA, Competition Commission	March 2010
3.1.7	Review the ECA to increase the effectiveness of USAASA and ICASA in advancing government's strategic intent	DoC	March 2010
3.1.8	ICASA to set service quality standards	ICASA	March 2011



Programme of Action (3)

	OBJECTIVE	RESPONSIBILITY	TARGET DATE
3.2	To reduce local and international broadband prices by 30% and 15% respectively by 2011		
3.2.1	Finalise regulations to promote facilities-based competition, price and service-based competition	ICASA	March 2010
3.2.2	Finalise the national broadband policy in consultation with provincial and local government	DoC	March 2010
3.2.3	Facilitate and support the rollout of broadband infrastructure programmes and ensure that it is accessible and affordable	DoC	June 2011



Programme of Action (4)

	OBJECTIVE	RESPONSIBILITY	TARGET DATE
3.3	To increase mobile telephony and internet access and usage (users and subscribers /100 people) by 10% particularly in rural and underdeveloped areas through an Uptake and Usage Strategy that, amongst others:		
3.3.1	Encourages the usage of mobile telephony and internet by promoting prepaid broadband/internet subscription	DoC, ICASA, USAASA	March 2011
3.3.2	Promotes the development of mobile and internet related applications and services including the utilisation of SMS for banking services, access to market and public service information and public payments	DOC, USAASA, ICASA, ISSA	March 2011
3.3.3	Explores the introduction of online trading services to promote domestically manufactured goods, including artwork	DOC, DTI, DST, DA&C	March 2010
3.3.4	Expedites & expands existing programmes to ensure the availability of internet services in every municipality & school	DOC, DPLG, DOE, USAASA	March 2011



Programme of Action (5)

	OBJECTIVE	RESPONSIBILITY	TARGET DATE
3.4	Increase domestic and foreign investment in the sector		
3.4.1	Accelerate local loop unbundling	ICASA	March 2011
3.4.2	Explore the application of a broad-band incentive to encourage private sector infrastructure investment prioritising rural and under-developed areas through the Universal Service Access Fund	DOC, USAASA, NT, DTI	June 2010
3.4.3	Finalise National Frequency Management Plan	DOC, ICASA	March 2010
3.4.4	Design incentives to encourage investment in local innovation and R&D capabilities by operators	ICASA, DOC	June 2011



Way forward

An interdepartmental task team has been set up, comprised of the DOC, the DTI, DST and National Treasury to monitor the implementation of the programme of action.



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THANKS

