Response to
Portfolio Committee on Communications

Measures to Reduce Interconnection Rates and High Costs of Telecommunications in South Africa

Mobile Termination Rates

- Interconnection Rate to Mobile Operators has been attributed to the high cost of telecommunications.
- Consequences:
  - Adversely impacted the economy
  - Access to telecommunications by the poor and maginalised
  - Limits competition from smaller operators

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Mobile Interconnect Rate

Interconnection rates in South Africa set at R1.25 per minute during peak times are exorbitant and excessive, resulting in extremely high telecommunication prices.

Mobile Interconnect Rate

- There have been many previous studies that analyse the cost of telecommunications in South Africa:
  - Many analyse only a few countries,
  - Generally conclude telecommunications costs in South Africa are high,
  - Recommend that Mobile Interconnect Rate be reduced (analysts) or is fair (mobile operators),
  - Very few consider the impact of Telkom's fixed line monopoly on telecommunications services.

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Mobile Interconnect Rate

- South Africa is ranked 70 out of a total of 150 countries by the ITU in *“Measuring the Information Society, The ICT Development Index, 2009”*
- Ranking of individual price baskets (as a percentage of the monthly GNI per capita):
    - Fixed Telephone services: 104
    - Mobile Cellular services: 73
    - Fixed Broadband Internet services: 62

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Historically High Interconnect

This is the consequence of apparent historical collusion between dominant mobile operators in the country - which has placed profits and greed above people - and the incapacity of ICASA to effectively regulate this matter.

Historically High Interconnect

- The high telecommunication prices are a consequence of multiple factors, including:
  - Lack of competition in the fixed line market (until recently),
  - The inability of mobile operators and VANS licencees to self-provide their own transmission infrastructure (until recently),
  - Delay in liberalisation of the telecommunications market and the introduction of competition,
  - The high cost of leasing transmission facilities from the incumbant fixed line operator,
  - Delay in the introduction of carrier pre-select in the fixed line and mobile environments

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Historically High Interconnect

- The high telecommunication prices are a consequence of multiple factors, including:
  - Delay in unbundling of the local loop,
  - Delay in the introduction of full number portability support in the fixed line market.
  - National Toll-free services (e.g. 080) are not available across interconnect.
  - High-costs/guarantees from established operators.

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Cost of Communications

The high costs of mobile and fixed line telecommunications has impacted adversely on the South African economy and negatively on citizens, particularly the poor and marginalized.

Cost of Communications

- The number of mobile cellular subscriptions increased from 29.4 subscriptions per 100 inhabitants in 2002 to 87.1 subscriptions per 100 inhabitants in 2007. The annual Mobility 2009 study, suggests that 68% of subscriptions represent individual users.
- Mobile services also increase access to the Internet via narrowband & broadband services.
- According to the ITU, the number of fixed telephone lines decreased from 10.4 lines per 100 inhabitants in 2002 to 9.6 lines per 100 inhabitants in 2007.

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Cost of Communications

- The low penetration of fixed telephone lines, high monthly rental fees, per minute billing and minimum amount based billing methods are all factors that raise the cost of telecommunications services.
- GSM Mobile has been successful, where other fixed line solutions have failed, including:
    - DECT wireless local loop
    - Fixed-mobile
- More people rely on mobile services for their communications needs. Many small to micro enterprises run their businesses with a cellphone and a 3G modem.

Cost of Communications

- CST terminals provide low-cost alternative method of making telephone calls. CST terminals have also created opportunities for entrepreneurs and micro enterprises, that previously did not exist.
- Least Cost Routing (LCR) equipment has created business opportunities, that allowed small, medium and large business customers to reduce their mobile telecommunications costs.
- The unavailability of fixed line telephony in many areas has led to many people using mobile telephony as their primary communications solution.

Impact of Interconnect Rate

There is unanimity in industry, government, other relevant stakeholders and the regulatory authority that the present situation is socially indefensible and economically unjustifiable.

Impact of Interconnect Rate

- The PCC should consider the following when evaluating the impact of the mobile termination rate on society and the economy:
  - CSTs have created opportunities for entrepreneurs
    - How will a reduction in the mobile interconnect rate impact CST operators?
    - Will cheaper calls from your cellphone put CSTs out of business?
    - Should the 90c cost of a CST call not be reduced initially?

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Impact of Interconnect Rate

- The PCC should consider the following when evaluating the impact of the mobile termination rate on society and the economy:
  - Least Cost Routing of cellphone calls is a form of arbitrage, that aims to circumvent the high cost of calls via direct interconnect routes. These saving are already passed on many business customers. A large number of entrepreneurs are providing LCR solutions.

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Impact of Interconnect Rate

- The PCC should consider the following when evaluating the impact of the mobile termination rate on society and the economy:
  - A number of entrepreneurs have partnered with one or more mobile operators to provide Value Added Voice Services to the public (IVR, conference bridging, voicemail to email, televoting, fax to email, competitions). The interconnect revenue earned by the mobile operator for these services is shared with the entrepreneur.
  - A reduction in the interconnect rate will impact these entrepreneurs.

PCC Proposal to reduce the High Cost of Telecommunications

- *Mobile and telecoms operators drop the interconnection rates with effect from 1 November 2009 to 60 cents per minute during peak times;*
- *Interconnection rates be further reduced by 15 cents annually on the 1 November for each successive year until 2012; and*
- *As a general rule the progressive reductions in interconnection rates between 2009 and 2012 should yield concomitant reductions in the actual consumer (retail) prices of telecommunications.*

Comments on PCC Proposal

- A reduction in the interconnect rate will not necessarily result in a reduction in the cost of calls for consumers. The cost of on-net calls is currently more expensive than the interconnect rate of R1.25.

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Comments on PCC Proposal

- A reduction in the interconnect rate may have the following consequences:
  - Mobile operators will increase the costs to other products and services – the waterbed effect.
  - Customers who receive more calls than they receive may become commercially unattractive. This may lead to customers being levied monthly subscription/access fees, analogous to Telkom's line rental fees.
  - “All you can eat” packages will lead to an increase in unsolicited telephone calls from tele-marketers and pranksters.

Comments on PCC Proposal

- A reduction in the interconnect rate may have the following consequences:
  - Base stations in rural areas with low call volumes may become un-affordable to mobile operators. This may lead to the base stations being de-commissioned.
  - The mobile penetration rate may decrease, and follow the trend of fixed line communications.

Comments on PCC Proposal

- There are a number of reports on the Inter-connect rate reduction in Namibia:
  - The “Namibian Interconnection Benchmarking Study” does not consider the waterbed effect. A recent report suggests that the reduction in the Namibian interconnection rate has not led to a reduction in the consumer rate.
  - The Namibian market is not equivalent to the South African market:
    - Namibia has a 55% penetration of mobile subscriptions compared to approximately 100% in South Africa.
    - MTC Namibia has a 87.4% market share. MTC was the only mobile operator in Namibia until recently. South Africa had 2 mobile operators in 1994, and a third competitor launched in 2001.

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Comments on PCC Proposal

- Some proponents of lower mobile interconnect rates seem to be targeting services at business customers and residential estates, rarther people in under-serviced areas, the poor and the marginalised.
- A reduction in interconnect rates, may lead to mobile operators charging smaller telecommunications providers other ancillary fees (a practice already employed by some VoIP service providers).

Advinne Proposal

- The interconnect rate should be a capped rate rather than a fixed rate, effective immediately and also when reduced in the future.
- The long term interconnect rate should be symmetrical between established operators.
- The impact of converting more than 400 VANs licences to ECNS and ECS licences should be evaluated.
- The mobile termination rate should be reduced (or discounted) based on the volume of traffic a mobile operator receives from an interconnect partner. This will allow smaller telecommunications operators to transit their traffic via larger third-party operators, instead of direct interconnect to the mobile operators.

Advinne Proposal

- More wireless/mobile spectrum licences should be issued for services in under-serviced areas to increase compeitition and the provision of voice services in these areas.
- The roll-out of CST terminals should be increased.
- Calls to/from under-serviced areas should be charged at different rates.
- The cost of transmission facilities needs to be reduced.
- More competition is required in the provision of transmission services.
- Facilities sharing.

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