Parliamentary Hearings on Mobile Termination Rate (MTR)

Lars P. Reichelt

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cell C
for yourself

- Cell C has been operational for almost 8 years and had 6.4 Million customers EOY 08
    - started with a 2 year delay due to court cases

- Cell C is
    - 75% foreign owned
    - 25% South African owned
        - 33 BEE companies incl.
            - Contralesa
            - Hawkers Association
            - Military Veterans Association
            - Returned Exiles Association
            - National Rural Womens Association
            - Youth & Physically Challenged Organizations
            - Small companies from each of the provinces

- SA mobile termination rates are unjustifiably high, leading to high price levels
- High price levels damage the entire economy and the poor disproportionately
- Only asymmetry will bring the level of competition needed to get prices down
- Cell C is in favour of an immediate move to an all-day MTR of ZAR 0.75 for the dominant mobile players and ZAR 0.65 for the mobile challengers
- The ultimate interconnect regime needs to be determined by ICASA on the basis of true long-run costs

1. EXECUTIVE SUMMARY
2. CONTEXT
3. CELL C POSITION
   - APPROACH
   - PROPOSED TERMINATION RATES
4. CONCLUSION

- The objective of parliament and the regulator is to increase the affordability of mobile telecommunications
- Increasing affordability of mobile telecommunications is Cell C's *raison d'être*
  - Cell C has provided much required competition to the mobile market
  - Cell C has made mobile telephony significantly more affordable within its network
  - Cell C recently dropped its prepaid peak retail price by 47%, from R2.85 to R1.50
- Cell C has over the last years consistently called for reduction in MTRs and for asymmetry

- The objective of increasing affordability of mobile telecommunications can best be accomplished by increasing competition
- International best practice is to put in place a regulatory regime to create a level playing field
- The level playing field is a pre-requisite for increasing competition in the market, which in turn creates pressure to reduce the retail rates charged to consumers

- MTRs need to be determined based on costs
- This will require ICASA to complete Chapter 10 process
- Whilst this process is under way, an emergency intervention aimed at reducing MTRs should be put in place
- The intervention needs to be reasonable and measured, in order not to eradicate the economic viability of the telecommunications industry
  - Mobile Network Operators employ directly 12,900 people in South Africa
  - Telecommunications contributes 6% to the GDP of the country

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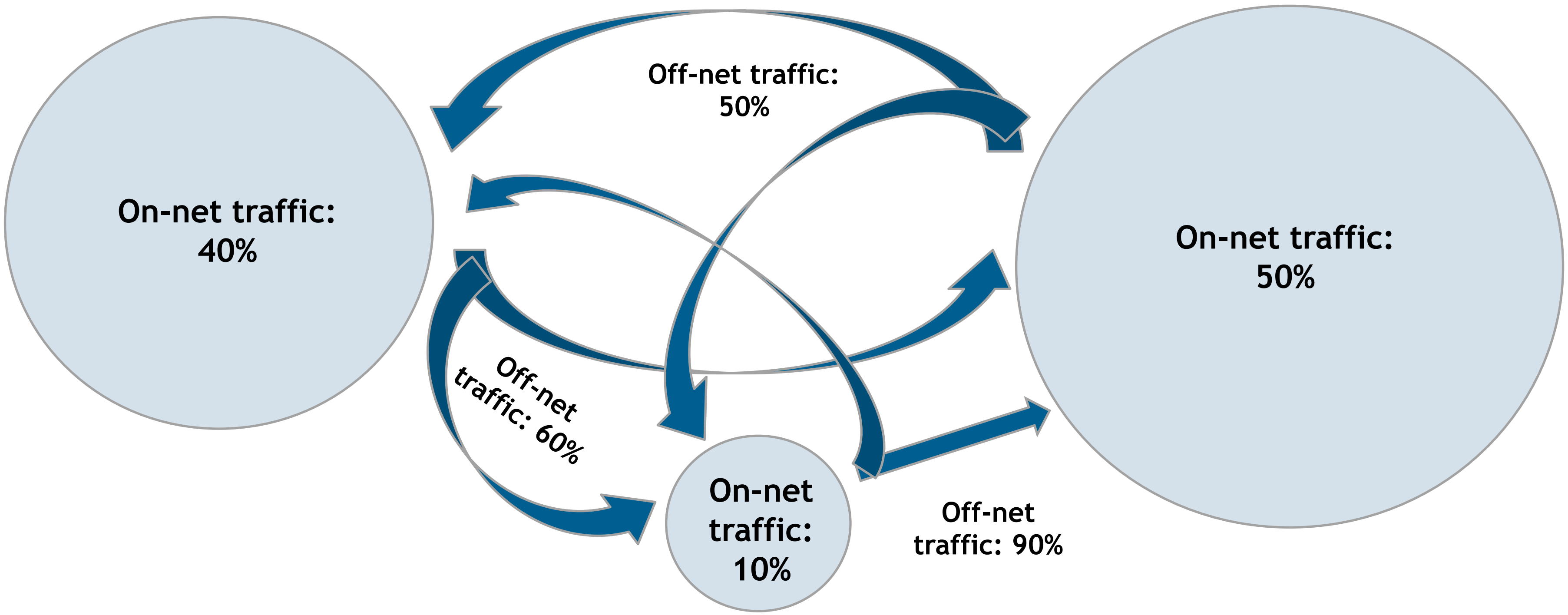
- Once-off reduction in MTRs rather than over a glide path
  - Expedites consumer benefits
- Same MTR for peak and off-peak
  - Enables the poor and marginalised to also call during peak hours
- Asymmetric MTR towards dominant market players
  - Promotes competition, which is the most effective way to put pressure on retail rates

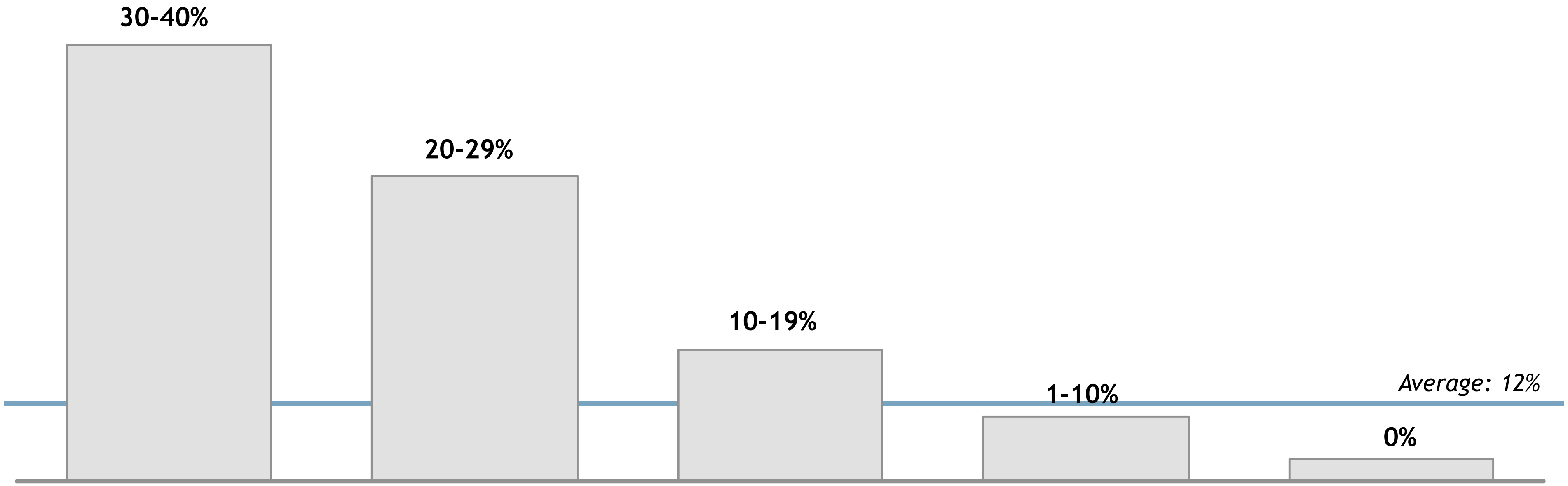
Relative share of traffic between off-net and on-net destinations

Illustrative example



- In this illustrative example, 90% of the traffic of the smaller player is subject to interconnect, whilst dominant players retain 40-50% of their minutes within their network, and thus do not pay interconnect

% Variance in MTR (incumbent vs. 3rd operator)



- Slovenia
- Austria
- Belgium

- Ireland
- Latvia
- Finland

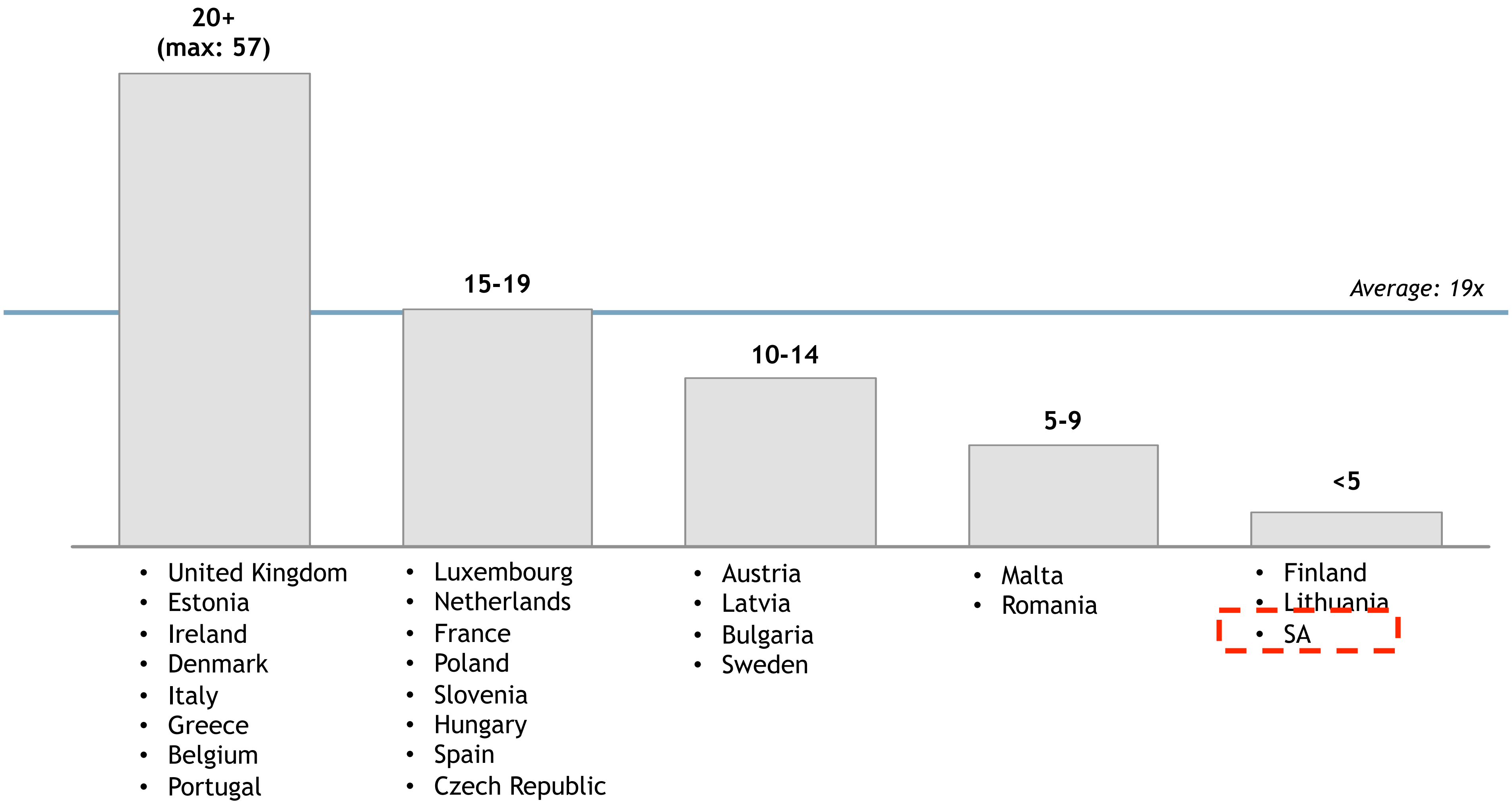
- France
- Luxembourg
- Netherlands
- Hungary
- Italy

- Greece
- United Kingdom
- Malta
- Spain
- Romania

- Bulgaria
- Czech Republic
- Denmark
- Sweden
- Portugal
- SA

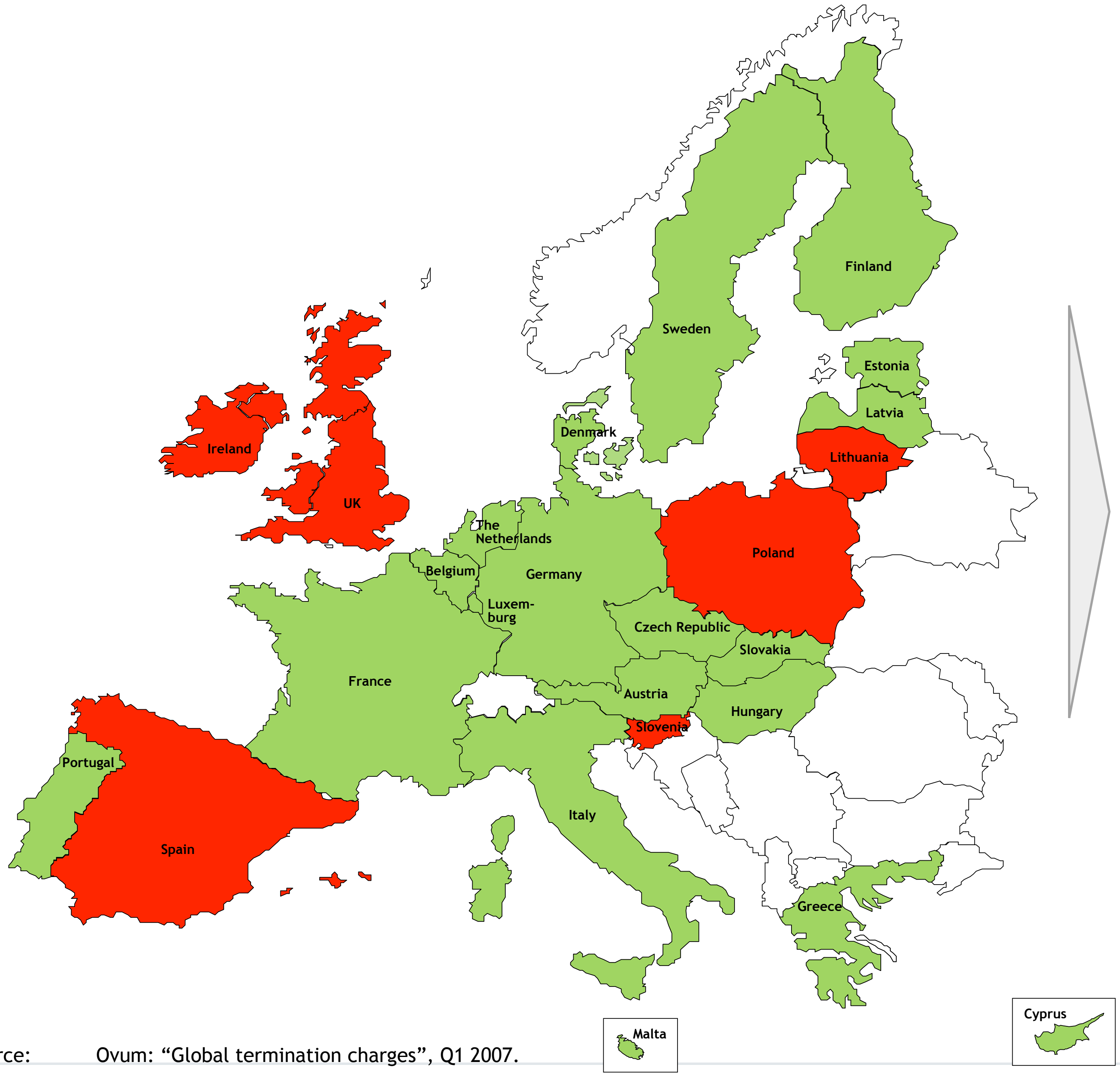
Source: EU: "13th EU Implementation Report", October 2007.

Mobile to Fixed Multiplier (last mobile entrant MTR to local fixed termination)



Source: EU: "13th EU Implementation Report", October 2007.

MAJORITY OF THE EU MARKETS USE SAME MTR RATE PEAK AND OFF-PEAK



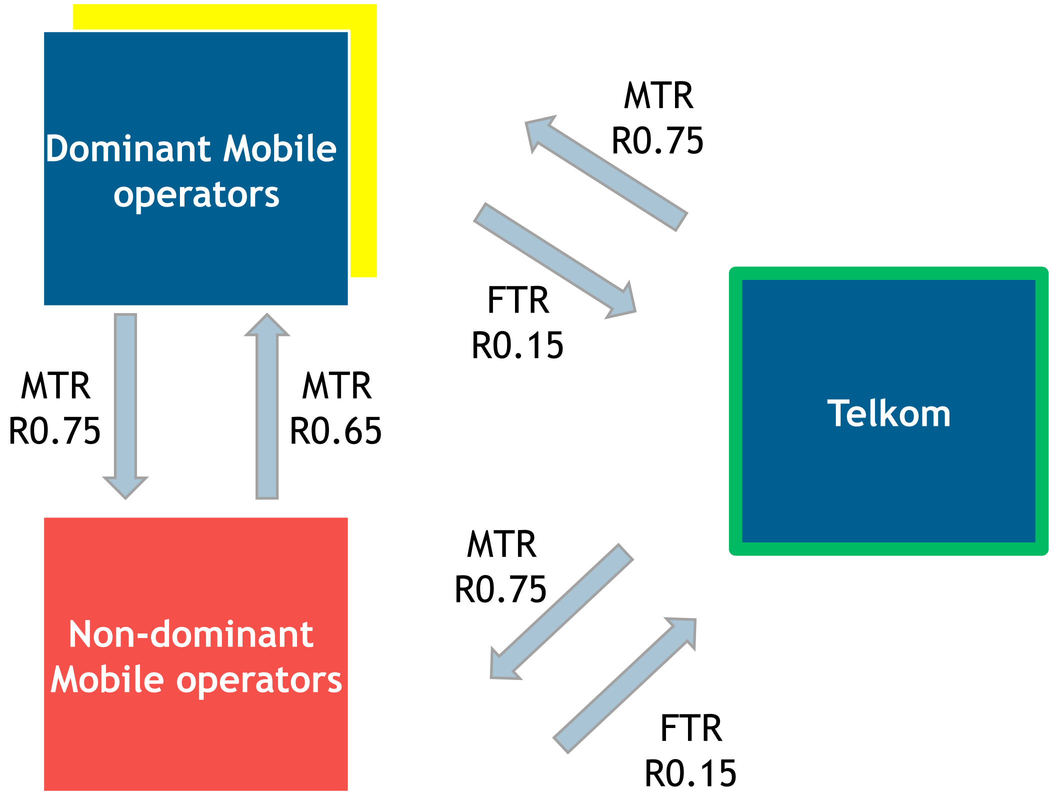
- The European Commission set its directive for MTRs in a new Regulatory framework already in 2002
- By 2007 only 6 EU countries differentiate peak and off-peak MTRs

Only one MTR rate

Different peak and off-peak MTR rate

Source: Ovum: "Global termination charges", Q1 2007.

- In the absence of publicly available information on the termination costs, current off-peak rate could represent an appropriate departure point for determining MTR for the emergency intervention



Proposal from the Portfolio Committee on Communications

- Mobile and telecoms operators drop the interconnection rates with effect from 1 November 2009 to R 0.60 per minute during peak times;
- Interconnection rates be further reduced by R 0.15 annually on the 1 November for each successive year until 2012;
- 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

Cell C response

- MTR needs to be determined based on costs
- Whilst this process is under way, an emergency intervention on MTRs should be put in place
- Cell C supports once-off drop in MTR to R 0.75 (DMP) and R 0.65 (Cell C) rather than a glide path as an emergency intervention, until cost base for MTR has been determined
- Based on observable data point being the current off-peak MTR, which is R 0.77
- Level playing field and increase in competition is the best way to drive towards reduction in retail rates

- Lowering MTR and asymmetry will bring the level of competition needed to get prices down
- Cell C is in favour of an immediate move to an all-day MTR of ZAR 0.75 for the dominant mobile players and ZAR 0.65 for the mobile challengers
- The ultimate interconnect regime needs to be determined by ICASA on the basis of true long-run costs
- Competition will increase further if following issues are tackled:
  - Standardized, more reliable and significantly faster site approval for network build-out
  - Frequencies for backhaul to be allocated based on need and not first come,first serve

Thank You!