

COSATU SUBMISSION ON THE MEASURES TO REDUCE INTERCONNECTION RATES AND HIGH TELECOMMUNICATIONS COSTS



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1. INTRODUCTION

COSATU wholeheartedly supports the initiatives proposed by the Department of Communications (DOC) and the Portfolio Committee on Communications to enquire into and address the exploitative costs of telecommunications in South Africa. In particular we are grateful for the opportunity to participate in these public hearings on "Measures to Reduce Interconnection Rates and the High Costs of Telecommunications in South Africa". Our interest in this process is informed by our mandate to our membership as well as to the broader working class who constitute the majority of the South African population.

Limited Scope of Hearings

We note that the content of these public hearings and the policy direction issued by the DOC to Independent Communications Authority of South Africa (ICASA),¹ are limited to proposals to impose regulations that lower interconnection rates, and more specifically

¹ See "Policy Direction Issued under the Electronic Communications, 2005 with regard to Mobile Termination Rates, 13 October 2009.

the mobile termination rate (MTR) applied during peak times. Here we note other indications that while interconnect is "the second highest earner, as a percentage of revenue, it is relatively small next to airtime and contract"² revenue for both MTN and Vodacom.

However, while we are of the view that while the objectives of this process are correctly defined in relation to addressing the "exorbitant and excessive" rates as well as "historical collusion", we do not believe these would be adequately served by limiting the investigation to interconnection rates, as opposed to extending it further to other aspects of the pricing structure of ALL forms of telecommunication services. In the absence of doing this we run the risk of mobile phone networks replacing loss of interconnection revenue by increasing other charges. This would entail focusing on both mobile and fixed telephony as well as internet services. In particular amongst the issues that require addressing include:

- Lack of parity regarding call charges applied between contract and pre-paid customers, both during peak and off peak times. Here we note that the considerably less favourable rates applied to the latter group inherently further disadvantage lower-income customers who constitute the greater proportion of customers who subscribe to pre-paid services.
- Disproportionately expensive call rates applicable to fixed local access as compared to the relatively inexpensive call rates for fixed long distance domestic calls and international calls. Again this pricing approach is designed to disadvantage lower-income customers who will more commonly make local rather than long distance calls.
- Excessive rates charged for broadband internet access despite providing services at the slowest broadband speed.

² See Paul Furber **It's still about keeping Cell C out**, Brainstorm Magazine, October 2009.

- Regulating contract and call rates, including during off peak times.³

Further it would be important to enquire into such contradictions as to why despite having amongst the highest mobile penetration⁴ South Africa still reflects statistics of being amongst the lowest for actual mobile usage.⁵ We believe that this reflects the unaffordability of mobile phone rates. A further problematic trend reflects that South Africa currently has less fixed lines than it did in 2000. This reflects the unaffordability of fixed line connections forcing lower-income customers to resort to cell phones which ironically are also a more costly option.

2. Principles and Vision for Telecommunications in South Africa

In 2001 COSATU noted the following:

"Access to telecommunications is a **basic need and right**. This is necessary for people's full participation in society and the economy. Lack of access wastes time and money and limits people's opportunities. **Universal access** to telecommunications is also crucial to building an inclusive and cohesive society and for the strengthening of democracy." (emphasis added)⁶

We reaffirm this stance in this process and wish amplify this further by drawing attention to the potential that access to telecommunications has in furthering access to enforcing other socio-economic rights such as access to knowledge and education, healthcare services and accessing employment opportunities.

It is relevant to note that there are new initiatives internationally aimed at broadening access to education, including at a tertiary level, by providing free, quality and

³ For relevant international benchmarking statistics, see Reducing the Cost to Communicate & Addressing Market Failures in South Africa's Telecommunications Sector, Address to the Portfolio Committee on Communications by the Department of Communications, 15 September 2009.

⁴ According to Vodacom there is a 110% cell phone penetration in the country.

⁵ See above, DOC's address to the Portfolio Committee on Communications.

⁶ See COSATU Submission the Review of Rate Regime for Public Switched Telecommunication Services: Consultation Document, 31 January 2001.

accredited services using the internet and open-source technology.⁷ This extends beyond traditional correspondence university models such as that of UNISA (The University of South Africa), which although cheaper than university models entailing taught courses, remains unaffordable to the masses.

In relation to healthcare services specifically the use of "telemedicine" has been growing more popular. Telemedicine is essentially a system whereby clinical information and support may be transmitted between two medical practitioners, often helping traverse distances and mitigate social and economic challenges associated with servicing rural or remote areas with inadequate resources.⁸

Both of the above examples serve to illustrate the potential that telecommunications has to bridge the divide that prevents access to social services for economic reasons. However, this objective is completely undermined when taking into account excessive costs of telecommunications.

Additionally it should be noted that telecommunication even has a role to play in facilitating such diverse objectives as promoting personal and community safety, addressing family responsibility needs and ensuring additional mediums for disseminating valuable social or political messages, including for example in providing information on HIV/AIDS.

The relevance of the need to regulate prices in such cases in public and community interest is underlined by a case that came before the Competition Commission, wherein Cell C alleged that MTN refused to charge it special lower community rates for interconnection on its networks although it was for the roll out of community service telephones (CST) in "under serviced areas".⁹

⁷ See Harriet Swain Online university-free for all, in Mail&Guardian October 9, p23.

⁸ See "Telemedicine Platform" of the South African Medical Research Council. <http://www.mrc.ac.za/telemedicine/telemedicine.htm>

⁹ See Shan Ramburuth The high cost of interconnection rates: Presentation to Parliament's Portfolio Committee on Communications, 15 September 2009.

Universal Access and Affordability

In our previous submission on the pricing structure of telecommunication services, we have emphasised both "universal access" and "affordability". Universal access is often misconstrued as being limited to the roll out of infrastructure and the effective potential geographic coverage of a particular service. However, as with other basic services such as water and electricity, once access is cut off on the basis of unaffordability, then universal access becomes a concept that is possible in theory only.

Competitiveness and the Role of ICASA

COSATU has historically opposed the privatisation of state-owned enterprises (SOE) and specifically that of Telkom implemented under the GEAR macro-economic policy framework. However, the methodology underlying that approach sought to place faith in so-called liberalised markets as a mechanism to introduce competition between service providers and thereby regulate prices. The fact that this has failed to materialise as anticipated vindicates our original stance on this issue.

Not only have prices escalated but the two largest mobile networks, MTN and Vodacom, appear to have colluded to constrain competition from smaller players such as Cell C. Since Cell C was granted a license in 2001 interconnect charges have increased by approximately 515 per cent.¹⁰ Further while ICASA should definitely be held accountable for failing to address this and other problematic tendencies, we believe that its apparent paralysis exposes the myths that free markets are capable of not only addressing affordability and expanding access, but are also capable of doing this more efficiently.

Further a problematic consequence associated with the privatisation of the bulk of the shares of Telkom, is that it has constrained the ability of the State to intervene and more actively ensure the delivery of universal access to affordable services. The private sector is inherently driven by contrary principles underpinned by narrowly-orientated profit objectives.

¹⁰ See Paul Furber above.

3. Specific Responses to the Portfolio Committee's Proposal

On the basis of comments above we wish to register our complete support for the Portfolio Committee's Proposals entailing the following:

- 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 1st 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

We are not surprised at the response of mobile phone networks, especially the large industry players. Apart from opposing the amounts of the proposed rate decreases they have also called for a postponement in the implementation of relevant regulations, on the basis that there would be adverse financial consequences. We question the validity of these arguments. Vodacom especially has opposed the public concern about cell phone company profits by arguing that their "profit margins are in line with the world wide average" and that their profits "are substantially lower than operators in Europe" ¹¹

While we would nevertheless contest this, even if this argument were true it does not discount for the principle of economies of scale since Vodacom's penetration in the South African market would arguably involve a larger number of subscribers taking into account the smaller population sizes of most European Union countries. Further we would like Vodacom to clarify how its net profits increased by 21 percent to R8 billion for

2008, although its revenue increased by a markedly lower 17.1 percent to R48.2 billion.¹² Simply put, at whose expense was this rate of profit achieved?

The cell phone network industry has been afforded sufficient time to address problematic pricing structures on their own initiative they have failed to show that they up to that task. No allowance should be made for them to further delay the process.

4. Conclusion

We believe that the Committee should act decisively to correct the current problems in the pricing structure and arrangements applicable to telecommunications. However, we again would like to reiterate our call for further investigation of other pricing irregularities as expanded above with the emphasis being on addressing affordability and universal access. Further we also wish to register our support should the Committee introduce legislative amendments to the Electronic Communications Act 36 of 2005, as reflected in its notification on this process.

¹² See Vodacom Group Annual Report 2008.