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Attention: Refilwe Ramatlo

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subscriptioninquiry@icasa.org.za

1. **Introduction**

- 1.1 We have been instructed by Cricket South Africa NPC ("**CSA**") to assist in its submissions to the Independent Communications Authority of South Africa ("**Icasa**"), with regards to the Icasa inquiry (the "**Inquiry**") into subscription television broadcasting services. In respect of the aforementioned, we note that Icasa has published a discussion document, to which CSA intends to submit representations, detailed herein.
- 1.2 CSA is the custodian of all cricket activities within the Republic of South Africa, and as such, is ultimately responsible for the advancement of all amateur and professional cricket in South Africa.
- 1.3 In discharging its duties as the custodian of all cricket activities, CSA shall *inter alia*, promote, organise, control and administer all aspects of cricket in the Republic of South Africa, including men and women's cricket, cricket for people with disabilities, tertiary, school and youth cricket.
- 1.4 To achieve its stated objective of the administration and promotion of cricketing activities within both the amateur and professional sphere, CSA is reliant on various revenue streams to meet this objective. As one of those revenue streams is the sale of broadcast rights, the Inquiry has implications for CSA owing to its commercial relationships, thus CSA is of the view that it would be remiss not to add its voice to the Inquiry.

2. **OVERVIEW**

2.1 As per the Minister of Sport, Thulas Nxesi, budget vote delivered in the National Assembly on 26 May 2017, the total budget for the 2017/18 financial year allocated to Sports and Recreation is R1.067 billion.

2.2 Due to our countries various needs, chiefly the alleviation of poverty, it is easily identifiable from the national Sports and Recreation Budget that sport is relatively underfunded in our country. Accordingly, this necessitates sporting bodies such as CSA to secure its income, largely from the private sector, therein making CSA an organisation which is largely funded by way of the commercialisation of its sports offerings.

REVENUE

2.3 To highlight the above reference is made to CSA's 2016/2017 Annual Integrated Report¹, attached hereto as annexure A, which sets out the various revenue streams CSA is reliant upon to fund its operations, namely:

- (a) Broadcast rights;
- (b) Sponsorships;
- (c) International Cricket Council ("**ICC**") distribution;
- (d) Champions League T20;
- (e) Government & Lotto grants;

¹ <https://ipublish.cc/wp/csa/wp-content/uploads/sites/4/2014/12/2016-2017-Annual-Integrated-Report.pdf>

- (f) International Gate Ticket Takings; and
- (g) Other.

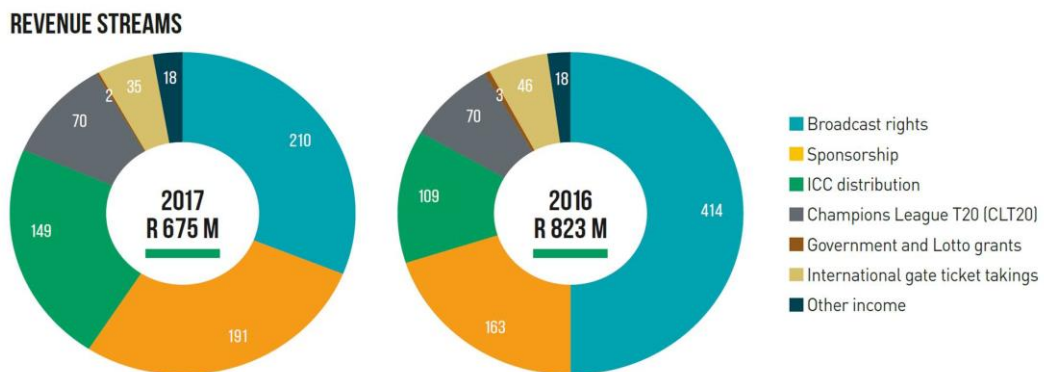


Figure 1

- 2.4 From a quick glean of the Annual Integrated Report 2016/2017 as well as *Figure 1* it becomes apparent that the Department of Sports and Receptions budget R 1.067 billion is inadequate, as whereby for the 2016 and 2017 financial years CSA has an operating revenue of R823 million and R675 million respectively. It is clear that private sector participation is vital to the continued sustainable operation of CSA in its attempt at growing the game of cricket.
- 2.5 CSA's main economic drivers are the sale of broadcasting rights and sponsorships, the aforementioned amounting to R210 million and R191 million for the current financial year, accounting for 59% of CSA's total revenues.

GENERATION OF REVENUE

- 2.6 In respect of broadcast rights concerning the national team (the “**Protea’s**”), CSA can only sell rights in respect of inbound tours, namely international fixtures occurring within South Africa.
- 2.7 Thereafter in respect of domestic cricket, CSA sells broadcasting rights to its domestic professional competitions such as the Momentum One Day Cup and RamSlam T20 Cup.
- 2.8 The abovementioned drives CSA’s commercial arm insofar as generating much needed cash flows, it is important to note that broadcasting is inextricably linked to sponsorship, as a consequence. The aforementioned assertion is as a result of potential sponsors requiring that CSA’s chosen partner in broadcasting have an extensive reach so as to ensure that the sponsors brand reaches as many viewers as possible.

3. SALE OF BROADCASTING RIGHTS

- 3.1 Whilst CSA is a registered non-profit company, as part of its duties it is required to promote, organise, control and administer all aspects of cricket in the Republic of South Africa. The aforementioned including the sale of broadcasting rights, as detailed above, is therefore a sine qua for its sustainability and spread of the game.
- 3.2 Section 6(2) of the National Sports and Recreation Act No.110 of 1998 reads as follows:

(a) *“National federations must actively participate in and support programmes and services of Sport and Recreation South Africa and the Sports Confederation, in so far as high performance sport is concerned”*

3.3 CSA as the national federation involved in the administration of cricket at National level is thus empowered by s6(2) to commercialise cricket as part of its support of programmes insofar as high performance sport is concerned.

3.4 In terms of s60(2) of the Electronic Communications Act 36 of 2005 read with s30(7) of the Broadcasting Act 4 of 1999, PayTV broadcasters may not acquire exclusive rights that prevent free-to-air broadcasting of national sporting events, as identified in the public interest.

3.5 Furthermore, in terms of the Sport Broadcasting Regulations published by virtue of s4(1)(j) of the Independent Communications Authority of South Africa Act, No. 13 of 2000 (the “**Act**”), national sporting events in the public interest are said to be those hosted by national confederations (CSA) featuring a national team or individual.

3.6 Thus, CSA is obliged to ensure that PayTV broadcasters are not awarded exclusivity over broadcasting Protea matches. It can be argued that the effect of this is that the lack of exclusivity in this regard may somewhat diminishes the value CSA could derive when an exclusive sale of the broadcasting rights associated with the Protea’s, is not followed.

3.7 Currently CSA sells its broadcasting rights to SABC and Multichoice (“SuperSport”) with regards to free-to-air (“**FTA**”) and pay television, respectively (“**PayTV**”). Within the South African broadcasting market there are currently only two business models,

namely FTA and PayTV, of which insofar as FTA is concerned Sabc and E-TV are the only free to air providers.

- 3.8 None of South Africa's FTA broadcasters currently have a dedicated sports channel amongst them, it being noted that the lack of a dedicated sporting channel coupled with capacity constraints on the side of FTA broadcasters drastically limits CSA's ability to broadcast its entire cricket offering on either broadcasters network.
- 3.9 Capacity issues on the part of FTA's are a major barrier to their ability to provide CSA with the necessary reach it requires insofar as attracting sponsorships, however, notwithstanding the dual need of promoting game and being financially self-sufficient and sustainable, cricket remains accessible to those members of the public unable to afford PayTV through SABC.
- 3.10 With regards to PayTV, CSA faces the challenge of only being able to offer its broadcasting rights to a limited field of broadcasters, namely:
- (a) Multichoice ("SuperSport");
 - (b) Deukom; and
 - (c) Star Sat.
- 3.11 In respect of the abovementioned operators Deukom's target market is strictly to the German speaking community thus it is not a viable commercial partner in the circumstances. Star Sat which whilst having dedicated sporting channels, does not enjoy a broad viewer base compared to that of SuperSport.

4. **KEY CHALLENGES**

- 4.1 The abovementioned highlights CSA's key challenges within the broadcasting sector, namely diminished exclusivity brought about as a result of the legislative framework as well as a heavily concentrated market leading to monopoly competition. This has a direct impact on CSA's business model and profitability.
- 4.2 CSA's business similar to any other going concern faces various challenges, none more important than ensuring continued financial sustainability through alternative revenue streams in a tough economic climate.
- 4.3 Currently CSA financial model works in four year financial cycles, thus generally seeks to sell its rights for a period of four years prior to being in a position to renegotiate with new sponsors and broadcasters.
- 4.4 This cyclical renewing broadcast and sponsorship agreements is vital to the business as can be seen from the disproportionate nature of CSA's revenue streams.

5. **PRO-COMPETITIVE LICENSE CONDITIONS**

- 5.1 As can be gleaned from this submission, the broadcast market is currently a sector which is heavily concentrated and in need of greater competition. Whilst CSA is unable to comment on the barriers of entry faced by potential investors within the sector, CSA is of the view that greater competition is indeed required.
- 5.2 Currently CSA is unable to maximise the commercial viability of its content offering in the absence of adequate competition within the broadcasting sector and particularly within the PayTV sphere of the market.

- 5.3 CSA is of the considered view that the rapid growth of broadband within South Africa in the near future will unlock new opportunities in respect of live streaming and OTT providers that may result in new key revenue streams.
- 5.4 Accordingly, CSA is of the view that the proposed mandatory unbundling of broadcast rights and their being offered over multiple platforms would increase participation within the market whilst also allowing consumers greater freedom to switch between providers by way of driving down switching costs.
- 5.5 With regards to rights splitting, CSA notes that Cricket Australia may have implemented the aforementioned structure, thus the proposal is not uncommon within the sporting fraternity.
- 5.6 We are of the considered view that rights splitting in itself whilst being a proposal we are keen to explore, the current market conditions in terms of which there is limited competition, would bring about negligible economic benefit without there being an increased number of broadcasters.
- 5.7 Accordingly, without greater participation within the market, there is limited market within which to split broadcast rights.
- 5.8 Insofar as de-monopolising networks, CSA is of the view that an initiative to create conditions to foster the growth of new entrants within the market is desirable. The aforementioned being by way of placing an obligation on dominant firms such as Sabc and/or Multichoice to allow new entrants to use existing infrastructure to grow would increase competition. The aforementioned would act as a form enterprise supplier development program to foster competition within the market.



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6. **CONCLUSION**

- 6.1 We trust you find this detailed submission to be of assistance in respect of the Inquiry. Kindly contact us should Icasa require us to expand on any of our points set out within this document.
- 6.2 Please note that CSA requests that in terms of s4D of the Act its submissions set out in paragraphs 3.8 to 3.10, coupled with paragraphs 4 and 5 are considered confidential.

Please contact us should you have any queries in this regard.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Lindiwe Ndziba", is written over a horizontal line.

Lindiwe Ndziba
Head: Compliance & Company Secretarial