INDEPENDENT COMMUNICATIONS AUTHORITY OF SOUTH AFRICA

COST TO COMMUNICATE IN SOUTH AFRICA

29 November 2012

CONTENTS

HOW DOES ICASA FACILITATE COMMUNICATIONS IN SOUTH AFRICA?

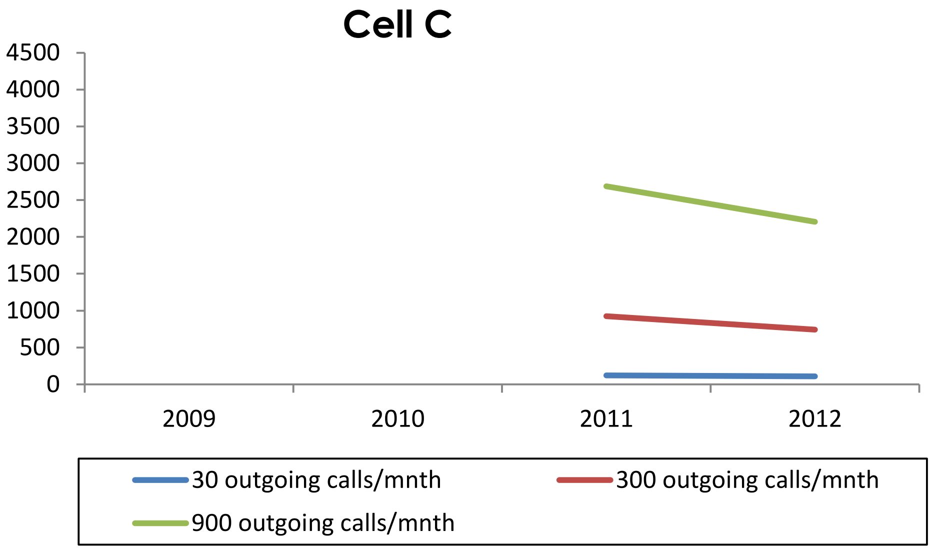
- Services cannot be offered without:
  - Telephone Numbers
  - Spectrum
  - Type Approval
  - Review of Interconnection Agreements to ensure fairness
- ICASA is the only body that does this in South Africa

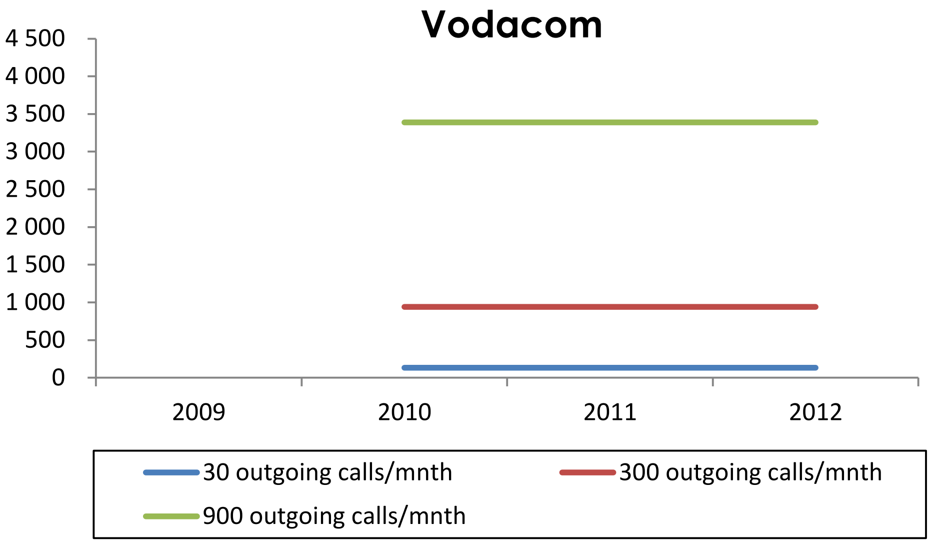
GOVERNMENT POLICY

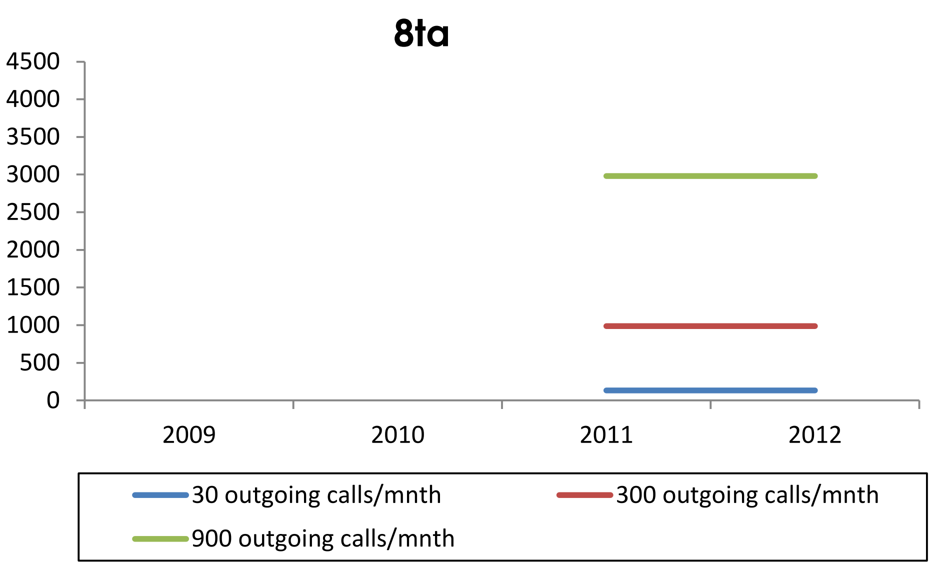
- Government policy is to address high prices through introduction of competition
  - Competition Act of 1998
  - Electronic Communications Act of 2005
- ECA:
  - ICASA can regulate prices where a licensee has dominance and the market is not competitive
  - Governed by Chapter 10 of the Act

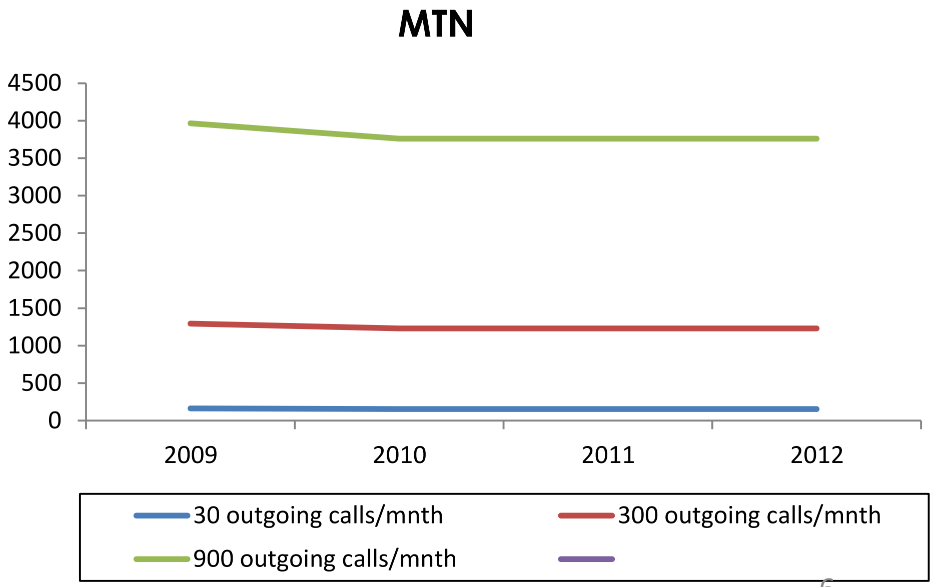
TRENDS IN RETAIL VOICE PRICES

LEAST EXPENSIVE PREPAID TARIFF PLAN BASED ON OECD METHODOLOGY









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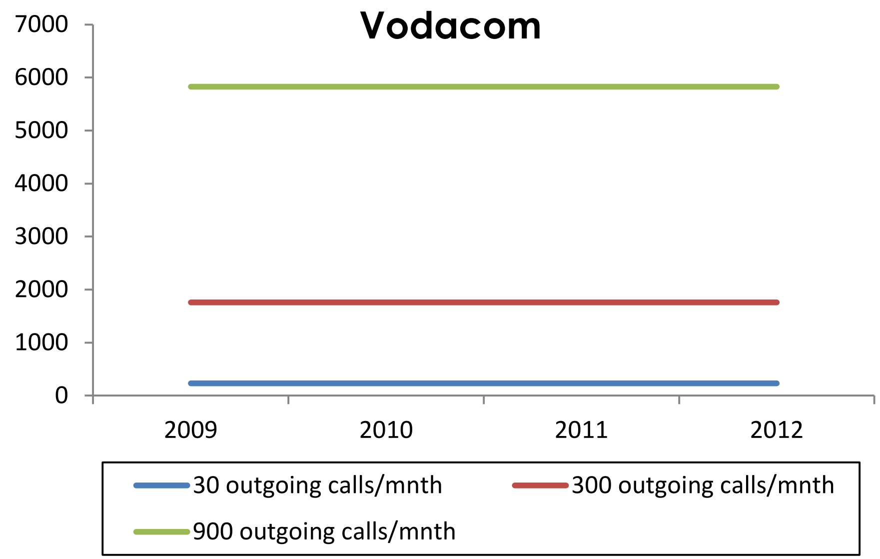
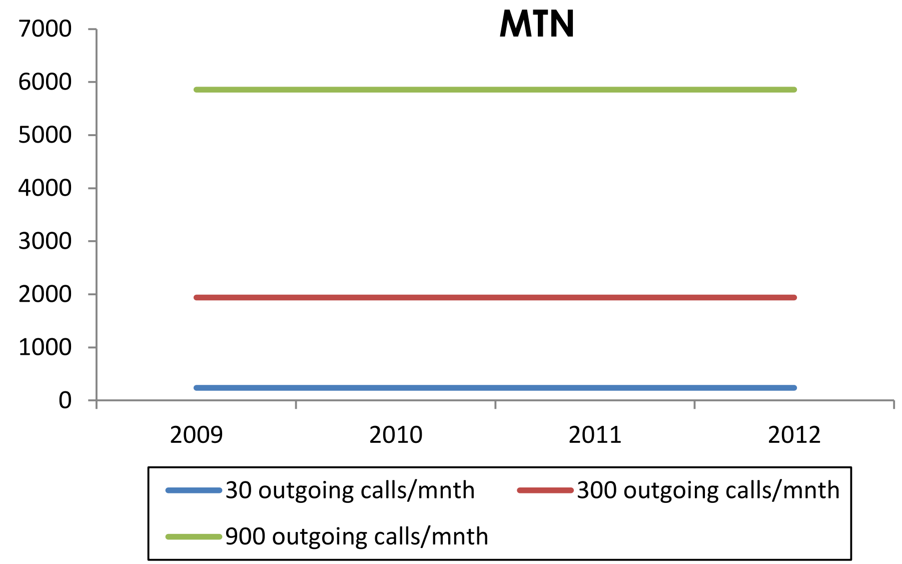
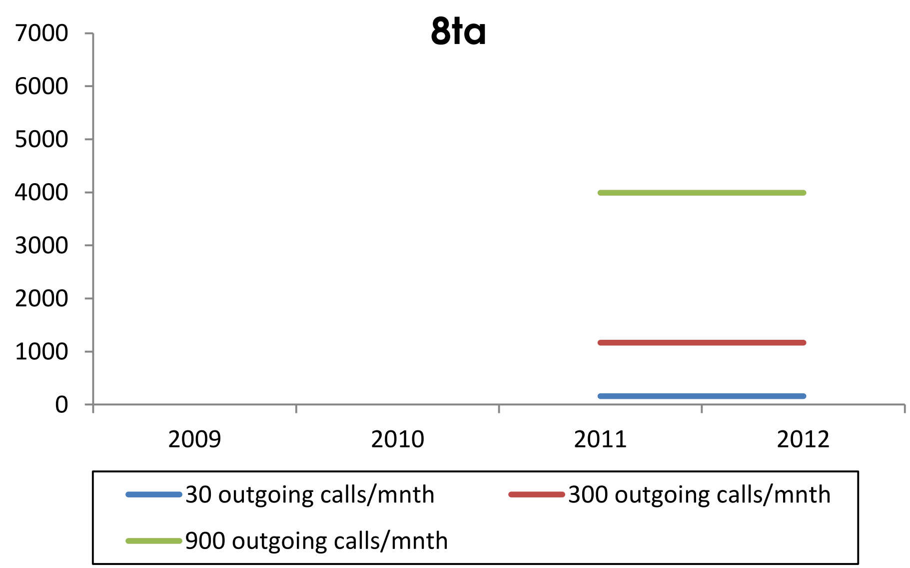
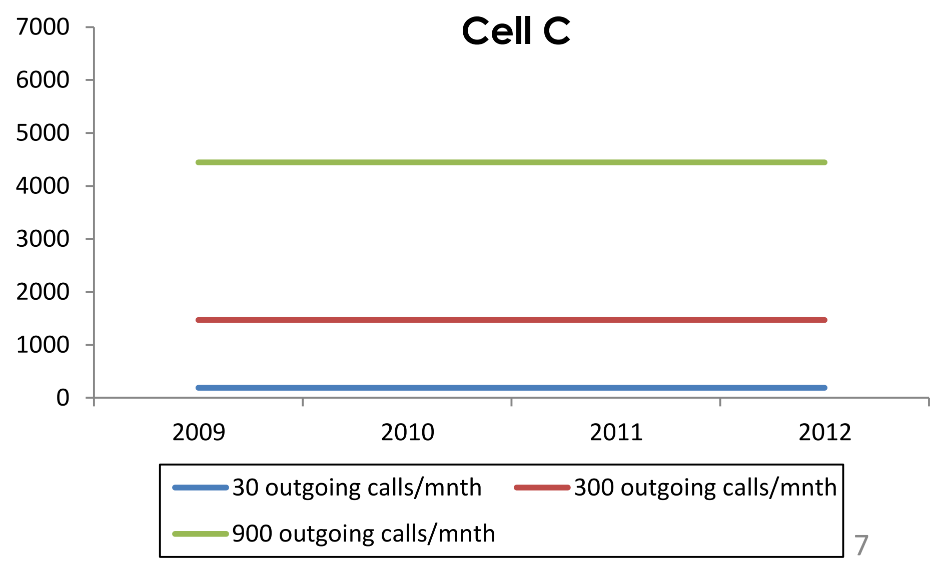




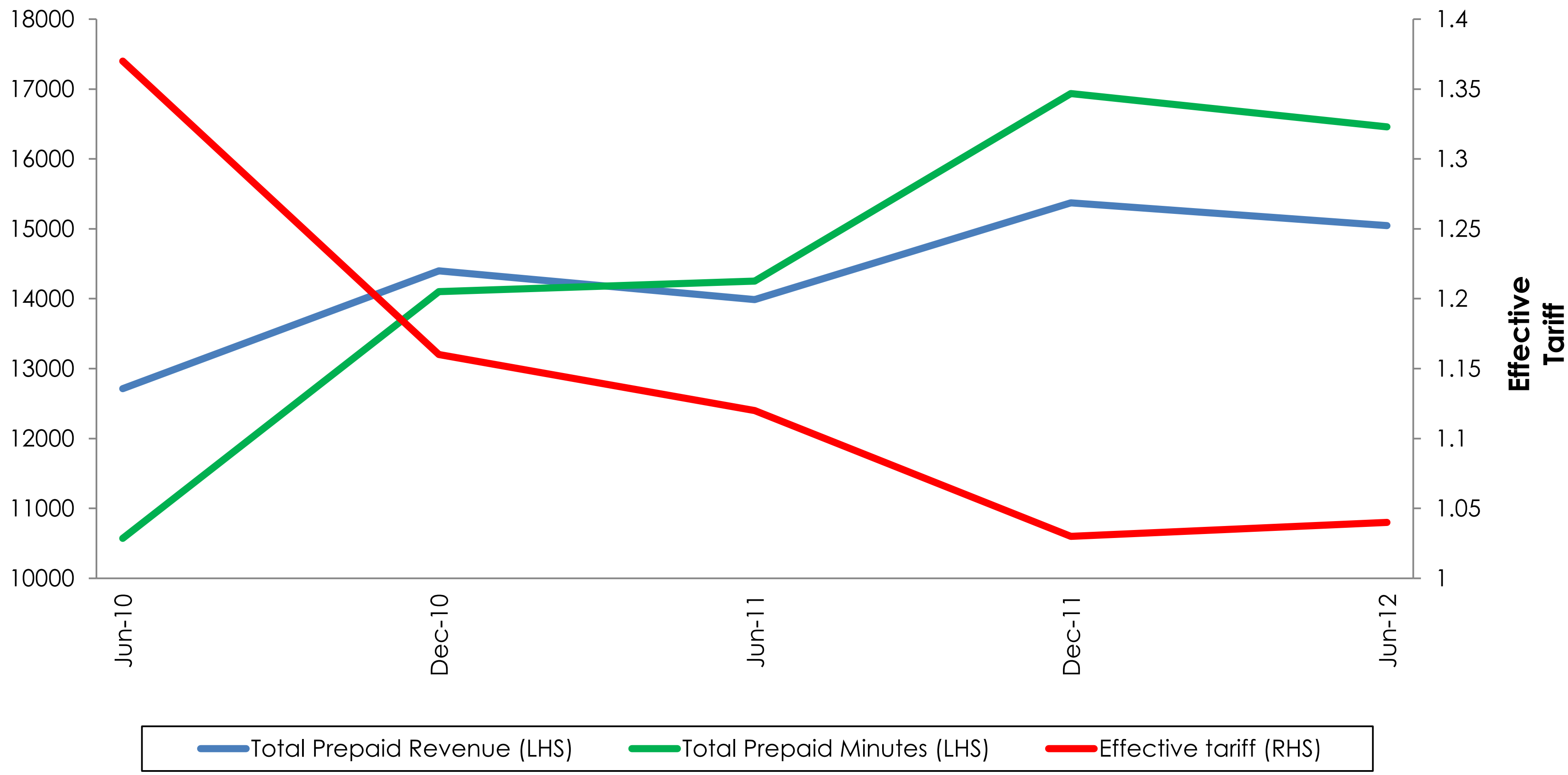




TARIFF TRANSPARENCY?

Name of Operator	No of tariff plans	Name of tariff plan
Vodacom	6	4U prepaid (Per second)
		Vodacom 4 Less (Per second)
		AllDay per minute
		AllDay per second
		Day Saver (per second)
		Big Bonus Voucher (per second)
MTN	4	Muziq (per second)
		MTN Zone (per second)
		One Rate
		Call Per Second
Cell C	5	Easychat Standard (per second)
		EasyChat All day (per second)
		EasyChat per second
		EasyChat 99c
		99c For Real
8ta	3	Per Second
		Per Minute
		Per Second

EFFECTIVE RETAIL PRICE OF A CALL



Both consumers and mobile operators have benefited from the reduction in MTRs due to:

- Operators: Increase in both termination minutes and revenue
- Consumers: Reduction in effective tariff per minute

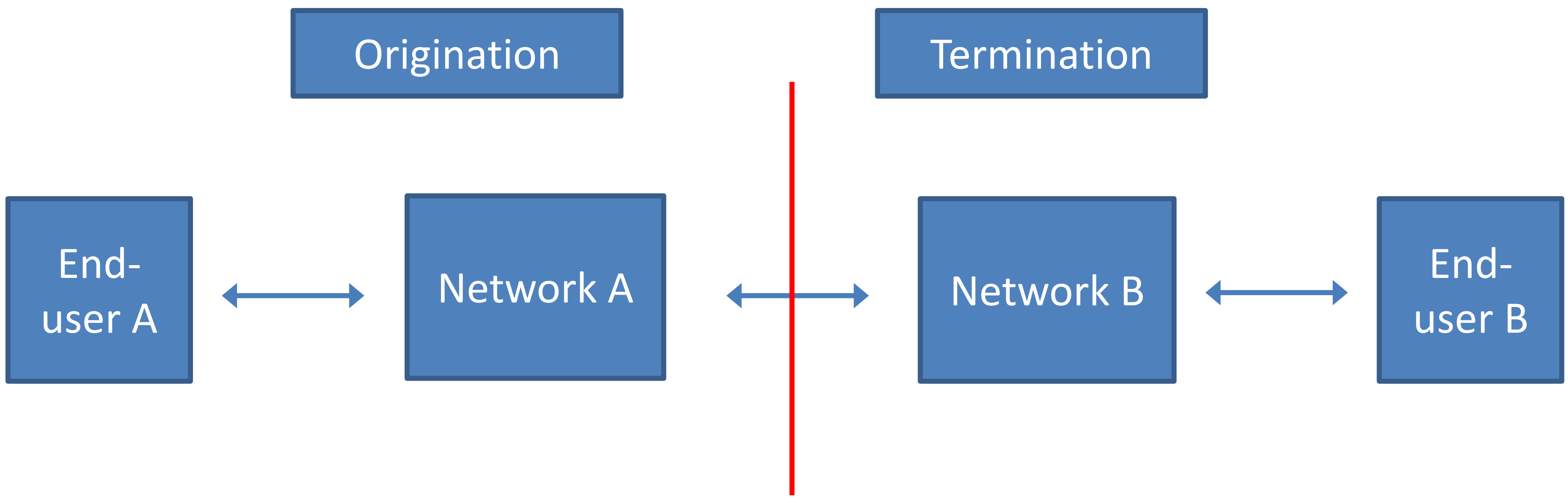
ICASA'S CONCERNS

- Level of on- and off-net tariff differential by Vodacom & MTN
- On-net promotions by Vodacom & MTN could further increase in on- and off-net differential
- International voice tariff less than national tariff (Cell C R0.85 int. tariff, Vodacom R0.89 int. tariff) vs R1.04 industry effective tariff)

Operator	International tariff	Industry Effective tariff
Vodacom	R0.89 to 52 countries	R 1.04
MTN	Discounts up to 100% to selected countries	R 1.04
Cell C	R0.85 to 50 destinations	R 1.04
8ta	Varies from R2.50 to R176	R 1.04

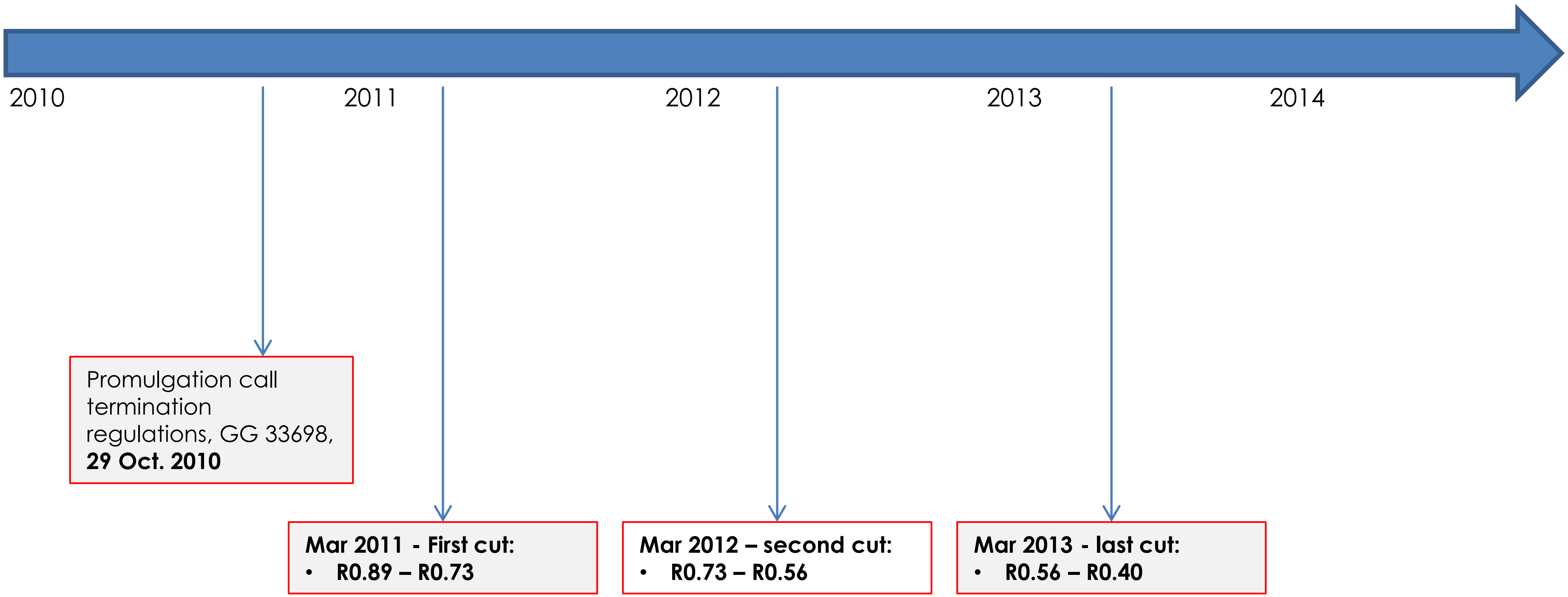
CALL TERMINATION

THE REGULATION OF TERMINATION RATES



- High termination rates:
  - Represent a price floor for the retail price of a new entrant
  - Retard efficiency within a firm
- Solution:
  - Establish cost base for call termination
  - Introduce regulated glide-path towards the cost base
- BUT Billing systems are the most expensive part of a call

THE GLIDE-PATH



	Rate	% reduction
Pre 2011	R 1.25	
Voluntary reduction	R 0.89	-29%
March 2011	R 0.73	-18%
March 2012	R 0.56	-23%
March 2013	R 0.40	-29%

The link between wholesale and retail rates for OFF-NET calls

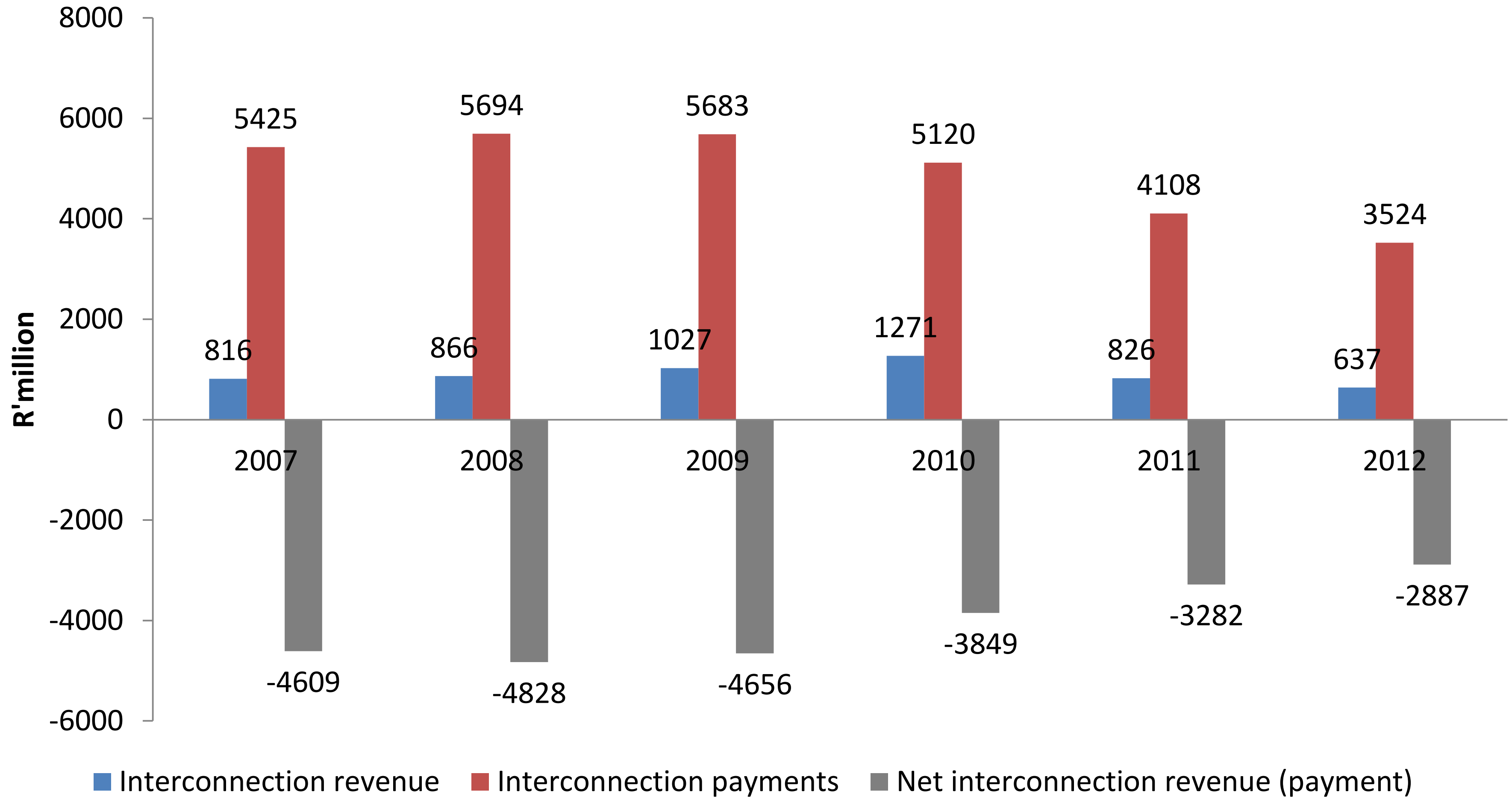
	Pre-2010	March 2011	March 2012	March 2013
Nominal Retail Rate per minute	R 2.50	R 2.50	R 2.50	R 2.50
Termination Rate	R 1.25	R 0.73	R 0.56	R 0.40
Margin	R 1.25	R 1.77	R 1.94	R 2.10
Less				
Origination (estimation)	R 0.60	R 0.60	R 0.60	R 0.60
Profit	R 0.65	R 1.17	R 1.34	R 1.50
% change in profit		80%	15%	12%

This benefit ONLY ACCRUES to the smaller player

Only the smaller player has "regulated" pricing power

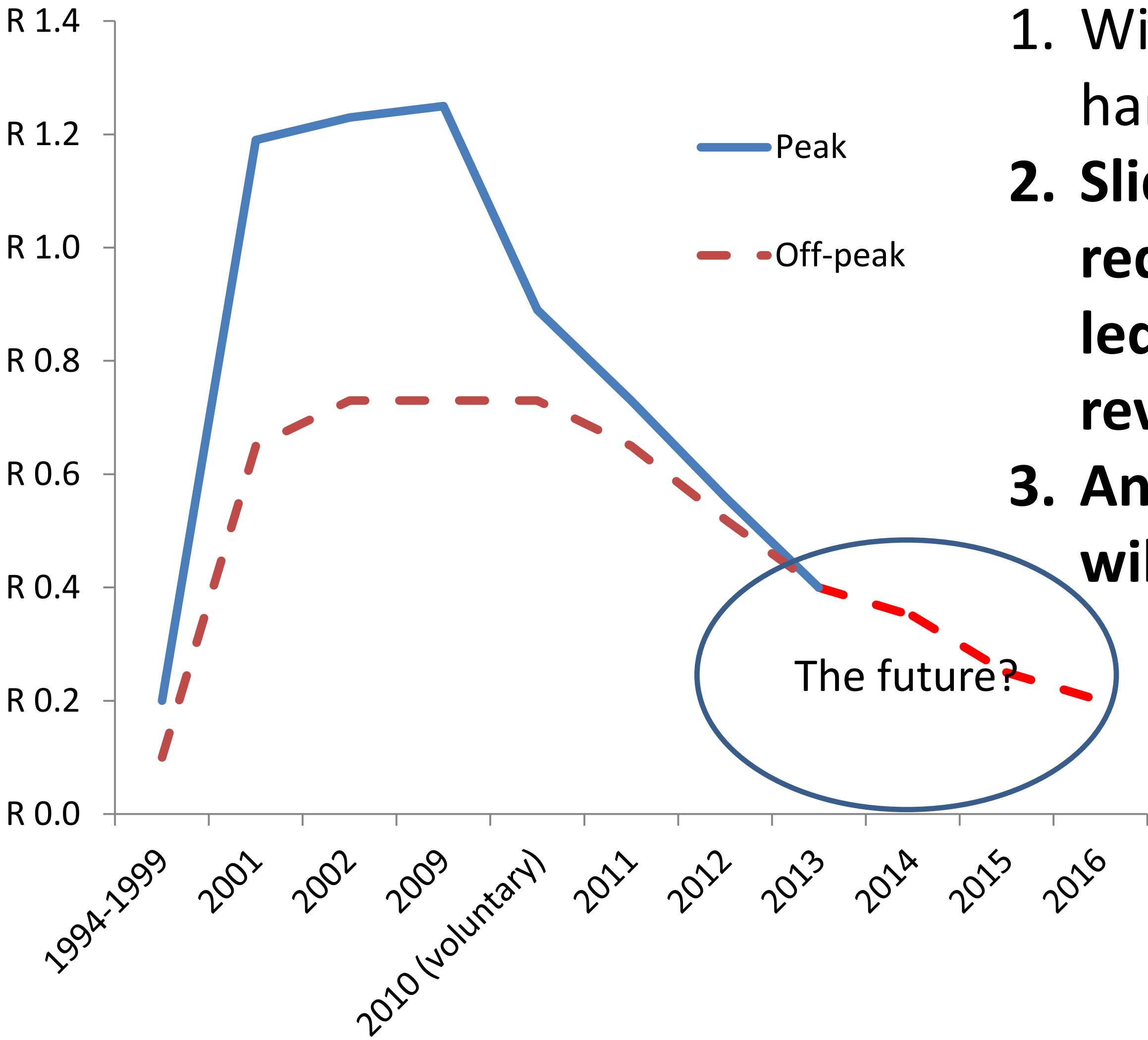
The increased profit margin makes room for price competition

IMPACT OF RATE REDUCTION ON TELKOM



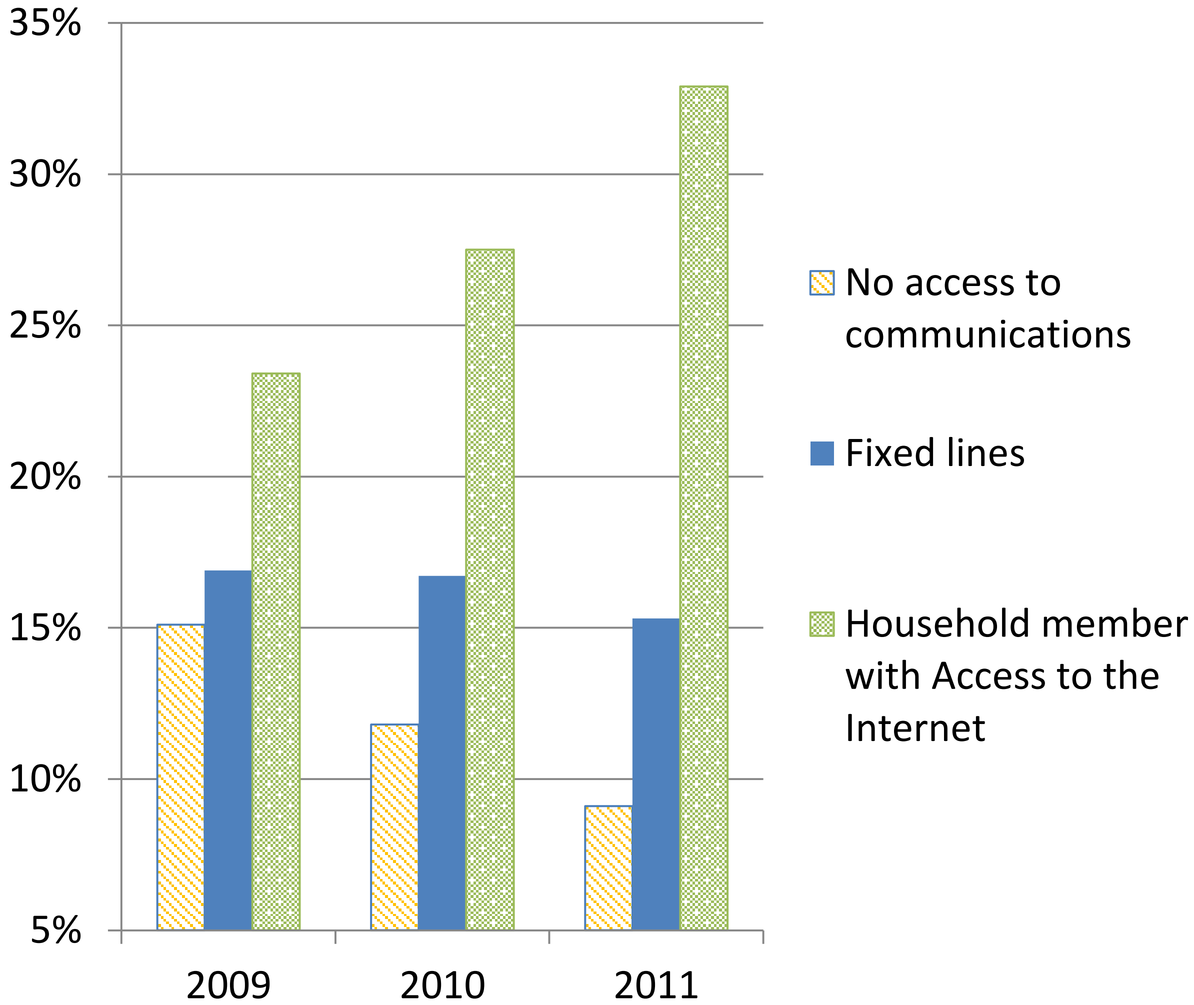
Telkom's net position has improved by 37 per cent based on the termination rate reduction

The potential future?



1. Will further reductions harm all stakeholders?
2. **Slide 9 showed that a small reduction in retail prices led to an INCREASE in revenue**
3. **Any future change in rates will be evidence-based**

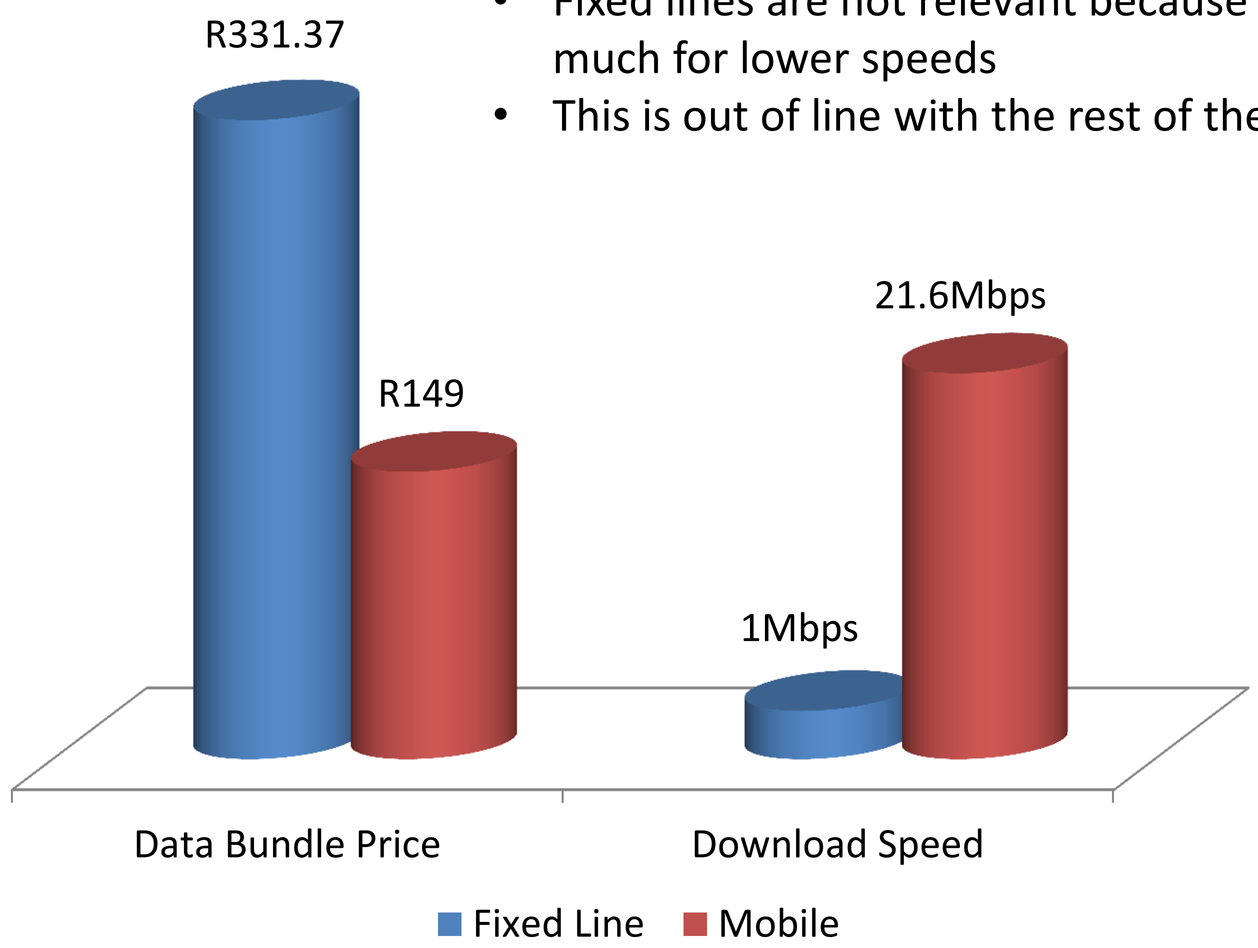
ACHIEVING UNIVERSAL SERVICE



- No. of households with fixed line access to communications continues to decrease
- Access to the Internet is growing because of mobile telephony
- Fixed lines are not as relevant as they should be
- The private sector mobile operators have made significant progress in achieving universal service objectives

WHY ARE FIXED LINES LOSING RELEVANCE?

- Fixed lines are not relevant because they cost too much for lower speeds
- This is out of line with the rest of the world



THE FIXED LINE CHALLENGE

CHALLENGES IN BUILDING FIXED LINE NETWORKS

- Fixed lines to the home must be the objective
- High capital cost but very low fixed operating cost for ~unlimited capacity
- BUT:
  - Up to 80% of new fixed line network cost is civil construction
  - Delays in getting wayleave approval and water use licences artificially increase this cost
- We have to ensure efficient:
  - New network deployment
  - Existing infrastructure, e.g. LLU

HOW CAN ICASA ADDRESS THE CONCERN OF HIGH PRICES?

WHAT CAUSES HIGH PRICES?

High costs to Industry:

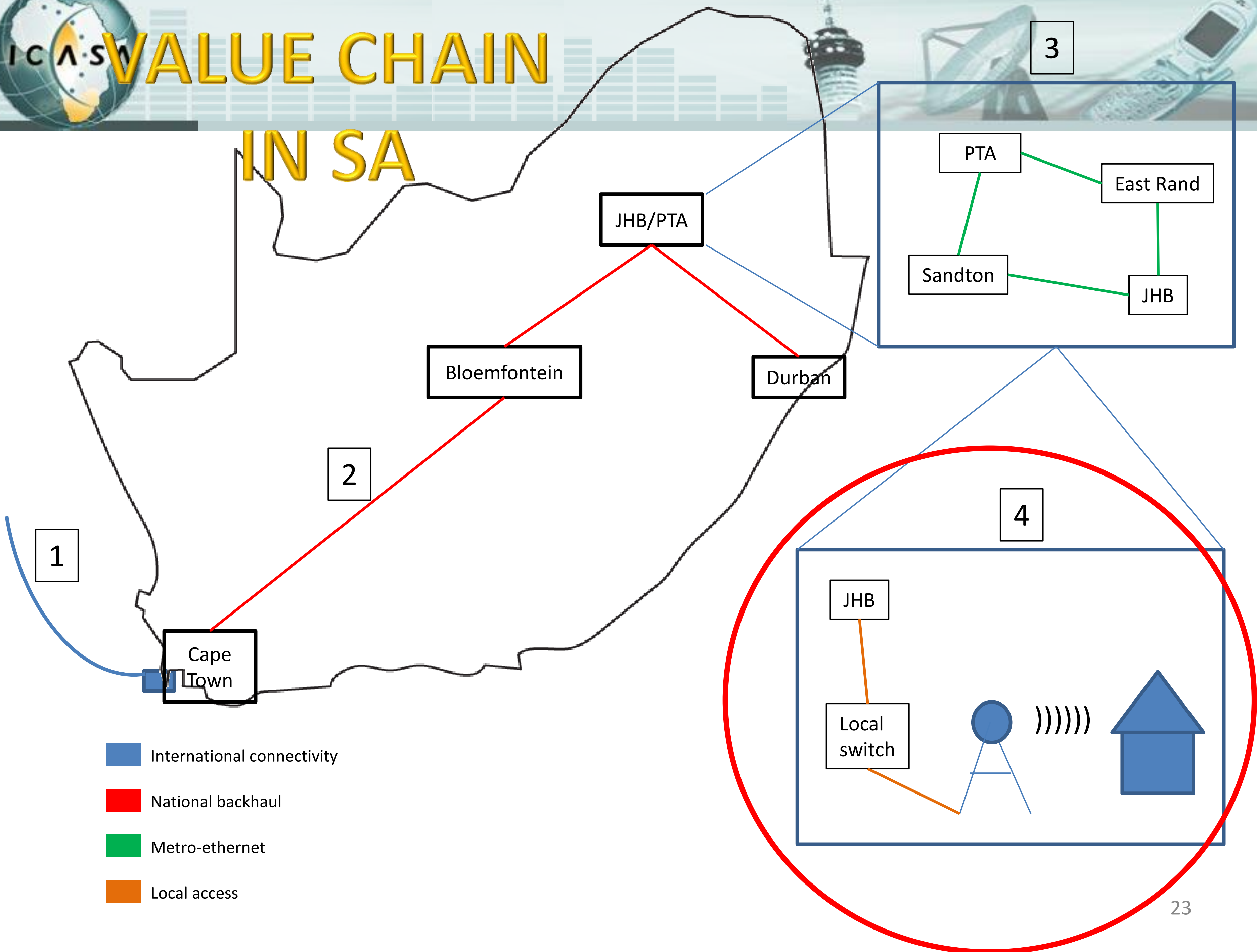
- Infrastructure monopoly?
- Barriers to network deployment?
- Lack of spectrum?
- No spectrum sharing?
- Import duties?
- Volatile exchange rate?

High costs to end-users

- **High costs to industry**
- Possible monopoly in retail markets?

High cost to communications?

VALUE CHAIN IN SA



International connectivity

National backhaul

Metro-ethernet

Local access

THE PROCESS TO REGULATE A MARKET

Initiate Enquiry	Discussion Document	Findings Document & Draft regulations	Final Regulations
Data Collection & Analysis	Public Consultation	Public Consultation	Implementation
Resource Needs • Economists • Cost Accounting • Statisticians • Engineers • Lawyers	Resource Needs • Economists • Cost Accounting • Statisticians • Engineers • Lawyers	Resource Needs • Economists • Cost Accounting • Statisticians • Engineers • Lawyers	Resource Needs • Cost Accounting • Compliance: Legal • Impact Analysts
6-9 months	> 4 months	> 4 months	On-going

Timeline: > 14 months

WHAT WOULD ICASA LIKE TO DO?

VALUE CHAIN MARKET REVIEW

- Cost model for voice value chain
- Cost model for data value chain
- Identify need for intervention
- Regulate prices where necessary
- Other obligations to be considered

RELEASE SPECTRUM

- Make High Demand Spectrum available ASAP
  - To new entrants
  - To an open access network, and
  - To the incumbents
- All this assignment of spectrum to have universal service obligations
- Expected impact:
  - Increase access for all
  - Increase competition leading to lower prices and better choice
  - GDP growth as per World Bank forecasts

- Broadcasting Value Chain Analysis
  - Improve competition
- Support development of Local Content
- It will be technically possible to have 140 SD TV channels in the UHF band.
- We want to make this happen!

WHAT CAN ICASA DO?

What can ICASA do?

- The Challenge
  - ICASA only has approximately R 20 million to do all its discretionary work
  - One market review costs approximately R 5 million
- What is ICASA doing about this?
  - We are re-prioritising our activities BUT
  - We do not have sufficient funds to support parliament in all of its objectives

THANK YOU