



ICASA
Public Hearings on Draft Call Termination Regulations
MTN South Africa

10 September 2018



Outline

1. Introduction – MTN who we are
2. The outcome of the mobile call termination rate exercise
3. MTN's view on specific asymmetry –related issues
4. Conclusion

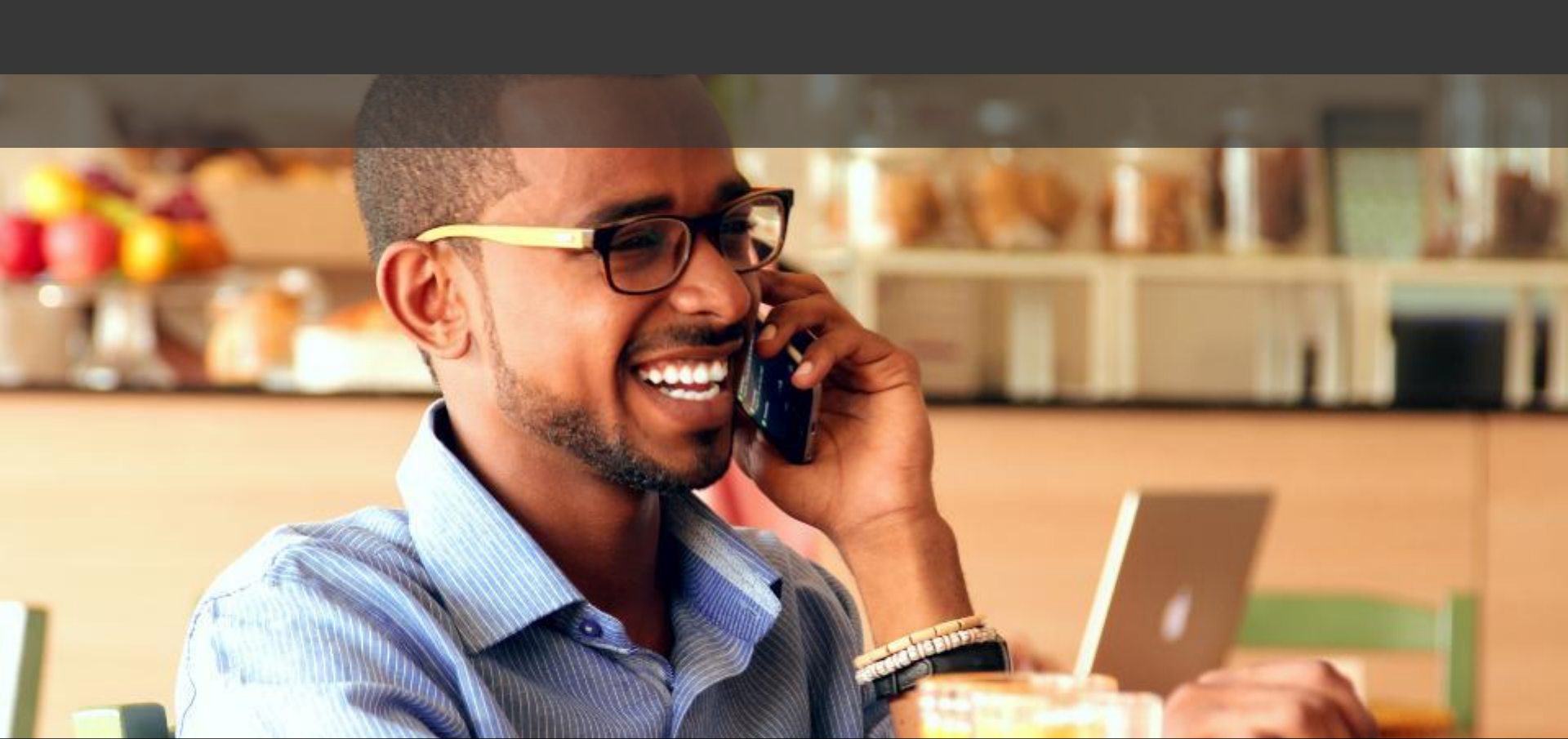
Introduction

everywhere you go

MTN

MTN – who we are

- Proudly South African, born at the dawn of democracy
- 25 countries, 230 million customers (over 29 million in SA)
- 70 bn in capex in SA (last 10 years)
- Listed on the JSE, Level 4 B-BBEE (34.83% black owned and 18.63% black woman owned)
- R7.2bn spent with 51% BO Entities (Over 3 Years), R12.7bn spent with 30% BWO entities (Over 3 Years)
- R3.3bn spent with SMME's (Over 3 Years)
- Direct Tax Contributions > ZAR 5.0 billion, indirect Tax Contributions > ZAR 4.6 billion (Over 3 years)
- 4,500 direct employees, ZAR 2.1 bn employee earnings
- Graduate and learnership programme (175 incumbents employed)
- Learnership Development spend of ZAR 3.4m
- Overall employee development investments of ZAR 72m
- Employment of over 1,000 youth within the next 12 months –24 months
- Study assistance to employees with disabilities



MTN supports the ICASA mobile call termination regulations

MTN supports the outcome of the mobile call termination rates

- MTN supports the outcome of the mobile call termination rate proposal as it reflects the correct application of an extensive and rigorous application of a hypothetically efficient operator modelling exercise

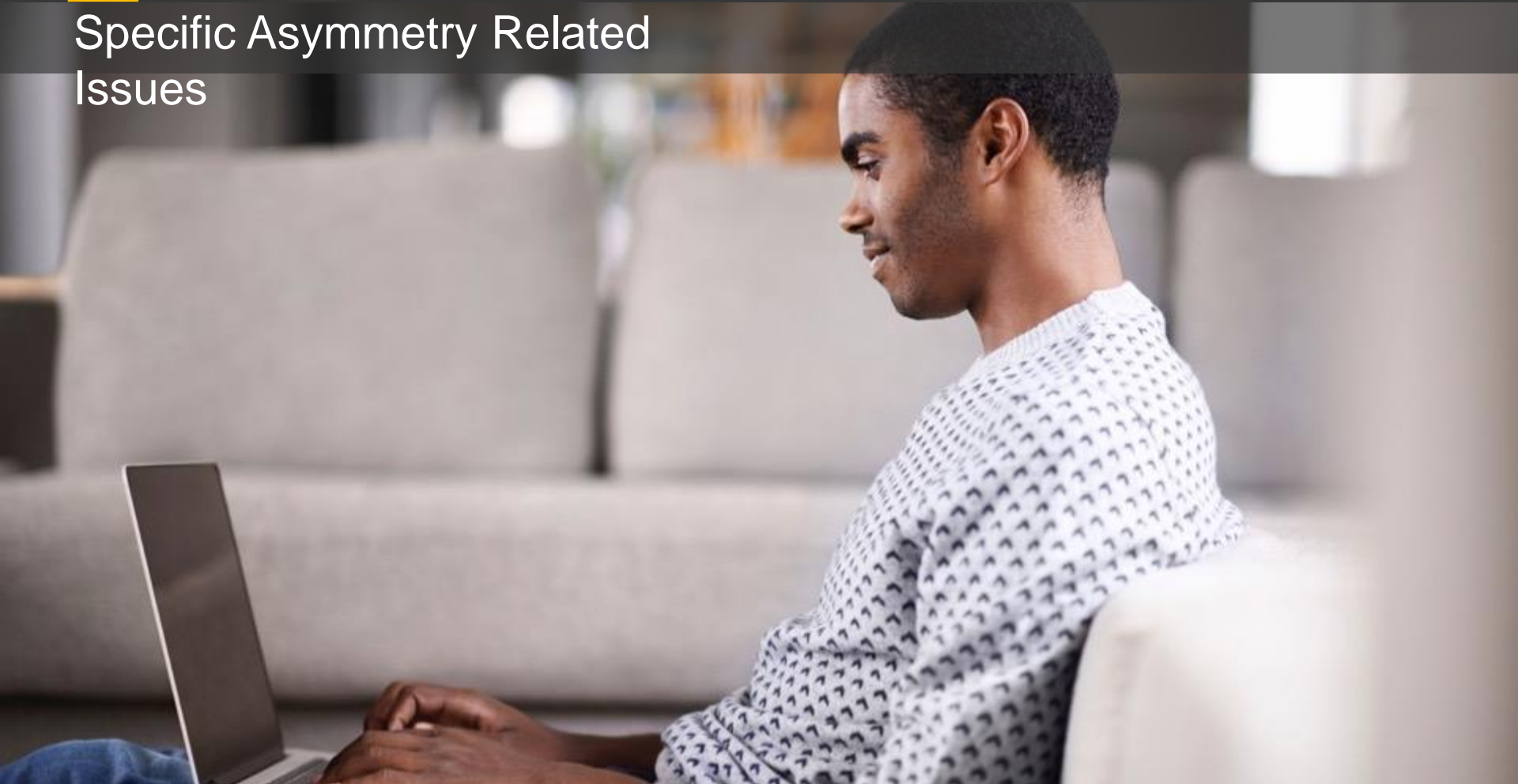
Table 1: Proposed MTRs for Small and Large Operators

	Small Ops	Large Ops
1 Oct 2018 - 30 Sept 2019	R0.17	R0.12
1 Oct 2019 - 30 Sept 2020	R0.15	R0.10
1 Oct 2020 - 30 Sept 2021	R0.13	R0.09

- MTN applauds ICASA for the extensive and rigorous consultation had in respect of the Bottom-Up and Top-Down models for the mobile efficient operator
- However, the MTR asymmetry decision is not justified and MTN has some specific issues related to mobile asymmetry



Specific Asymmetry Related Issues



Asymmetry Issues

Asymmetry may not promote economic efficiency in South Africa going forward

Issue 1: No explanation is provided to why the 2014 remedies are still relevant today

- No RIA has been published to justify this assertion
- No justification is provided on how asymmetry will correct the perceived market failure

Issue 2: Regulators set remedies to address forward looking competitive issues

It is typically not used to guarantee reparation payments for perceived “historic market failures” which is the current stated justification for the 2017 MTR asymmetry

Issue 4: The 2014 Briefing Note under section 2.1 does not provide an explanation for how asymmetry resolves perceived market failure

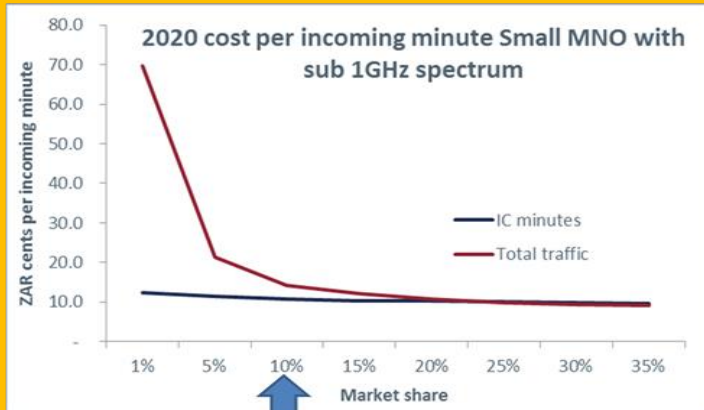
It is worth noting that asymmetry for established operators i.e. more than 4 years after market entry is not widely used

Issue 3: Asymmetry granted to an established player who carries as much traffic as the so called “large operator” (in the areas it has built a network) is inefficient and unjustified

Asymmetry discourages network expansion into rural areas and wastes small MNO’s spectrum in rural areas

The Asymmetry Threshold

- The asymmetry threshold in 2014 is set as 20% share of mobile call termination minutes in SA – where unit costs are similar to those of the market leaders because scale efficiencies have been exhausted.
- Increasing market share of incoming minutes does not affect unit costs of incoming calls – as no efficiency gains are expected at any point of market share of incoming calls.



Efficient market share 10-15% of total traffic

It doesn't matter to overall efficiency and unit costs of call termination whether an operator has 5% or 30% of incoming minutes.

Hence the reference to 20% share threshold is irrelevant to efficiency and therefore asymmetry.

What's important is total traffic – here an efficient market share is around 10-15% of total traffic i.e. the sum of all incoming minutes is virtually irrelevant to efficiency and therefore asymmetry.



MTN's views on specific mobile BU related issues



Mobile BU model issues

“ The Authority has prepared the large and small MNO scenarios without prejudice, based on upon traffic and subscriber data provided by all operators, both large and small.”

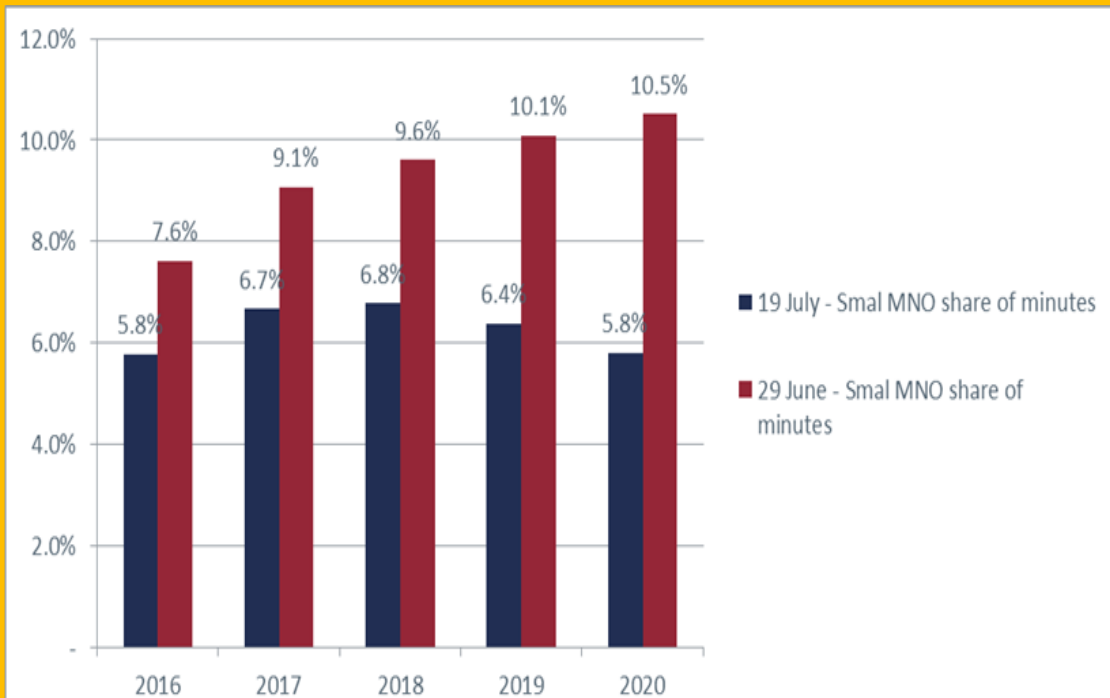
The above answer fails to explain specifically:

- Why two small operators have been modelled with their actual spectrum holdings, but NOT their actual traffic volumes, when there are substantial differences. I.e. None of the small operators resembles either CellC or Telkom Mobile
 - As a result, the small MNO with sub 1GHz spectrum is assumed to have the same traffic as the one without it
- How does significantly understanding small MNO with sub 1GHz spectrum further economic efficiency in South Africa
- Which aspects of an operator are hypothetical and
- What is the benefit of replacing actual with hypothetical operator sizes

Mobile BU model issues

The chart below shows how drastically ICASA's market share assumptions have changed for both future and past years:

The declining market share are incompatible with the efficient operator postulate



Small operators are assumed to lose market share instead of gaining it.

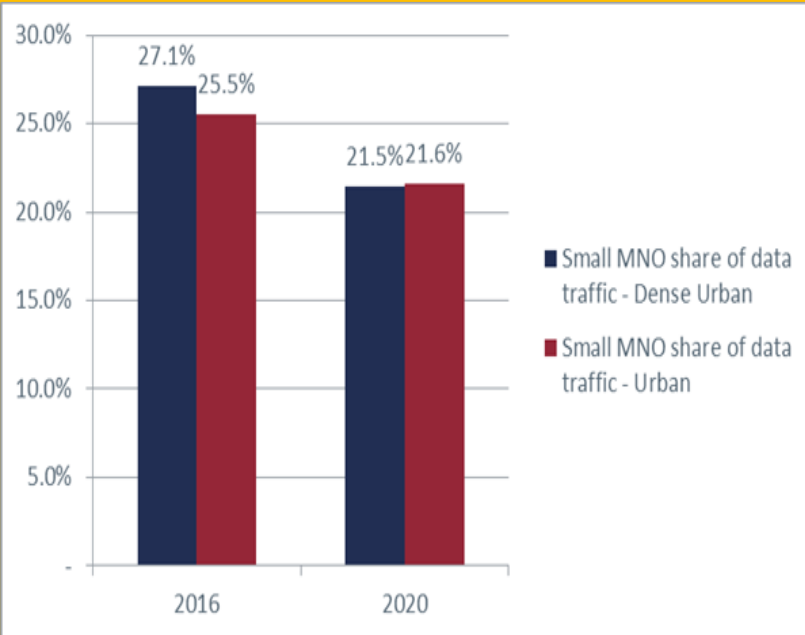
This is incompatible with the fact that small MNOs have been gaining market share, not losing it.

This is also contrary to the hypothetical efficient operator definition, which requires operators catch up their market share in line with the efficient operator

Source: ICASA mobile BU models

Mobile BU model issues

A similar inconsistency with reality occurs in the data market, where Small MNOs also lose market share in Urban and Dense urban areas:



In previous submissions MTN has pointed out that the data traffic for small MNOs assumed in ICASA's model is not compatible with public available information as per e.g. annual reports of the small MNOs.

Going forward, small MNOs should be assumed to gain market share in every geo-type, a necessary condition for a hypothetical efficient operator, which is being modelled.

Conclusion



Conclusions

Economic Efficiency

- Going forward small MNOs should be assumed to gain market share in every geo-type, a necessary condition for a hypothetical efficient operator.

Asymmetry Threshold

- Increasing market share of incoming minutes does not affect unit costs of incoming calls – as no efficiency gains are expected at any point of market share of incoming calls.

To address perceived challenges in the mobile sector

- Where the CTR deviates from regulatory orthodoxy and economic principles, this should be justified and disseminated for discussion.

Thank
you

everywhere you go

