

CTR Proposal

Advancing Competition

Sipho Maseko

10 September 2018

Telkom

The Telkom Group provides integrated services in the ICT converged market in South Africa, managing a specialised portfolio of companies with R41bn revenues and employing ~18 000 people.



***Wholesale
Infrastructure***

Wholesaler
provider of
connectivity to
licensees
DSL, Fibre, ME etc.



***Converged ICT
solutions***

End-to-end digital
solutions provider of
ICT solutions to
enterprise customers
Connectivity, voice,
IT, cloud etc.

**Telkom
Consumer**

***Connectivity
solutions***

Retail
communications
service provider to
consumers
Broadband, voice,
internet & mobile.



***Directory
& online services***

Local advertising and
marketing
organisation providing
digital solutions
Directory, online
search, e-commerce.



***Property
management***

Property business
managing masts and
towers, property
development and
property management
services.

Leader in lowering cost to communicate

Telkom chops wholesale prices

19 September 2013



- Telkom Wholesale will reduce the tariff for its IP Connect product by 8%
- Customer-half IP access circuit service by 4%
- Ethernet Express by 6%
- Metro Clear by 6%,
- Significant price reduction in international private leased circuits by 25%.
- In addition, Telkom Wholesale implemented an effective 10% price reduction on the off-the-shelf prices, across multiple Saix Dedicated Access services

<https://techcentral.co.za/telkom-chops-wholesale-prices/43782/>

Openserve announces up to 60% price reduction **hypertext**

May 9, 2016

- IP Connect will see entry-level pricing be reduced by as much as 57%.
- South African Internet eXchange Dedicated Access services will also receive a 31 – 60% discount depending on the specific services that are purchased.

<https://www.htxt.co.za/2016/05/09/openserve-announces-up-to-60-price-reduction-for-services/>

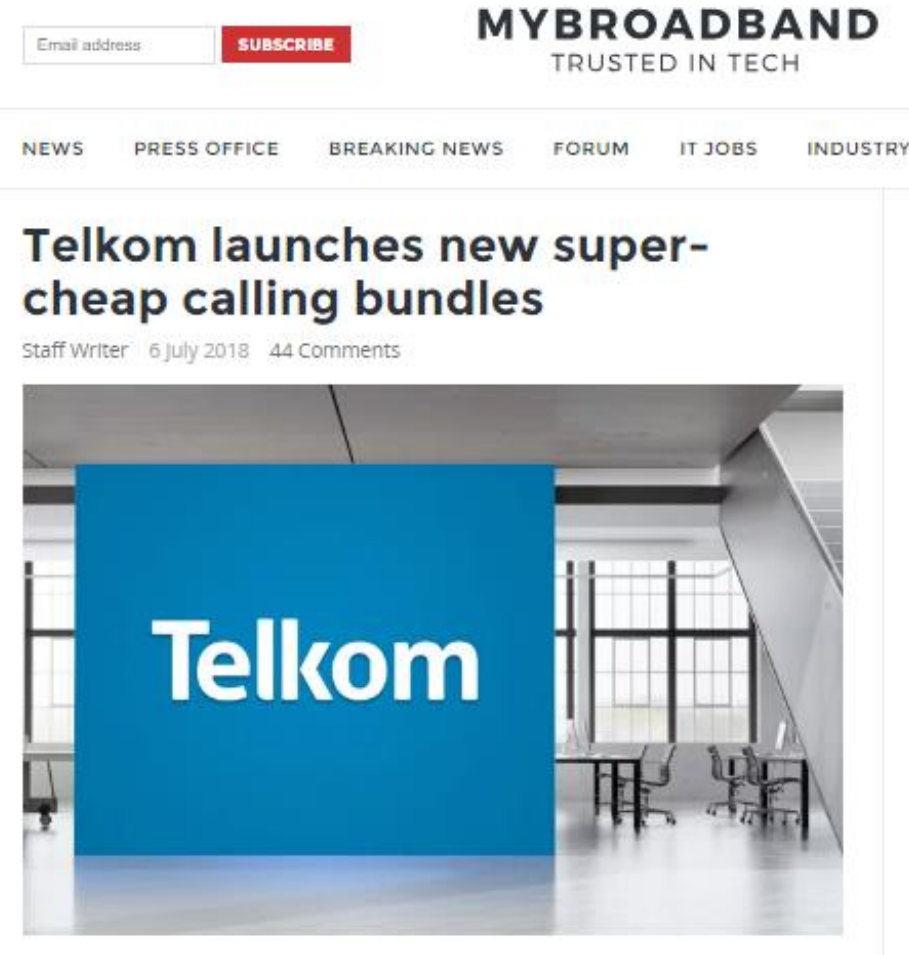
Telkom cuts wholesale broadband prices

May 18, 2017



- Openserve is cutting IP Connect (IPC) prices again should ultimately lead to lower prices for fixed-line broadband users
- “Depending on the IPC capacity purchased, ISPs can now benefit from price reductions of up to 32%, effective from 1 June,” Telkom said on Thursday.

<https://techcentral.co.za/telkom-cuts-wholesale-broadband-prices/73966/>



THE CONTEXT



ECA Objectives

ECA, 2005: Primary Objects

- (a) promote and facilitate the convergence
- (b)create a technologically neutral licencing framework;
- (c) promote the universal provision;
- (d) encourage investment and innovation;
-
- (f) promote competition within the ICT sector;
-
- (z) promote stability in the ICT sector

Guidelines for Conducting Market Reviews:

- A technology-neutral regulatory regime;
- An explicit intention to facilitate greater competition in the ICT sector.
- Balance between encouraging investment and innovation and the promotion of competition.

- Entrenches the duopoly
- Negative effect on disruptors' ability to lower prices
- Adverse effects on investment by smaller players
- Disregards and inhibits convergence

Historical context

Telkom

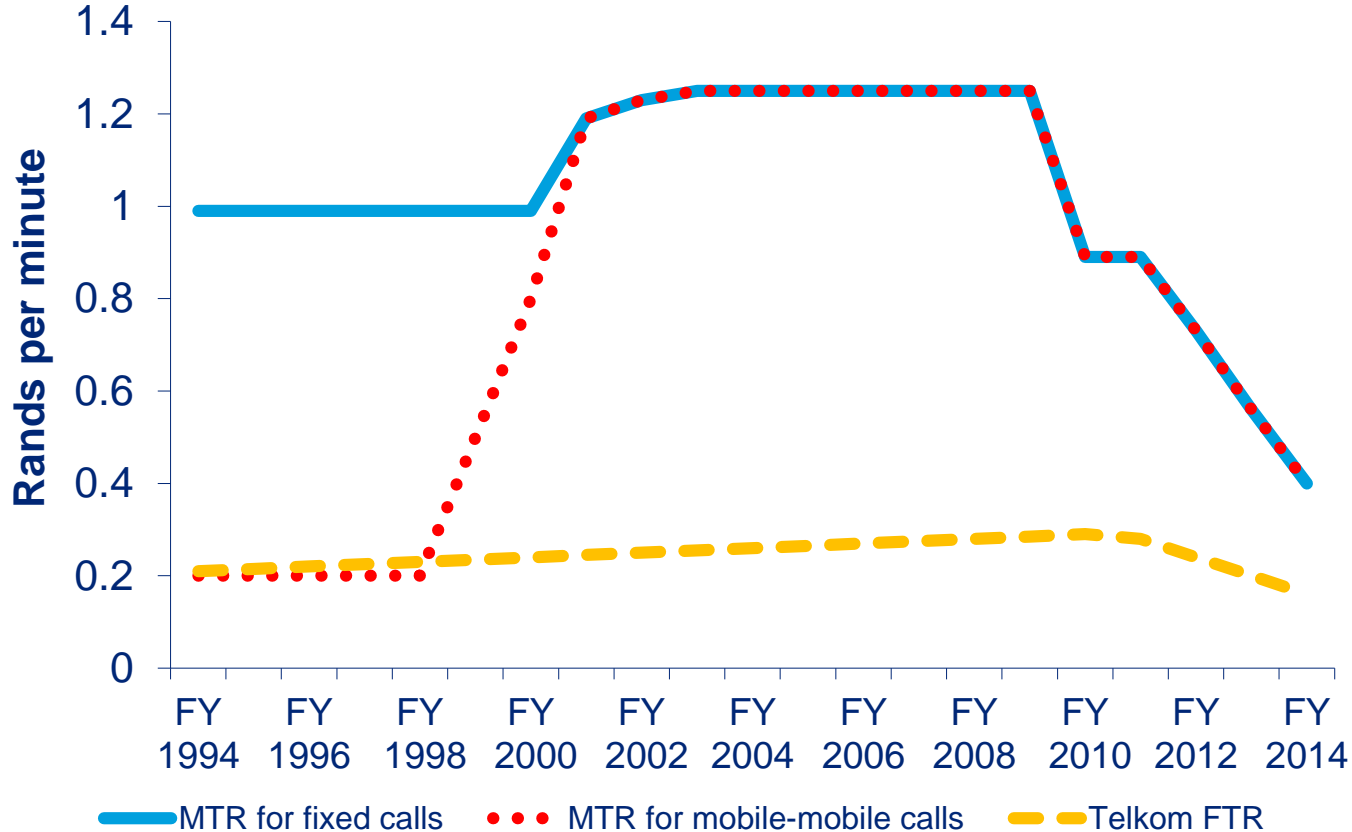
CTR facilitated mobile in SA

Facilitated growth of mobile – Vodacom and MTN

- Funded mobile network deployment
- Introduced competition to the sector
- Expanded access to telecommunications

Telkom subsidized MNO

>R70bn subsidisation of Vodacom and MTN



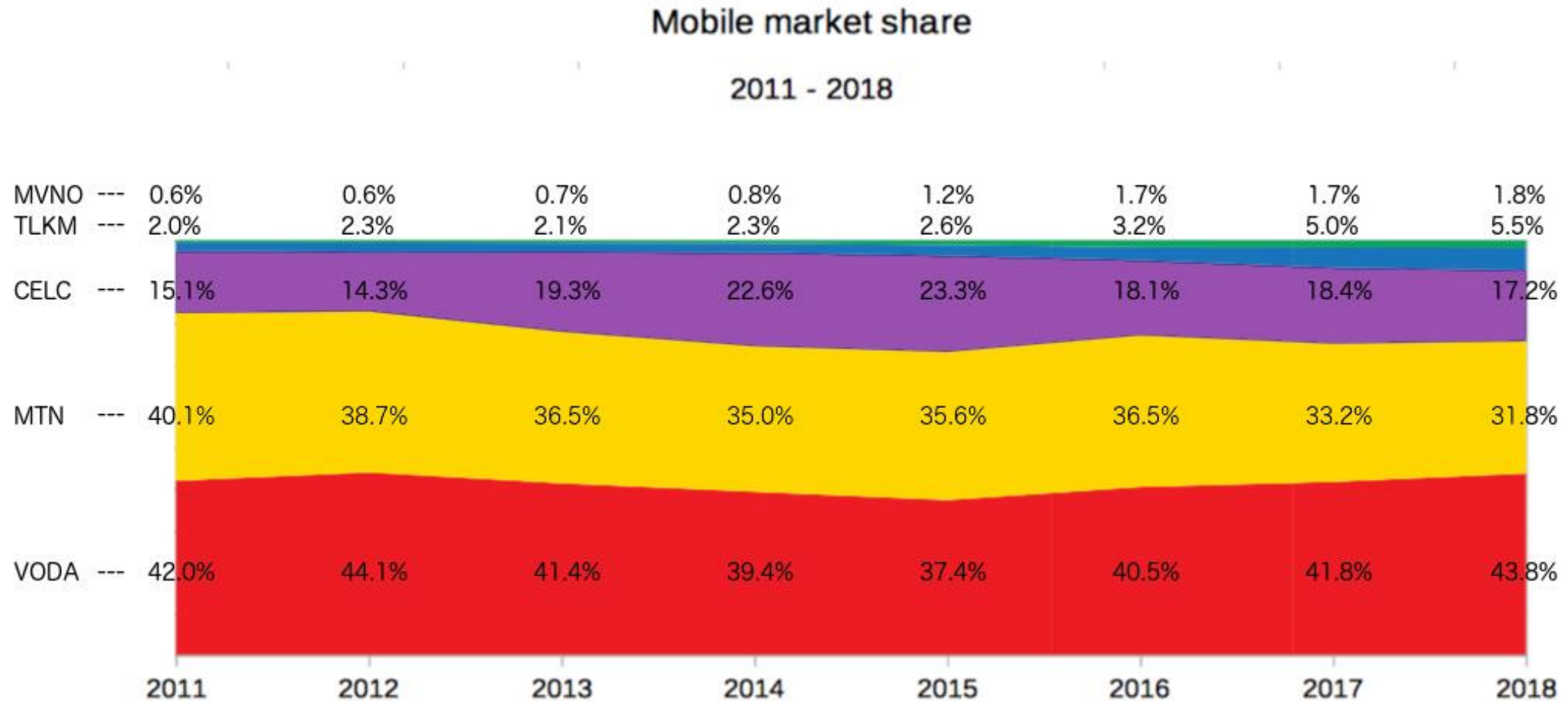
Cross subsidisation has persisted for too long

- Vodacom and MTN overtook Telkom as the largest telecommunications providers in 2000/01
- Entrenched incumbents' dominant positions and stifled competition

Competition context

Telkom

Regulation has created a duopoly



High market concentration



Post-paid Market

The largest majority of ISPs service the business market.



Competitor Challengers

Cell C and Telkom have grown their post-paid base at the expense of MTN.



IoT SIM Market

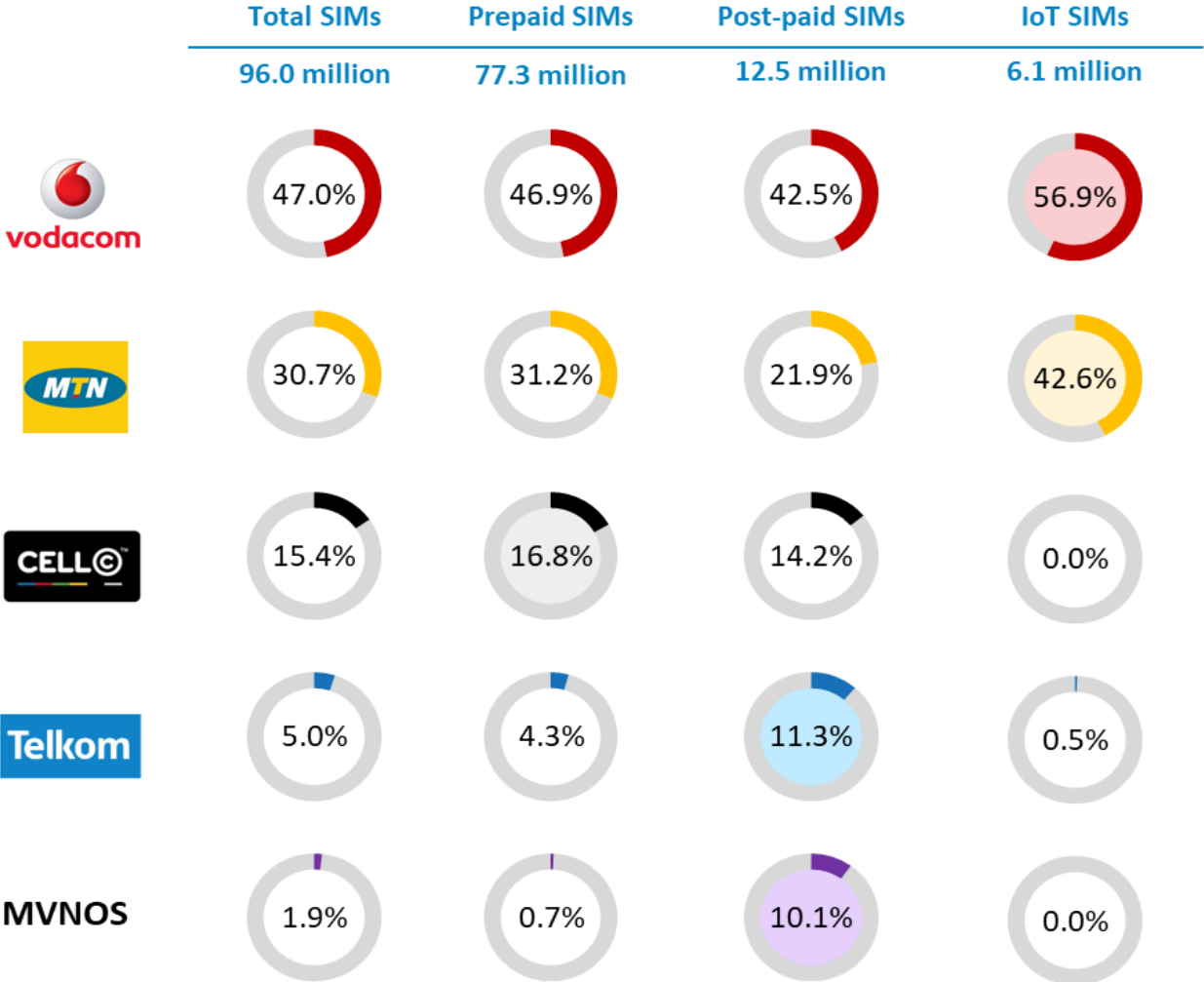
Market shows consistent yearly growth. However the SIMs represent low ARPU value. IoT includes M2M SIMs.



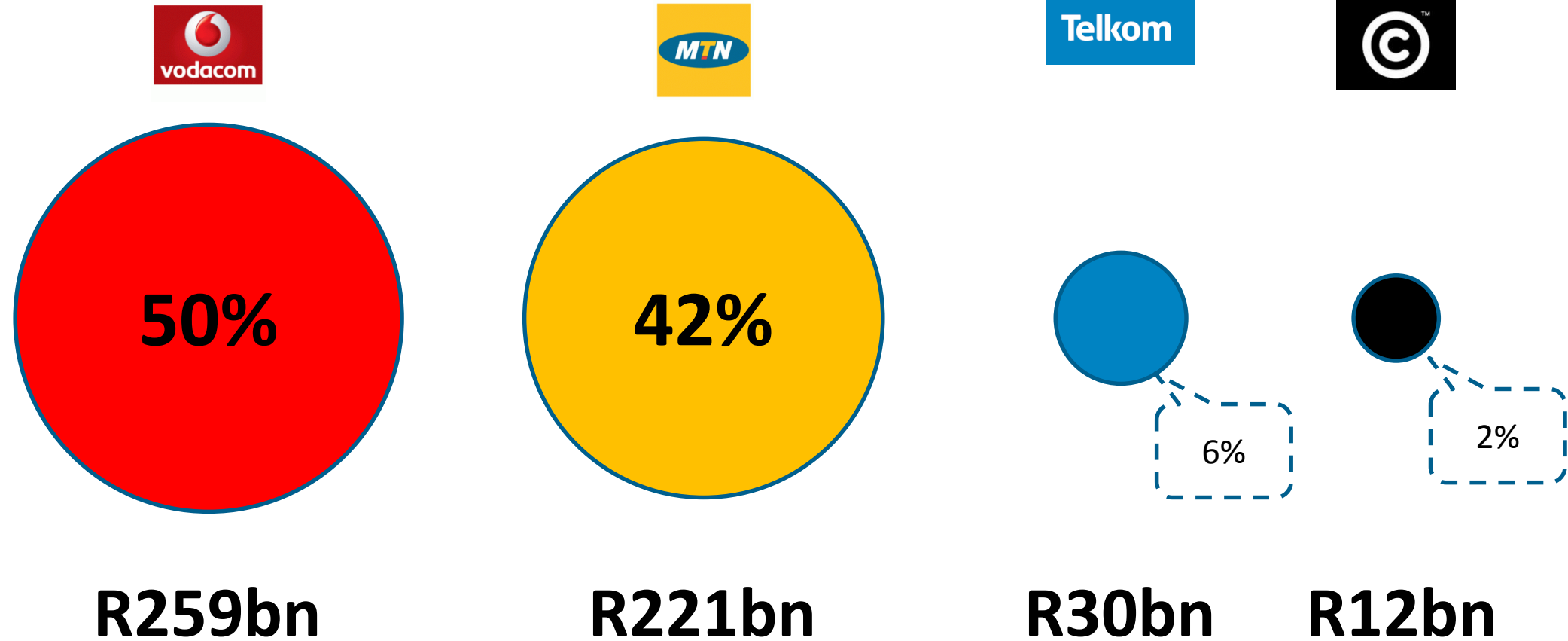
Telkom Success

Successfully competes in the Post-paid base.

SA Mobile Market @ December 2017

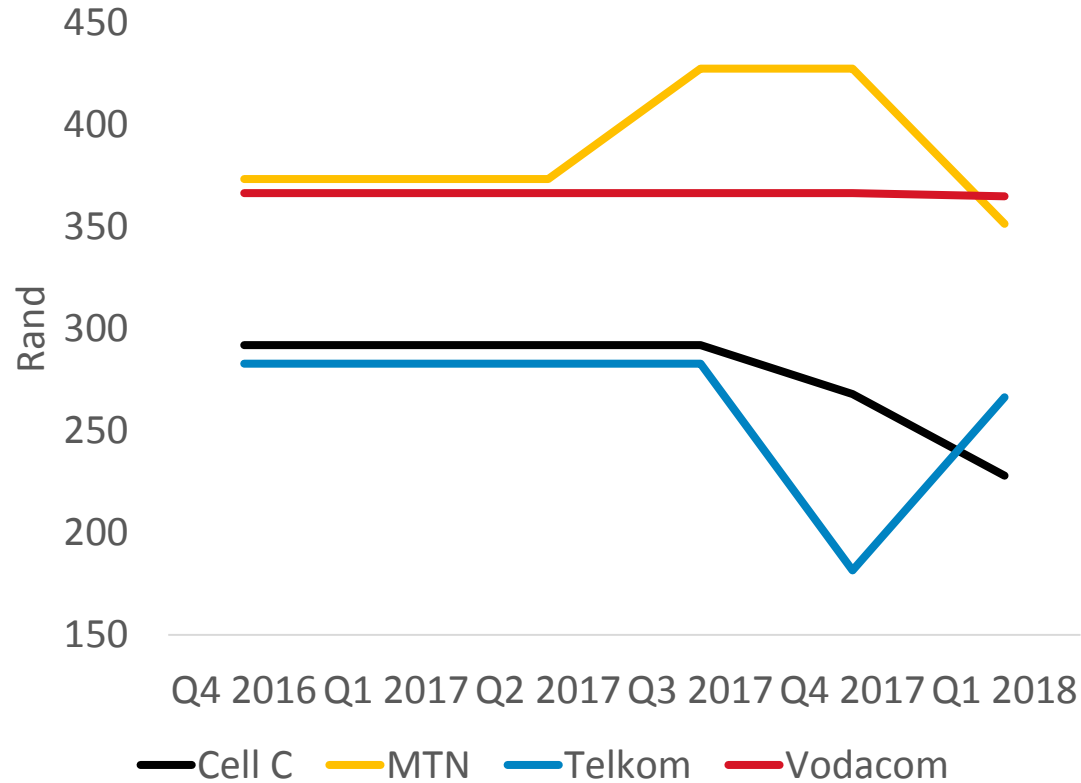


Subsidy Reflected in Market Capitalization

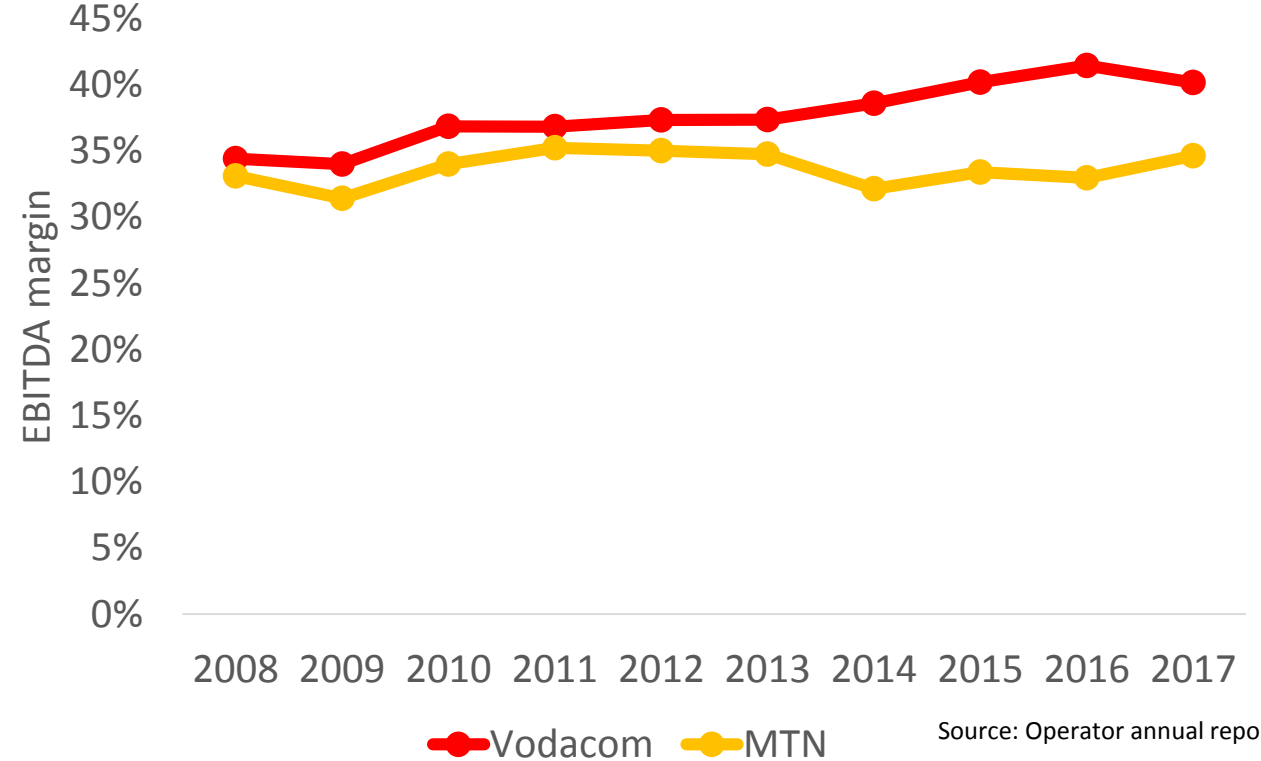


Customers not reaping the benefits

Pre-paid moderate cost user

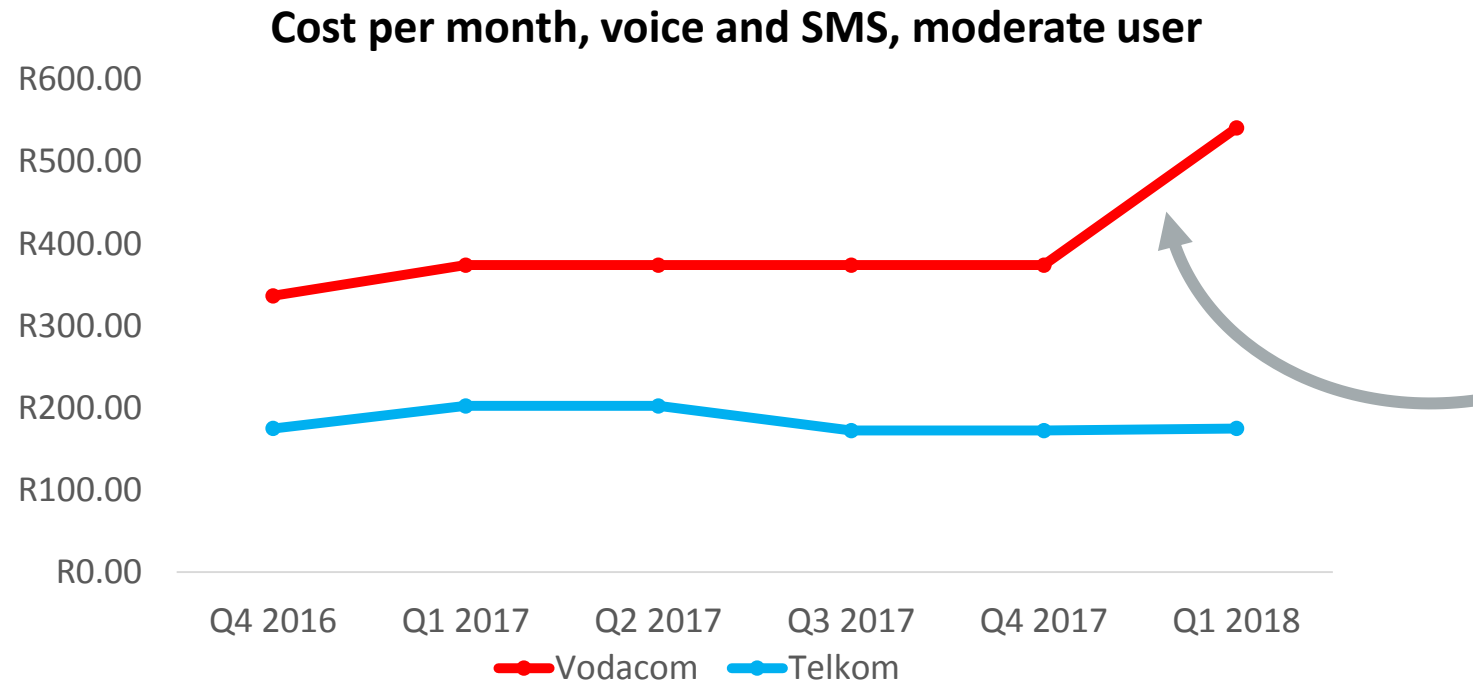


Incumbents' EBITDA margins



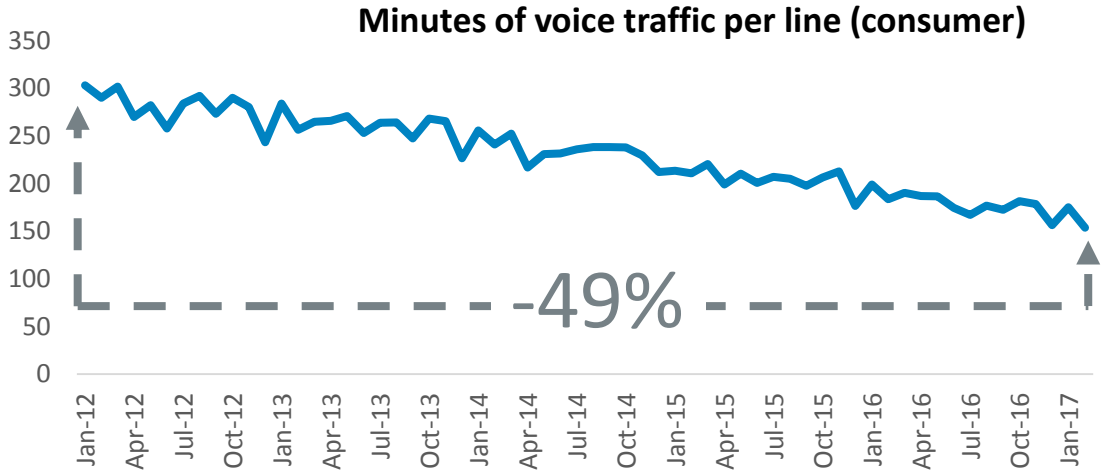
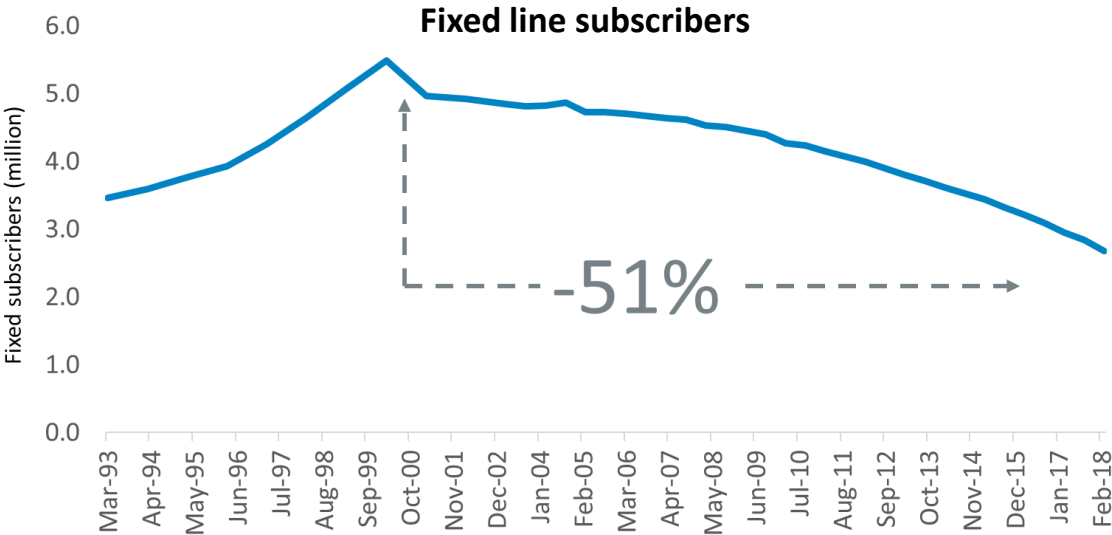
Vodacom's EBITDA margin is 10% higher than Vodafone's European average

Resilience to challenge



- 2014-2018: MTRs fell by two -thirds
- The impact?
 - Vodacom increased prices and
 - Increased its market share

Technology Convergence



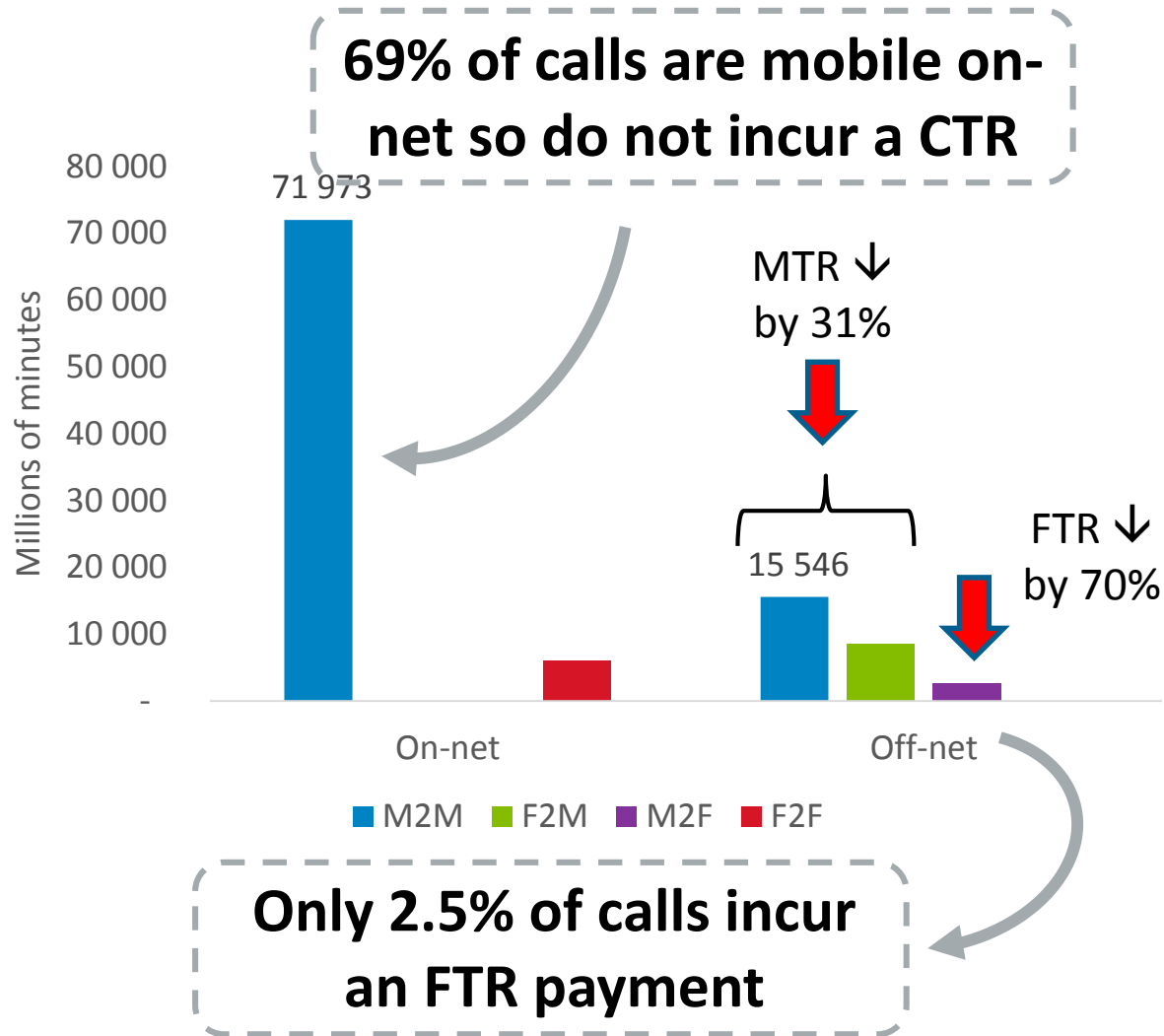
**Impact on cost to
communicate**

Telkom

CTR Impact on Cost to Communicate

- Directly: Reduced costs for operators (outpayments) → pass through means lower prices on off-net calls
- Indirectly: Increased competition → lower prices
 - Lower base MTRs
 - Higher mobile asymmetry

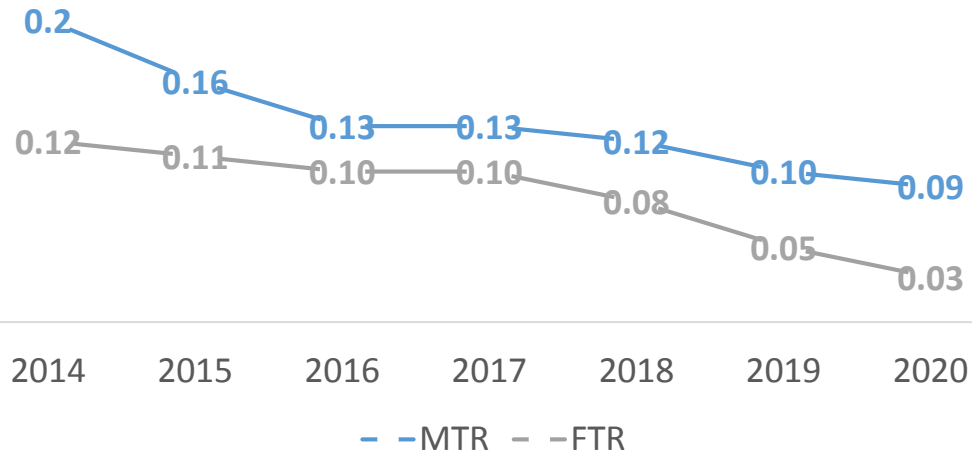
Will CTR reductions directly lower prices for customers?



- CTR reduction targets the least important category of voice calls: off-net calls to fixed
- Increase in AMTR won't have direct impact on call prices

Will the lower CTRs increase competition and reduce prices?

CTR GLIDEPATH



- 92% of calls made in South Africa terminate on mobile networks
 - 69% are on-net M2M (No CTR)
 - 15% are off-net M2M (MTR)
 - 8% are off-net F2M (MTR)

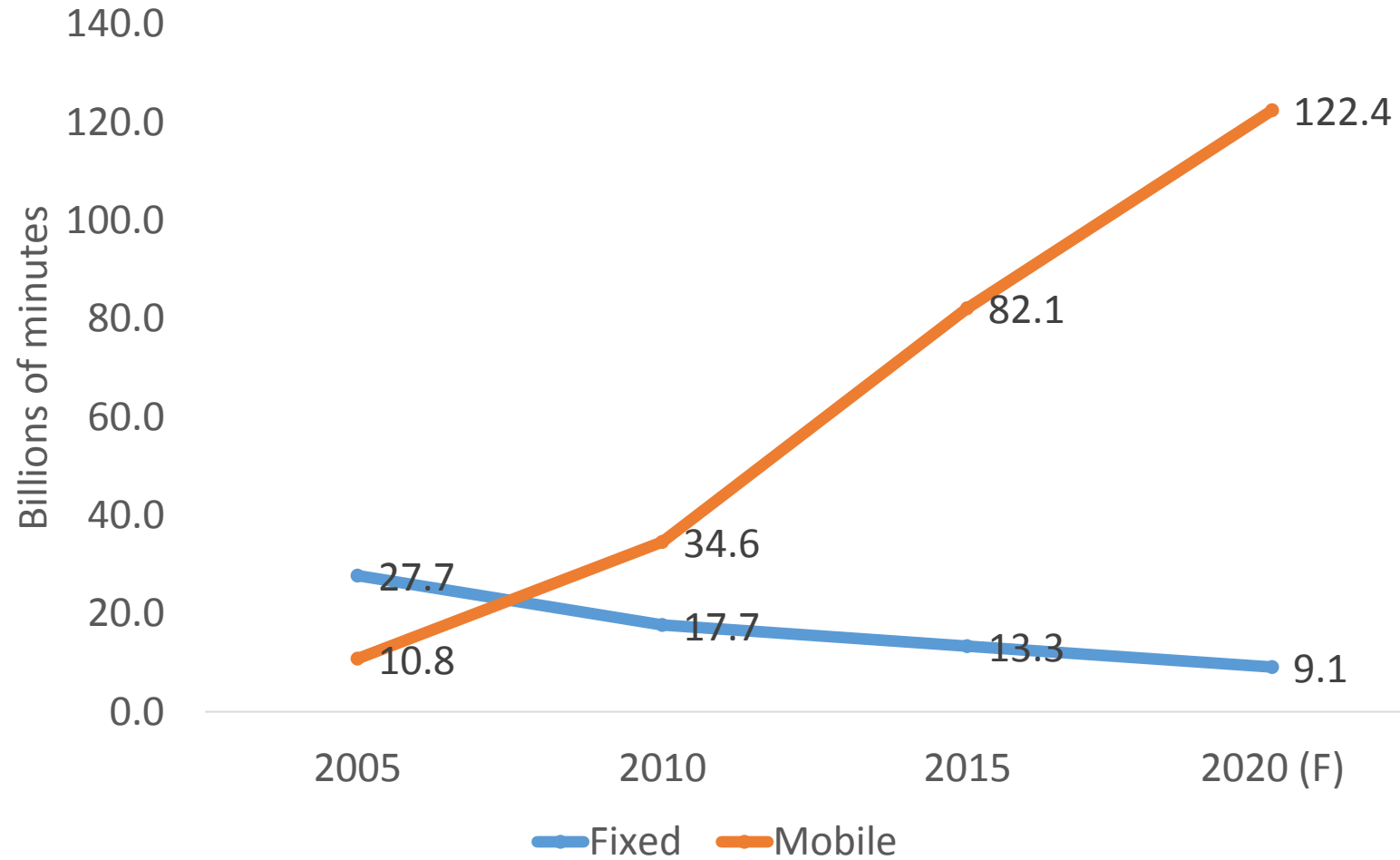
- Most calls do not incur CTRs
- The cost to communicate is driven by mobile competition
- But, the Draft Regulations will inhibit mobile competition

Convergence – A reality

Telkom

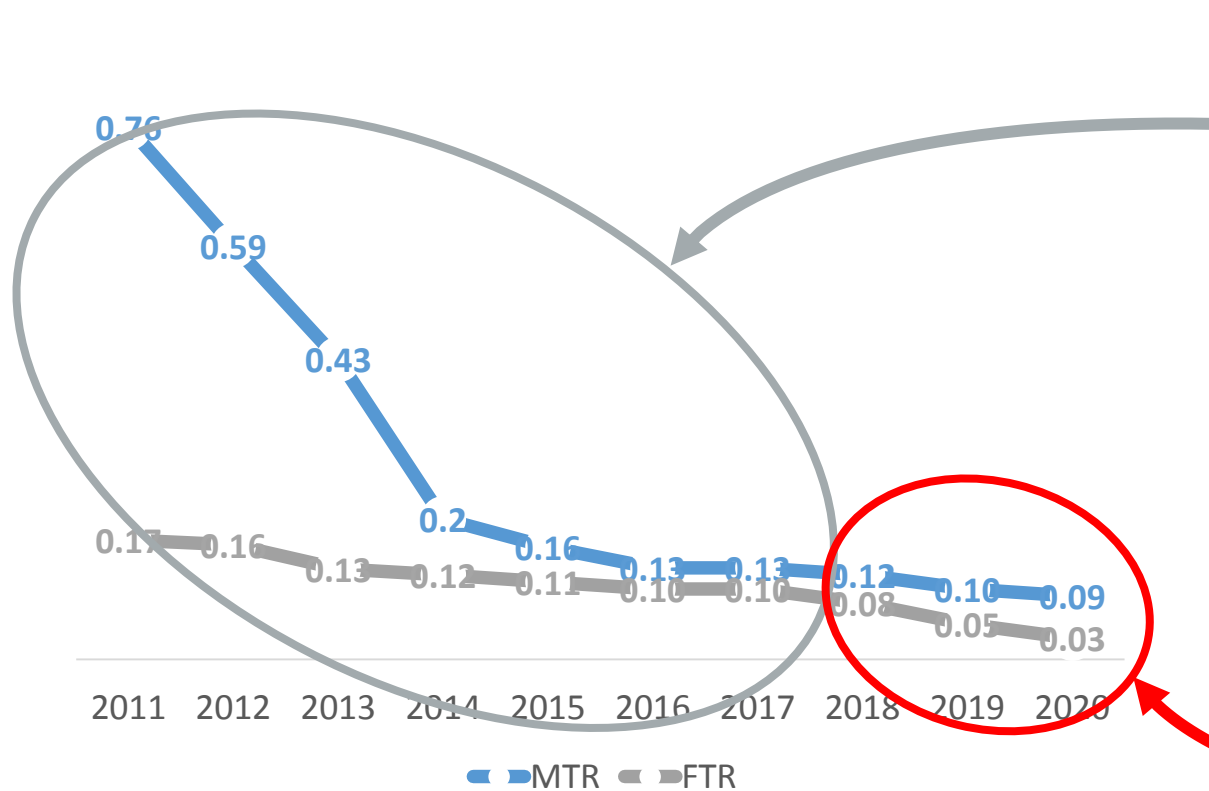
Fixed to mobile substitution

Total voice minutes in South Africa – fixed vs mobile



Source: BMIT

Draft regulations ignore convergence



- Previous two rounds of CTR regulation have reduced the gaps between MTRs and FTRs
 - Promoted technology neutrality
- Draft Regulations change course and widen the gap
 - Discourage convergence
 - Favour mobile

LTE used to deliver “fixed” services

- Overall, wireless (mobile) is lower cost to serve than copper
 - Mobile → improved QoS, reduced copper theft
- Telkom has confirmed strategy to migrate significant portion of its fixed subscribers to wireless – using the mobile network
- The FTR cost modelling refuses to acknowledge this
- Decision relies on European experience – completely different market and socio-economic conditions

Implications

Telkom

Technological convergence a reality

- Mobile is a substitute for fixed voice calls
- Technological developments mean all voice traffic will soon be carried over IP networks
 - Voice services are already conveyed to “fixed” locations using wireless technology
 - Draft Regulations unfairly discriminate against fixed wireless services even though they are delivered using exactly the same technology as mobile

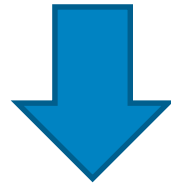
Draft CTRs hit Telkom the hardest

MTR



31%

**Mobile
asymmetry**



FTR



70%

MTR > FTR

- Small reductions in the base MTRs does nothing to address dominance of Vodacom and MTN
- The reduction in the MTR asymmetry does nothing to support Telkom Mobile
- The steep reduction in the FTR heavily penalises Telkom
- Continued subsidy to the mobile duopoly

The implications for the 2018 CTR decision

- CTRs need to be based on the primary object of the ECA – not simply on the results of cost modelling
- CTRs need to help address the fundamental structural problems in the market – lack of effective competition
- The 2018 CTR decision should learn from the lessons of the past

Our Proposals



Beyond cost modelling

- CTRs must reflect the realities of the South African economy
- Market definition must take into account convergence
- Regulation must be technology agnostic
- CTRs must promote competition

Single CTR for fixed and mobile

- Single CTR based on the draft base MTRs
 - Alternatively, parity between FTRs and base MTRs
 - FTRs should move to parity from 1 October 2018 and then glide with base MTRs
- Single rate recognises technological convergence and encourages competition between fixed and mobile

Increased asymmetry for small entrants

- Increased asymmetry will:
 - Level the playing field for small entrants and promote competition
 - Reverse the subsidies that have caused competition issues in mobile

Our Proposal

- Single CTR for fixed and mobile
- Significantly higher MTR asymmetry for smaller entrants
- Further review and impact assessment of all proposed ICASA regulations on:
 1. Competition
 2. Investments
 3. Job creation and sustainability

Thank you

Telkom