180328SCComm

CELL C LTD
ORAL HEARINGS: PARLIAMENT
28 MARCH 2018

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COST TO COMMUNICATE HEARING: 28 MARCH 2018

Agenda

1. The Problem
2. Market Structure & Competitiveness
3. Skewed Market with Inadequate Competition
4. Role of the Regulator
5. MTRs and Asymmetry-essential pro competitive remedies
6. Cell C Product Propositions
7. Affordability /Value for Money
8. CellC enabling multiple MVNOs & MVNEs to enhance competition
9. WOAN: envisaged Market Structure reform
10. The WOAN as a potential enabler
11. Schools Connectivity
12. Conclusions

2

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The Problem

- ❖Cost to Communicate still too high
- ❖Universal Access

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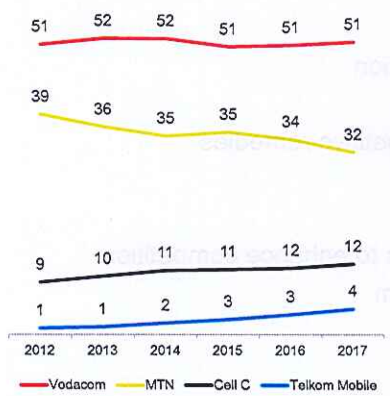
3

Market Structure

Service Revenue share by mobile operator (%)



Source and Notes:
- All results per Calendar Year. Operators' annual reports and quarterly results;
- Telkom Mobile results per FY (ending March). For 2017, Cell C estimate

Market Structure

- ❖ Still a highly concentrated market with a 2017 HHI index > 3,800 – *a HHI > 2,500 is defined as a highly concentrated mkt*
- ❖ Still dominated by Vodacom and MTN, with little change over the years – *the combined market share > 83%*

Causes and Effects

- ❖ Entrenched and increasing scale benefits for the large mobile operators
- ❖ Skewed mobile market structure with inadequate competition
- ❖ Duplication of infrastructure
- ❖ Exclusionary pricing to own networks
- ❖ No incentive/obligations to rollout network in underserviced areas

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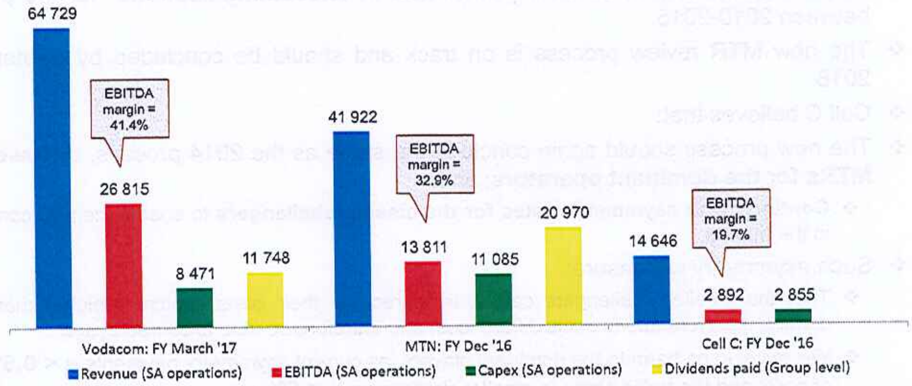
4

Skewed Market with Inadequate Competition

Key financial indicators per operator for the last reported FY (Mln ZAR)



Source and Notes:
- Vodacom results, FY ended 31 March 2017; MTN results, FY ended 31 Dec 2016;
- Cell C results, FY ended 31 Dec 2016 and EBITDA based on Operational EBITDA adjusted for once-off items (-R214m)

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5

Role of the Regulator

- ICASA as a statutory regulator for the electronic communications sector, has only the powers set out in the ICASA Act and ECA
- Section 2(f) of the Electronic Communications Act of 2005 (ECA) requires ICASA to regulate so as to **promote competition** in the sector
- Section 2(n) of the ECA requires ICASA to regulate so as to **promote the interests of consumers** with regards to quality electronic communications services at reasonable prices
- Chapter 8 of the ECA requires individual electronic communication services network (ECNS) licensees to make their facilities available to requesting licensees to promote competition at the service level and avoid unnecessary duplication of facilities
  - This reduces input costs which in turn reduces prices charged to consumers
- The Number Portability Regulations, 2005, are also a subsidiary instrument to enable the promotion of consumer choice in the sector by obliging donor licensees to port their subscribers on request
  - This enables consumers to exercise their right to choose and also promotes competition at the service level
- The ICT Sector White Paper aims to increase service-based competition

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6

MTRs and Asymmetry - essential pro-competitive remedies

- A Study by Ryan Hawthorne (UJ) on the impact of competition calculates a **consumer surplus benefit of more than R47 Billion in telecommunications** for the period between 2010-2015.
- The new MTR review process is on track and should be concluded by September 2018
- Cell C believes that:
- The new process should again conclude the same as the 2014 process, by **lowering MTRs for the dominant operators**; and
  - **Continue with asymmetric rates for the smaller challengers** to enable them to compete in the market
- Such asymmetry will ensure:
  - That the smaller challengers can at least recover their costs (which is higher than the dominant players due to scale differences) and therefore be able to compete; and
  - Will result in no harm to the dominant players, as current asymmetry payments is **< 0.5%** pa of costs and the traffic share to smaller challengers is **< 5%** pa

Source:

Working Paper 2/2016

Competition, barriers to entry and inclusive growth:

Telecommunications Sector Study

Ryan Hawthorne, Pamela Mondliwa, Tamara Paremoer, and Genna Robb'

Centre for Competition, Regulation and Economic Development, University of Johannesburg.

7

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Pro-consumer products	Data bundles	Value for money tariffs	SmartData Contract
WhatsApp offering with a price of 2.5c/MB; Social data bundles; Internet.org- free Facebook; 66c prepaid plan-all SA networks	Carry over; Longer term validity (90 days); One year data bundles	Connector / Pinnacle & 66c prepaid plans - data out of bundle price of 15c/MB	One month carry over; Link SIMs &share data across up to 14 additional devices

8

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Affordability / Value for Money

- 2017 - **old age grant** - R1600 -1620 for those over 75yrs a month.
- The disability and care dependency **grants** - R1600 a month.
- Foster care **grants** - R920 a month.
- For every R100 spend in SA, **R2.90c** spent on telecoms(source ICT satellite account of South- Africa 2012)
- Cell C's tailor made products supports the reduction of income spent on telecoms eg WhatsApp can effectively communicate using Cell C's WhatsApp product for less the 2% monthly income
- As seen in the impact of Call Termination Rates reduction – resulted in **Consumer Surplus benefit of R47 Billion** over 5 years between 2010-2015.
- Reduction in telecommunication services contribute to **consumer's household disposable income.**

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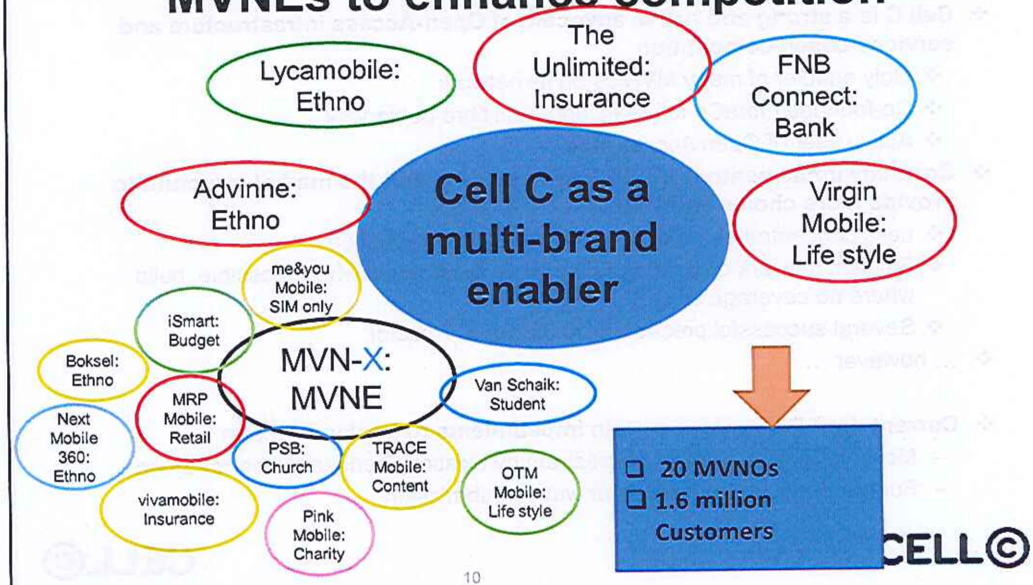
9

Cell C enabling multiple MVNOs & MVNEs to enhance competition



10

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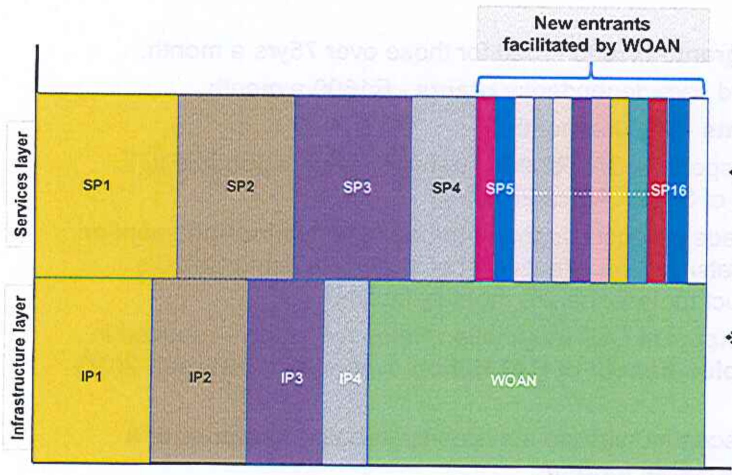
WOAN: Envisaged Market Structure reform



- Service-based competition enhanced by the Open-Access infrastructure model
- WOAN only competes at wholesale infrastructure level, enabling both existing and new SPs to offtake capacity
- WOAN could obtain infrastructure from existing providers and need not own all infrastructure

SP – Service Provider
IP – Infrastructure provider

- Opportunity for local ownership

11

The WOAN as a potential enabler

- **Cell C is a strong and active advocate of Open-Access infrastructure and services-based competition**
  - Only enabler of many MVNOs on its network
  - Co-founded FibreCo to break long-haul fibre bottleneck
  - Active user of Open Access fibre
- **Correctly implemented, WOAN can positively shift the market structure to provide more choice and value for consumers**
  - Less concentration, vibrant services-based competition
  - Efficient network deployment (leasing/swaps/re-use where possible, build where no coverage exists)
  - Several successful precedents in the SA ICT sector
- ... however ...

- **Current draft Bill creates certain impediments to implementation**
  - Most contentious: return of spectrum by existing licensees to be reframed
  - Further detail addressed in our written submission

12

Schools connectivity

- Cell C has connected a total of **1200** schools between 2015 - 2018 as part of Universal Service Obligations (USO) imposed by ICASA.
- The solution include a 2GB data monthly for 2 years.
- Solution includes :3 laptops,25 tablets,2 printers, projector, speakers, router, antenna, monitor, mouse/keypad, server, sim card and fixed whiteboard.
- The breakdown per province:

Mpumalanga	Western Cape	Limpopo	Gauteng
189	121	260	53

North West	Northern Cape	Eastern Cape	KwaZulu-Natal	Free State	Total
86	76	176	218	21	1200

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Solution in Classroom

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14

Conclusions

- ❖ Increased Competition ultimately drives cost down
- ❖ Regulatory interventions to enhance ability of challenger operators to compete, include
  - ➢ Lower MTRs and Asymmetry for challengers (small operator) of dominant operators
  - ➢ Make porting easier for consumers
  - ➢ Enforce infrastructure sharing to remove input costs
- ❖ WOAN as realistic possible solution to drive market structure change and increase service based competition

15

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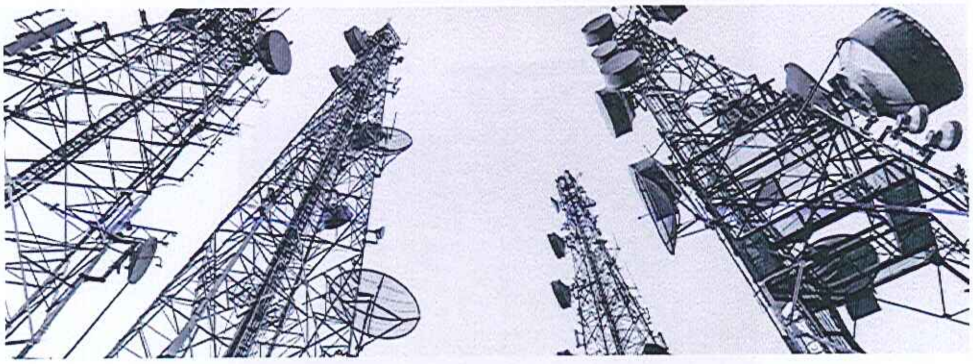
15

Thank you



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16