

Portfolio Committee on Communications
Public Hearings Report on Cost to Communicate

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Report of the Portfolio Committee on Communications on the provincial public hearings on the cost to communicate.

The Portfolio Committee on Communications (the Committee), having conducted four provincial public hearings on Cost to Communicate in (i) Cape Town, 29 - 30 November, 2012 (ii) Gauteng Province, 22 - 25 July, 2013; (iii) Eastern Cape Province, 29 - 30 July, 2013; and (iv) KwaZulu-Natal Province, 31 July - 1 August 2013, reports as follows:

1. BACKGROUND

1.1 Role of Parliament Committees

Parliamentary Committees are established as instruments of the two Houses of Parliament in terms of the Constitution to facilitate oversight and to evaluate government performance. These Committees are the “engine rooms” of Parliament’s oversight and legislative work.

Committees scrutinise legislation, oversee government action, and interact with the public. One of the most important aspects of the oversight function is the consideration by Committees of Annual Reports and Budgets of organs of State, and reports of the Auditor-General. Depending on the purpose of the oversight, the Committee will either request a briefing from the organ of State or invite the public as a form of fact-finding mission.

1.2 Cost to Communicate Programme

The Cost to Communicate Public Hearings formed part of the broader programme mandate of the Committee to investigate the impact of high costs-to-communicate to the public. The hearings sought to leverage from the partnership between Parliament, government, industry and the public in order to inform the legislative, policy and regulatory interventions to help bring the costs of communications to affordable levels.

It is widely reported that the cost of communication is still high in South Africa and is mainly due to a lack of competition in the market. And that despite ICASA's regulatory intervention to regulate the Call Termination Rates (CTRs) for both Mobile Termination Rates (MTRs) and Fixedline Termination Rates (FTRs) regime, the cost of communication still remains high while competition remains fragmented with anti-competitive conditions for new entrants and challenger networks.

During the financial year 2012/2013 the Committee embarked on a two - phased public hearings process that presented (i) the Department of Communications (the Department), as the policy-making body of the sector; (ii) regulator the Independent Communications Authority of South Africa (ICASA); (iii) industry players such as Cell-C, Vodacom, Neotel, TelkomSA, 8ta and MTN; and (iv) public organisations including Small Micro and Medium Enterprises (SMME's), Academia, Non-Government Organizations (NGOs) and political parties to make presentations and submissions before the Committee regarding the impact of communication costs emanating from the telecommunications market.

The public hearings process also gave the Committee an opportunity to gather public information that will assist the Committee to better perform its oversight role informed by citizens' and businesses' needs. A total of forty - three (43) oral and written submissions were received by the Committee during hearings in (i) Cape Town, 29 - 30 November, 2012 (ii) Gauteng Province, 22 - 25 July, 2013; (iii) Eastern Cape Province, 29 - 30 July, 2013; and (iv) KwaZulu Natal Province, 31 July - 1 August 2013.

Furthermore, organisations and the general public were invited to make written submissions to the Committee via the Committee Secretary, and were also requested to indicate intent to make oral presentations to the Committee.

2. PHASE I PUBLIC HEARINGS

2.1 Cape Town Public Hearings (29-30 November, 2012)

There were a total of ten (10) submissions/presentations during Phase I of the public hearings held in Parliament. And as indicated above, Phase (I) was limited to the Department, Regulator and major operators and not necessarily opened to the broader civil society and other medium-sized industry players. Organisations that presented and or submitted to the Committee in no particular order include:

Department of Communications	Vodacom
Independent Communications Authority of South Africa (ICASA)	8.ta
Telkom Ltd	MTN
Cell-C	Righth-2-Know
Neotel	Research ICT Africa.net

3. SUMMARISED ANALYSIS OF THE KEY ISSUES HIGHLIGHTED BY INDIVIDUAL STAKEHOLDER SUBMISSION

3.1 Department of Communications (the Department)

As the policy making body of the sector, the Department preceded the presentations of the hearings by setting out the plans it has in relation to the programme of cost to communicate.

Key outputs of the presentation by the Deputy Director-General (DDG) ICT Policy Mr Themba Phiri include

- (i) the acknowledgement by the Department that despite the progress that has been made to date, there is considerable evidence that the country's telecommunications sector still lags well behind international standards even when compared to other countries at similar stages of development;
- (ii) the Department commissioned a study in order to attempt to resolve the challenges faced by South Africa; and

- (iii) the results of the study led to the development of a Programme of Action(PoA) specific to Cost to Communicate which has subsequently been revised to accommodate changing circumstances of the sector.

In general, an improved and less expensive electronic communications services was recognised by the Department as a key leverage that can enhance South Africa's international competitiveness and support the achievement of its economic and social goals. Furthermore, the Department highlighted the fixedline decline challenges faced by the incumbent operator (Telkom) and a portfolio organisation of the Department.

In addition, market inefficiencies had resulted in high mobile call rates as a result of among other factors, small operators who in total have less than 25 per cent market share of the mobile voice market, account for the lowest retail prices while the highest package prices are charged by the two operators with the 85 per cent market share between them.

The Department concluded that the two major operators are most resistant in passing the MTR price reductions to consumers and are mainly responsible for the high mobile voice prices in South Africa.

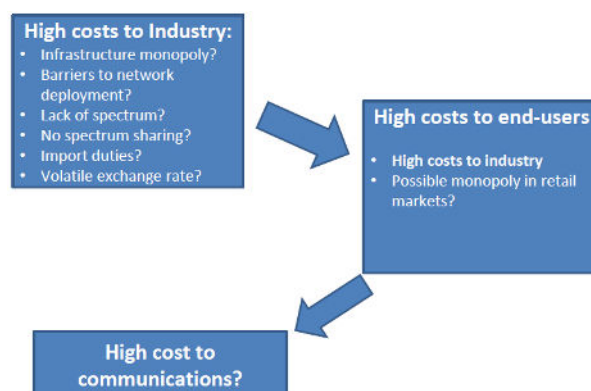
As a result the Department highlighted to the Committee the need for radical policy interventions that in general involve

- amendment to the Electronic Communications Act (ECA) especially in addressing matters which hinder competition and other related matters (already concluded);
- (ii) imposition of a flat rate regime on mobile voice calls in South Africa;
- (iii) standardization of national roaming retail prices for mobile services; and
- (iv) regulation of transparency in the pricing and publication of mobile retail prices. In more detail, a revised programme of action with seven (7) projects and action steps to be taken by the Department were presented to the Committee, (see attached CPT 1).

3.2 Independent Communications Authority of South Africa (ICASA)

In general, the regulator presented on how it facilitates communications in South Africa and the inter-dependency of technological prerequisites needed to provide an affordable service namely (i) Telephone Numbers; (ii) Spectrum; (iii) Type Approval; and (iv) Review of Interconnection Agreements to ensure fairness, however highlighted the insufficient funds needed to regulate the sector effectively.

The regulator identified high costs impacting on industry such as (i) barriers to network deployment; (ii) infrastructure monopoly; (iii) lack of spectrum (iv) import duties; (v) volatile exchange rates; (vi) spectrum-sharing challenges as well as (vii) possible monopoly in retail markets, as factors contributing factors to the high costs



to communicate that are passed on to citizens at large. Diagram below is a depiction on these factors.

Source: ICASA, 2012

Although the Regulator claimed that both consumers and mobile operators have benefited from the reduction in MTRs due to (i) for the operators, the increase in both termination minutes and revenue; and (ii) for the consumers, reduction in effective tariff per minute, it was concerned about:

- The 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; and

- international voice tariff less than national tariff (Cell C R0.85 int. tariff, Vodacom R0.89 int. tariff) vs. R1.04 industry effective tariff), see table below

Source: ICASA, 2012

The Regulator presented the Glide Path to regulate the MTR's regime aimed at reducing termination rates over a three-year period as illustrated in the table next page.

	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%

Source: ICASA, 2012

The Regulator also highlighted the decline of fixedline as a leading voice technology surpassed by mobile technologies.

In summary the Regulator presented three (3) specific proposals as a way-forward namely:

1. Value Chain Market Review that involves (i) cost model for voice value chain; (ii) cost model for data value chain; (iii) identify need for intervention; (iv) regulate prices where necessary; and (v) Other obligations to be considered;
2. Spectrum Release by making high demand spectrum available as soon as possible to (i) new entrants; (ii) to an open access network; and (iii) to the incumbents and attach universal service obligations to assigned spectrum in order to achieve universal access, increase access for all and guarantee

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

competition leading to lower prices and contribute to Growth Domestic Product(GDP) growth; and

3. Broadcasting in the digital era by (i) improving competition; (ii) support local content development.

The Regulator summarised its presentation by highlighting the need for more funding in order to enforce Parliamentary legislative objectives in the sector.

Other Presentations

Telkom

In the main, Telkom highlighted (i) the declining revenues in its fixedline market; (ii) asymmetry call termination regulations; (iii) legacy regulatory obligations; and (iv) cable theft among the main challenges and barriers to competition.

It proposed among others that (i) call termination rates must allow for full cost recovery and must be cost-based; (ii) supports higher asymmetrical MTRs to allow new entrants to compete with incumbents; and (iii) propose simplified and converged MTR / FTR.

Cell-C

As one of the smaller and new entrant operators, Cell-C highlighted many challenges it faces from other more dominant operators such as (i) on-net call pricing routinely offered below MTR's; (ii) Lack of real retail price competition due to lack of pricing power from the smaller operators; (iii) Both Vodacom and MTN EBITDA margins have improved significantly since the MTR reductions; (iv) asymmetry Cell C and 8.ta have had is relatively insignificant when compared to the asymmetry afforded to the incumbents, Vodacom and MTN; and (v) significance of off-net traffic is disproportionately greater for the smaller operators / new entrants than for the incumbents.

In conclusion, the operator proposed (i) Significant further MTR reductions at 15 cents; (ii) Significant and sustained MTR asymmetry at 4:1 ratio for smaller operators / new entrants; (iii) Regulation to prohibit on-net / off-net price discrimination ("flat rates"); and (iv) establish a National Broadband Network company.

Neotel

The operator had a written submission presented to the Committee stating that (i) as a consequence of the reduction in call termination rates, Neotel reduced its rates for calls to mobiles by up to 40%; and (ii) after the reduction in fixed call termination rates, Neotel reduced its rates for on-net calls (Neotel to Neotel) to zero during off-peak hours, and by up to 10% for calls to Telkom.

There were neither proposals nor challenges submitted by Neotel.

8.ta (Telkom Mobile)

The newest entrant emphasised that it had to overcome many difficulties in order to achieve commercial success and that 8.ta does not have access to <1 GHz spectrum and suffers from a distinct competitive disadvantage. As a new start-up, current MTR's are below 8.ta's per minute cost.

8.ta proposed among other things that (i) the regulator adopt the international trend where the latest entrant receives the highest MTR glide path; (ii) 8.ta supports principle of cost-oriented termination rates; (iii) call termination rates must allow for full cost recovery; (iv) current level of MTRs means that 8.ta is already under-recovering costs; and (v) New entrants (like 8.ta) should be given higher asymmetrical MTRs to stimulate competition and to allow them to compete with incumbents.

MTN

In terms of Voice + SMS + data baskets according to a price benchmarking research study involving peer countries by Strategy Analytics and Pygma Consulting Report show that the poorest get a great deal in RSA – up to 65% cheaper than average in peer groups. And according to MTN, mobile is delivering broadband for all, while also ensuring the poorest South Africans get a good deal. MTN has over the last four (4) years, re-invested nearly 80% of its profits into infrastructure (delivering new coverage, capacity, and broadband).

MTN further pointed out in its presentation that reasons for selecting a mobile operator are influenced by *network quality* and *coverage*.

As part of the list of propositions, MTN presented to the Committee that (i) market forces should be left to continue to drive pricing down; (ii) address Rights of Way, permits – finalise the rapid roll out guidelines; (iii) Incentivise Broadband investment in infrastructure roll out by private companies by providing spectrum to those that can use it efficiently and that have the required economies of scale; and (iv) don't reward inefficient operators: There is no place for regulatory subsidies between mobile operators any longer (“asymmetries on interconnection for mobile”)

Right 2 Know (R2K)

Among the barriers to communication, R2K advocated that (i) the super profiteering on SMS places a disproportionate burden on poor users who do not have access to new generation messaging services available on smart phones; (ii) as with water and electricity R2K believes there is a legal and ethical basis for increased intervention by the State to ensure greater access to the means of communication for all; and (iii) the cost of data is also prohibitively high for poor people, and bundles are structured to advantage the rich as they offer discounts for high usage and to high-income earners, who can afford contracts or large upfront payments.

As its proposal, R2K advocates for

- (i) R2K believes mobile phone operators should proactively offer SMS free to everyone, across all networks, all of the time without the need for an exhaustive regulatory process;
- (ii) Further reduction in the interconnection rates and the regulation of retail rates to ensure that interconnection reductions are not simply passed down to the user further down the line;
- (iii) Issues of quality of service (and current unmet operator targets);
- (iv) The use of Universal Services Fund to subsidise needy people, as it was meant to;
- (v) Issues of privacy and anonymity;
- (vi) A proper and well-funded regulator; and
- (vii) Access to operator information (including basic data that has not been reported to the United Nations' International Telecommunication Union).

Research ICT Africa (RIA)

While asserting that South Africa continues to be among the most expensive countries in Africa for prepaid mobile usage, RIA also identified barriers to competition in RSA, including:

- (i) that access to content will become more expensive if content providers must pass along costs resulting from their charges for bandwidth usage;
- (ii) MTRs are still far above the cost of an efficient operator; and
- (iii) Termination rates above the cost of an efficient operator distort the market and produce anti-competitive effects;

In its proposal, RIA presented to the Committee that (i) only MTRs set at the cost of an efficient operator can lead to the dynamic competition, with all its benefits for the consumers and the economy; (ii) cost-based termination rates are important and will lead to fairer competition and thus more subscribers, traffic, investment and a bigger pie of revenues to be shared among operators; (iii) fair competition is needed in order to ensure a decrease in mobile tariffs, and above-cost MTRs are one of the main obstacles to fair competition; and (iv) a quick and steep glide path is needed to lower MTRs to cost of an efficient operator.

Vodacom

Vodacom identified spectrum as a constraint despite the opportunity for expanding broadband penetration via smart phones. The operator further identified the lack of rural coverage and urged for regulatory intervention, particularly wholesale regulation as an important activity for ICASA.

In its concluding remarks, Vodacom claimed that prices are declining and will continue to go down due to effective competition in the market, and further proposed policy consideration: (i) facilitate spectrum sharing and trading; (ii) encourage co-investment; (iii) promote network and facilities sharing; (iv) streamline rights of way processes; and (v) consider the option of MVNOs.

4. PHASE II PUBLIC HEARINGS

4.1 Gauteng Public Hearings (22 - 25 July 2013)

A total of seventeen (17) companies, organisations and individuals made submissions or presented to the Committee during this phase of public hearings held in Soweto at the Kliptown Conference Centre, namely:

Communication Workers Union (CWU)	South African Communications Forum (SACF)
National Association of Manufacturers in Electronic Components (NAMEC)	NEKEN
South African National Research and Education Network (SANREN)	Internet Solutions (IS)
Wireless Access Providers Association (WAPA)	Puisano
Internet Service Providers Association (ISPA)	Thasita
Starwaves	Cell-C
WeHost	Manchu Group
Meng	Right to Know (R2K)

The Communication Workers Union (CWU)

CWU made a brief presentation that highlighted the lack of transparency and profiteering based on unethical and illegal business practices by Vodacom and MTN as a historical challenge stifling the telecommunications sector, and in terms of MTR's further submitted that (i) MTRs have not been subject to effective competitive pressure and should be regulated; (ii) lower LSMs are disadvantaged because of high usage charges that prevent users from making calls; (iii) current MTRs sideline the small operators; (iv) high termination rates make small operators such as Cell-C unlikely to expand beyond a certain point because of the additional cost linked to off-net calls and therefore rely on bigger operators like Vodacom who have cheaper on-net calls for lower Living Standard Measure (LSM) subscribers; and (v) there's no encouragement of low cost traffic between operators. CWU subsequently proposed policy interventions for (i) further MTRs reductions; and (ii) no more price reduction on on-net or off-net.

NAMEC

Apart from drawing from readily available statistics about South Africa's Index rankings at a global level, Africa and SADC, NAMEC identified among others the regulator as a main barrier to competition in that (i) the regulator cannot identify and resolve the core challenges and barriers to lower communication costs to industry and the end-user; (ii) lack of efficient action by the Regulator within the ICT industry on certain Issues; and (iii) the inability by the Regulator to establish thus far a cost-base for call termination and introduce another regulated glide path to reach this base. In general, NAMEC submitted that the ICT sector is not contributing to make the building of affordable ICT infrastructure possible and that in order to service the entire country, mobile operators must lease backhaul from a service provider like Telkom thereby increasing their operational cost.

As part of its proposition NAMEC urged (i) the Department to finalise the Broadband Rollout strategy and for government to invest in broadband rollout, especially in rural areas because business would not necessarily go to rural areas; (ii) the Regulator to establish a cost-base for call termination and introduce another regulated glide path to reach this base; (iii) the Regulator to speed up the implementation of their initiative called the "Cost to Communicate Program;" (iv) in general urged all other service providers to also come to the party and play part in facilities-based competition to

drive down cost of communication and lastly (v) encouraged all mobile cellular operators to introduce fixedline-look alike services in their networks for rural and poor community penetration which will drive down communication cost.

The South African National Research and Education Network (SANREN)

SANREN presented to the Committee a background of its work and core projects including the role in the telecommunications sector. It contextualised the challenges it faces such as (i) the need to build a high-speed network dedicated to the needs of the research community, connecting 45 sites with 500 Mbps or 1 Gbps links; and (ii) the need to review high cost of telecommunications which creates a bottleneck for research and teaching in South Africa. Five (5) main areas were proposed to remedy the challenges, namely:

- (i) getting the market right by creating horizontal value layers vs. vertical ones and encouraging role players to focus on their strengths;
- (ii) avoiding duplication as a country because of lack of coordination ;
- (iii) differentiating between scarce and shared resources in order to get spectrum regulation right and ensure fair and equitable approval of way-leaves;
- (iv) Ensure alignment to SIP 15 of SANReN roll-out projects especially relating to educational and health institutions; and
- (v) Utilisation of CSIR Meraka experimental initiatives such as the Wireless Mesh Networks project to expand communication to rural areas and utilising localised community based network skills.

The Wireless Access Provider Association (WAPA)

WAPA informed the Committee that there may be as many as 500 SMMEs wireless access service providers in South Africa providing access to areas where communities have no alternative access. The nature of its constituency means WAPA promotes a model of community-based SMMEs covering small areas and interconnecting with each other to provide ubiquitous access to the internet to rural predominantly places contrary to mobile operators. See map below

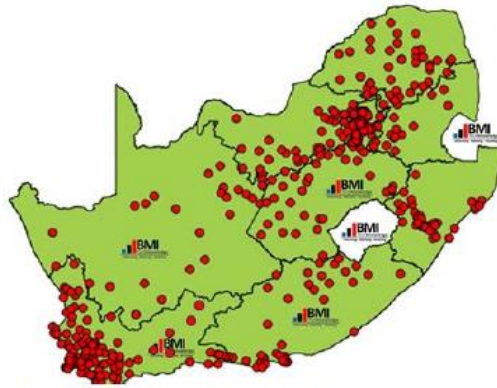


Figure 5: WAPA Members Coverage Map, June 2012
Source: WAPA

WAPA identified three (3) major barriers prohibiting its members from competing fairly in the sector, namely (i) access to last mile (ii) national backbone networks; and (iii) spectrum. These barriers are discussed in detail in attachment (JHB-4).

Lastly, WAPA proposed to the Committee that in terms of local access infrastructure, (i) there is a need to promote infrastructure and service-based competition where economically feasible and to use SMME's because they are best-suited to providing services; and (ii) there is a need to promote expansion of last mile access infrastructure and technologies.

The DG Murray Trust (DGMT)

DGMT presented to the Committee among many concerns was that mobile applications and value-added services that link children and young people to valuable developmental tools and support resources are not able to be used effectively. Children cannot afford to pay for the connections.

It is a well known fact that there is a direct link between lower costs of communication and social upliftment. DGMT further submits that despite Mobile Network Operators' (MNO's) drive to present affordable access to devices, the high costs restricted citizens to usage of mobile data and other related services.

DGMT identified systemic issues impeding ICT Usage for Socio-Economic Development (SED), namely (i) that more time is being spent focusing on inter-operator issues, licensing and regulation thereof by the authority than on focusing on benefiting the poor through ICT; (ii) the need to display deeper appreciation for the socio-economic context of South Africa when formulating policies and regulation; and (iii) the need to implement deliberate policies that shape the industry in a

manner that positively impact on SED programmes that are delivered via mobile platforms.

DGMT requested the Committee to support the telecommunications policy, regulation and industry compliance. The necessary policies, regulatory and structural interventions must be developed and implemented. This will also assist the DMGT to target and benefit the most marginalised in our society who need access but can't afford.

The proposed industry and technological solution has potential to become an instrument to reduce costs of mobile communication. The proposed solution guarantees mobile platforms as SED enablers.

DMGT also proposed for the need for (i) Mobile for SED through innovation such as; (ii) Zero Rated Mobile Application (APN APP); (iii) Informal Retail Broadband using Spaza-shop model and possible through identification of (iv) regulatory interventions needed to remedy the sector (a mandate of DoC; ICASA; DTI; MNO's and ECNS's licensees); and (v) addressing systemic issues. All of the above proposals are detailed in attachment (JHB-5).

Internet Service Providers' Association (ISPA)

ISPA believes that there is sufficient evidence to indicate that the cost to communicate in South Africa is too high and that the accuracy of this statement is no longer up for debate.

For example (i) there are still many challenges relating to facilities-based competition in the fixed-line infrastructure market; (ii) despite high penetration of access devices, affordability is still an inhibiting factor which limits how people use services; (iii) implementation of Local Loop Unbundling (LLU) will not only require massive capital investment by operators that want to participate, but will also cause such operators' business models to change; (iv) the Department and ICASA are fundamental appear to be under ongoing constraints in terms of their ability to deliver on their mandate; (v) need to distinguish between "universal service and access" on the one hand, and "universal affordability" on the other because South Africa has an "affordability gap" more than an "access gap," (vi) there is conflicting statistics about coverage and penetration of networks in RSA; (vii) ISPs still have no proper access

to last mile infrastructure and the cost of offering by Telkom is prohibitively expensive and stifles growth in industry; (viii) the so-called “last mile” - constitutes the key infrastructure-based obstacle preventing wide-spread take-up of broadband services in South Africa; (ix) in the short term the single-most important bottleneck is access to radio frequency spectrum suitable for the delivery of broadband services given the lack of fixed network broadband; and (x) that although ICASA has achieved some successes of late, it remains true that without structural and budgetary reform the communications regulator will continue to struggle to perform its role in introducing competition and lowering the cost to communicate and therefore there is a need to review legislation that governs the regulator in order equip it appropriately to be efficient and relevant to regulate operators.

ISPA’s proposal to the Committee covered a range of topics, but not limited to (i) greater mobile services competition; (ii) greater competition in the fixed-line broadband services market; (iii) ICASA conclude regulations introducing wireless LLU; (iv) IP Connect is prohibitively costly therefore it is necessary to take steps to ensure that new fixed access networks new fixed access networks – which will be predominantly fibre – are offered on an open access basis; (v) Local Access Network –need to promote the expansion of last mile access infrastructure and technologies to the premises and home and make spectrum available for mobile broadband applications; (vi) subsidies should be given to companies that invest in last mile infrastructure on an open-to-all basis; and (vii) release radio frequency spectrum audit as a premise for efficient management and use. The full list of proposals is detailed under attachment (JHB-6).

Star Waves

The presentation by Star Waves focused mainly on DTT implications to broadcasting the industry and in context to the cost to communicate programme. In the main the submission covered three (3) broad areas, namely, (i) fair competition in broadcast signal distribution services; (ii) efficient use of radio broadcast spectrum; (iii) skills development and job creation particularly in rural areas. Potential barriers for DTT include

- (i) Migration from analogue television to DVB-T2 comes with a huge responsibility as the real efficiency and performance requires broad review of

network designs, spectrum calculations, policies and regulations etc. Although this is technically doable it has not been properly done yet, resulting in some major impacts such as allocating space for Community Television;

- (ii) Digital Radio strategy not yet started but should be included to avoid duplication and clashes;
- (iii) Sentech market is open for competition despite claims that it is the sole and only signal distributor for DTT;
- (iv) The small content provider (e.g. community TV station) may not be able to cater for financial requirements of the main mux operator; and
- (v) The Department has integrated community broadcasting in the Digital Broadcast Policy but a technical solution has not been developed.

StarWaves therefore proposed to the Committee that (i) there is a need for competition in signal distribution which will create a myriad of opportunities; (ii) efficient use of existing and remaining spectrum; (iii) advocacy for community broadcasting utilising the narrow band will bring about socio-economic transformation; content and technical innovation for communities in South Africa; (iv) protect local content production through community broadcasting; and (vi) separation of small / local TV stations is a major requirement.

WeHost

Apart from providing benchmarking evidence, WeHost submitted that Mobile phones are useful for economic and social empowerment and thereafter presented to the Committee that (i) the dominant mobile operators, Vodacom and MTN, have been able to withstand the pricing pressure from price cuts, and some operator's prices have settled around the levels set by them with the exception of Cell C and 8ta who are currently the cheapest operators; and (ii) MTN is the most expensive operator. In terms of entrepreneurship development WeHost submitted that (i) SMME's are affected by the rates; (ii); costs associated with communication impact negatively on the behaviour of society at a time when communication has become a basic need; and (iii) entrepreneurship development is central to reducing cost to communicate and to develop intervention strategies for rural connectivity and affordability.

Mongalo Engineering Projects (MENG)

In general, MENG presented to the Committee that (i) there is a need for broad based cheap communication benefit; (ii) operators do not want to provide services to rural market because as claimed, lack of Return on Investment (RoI); (iii) communication requirements of SMME's give rise to a range of ICT cost factors that, when combined, can be counter-productive and hamper growth of the SMME because of exorbitant costs.

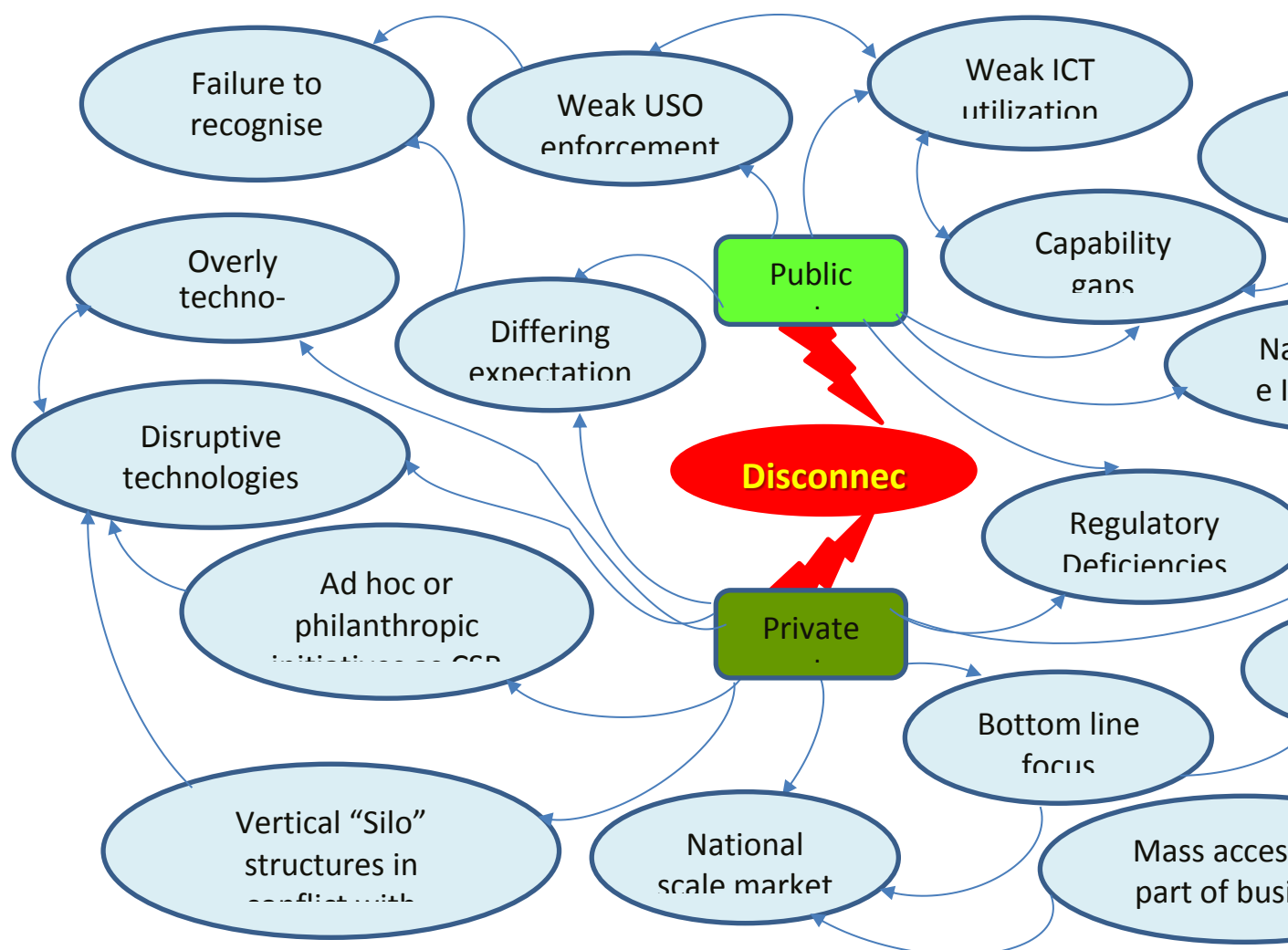
In sum, MENG proposed three (3) major solutions to circumvent suffering SMME's, namely (i) SMME's access to Point of Presence (PoP) by building rural and semi-urban open access POPs; (ii) legislative, policy, and regulatory interventions that require clarity around (a) direct costs of the operator, divided into core, distribution (access), and last mile; (b) indirect costs of the operator; and (c) wholesale and International costs; and (iii) USAASA has the potential to resolve connectivity challenges and can influence connection rates by assisting small operators with funding to create low cost networks in the rural areas using Voice over IP (VoIP).

South African Communications Forum (SACF)

During its presentation, SACF proclaimed that all communication network architectures will converge towards broadband packet switched networks sooner rather than later. It further stated to the Committee that (i) a correlation exists between cost to communicate and ICT growth; and (ii) that there is no sufficient and reliable detailed and publicly accessible ICT data generated by South Africans that enables rigorous management of the ICT sector.

In terms of negative economic implications, SACF pointed out that (i) global investment decisions target countries with lower communication costs; and (ii) as a result South Africa is losing more than competitive advantage – it's also losing position as a favoured investment destination and ICT gateway for the continent. The high cost to communicate suggests that South Africa has a serious challenge and this positions it in a bad light. At national level, (i) high costs means large percentage of population are excluded from the Knowledge Economy; are stuck in a quagmire of poverty; and utilise a larger percentage of income for communications costs rather than for basic needs; and (ii) high costs restrict and limit significant engagement with the tools and resources available through the internet for a majority of South Africans

As proposals, SACF suggested that (i) before we can verify or correct global ICT data, we must generate our own; (ii) collaborative partnerships between Parliament, government, Civil Society, Academia, and Industry is important in order to map out all the factors that contribute towards the cost-to-communicate problem; and (iii) there is a compendium of interrelated issues that involve the regulator, policy maker, Competition Commission, USAASA and its USAF, SABC and industry, these issues are outlined in the diagram next page and attachment (JHB-10) in detail.



NEKEN & Associates

Aside from informing the committee about its area of work that is negatively impacted by cost-to-communicate, Neken and Associates presented that (i) while the perceived value of Unified Communications (UC) is generally high, the cost of implementation is still a barrier for many organizations; (ii) size and type of industry are not adoption indicators or success factors for UC but rather it is the cost to

implementation; and (iii) 58% of IT Leaders are dissatisfied with their mobile device telecom cost management. This clearly indicates that high costs of communications form a serious threat to companies and SMME's seeking to adopt Unified Communications as future business strategies and that because of the associated costs, management is often reluctant to adapt to new ways of doing business.

Internet Solutions (IS)

During its presentation to the Committee, Internet Solutions proclaimed that (i) despite SA being one of the most liberalized regimes in the world, the market is still characterized by dominance perpetuated by vertically integrated incumbents; (ii) artificially high prices and low usage due to incumbents' ability to price at a level that keeps profits significantly above the competitive level which is an indicator of market power as demonstrated by MTN and Vodacom; and (iii) the asymmetrical call termination rates introduced by ICASA in 2010 have had marginal impact.

IS identified four (4) barriers inhibiting competition in the market and include (i) a regulator in a state of flux and self-paralysis and major projects unduly delayed or abandoned; (ii) a static policy and legislative environment that lags way behind major technological developments and championed by a department that is internally focused & engulfed by internal management issues; (iii) no incentive to provide wholesale access to service providers on a non discrimination basis which results in bottlenecks in the market and eventually leads to artificially high prices—mobile data access market remains insufficiently competitive at the wholesale level; and (iv) there is insufficiency of competition law to adequately address the market failures in the wholesale call termination regime.

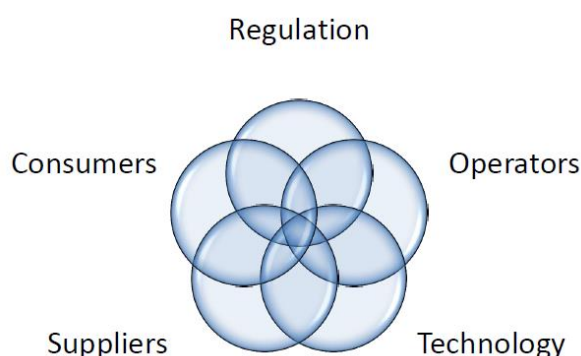
IS concluded by tabling proposal for strategic interventions across a range of sector regimes, namely, (i) wholesale access to mobile data; (ii) wholesale call termination; (iii) wholesale infrastructure sharing Open Access Model; (iv) spectrum trading; (v) Equitable unbundling of local loop (LLU) and allowing multiple operators to use the connections from the local exchange to the customer premises. Specifics of the proposal can be found in the (JHB-12) attachment; and (vi) implementation of sustainable pro-competitive regulatory solutions by the regulator.

Puisano Telecom

During their presentation to the Committee, Puisano Telecom presented a comparative analysis of global and local ICT statistics in order to qualify the argument that despite growth and considerable rise in uptake of new and trending technologies combined with the rise in data consumption patterns, the high costs to communicate still persists.



Puisano Telecom argued further that the data speed and price ratio are not justifiable which only means the dominant players are colluding. The South African ICT industry consists of a careful interplay between regulation, operators, technology, suppliers and consumers as illustrated below:



Puisano Telecom proposed that in order to achieve real cost reduction, (i) it is important that the regulator is equipped with appropriate regulatory tools which are cross cutting, strong and afford active regulation; (ii) there needs to be a robust infrastructure support that is sustainable and guarantees quality of service; (iii) regulation that facilitates for better & stronger competition; and (iv) investment in local technology innovation, development and manufacturing.

Thasitha Technologies

This SMME argued among other issues to the Committee that (i) congestion on the networks is caused by lack of sufficient capacity to handle the current demands for

telecommunication services and results in dropped calls and diverted calls to incorrect recipients; and (ii) in terms of legislation, there are no guidelines or policies that govern the relationship between the property owners and telecoms companies where there is a real challenge.

In summary Thasitha Technologies believes that the role of government in guaranteeing access to lower costs-to-communicate is to, (i) ensure the implementations of USAO related to school connectivity; (ii) encourage the Minister to develop guidelines for rapid deployment of infrastructure; (iii) ensure that each learner has access to an access device at school (i.e. computer/laptop/tablet); (iv) ensure that teachers are computer literate and can teach the learners; and (v) ensure that officials at local government, and provincial government understand the government position regarding telecommunications facilities on its property.

CELL-C

In its presentation Cell-C claimed that (i) 90% of the total mobile service revenue is owned by MTN and Vodacom therefore a duopoly exists; (ii) Cell-C did not benefit from regulatory intervention when they entered the market contrary to MTN and Vodacom when they entered; (iii) the number of calls made to Vodacom and MTN far exceeds those made to Cell-C's network, this means the MTR's paid by Cell-C to the large operators is significantly higher, and (iv) the asymmetric rate afforded Cell-C and other small operators is simply not high enough to address imbalances in payments between the operators.

Cell-C identified five (5) broad areas it believes create a barrier to competition (i) an uncompetitive market because of unbalanced market shares between the four (4) operators with only two (2) owning more than 80% of the revenue market share; (ii) despite the regulation of MTR's, the overall price of telecommunication services has not dropped as much as ICASA had hoped (iii) unfair practices in roaming arrangements; (iv) airtime advance as an anti-competitive practice; and (v) infrastructure development and competition where the incumbent demonstrates prejudicial practices in order to make it costly for small operators and new entrants, see (JHB-15) for the detailed list of barriers as identified by Cell-C.

The proposal from Cell-C (i) encourages the Committee to support ICASA in its review process and to continue to monitor developments in the industry in the public

interest; (ii) more, importantly that regulatory processes at ICASA is lawful and thorough and prioritises resolving challenges experienced by challenger networks and new entrants (iii) ensure regulatory intervention for new entrant operators and challenger networks in order for them to achieve scale and be able to compete on a level playing field; (iv) ICASA to reconsider the MTR's, in particular the low degree of asymmetry for which they provide, and the period during which MTR's apply; (v) aggressive asymmetry in favour of small operators and challenger networks at an absolute rate of R0.30 per minute; (vi) mandatory flat rates for MTN and Vodacom (no difference between on-net and off-net rates); and (vii) urgent review of Number Portability Regulations published in 2005.

Manchu Group

The submission focused on the impact of (i) high cost to communicate; (ii) quality of service; (iii) preferential treatment by operators in favour of wealthier and more economically-developed areas of the country; (iv) the lack of support and commitment by government and industry to SMME's; (v) the lack of commitment by industry to partner and support SMME's; and (vi) cost barrier to entry to training and skills development for SMME's in the ICT industry.

Critical intervention proposals by Manchu Group include (i) enforcement to the ICT Charter and the Broad-Based Black Economic Empowerment (BBBEE) Framework (ii) prevent, confront and prosecute fronting of black businesses; (iii) make licensing requirements simple and inexpensive for Black Business; (iv) set aside a fixed percentage of their ICT procurement exclusively for black business; (v) develop and implement a strategy to promote local manufacturing, assembly and distribution of ICT products, driven by black business; (vi) breakdown large government and private sector procurement projects into smaller yet manageable chunks to allow black business to participate effectively; and (vii) make access to funding easier for black business, see (JHB-16) for a detailed outline of proposal for SMME's support.

Right2Know (R2K)

Consistent with previous presentations, R2K believes (i) the right to communicate is like other basic rights such as water and energy; and (ii) there is a legal and ethical basis for increased intervention by Parliament and its organs to ensure greater access to the means of communication for all.

R2K proclaims that (i) the exorbitant price of cell phone usage and profiteering by mobile phone companies mean that few people can afford to use these tools to exercise their rights; (ii) poor people pay more for the right to communicate than those with post-paid contracts or access to the internet and data messaging services other than SMS; and (iii) the cost of data is also prohibitively high for poor people.

Therefore R2K proposes that (i) mobile phone operators should proactively offer SMS for free to everyone, across all networks; (ii) free basic service of communications to enable poor users to receive and impart information that is essential to them; (iii) simplify transparency in pricing structures to enable proper comparison of offerings by operators to ordinary public; (iv) the use of Universal Services Fund to subsidise needy people; (v) consumer education related to knowledge of existing rights when contracting with an operator; and (vi) a proper and well funded regulator. More propositions by R2K are presented in attachment (JHB-17).

4.2 Eastern Cape Public Hearings (29 - 30 July 2013)

African National Congress Youth League (ANCYL)

The ANCYL in its submission declared that (i) in a developing country, to deny telecommunications to young people is to deny them their ability to gain access to some of most basic human rights; (ii) the recent sudden decreases made by cellphone networks are not adequate and have not been sustained.

Therefore it proposes that (i) ICT services and investment must not be tilted to favour the well-off geographic areas; (ii) call upon the Committee to urgently intervene and protect youth from exploitation - demand full access to communication for RSA youth; and lastly (iv) the committee must take cellphone providers to task for exploitative contract packages, ridiculous data costs, hugely expensive prepaid airtime and SMS rates.

Paul Hjul

Mr Hjul presented in his personal capacity as a citizen of South Africa. He grouped issues and challenges related to cost-to-communicate into four (4) broad areas namely (i) government role to address lack of capacity, regulatory uncertainty and independence of the regulator in a largely colluding industry where operators; (ii)

practice rent seeking profiteering and lack innovation; (iii) He then poses the question as to who owns spectrum while presenting spectrum management challenges to be also hindering competition; and lastly (iv) the National Broadband Network and the shortfall.

In conclusion he proposes broadly four (4) areas that can contribute to reducing the cost to communicate, namely (i) to enforce the ECA in order to end regulatory capture; (ii) justify the concept of free SMS—there is minimal if any loss of revenue for operators (iii) establish a National Broadband Network; and (iv) and deploying a Regulatory Impact Assessment regime.

Easttel

The company is a division of Amatole Telecoms licensed as a Universal Service and Access Licence (USAL) in 2006 and provided the Committee with a unique opportunity to hear firsthand how a product of ICT policy fares in an environment premised by high Cost to Communicate barriers. It presented the cost implication and statistics of operating under the Mobile Virtual Network Operator (MVNO) Model.

Lastly Easttel presented the impact of (i) interconnection reductions which has enabled it to be economically viable amidst a broad policy failure of USALs; and (ii) and provided proposals on how government administration, in particular, procurement policies can work to protect broader national policy objectives such as on USALs.

LNZ Investment Holdings trading as TechDirect

After presenting a brief background about TechDirect's area of business, it was clear that the Founder and Managing Director is passionate about taking technology services to the people. His presentation was specific to (i) how SMME companies like his are negatively impacted by high costs associated to communications; and (ii) impact of high broadband costs to ordinary citizens and the rural connectivity burden and associated stigma by operators.

The founder concluded his presentation with a set of proposals directed to the Committee and how it should conduct oversight role to the Department and its entities such as ICASA as means to (i) increase competition; (ii) ensure relaxation of barriers to entry for SMME's in the ICT market; (iii) broad recommendations on

abolishment of asymmetry fees; (iv) form an SMME committee to advise on ICT matters; and (v) legislate minimum connectivity standards for all public buildings. Details of the recommendations are herewith attached as (EC-4).

Tekwini Media & Tourism Consulting

Some of the barriers to communication presented by Tekwini Media include (i) high charges related to roaming because of its national footprint coverage; (ii) expensive broad band prices which stifle research and download capacity of the company; (iii) like any media company, connection speeds are crucial to business success.

Therefore Tekwini Media therefore proposed that (i) there should be zoning of cellphone users; (ii) abolish the expiry associated with data bundles; (the reconnect facility should be extended to pre-paid users; and (iii) SMME's should enjoy same benefits as those afforded to big corporate.

Khula Technologies Holdings

Khula Technologies submitted during their presentation to the Committee that (i) lack of finance support for SMMEs means they cannot utilise telecommunication services to their advantage because of limited funds but also due to high costs; (ii) lack of competition in the telecommunications market is the cause for high costs to communicate controlled by MTN and Vodacom thereby making costs unbearable.

In its proposal, Khula Technologies submitted that the Committee must (i) increase competitors in the market as a cost reduction exercise; (ii) ensure robust deployment of broadband internet to ensure maximal competition; and (iii) allocate a bigger budget to improve ICT infrastructure required.

Amava Communication Design

Amava submitted that (i) communication costs present a high barrier to entry for small businesses; (ii) typical to small business practitioners who operates under difficult circumstances in South Africa, have high fixed-line costs and inaccessible cellular network contracts.

Amava further proposed that (i) the Free Stellenbosch Wi-Fi project is a progressive model that demonstrates the will to bridge the digital divide and can be adopted country-wide; (ii) fairly priced communications services can make the country an enabling environment for small businesses; and lastly (iii) as demonstrated by some

operators, something can be done about the high costs that continue to exclude so many aspiring business persons.

SEDA NMB ICT Incubator [SNII]

SNII submitted to the Committee that (i) last mile cost is one of the highest contributing factors to our total communication cost and is limited only to Telkom and Neotel; (ii) the expiry of data packages either prepaid or contract is undesirable; (iii) there seem to be no competition between networks in relation to call prices and data prices.

To counter uncompetitive practices, SNII proposed (i) that the last mile must be deregulated in order to allow more last mile service providers; (ii) out of bundle data rates must be regulated for all mobile operators; and (iii) there must be faster ratification of wireless technologies to assist in the go-to-market and provisioning of broad internet such as LTE and WiMax.

Right 2 Know (R2K)

The presentation by R2K to the Committee was preceded by background statistics about the province such as (i) very high unemployment in rural areas in places like Grahamstown where it is estimated to be around 70%; (ii) households do not have access to computers or internet and rely heavily on mobile phones as a way of communication; (iii) families spend up to 40% or even 50% of their income on cellphone costs at the expense of basic needs such as food, clothes, transport, school fees, electricity, etc.

R2K then identified barriers that exclude citizens from communicating such as (i) exorbitant costs are proving to make it impossible for these rural communities to communicate effectively; (ii) cellphone companies making huge profits at the expense of ordinary people and denying them the right to communicate; and (iii) poor network quality in many rural places.

R2K concluded by making recommendations to the Committee, namely, (i) costs of airtime and data bundles must be reduced and there must be free basic airtime and internet for all; (ii) emergency numbers must be 100% free; (iii) network in rural areas must be improved; and (iv) communication must be seen as a basic right for everyone and not a luxury that is only destined for the rich.

3.3 KwaZulu Natal Public Hearings (31 July - 1 August 2013)

United Democratic Movement Youth Vanguard (UDM)

The UDM affirmed during their presentation that to communicate is a basic human right and that Section 16.1 of the Bill of Rights gives everyone the freedom to receive or impart information or ideas.

It further contested that the responsibility of ICASA is to regulate & monitor telecommunications however is doing so, it therefore proposed that (i) communications must be cheap and available to all and free SMS's be afforded to citizens; (ii) there must be a standard rate on the cost of airtime; (iii) SMS and data bundles should not expire if they are unused; (iv) range of toll-free numbers must be increased; (v) Parliament must pursue legislation that will force communication companies to invest in skills development programmes; (vi) there need to be a concerted effort to improve infrastructure and quality of service; (vii) contract customers must be protected by the Consumers Act; and (ix) interconnection rates must be standardized and reasonable or affordable.

Durban University of Technology Journalism Students Submission (Mr Clive Ndou)

The presentation by the student representative did not contain proposals and recommendations but sought to highlight experiences as witnessed by students and based on practical experiences. The presentation conceded that telecommunications plays a crucial role in both the training and in the professional life of a journalist. For this reason, students are concerned about the high costs associated with some of the telecommunication products, especially costs related to airtime and data. Furthermore (i) operators charge more for local calls than international calls; (ii) post-paid clients (whom most are wealthier) are charged less per minute while prepaid clients (who most are poor) are charged more per minute; (iii) promotions often are offered after night when it's not convenient to use; (iv) there are exorbitant costs associated to making off-net calls due to the MTR arrangements between operators, forcing family members to port to one operator as means to circumvent the high costs; (v) promotions often are offered after night when it's not convenient to use;

and (vi) dominance of Vodacom and MTN is a call for concern because it is the cause for lack of competition and high costs to communicate.

OculeIT

OculeIT submitted that on the surface, use of IT for rural development is supportive and reduces inequalities and fosters increased efficiency and growth; for instance in online health systems, high-pixel density or retina displays have become mainstream products for clients. However video technologies with high resolution among many other broadcasting demands associated with online health are costly to implement. For SMME's the situation is exacerbated by the unwillingness of operators to consider innovations offered by SMME's and that target lower LSMs, townships and rural communities.

OculeIT therefore proposes that (i) there is a need to stimulate local electronics manufacturing sector in order to guarantee local manufacturing; (ii) Mobile Network Operators must improve quality of service; and (iii) operators must accept innovation from local SMME's at a shared risk and minimal cost.

Inkatha Freedom Party (IFP)

IFP began its submission with a pronouncement that in a globalised world, South Africa is a key role player and an enabler for the process of communication, therefore (i) Cost to Communicate must be conducive to allow South Africans to access and dispense information for academic, social and economic purposes; (ii) high Cost to Communicate has become the bane of information access, sharing and dispensation; (iii) United Nations has declared access to internet as a human right and therefore while we agree that cost factors involved in the realisation of this human right, we reject the exorbitant costs because they are a major hindrance for the poor; (iv) agencies of government created to assist underprivileged citizens are bias to urban areas, those in rural areas are the ones more depended on cellphones in order to communicate with these agencies and high costs to communicate do not help alleviate the problem; (v) students are disadvantaged when seeking to apply for study loans from organisations like National Student Financial Aid Scheme (NSFAS) where most application requirements are now done online; and (vi) in order to respond or ask questions during educational broadcasting programmes, it is impossible for rural citizens to participate due to high cost to communicate.

The IFP subsequently proposed that (i) South African communication costs should be brought to par with global standards; (ii) Parliament must investigate whether there is no collusion and price fixing; (iii) Students must be afforded discounted rates, especially those who survive on state educational grants; (iv) internet for school work should not be charged; and (v) a toll-free number dedicated to learners and students to call during educational broadcasts must be created.

National Freedom Party (NFP)

The NFP declared in its presentation that communication plays a vital role in connecting people and harmonising human existence and verbal and non-verbal communication channels are equally important and therefore proposes that:

- (i) Government, business, academia and civil society must put more resources to expose our people to technology and multimedia which includes social media;
- (ii) Technology and social media can help resolve the country's past racial imbalances;
- (iii) There is a need for more resources and education investment in order to assist citizens to uphold and respect human rights and the rule of law through the use of multimedia learning materials as forms of communication; and
- (iv) There is a need for more radio and television broadcasting services at home and at work.

Indiza-IT

Because for the longest time they monopolized the telecommunication industry, Telkom still controls a great part of the industry till this day. This is the submission of Indiza – IT during their presentation to the Committee and that because of the saturation of infrastructure and technology equipment in RSA, prices should drastically become competitive as the networks become better and more available.

However Indiza – IT submits that (i) high costs still persist even after sizable investments done by service providers and biggest justification is the capital costs towards the upgrades new networks as well as the operating costs towards these upgrades; (ii) there is no transparency on how operators charge for calls and (iii) the lack of facilities leasing sharing by operators extends the cost factor to the citizens. Lastly, Indiza – IT submits that competition is currently driven by market share and

not social change and operators do not bill themselves or consumers on fair and equitable bases.

It therefore proposes that (i) Lines can be leased or shared, towers can be shared, etc, this will drop the costs significantly. Even in areas where these measures have been taken the cost are still very high (OPEX drops); (ii) Telecommunication and broadband services should be next to nothing for schools, hospitals, police; (iii) ICASA must enforce social despondency; and (iv) Services needs to be made more available to people at affordable price.

Wayalless Mobile

Apart from providing general statistical information about the telecommunications sector, Wayalless Mobile submitted five (5) broad areas that contribute to barriers for communication, namely (i) Call Termination Rates Fixed & Mobile; (ii) Competition and Transparency; (iii) Barriers to Entry; (iv) Consumer education; and (Regulatory Framework). For a detailed account of these barriers refer to the (KZN-7) attachment.

Wayalless Mobile then proposed the following as a remedial anecdote to the sector, (i) all MNOs already have their return on Investment and therefore should be determined by regulator; (ii) there should be a correlation between Telecoms Infrastructure and National Economic Development; (iii) new MNVE, MVNO and ISP need to be considered as the entities which can make the industry more competitive; (iv) establishment of Telecoms Incubators and Telecoms dedicated fund; (v) make training opportunities and conference attending opportunities available to previously disadvantaged entrepreneurs of the industry; (vi) government should be decisive and do the right thing to protect the industry and South Africans from the “shark;” (vii) oligopoly should be prevented and the Competition commission and the consumer protection act enforcers must roll their sleeves; (viii) the interconnection process must be transparent and Black players must be encouraged to make the industry competitive. All potential industry players should not be frustrated by the issues relating to policy directive, licensing, Funding, spectrum, red tape, lack of information, theft of business plans, etc. ICASA, DoC, USAASA, DTI and other relevant bodies should be in the forefront of this; (ix) consumers need both protection

and education to make informed decisions and policy on protection of people with disabilities needs to be enforced.

Durban University of Technology (DUT) (Lecturer – Mr Robin Sewal)

The DUT presentation to the Committee focused primarily on barriers to communicate, namely (i) that there is a trend of unfair discrimination and exploitation in the sector; (ii) there is a high number of handsets in the country but cost remains prohibitive; (iii) whether it is a perception of reality, there seems to be cartels, collusion which create an uncompetitive environment ; (iv) but consumerism means citizens have a right to choose; lastly (v) in a globalised world, job creation is a high priority for the country, the spirit of entrepreneurship is key: disenabling to become entrepreneurs i.e. employers and not employees should prevail.

5. CONCLUSION

5.1 Context

It is evident from the submissions received during the public hearings that the Cost-to-Communicate as a programme of Parliament is not only a government priority but is central to many organisations and civil society. It is for this reason that Parliament undertook to engage all stakeholders, in order to seek consensus on the challenges faced by the country. Parliament, Department and the Regulator recognise the catalytic role ICT's play to ensure government meets the goals of developmental state agenda while also responding to the global agenda on effective and efficient use of ICT's for socio-economic development.

The Committee would like to thank the participation of stakeholders, organisations and civil society for the undivided commitment to assist Parliament in carrying out its oversight of the sector. As identified by many submissions and collaborative engagements with all stakeholders,. it is important that the costs to communicate are reduced.

The total number of submissions received for these public hearings is forty-four (44) and address a diverse range of issues that impact on the whole of society from SMME's, education sector to rural development. As echoed in the submissions, the telecommunications sector still lags far behind international standards and the onus

will be on Parliament to seek to use these submissions to influence legislative, policy and regulatory processes involved to bring down the cost to communicate.

5.2 The Committee submits that:

- 5.2.1 ICT services have to be affordable if people are going to use them. As with other goods or services, the price of a phone call, an SMS or an internet connection influences how people will use information and communication technologies (ICTs), and how often. It is therefore important that any analysis of the information society should not only consider and understand such factors as ICT infrastructure, awareness or skills, but also take into account the cost and affordability of services.¹
- 5.2.2 The Committee heard through many of the submissions that cost to communicate should be viewed in context of the entire ecosystem. The ecosystem not only consists of operators but handset manufacturers and suppliers, infrastructure companies, retail, distributors and content providers. ICASA admittedly consented to the fact that the telecommunications sector ecosystem has many facets and may all be responsible for the high cost.
- 5.2.3 Although cost optimisation is at the forefront for many operators, it should not be at the expense of users. Operators need to be at par with global consumer trends that are rapidly shifting from voice towards data in order to derive value from bundled services such as, digital content, mobile banking services, Voice over IP (VoIP) and the internet. According to World Wide Worx's Mobility 2014 survey, average amount spent on voice dropped from 77% on voice in 2012 to 65% in late 2013 while the use of data grew on a linear basis from 8% to 16% during the same period.² The Mobile Economy, (2013) report further notes that globally, voice calls are now fifth in the list of most used mobile applications with browsing the internet topping the list. Network operators will be forced to look at innovative ways to create value for consumers without denting revenues and compromising customer experience.

¹ International Telecommunications Union(2011)

² iWeek, Nicola Mawson, 04 December, 2013

5.2.4 In addition the internet is a key enabler for the achievement of internationally agreed development goals. The recognition of ICTs as a tool to generate income and employment, to provide access to business and health information and to enable e-learning and facilitate e-government is now well established. This is why the Broadband Commission for Digital Development (BCDD) was launched in 2010, with the mission to promote the adoption of broadband-enabling policies, especially in developing countries.³ The BCDD called upon leaders from the public and private sector to address the importance of universal access to broadband networks, especially in the achievements of MDG.⁴

5.2.5 Furthermore 2013 was a landmark year where, for the first time, more SIMs were active than people alive.⁵ And according to the same report, the mobile sector is a major contributor to the world economy with 2012 revenues of mobile operators contributing US\$1 Trillion or 14 per cent of world's GDP. It is claimed that in Africa mobile operators generated 3.1 per cent of GDP.⁶ Global operator revenues have been growing albeit at a lower rate due to heavy regulation in MTR's and while consumers will spend less on mobile phones, the uptake of mobile services should ensure increase in revenues.⁷

5.2.6 Amid much criticism for its lack of efficient action within the Information and Communications Technology (ICT) industry, the Regulator has been at the forefront of the cost to communicate programme when it announced on 7 June 2013 that it planned for an extensive review of the South African telecommunications sector and had identified five (5) projects expected to be completed by June 2015 for its cost to communicate programme, namely:

1. A broadband value chain analysis;
2. Review of the market for call termination services;

³ For more information on the Broadband Commission for Digital Development, see www.broadbandcommission.org

⁴ Ibid.

⁵ GSMA Wireless Intelligence, Machina Research, A.T. Kearney Analysis (2013)

⁶ Ibid

⁷ Ibid

3. Local Loop Unbundling (LLU);
4. ICT indicators; and
5. Finalisation of the review of the market for wholesale transmission services for Digital Terrestrial Television (DTT)⁸

5.2.7 Aside from these specific projects ICASA also expressed its wishes to:

- Stimulate public debate around the cost to communicate in South Africa;
- Establish regulatory needs to address the cost to communicate in South Africa; and
- Stimulate enhanced competition in the telecommunications sector which should result in:
 - Increased consumer choice;
 - Enhanced ability to switch suppliers;
 - Increased transparency in product pricing offers (which currently are regarded as being generally opaque); and
 - Fair and reasonable wholesale and retail.⁹

5.2.8 ICASA also stated boldly that it intended to address information asymmetries between itself and industry so as to improve planning for policy and regulation. This information would also be used to benchmark South Africa against its peers in respect of communication cost and quality and is required to be submitted to the ITU.

5.2.9 Many of the issues raised during the public hearings also talk to ICASA's programme of action. Moreover, by its own admission, the Regulator admitted that the initial three-year Glide Path to regulate the MTR's regime aimed at reducing termination rates over a three-year period did not yield the desired results. The Committee therefore commends ICASA for responding to this

⁸ Ellipsis Regulatory Solutions, (2013).

⁹ Ellipsis Regulatory Solutions, (2013).

regulatory failure by recently adopting a forward-looking regulatory approach. Consistent with global trends, regulatory intervention is necessary in cases where regulations do not yield the desired results.

5.2.10 The recent announcements for new further reduction in wholesale call termination rates and determination of asymmetric regimes that are to come into effect on the 1st March 2014 are commendable. And as stated by ICASA Chairperson, *‘Regulating in the public interest means the will and commitment to aggregate differing and sometimes conflicting societal interest, and to ensure that the public interest prevail.’*

5.2.11 Indeed ICASA will have to continue to seek to adapt to a transparent, consultative and predictable regulatory environment that is essential for securing investment as clearly articulated in the GSMA Mobile Economy Report (2013) where assumptions are made about the kind of regulatory environment essential for ecosystems.¹⁰

5.2.12 This is testament of a Regulator that is on a mend and has adopted forward-looking regulation that takes into consideration public opinion—hence the five-year strategy announced during the media briefing that will end in for 2018.

5.2.13 In addition, the Committee will be watching closely how the Regulator addresses the concerns it rose during the public hearings regarding:

- The 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; and
- international voice tariff less than national tariff (Cell C R0.85 int. tariff, Vodacom R0.89 int. tariff) vs. R1.04 industry effective tariff)

¹⁰ GSMA Wireless Intelligence, Machina Research, A.T. Kearney Analysis (2013)

5.2.14 Despite the multiple undersea cables landing in South Africa, the public hearings highlighted the decline of fixedline telecommunications and lack slow pace of price reductions passed to the consumers. Despite the global trend of the revenue decline for fixedline telecommunications—the onus will be on the ICASA to introduce regulatory interventions in order to ensure that the country's Broadband Vision 2020 can be realised utilising a hybrid of fixed, mobile and satellite technologies, some of which are locally-developed such as the Wireless Mesh Networks.

5.2.15 The Committee further looks forward to more intervention regulatory intervention towards the efficient use of the broadband capacity stemming from the 2010 legacy project which has been grossly underutilised. The pressure to provide innovative solutions for rural communication services became evident throughout the public hearings and again the Committee will be awaiting both the Department and its entities to provide solutions and respond to the submissions that mostly appealed for cheaper communications specific to rural communities, education and health facilities, and for socio-economic development.

5.2.16 The Committee cannot overlook the plight of the Regulator and the structural and capacity inefficiencies which have been also highlighted by some of the presenters. The recent Committee meeting which was held 04, February, 2014 where ICASA presented its skills audit plan is commendable and the Committee is looking forward to the completion of the audit as it is an integral to ensure the Regulator is complemented with specialised skills needed for a Regulator.

5.2.17 More importantly, the Committee and the public are aware of the process that was started in earnest by the Department to review the policy landscape of the sector. The Committee wishes to appeal to the public and sector to exercise patience with the processes of the Department and so as to not

duplicate efforts but must utilise the appropriate processes to contribute positively to the ICT Policy Review Process.

5.2.17 On the other hand, the same applause afforded to the Regulator must be apportioned to the Department for the radical policy interventions presented during the first phase of the public hearings where the Department presented a strategy with four pillars which relate to (i) amendment to the Electronic Communications Act (ECA) especially in addressing matters which hinder competition and other related matters (already concluded); (ii) imposition of a flat rate regime on mobile voice calls in South Africa; (iii) standardization of national roaming retail prices for mobile services; and (iv) regulation of transparency in the pricing and publication of mobile retail prices. The Committee is looking forward to the presentation of the Department regarding the progress report on the seven (7) projects in its Revised Programme of Action.

5.2.18 The Committee welcomes the multitude of submissions relating to spectrum management, planning and efficient use. While, the Mobile Economy Report (2013) asserts that the allocation of 700MHz 'Digital Dividend' band to mobile will create new jobs, businesses and government revenues between 2014-2020; the Report claims that a delay in the release of harmonised spectrum of even 1-2 years, to 2015 or 2016, would mean significantly less jobs and GDP growth. Furthermore a series of the submission during the public hearings were concerned about the transparency of the regulatory environment; whereas *the Digital Dividend is a unique opportunity to ensure the economic and social benefits for socio economic benefit*.¹¹ The same GSMA Mobile Economy Report (2013) claims that in the Netherlands, raised €3.8 billion — eight (8) times the pre-auction estimate of €470 million. Albeit the fact that a significant amount of money derived from spectrum auctions is effectively redistributed away from the mobile industry and this is a trend around the world. However the Report claims that the release of spectrum in this Sub-Saharan Africa could result in additional US\$36 billion of GDP in 2020 alone,

¹¹ GSMA Wireless Intelligence, Machina Research, A.T. Kearney Analysis (2013)

an increase of GDP per capita of 2.7% by 2020 and potential millions of jobs.¹² The GSMA study has quantified the potential economic effect of spectrum release and the African continent fared as follows in the table below

Published	Additional Release MHz	Assumed Release Year	Benefits in 2020 USD	Jobs Created by 2020
2011	250	2014	36Bn	27m2025

Source: GSMA

5.2.19 The Committee notes the submission relating to ‘market forces to drive prices down’ and reiterates that while such a model can succeed elsewhere, relying on market forces has proven ineffective in South Africa in the past, therefore regulation in the case of RSA is necessary and important and will remain important so as to not alienate new entrants and stifle the much-needed completion. The Committee has witnessed countless presentations and submission during the public hearings that identify Vodacom and MTN to have had significant market power and enough to stifle price cuts.

5.2.20 The Committee notes the submissions and presentations regarding the right of way and way leaves. The Committee submits that while this is an important concern, it has been escalated to the ICT Policy Review Process.

5.2.21 The Committee notes with interest the submissions and presentations relating to the communications as a basic human right and that some services such as the SMS, Voice and or data services should become free for marginalised communities. While this is a possibility, the onus will be on the Policy-making body and the regulator to provide guidance.

5.2.22 The Committee further acknowledges the concerns raised by presenters regarding the quality of service.

¹² Ibid

5.3 Committee Observations and Recommendations

The Committee noted with concern the spectrum issues raised in the submissions and notes the economics associated with the digital dividend as reported in the GSMA Report.

The Committee recommends that:

The Department:

- 5.3.1 must present a progress report on the Revised Programme of Action relating to the policy interventions presented during the public hearings;
- 5.3.2 must provide strategic leadership and policy direction on how the sector players will be encouraged to provide innovative and affordable data services to business, SMME's, education institutions, health sector; previously disadvantaged people, particularly women and the general public as presented in paragraphs above.
- 5.3.3 in consultation with the Regulator and USAASA, must investigate, conduct a benchmark study and compile a report to be presented before the Committee, the viability and sustainability of utilising the Universal Service and Access Fund (USAF) for the purpose of subsidising rural connectivity, people with disabilities and the college students classified as receiving grants. Furthermore the presentation should investigate possibilities for creating or partnering industry to create community-based ecosystems for SMMEs.

ICASA :

- 5.3.4 must expedite its Skills audit and present before the Committee its findings prior to making it publicly available;
- 5.3.5 must report to the Committee on the processes to undertake to respond to the concerns it raised during the public hearings regarding:
 - 5.3.5.1 The level of on- and off-net tariff differential by Vodacom & MTN;
 - 5.3.5.2 On-net promotions by Vodacom & MTN could further increase in on- and off-net differential; and
 - 5.3.5.3 International voice tariff less than national tariff (Cell C R0.85 int. tariff, Vodacom R0.89 int. tariff) vs. R1.04 industry effective tariff).

5.3.6 ICASA must investigate and consult with GSMA regarding its projections of Sub-Saharan Africa and report back to the Committee on the validity of this model as reported by GSMA Mobile Economy Report (2013).

Report to be considered

Hon. SE Kholwane, MP

Chairperson: PC on Communications