

Cost to Communicate

Parliamentary Portfolio Committee on
Telecommunications and Postal Services

Introduction



- Neotel welcomes this initiative and is grateful to the Portfolio Committee for the opportunity to contribute.
- As a product of legislation establishing fixed line competition, Neotel has been able to drive down the cost to communicate, whilst delivering new technologies and substantial value to businesses and consumers over the past decade.
- Competitive fixed line networks have resulted in substantial reductions in the price of bandwidth and telephone calls.
- The fixed line sector is still dominated by a single player, and a number of opportunities to level the playing field for smaller players have been lost over the past few years (e.g. LLU).
- Co-ordination of policy, legislation and appropriate regulation is critical to the success an initiative such as this.

Termination Rates



- The call termination rate reductions enabled Neotel to halve its retail call prices, tracking the termination rate glide path.
- Implementation of the toll-free / share call framework and non-geographic porting remains critical to reducing costs.
- As voice becomes an application rather than a basic service, improvements in network efficiency make further reductions in termination rates feasible, and even desirable.
- Call termination rates, even at current levels, will increasingly become a barrier to competitive offerings that enable communication between networks (off-net calls).
- Over-The-Top voice services represent a new kind of competition for operators who have relied on high call tariffs in the past. This will drive bundled offerings in response.

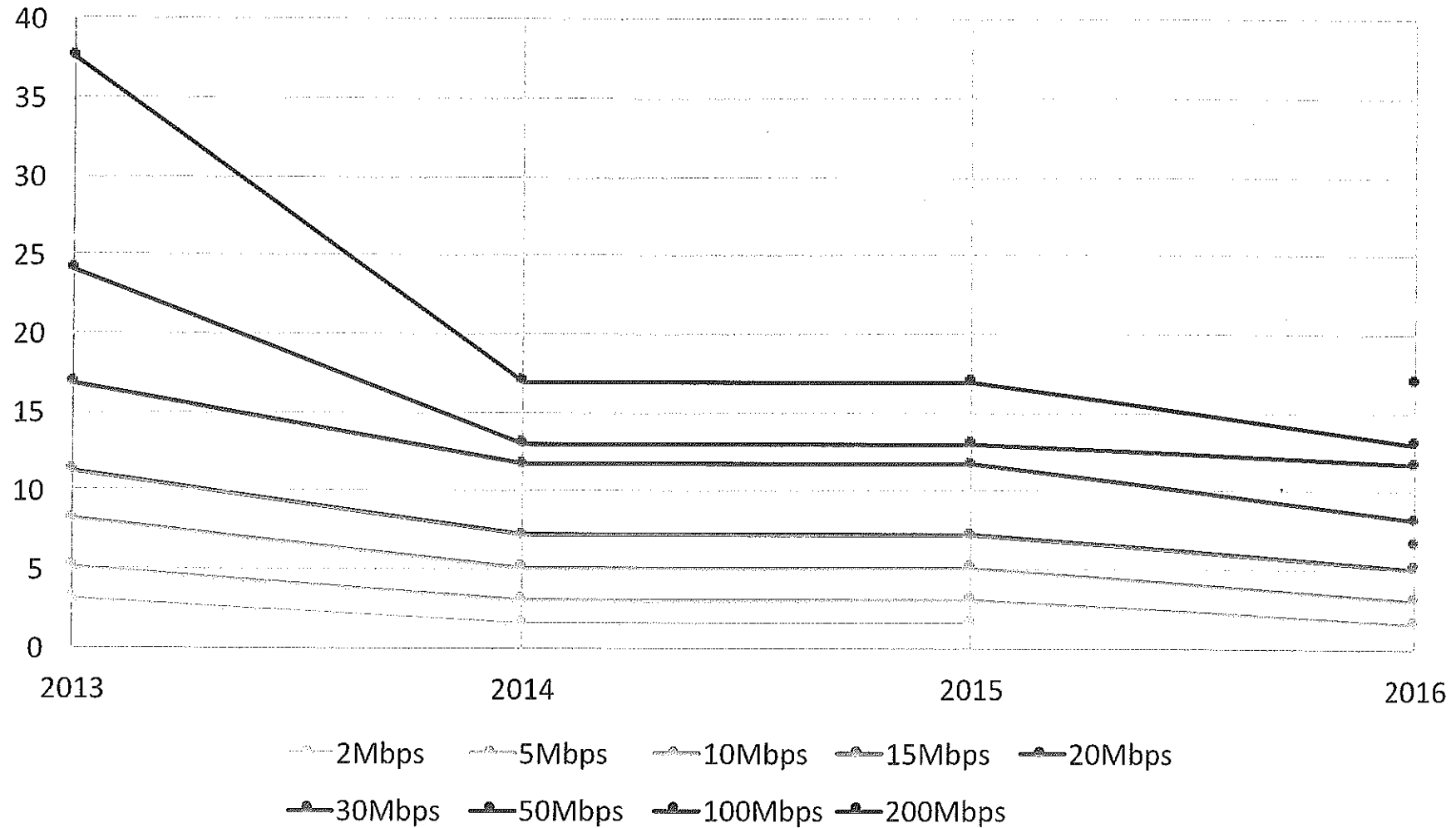
Infrastructure Competition



- Leveraging its investments in international, national and local telecommunications infrastructure, Neotel has provided wholesale rates for connectivity and local and global Internet to ECNS and ECS licensees in South Africa.
- There has been substantial investment in competing national backbone networks, resulting in significant reductions in the wholesale cost of national bandwidth.
- Infrastructure-based competition has reduced the wholesale cost of international bandwidth by over 95% as multiple players have invested in new submarine cables. This has enabled continuous reduction in the price of Internet bandwidth to end users, and facilitated ongoing massive growth in the bandwidth consumed, tracking demand.

Effect of Infrastructure Competition

NeoBroadband Fibre Uncapped Price Trends



Infrastructure Sharing

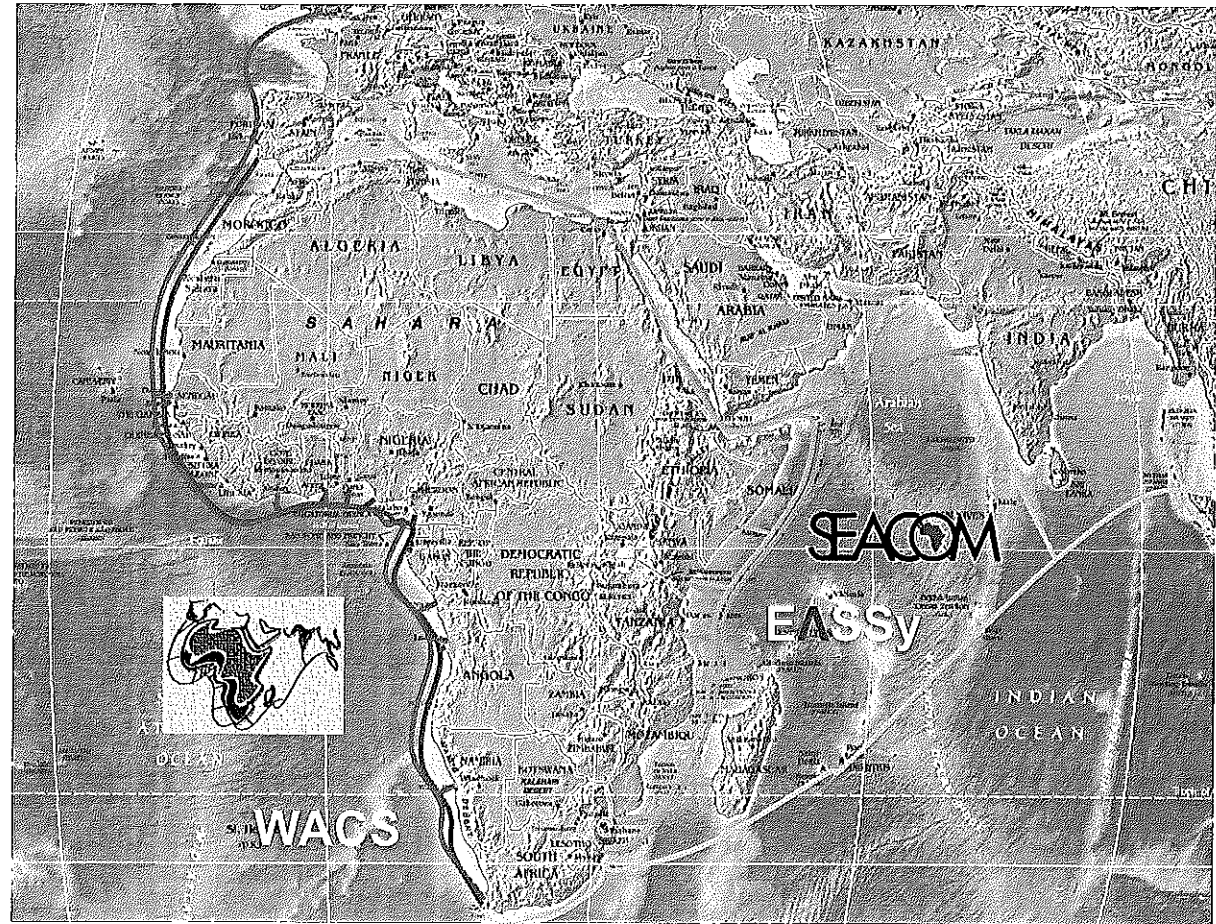


- Neotel believes that infrastructure sharing is one of the most effective ways to facilitate competition and drive price reduction in the sector. Successful examples include:
 - Co-build of fibre backbone infrastructure, such as the joint National Long Distance network built by Neotel and other operators.
 - Joint investment in international submarine cable consortia that land in South Africa (SAT-3/SAFE, EASSy, WACS), which has resulted in cost savings for multiple operators, and hence retail price reductions.
- Infrastructure sharing should be encouraged in the sector.
- Regulation should facilitate access to municipal infrastructure, including ducts and poles, to reduce the cost to deploy new, competitive telecommunications infrastructure.
- The regulation of spectrum, as for infrastructure, should facilitate pooling, sharing and trading amongst competitors.

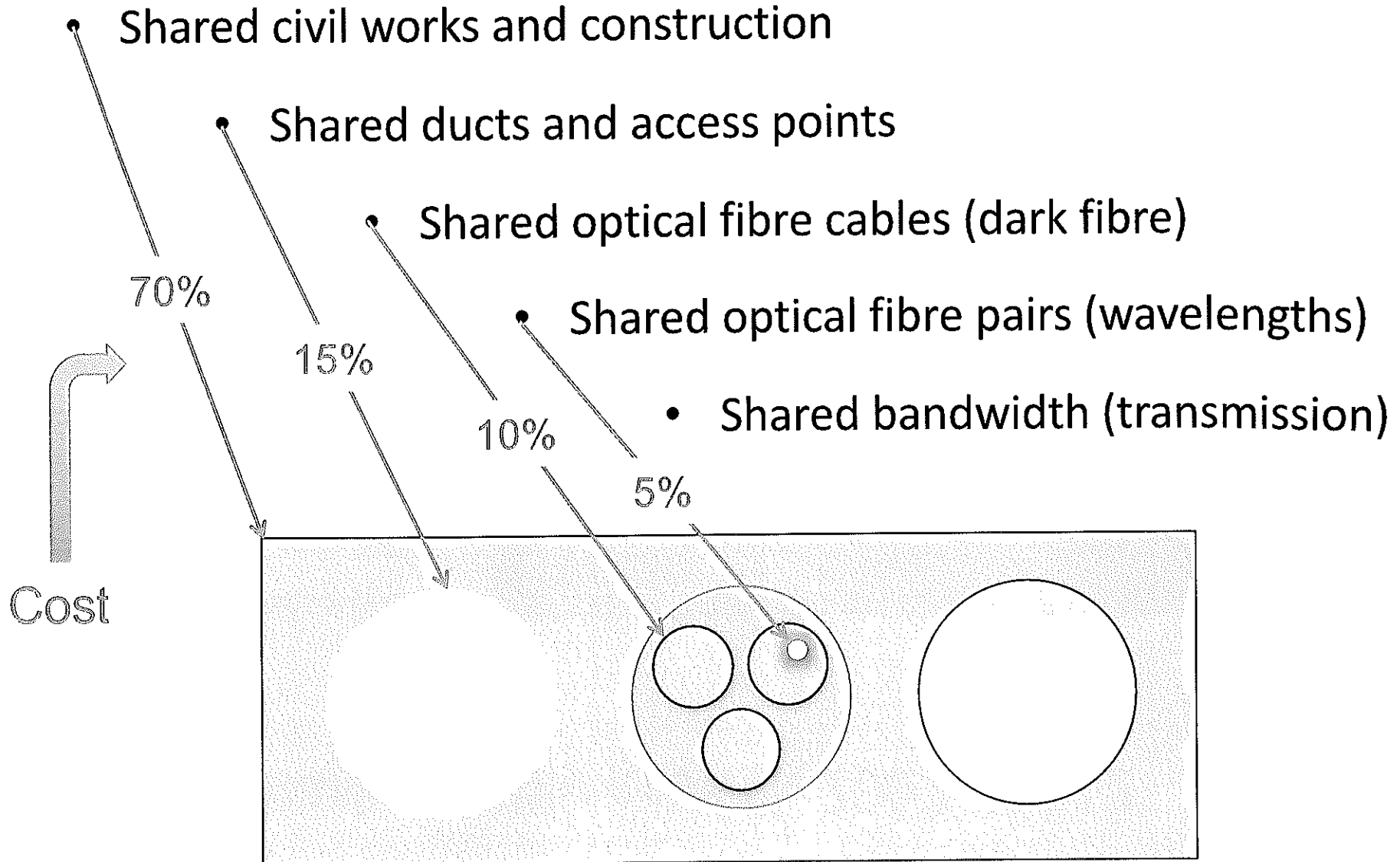
SA submarine cable growth 2007 - 2012



- SAT-3/SAFE (Consortium)
 - Monopoly up to 2007
- SEACOM (Private)
 - Launched July 2009
- EASSy (Consortium)
 - Launched August 2010
- WACS (Consortium)
 - Launched May 2012



Infrastructure Sharing



The Role of Government



- Government's objectives are best achieved by participating in the sector on the demand side, rather than the supply side.
- Where government has purchased services from competitive bidders, or established public-private partnerships based on such purchases, the result has been better government services, and a reduction in the cost to end users.
- By purchasing services as an anchor tenant, government can make new investment commercially viable.
- Government has a key role as a facilitator, removing investment barriers and enabling rapid infrastructure build.
- Where deployment of new infrastructure is not commercially viable, the Universal Service Fund should fund network build.

Rapid Deployment



- Neotel supports the development of a Rapid Deployment Policy as being undertaken by the DTPS.
- In fixed line infrastructure, the greatest challenge is the lack of local access infrastructure, and this policy is essential to enable the multiple players in the industry to build rapidly.
- Amongst the causes of significant delays are the following:
 - Environmental Impact Assessments can take 18-24 months
 - Water Use Licences can currently take 18 – 24 months to obtain
 - Rights of way from municipalities typically take 30-40 days to obtain
 - Access to property by landlords is problematic, and leads to delays
- The Constitutional Court judgement of 23 September 2015 has provided certainty for operators and landlords, and improved the ability of operators to deploy infrastructure.

Rapid Deployment Guidelines



- There are various possible interventions in legislation and regulation that can facilitate rapid deployment:
 - Regulatory controls on wayleave application requirements, timelines
 - Co-ordination amongst operators, other stakeholders by municipalities
 - Pro-active sharing of trenches when work is being undertaken
 - Urgency from state-owned companies in access to infrastructure
 - Co-ordination on standard duct configuration and specifications
 - A database of all infrastructure, with controlled access by providers
 - Simplified, automated wayleave applications and approvals
 - Deemed wayleave approvals if there is no objection within 10 days

Conclusion



- The competitive fixed line telecommunications market structure is the key to reducing the cost to communicate.
- There is a need for some *ex ante* regulation in markets where there are players with significant market power:
 - Further reductions in call termination rates
 - The toll free / share call framework and non-geographic porting
 - Access to infrastructure where there is significant market power
 - Policy, legislation and regulation to enable rapid deployment
 - Regulation to facilitate spectrum sharing and trading
- Beyond such interventions, what is needed is less regulation, and more incentives, including government positioned on the demand side, playing a key role as an anchor tenant.

Questions

Thank you