Submission to ICASA

Mobile Termination Rates

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INTRODUCTION

1. Saicom Technology (Pty) Ltd is a telecommunications operator holding the relevant licenses from ICASA.

2. Set out below is our submission to ICASA on the new proposed reduction in Mobile Termination Rates (MTR). We would welcome the opportunity to present oral submissions to ICASA at the hearings scheduled for the end of June 2010.

3. Permit us at the outset to praise both government and ICASA's initiative to reduce the Mobile Termination Rate to acceptable levels.

4. Reducing the cost of calls to consumers is one of the main objectives of the Saicom Group. For the past 10 years, the Saicom Group has been attempting to reduce the outrageous cost of cellular calls to retail consumers:

    a. Through Saicom Payphones, we operate 25 000 cellular community payphones around South Africa, providing the cheapest possible cellular calls available, thereby allowing more than 25 000 people to operate small businesses on the sides of roads, outside taxi ranks and next to spaza shops;

    b. Through Saicom Cellular Solutions and Talk4Less we have provided post-paid cellular prices to the Prepaid market, allowing poor people who are unable to get credit from the Cellular Networks to make phone calls at much cheaper "post paid" prices;

    c. Through Saicom Voice Services, we have provided Least Cost Routing to Companies at rates close to, and often below, the Interconnect Rates.

5. We have always spoken out on the rights of consumers to be provided with reasonably priced and accessible telephony.

6. Participating in Parliamentary Portfolio Committee on Communication's hearings into the Mobile Termination Rate late last year, it was clear that all spheres of government wish to lower the cost of telephone calls and communication costs to consumers. This is indeed an important initiative that, if successful, will contribute substantially to the development of South Africa.

WILL LOWERING THE MTR BENEFIT THE CONSUMER ?

7. At the aforementioned hearings, we warned that lowering the MTR may unfortunately have little effect on the retail telephone call rates charged to consumers. International examples lead one to believe that the retail cost of telephone calls to consumers are not significantly impacted by a lowering of the MTR.

8. We argued then, and the last few months have apparently proven us correct, that:

   a. Between the three cellular networks, the lowering of the MTR has no impact at all, as it is merely a zero sum game between themselves;

   b. Lowering the MTR impacts only those companies:

      i. who have either an asymmetrical interconnect rate between themselves (Telkom, Neotel, VoIP Companies and large international Telco companies); or

      ii. who have asymmetrical traffic patterns between themselves.

9. The interconnection rate between operators does not involve the consumer, it is merely the wholesale rate that companies such as Vodacom pays MTN and Telkom pays to Vodacom to terminate calls. The mobile consumer, on the other hand, always pays a **retail rate** to the Cellular Networks, which is determined solely by the SIM card package that the consumer has purchased.

   a. When the consumer purchases a SIM card from one of the Cellular Networks, they are given a retail rate for calls from that Network (On-Network and Off-Network).

   b. The consumer never has the option to be charged the Interconnection Rate, the consumer can only access the Cellular Networks and other providers via a SIM card with an attached retail airtime package.

10. In a tightly controlled market such as South Africa, with only three Mobile Network Operators, two of whom are dominant in the market, it is in their interest to keep the retail rates to consumers as high as possible, despite drops in the inter-connect rates, in order to prevent margin erosion.

11. If the interconnect rate drops, **but retail rates to consumers remain the same**, then this entire exercise would be fruitless. If this remains the case then this process will benefit only a few large VoIP telephony companies and international Telco companies who terminate traffic into South Africa, but the average person on the street will see no benefit.

THE EFFECT OF THE DROP IN THE MTR ON 1 MARCH 2010

12. When the MTR dropped on 1 March 2010, consumers all over South Africa eagerly awaited significant reductions in their mobile telephone bills. Alas they were to be disappointed.

13. The cellular networks appear to have taken a principled decision to try keep retail tariffs as high as possible for as long as possible.

14. It is our concerted belief that ICASA and government must force down the retail rates of calls for consumers. Playing with the inter-connect rate has proven impotent in benefitting consumers

15. On 1 March 2010, the Mobile Termination Rate for peak mobile calls dropped from R1,25 to R0.89 per minute.

16. Undoubtedly the drop in the MTR benefitted some companies, Telkom, Neotel, VoIP companies and International Telcos in particular. Companies who VoIP their traffic directly to the three Mobile Network Operators had a significant reduction in their input costs.

17. Little if any of this benefit was however passed on to the average consumer because:

    a. Costs of calls over SIM cards did not reduce with the drop in the MTR;

    b. The majority of corporates remain locked into two year contracts with Least Cost Routing Providers; and

    c. Corporates through Least Cost Routing Providers have always paid well below the R1.25 MTR rate for their mobile calls.

18. It is the intention of this submission to examine the impact of that drop in the MTR on 1 March 2010 on the consumer market.

19. You will see from the information provided and analysis done that, if it is truly governments intention to lower the cost of telephone calls to consumers, then attacking the retail rates of mobile calls is the **only** method of ensuring that consumers benefit.

ANALYSIS

20. In analyzing the drop in Interconnect Rates we have made the following assumptions:

    a. Mobile Network Market Shares:
        i. Vodacom 50%
        ii. MTN 40%
        iii. Cell C: 10%
    b. Total Traffic split between Peak/Off Peak split
        i. Peak 70%
        ii. Off-Peak 30%

21. Based on the above figures one would presume that:
    a. Vodacom would have 50% of their calls Off-network (50% of their calls On-Network)
    b. MTN would have 60% of their calls Off Network (40% of their calls On-Network)

c. Cell C would have 90% of their calls Off Network (10% of their calls On-Network)

22. With the drop in the MTR for peak calls by R0.36 and no change in the MTR for Off-Peak calls, the overall package price from each network should drop based on the percentage of Off-Network Peak Calls carried over that Network.

23. This should result in an expected drop in package tariffs by each network as follows:

	Vodacom	Mtn	Cell C
% of Off-Network Peak Calls	35%	42%	63%
Expected Reduction of overall package cost based on MTR reduction	10.08%	12.10%	18.14%

24. Anything short of the reductions in the table above would merely mean that the MNO's had used this opportunity to price gouge consumers.ie their input costs had reduced but the benefit had not been passed onto the consumer.

25. Of course pricing of packages is a very complex thing to analyse. The MNOs price packages in a number of ways:
    a. flat rate for all networks or separately per network
    b. flat rate all day or different rates for peak and off-peak
    c. in-bundle rates or out of bundle rates
    d. specials such as Happy Hour or Night Owl calling
    e. Prepaid or post paid or hybrid
    f. per second billing or no per second billing

26. We have attempted to analyse a number of different types of packages, post paid, hybrid and Prepaid, for each of the networks in order to understand how the Networks have dealt with the reduction in the MTR and whether the benefit has been passed onto the consumer.

27. Packages have been randomly selected to give an overall view of the market. Regardless of packages selected we believe the results would be the same. All pricing is listed inclusive of VAT.

28. <u>Vodacom Packages:</u>

a. With respect to Vodacom, we have demonstrated that if the consumer was to benefit from the drop in the MTR, the overall cost of a package should reduce for Vodacom customers by 10.08% i.e. if Vodacom were to pass on the full benefit to consumers from the drop in the MTR then the entire cost of a package should drop by 10.08%.

In the Corporate 500 package we can see that rather than the overall package reducing by 10.08% the new structure of the package has actually **increased the cost by 14.05%.**

Corporate 500	1-Feb-2010	01-Jun-10	% Reduction
MTR Peak	R 1.25	R 0.89	-28.80%
MTR Off-Peak	R 0.77	R 0.77	0.00%
Expected Reduction from Vodacom based on MTR			-10.08%
Subscription	R 730	R 730	0.00%
Free (in bundle) Peak On-Network minutes	500	500	0.00%
Free (in bundle) Peak Off-Network Minutes	0	0	
Free (in bundle) Off- Peak On-Network Minutes	0	0	
Free (in bundle) Off-Peak Off-Network Minutes	0	0	
Peak (in bundle) On-Network Rate	R 1.43	R 1.43	0.00%
Peak (in bundle) Off-Network Rate	R 2.35	R 1.99	-15.32%
Off-Peak (in bundle) on-Network Rate	R 0.84	R 1.43	70.24%
Off- Peak (in bundle) Off-Network Rate	R 1.25	R 1.99	59.20%
Happy Hour Rate	R 1.43	R 1.43	0.00%
Value of additional benefit			
Overall Package Reduction / Increase			14.05%
Connection Incentive Bonus	R3 500	R3500	

In the Family Top-Up 315 package there has been a slight decrease in overall package costs by 3.94% far below the expected 10.08% decrease.

Family Top Up 315	1-Feb-2010	01-Jun-10	% Reduction
MTR Peak	R 1.25	R 0.89	-28.80%
MTR Off-Peak	R 0.77	R 0.77	0.00%
Expected Reduction from Vodacom based on MTR			-10.08%
Subscription	R 315	R 315	0.00%
Free (in bundle) Peak On-Network minutes	0	0	
Free (in bundle) Peak Off-Network Minutes	0	0	
Free (in bundle) Off- Peak On-Network Minutes	0	0	
Free (in bundle) Off-Peak Off-Network Minutes	0	0	
Peak (in bundle) On-Network Rate	R 1.72	R 1.55	-9.88%
Peak (in bundle) Off-Network Rate	R 2.30	R 2.20	-4.35%
Off-Peak (in bundle) on-Network Rate	R 0.90	R 0.90	0.00%
Off- Peak (in bundle) Off-Network Rate	R 1.05	R 1.05	0.00%
Happy Hour Rate	R 1.49	R 1.55	4.03%
Value of additional benefit			
Overall Package Reduction / Increase			-3.94%
Connection Incentive Bonus	R3200	R2700	

It is significant also to note that the Connection Incentive Bonus paid by the networks dropped by R500 on this package. A R500 drop in the CIB over a two year subscription amounts to an effective additional increase of 6.6%. The nominal 3.94% decrease is in fact counterbalanced by a 6.6% increase resulting in an effective increase of 2.66% increase.

When we addressed this issue with the Parliamentary Portfolio committee, we warned about what is referred to as the waterbed effect. Networks squeezed for margin merely make it up by expanding margin in other areas.

In the Weekender Every Day Package, the reduction is even less at 1.61%

Weekender Everyday	1-Feb-2010	01-Jun-10	% Reduction
MTR Peak	R 1.25	R 0.89	-28.80%
MTR Off-Peak	R 0.77	R 0.77	0.00%
Expected Reduction from Vodacom based on MTR			-10.08%
Subscription	R 135	R 135	0.00%
Free (in bundle) Peak On-Network minutes	0	0	
Free (in bundle) Peak Off-Network Minutes	0	0	
Free (in bundle) Off- Peak On-Network Minutes	0	0	
Free (in bundle) Off-Peak Off-Network Minutes	0	0	
Peak (in bundle) On-Network Rate	R 1.80	R 1.75	-2.78%
Peak (in bundle) Off-Network Rate	R 2.75	R 2.70	-1.82%
Off-Peak (in bundle) on-Network Rate	R 0.90	R 0.90	0.00%
Off- Peak (in bundle) Off-Network Rate	R 0.95	R 0.95	0.00%
Happy Hour Rate	R 1.80	R 1.75	-2.78%
Value of additional benefit			
Overall Package Reduction / Increase			-1.61%
Connection Incentive Bonus	R2100	R1600	

It is once again significant to note that the Connection Incentive Bonus paid by the networks dropped by R500 on this package. A R500 drop in the CIB over a two year subscription amounts to an effective additional increase of 15.4%. The nominal 1.61% decrease is in fact counterbalanced by a 15.4% increase resulting in an effective increase of 13.79% increase.

There has been a slight reduction in Vodacom Prepaid packages but still way below the anticipated figure:

Vodacom Prepaid	1-Feb-2010	01-Jun-10	% Reduction
MTR Peak	R 1.25	R 0.89	-28.80%
MTR Off-Peak	R 0.77	R 0.77	0.00%
Expected Reduction from Vodacom based on MTR			-10.08%
Subscription			
Free (in bundle) Peak On-Network minutes	0	0	
Free (in bundle) Peak Off-Network Minutes	0	0	
Free (in bundle) Off- Peak On-Network Minutes	0	0	
Free (in bundle) Off-Peak Off-Network Minutes	0	0	
Peak (in bundle) On-Network Rate	R 2.25	R 1.70	-24.44%
Peak (in bundle) Off-Network Rate	R 2.65	R 1.80	-32.08%
Off-Peak (in bundle) on-Network Rate	R 1.18	R 1.70	44.07%
Off- Peak (in bundle) Off-Network Rate	R 1.30	R 1.80	38.46%
Happy Hour Rate	R 1.49	R 1.70	14.09%
Value of additional benefit			
Overall Package Reduction / Increase			-4.51%
Connection Incentive Bonus	R0	R0	

29. **MTN Packages:**

Because MTN has a smaller market share than Vodacom, more of MTN's calls will be Off-Network. The drop in the MTR would accordingly have a greater impact on MTN who should, if they passed on the full benefit to consumers, reduce the costs of their packages by 12.1%.

The MTN My Choice 705 has seen absolutely no changes since 1 March 2010.

MTN My Choice 705	1-Feb-2010	01-Jun-10	% Reduction
MTR Peak	R 1.25	R 0.89	-28.80%
MTR Off-Peak	R 0.77	R 0.77	0.00%
Expected Reduction from MTN based on MTR			-12.10%
Subscription	R 705	R 705	0.00%
Free (in bundle) Peak On-Network minutes	0	0	
Free (in bundle) Peak Off-Network Minutes	0	0	
Free (in bundle) Off- Peak On-Network Minutes	0	0	
Free (in bundle) Off-Peak Off-Network Minutes	0	0	
Peak (in bundle) On-Network Rate	R 1.46	R 1.46	0.00%
Peak (in bundle) Off-Network Rate	R 2.45	R 2.45	0.00%
Off-Peak (in bundle) on-Network Rate	R 0.95	R 0.95	0.00%
Off- Peak (in bundle) Off-Network Rate	R 1.15	R 1.15	0.00%
Overall Package Reduction			0.00%
Connection Incentive Bonus	R2000	R1200	0.00%

It is significant also to note that the Connection Incentive Bonus paid by the networks dropped by R800 on this package. A R800 drop in the CIB over a two year subscription amounts to an effective additional increase of 4.72%.

The MTN Anytime 100 – also zero change:

MTN Anytime 100	1-Feb-2010	01-Jun-10	% Reduction
MTR Peak	R 1.25	R 0.89	-28.80%
MTR Off-Peak	R 0.77	R 0.77	0.00%
Expected Reduction from MTN based on MTR			-12.10%
Subscription	R 100	R 100	0.00%
Free (in bundle) Peak On-Network minutes	0	0	
Free (in bundle) Peak Off-Network Minutes	0	0	
Free (in bundle) Off- Peak On-Network Minutes	0	0	
Free (in bundle) Off-Peak Off-Network Minutes	0	0	
Peak (in bundle) On-Network Rate	R 2.30	R 2.30	0.00%
Peak (in bundle) Off-Network Rate	R 2.30	R 2.30	0.00%
Off-Peak (in bundle) on-Network Rate	R 2.30	R 2.30	0.00%
Off- Peak (in bundle) Off-Network Rate	R 2.30	R 2.30	0.00%
Overall Package Reduction			0.00%
Connection Incentive Bonus	1500	1500	0.00%

The MTN Anytime 500 – needless to say – zero change

MTN Anytime 500	1-Feb-2010	01-Jun-10	% Reduction
MTR Peak	R 1.25	R 0.89	-28.80%
MTR Off-Peak	R 0.77	R 0.77	0.00%
Expected Reduction from MTN based on MTR			-12.10%
Subscription	R 500	R 500	0.00%
Free (in bundle) Peak On-Network minutes	0	0	
Free (in bundle) Peak Off-Network Minutes	0	0	
Free (in bundle) Off- Peak On-Network Minutes	0	0	
Free (in bundle) Off-Peak Off-Network Minutes	0	0	
Peak (in bundle) On-Network Rate	R 1.95	R 1.95	0.00%
Peak (in bundle) Off-Network Rate	R 1.95	R 1.95	0.00%
Off-Peak (in bundle) on-Network Rate	R 1.95	R 1.95	0.00%
Off- Peak (in bundle) Off-Network Rate	R 1.95	R 1.95	0.00%
Happy Hour Rate	R 1.95	R 1.95	0.00%
Overall Package Reduction / Increase			0.00%
Connection Incentive Bonus	R3700	R3700	0.00%

MTN prepaid has seen some decline – a mere 5.91% still way below the expected 12.1%.

MTN Prepaid One Rate	1-Feb-2010	01-Jun-10	% Reduction
MTR Peak	R 1.25	R 0.89	-28.80%
MTR Off-Peak	R 0.77	R 0.77	0.00%
Expected Reduction from MTN based on MTR			-12.10%
Subscription	n/a	n/a	
Free (in bundle) Peak On-Network minutes	0	0	
Free (in bundle) Peak Off-Network Minutes	0	0	
Free (in bundle) Off- Peak On-Network Minutes	0	0	
Free (in bundle) Off-Peak Off-Network Minutes	0	0	
Peak (in bundle) On-Network Rate	R 1.86	R 1.75	-5.91%
Peak (in bundle) Off-Network Rate	R 1.86	R 1.75	-5.91%
Off-Peak (in bundle) on-Network Rate	R 1.86	R 1.75	-5.91%
Off- Peak (in bundle) Off-Network Rate	R 1.86	R 1.75	-5.91%
Overall Package Reduction / Increase			-5.91%
Connection Incentive Bonus	R0	R0	

30. Cell C Packages

An analysis of Cell C packages pre and post MTR drop shows no change. In reality because 90% of all Cell C's traffic would be Off-Net, the drop in MTR would see a substantial drop in Cell C's input costs. Based on the R0.36 drop in the interconnect rate one should reasonably expect that Cell C package tariffs would drop by an overall 18.14%.

The Cell C Control Chat Per Second shows no decline in overall package pricing.

Control Chat Per Second Packages	1-Feb-2010	01-Jun-10	% Reduction
MTR Peak	R 1.25	R 0.89	-28.80%
MTR Off-Peak	R 0.77	R 0.77	0.00%
Expected Reduction from Cell C based on MTR			-18.14%
Subscription			
Free (in bundle) Peak On-Network minutes	0	0	
Free (in bundle) Peak Off-Network Minutes	0	0	
Free (in bundle) Off- Peak On-Network Minutes	0	0	
Free (in bundle) Off-Peak Off-Network Minutes	0	0	
Peak (in bundle) On-Network Rate	R 3.20	R 3.20	0.00%
Peak (in bundle) Off-Network Rate	R 3.50	R 3.50	0.00%
Off-Peak (in bundle) on-Network Rate	R 1.05	R 1.05	0.00%
Off- Peak (in bundle) Off-Network Rate	R 1.30	R 1.30	0.00%
Overall Package Reduction			0.00%
Connection Incentive Bonus			

The Casual Chat 100 also has no change in package pricing.

Casual Chat 100	1-Feb-2010	01-Jun-10	% Reduction
MTR Peak	R 1.25	R 0.89	-28.80%
MTR Off-Peak	R 0.77	R 0.77	0.00%
Expected Reduction from Cell C based on MTR			-18.14%
Subscription	R 100	R 100	0.00%
Free (in bundle) Peak On-Network minutes	0	0	
Free (in bundle) Peak Off-Network Minutes	0	0	
Free (in bundle) Off- Peak On-Network Minutes	0	0	
Free (in bundle) Off-Peak Off-Network Minutes	0	0	
Peak (in bundle) On-Network Rate	R 1.80	R 1.80	0.00%
Peak (in bundle) Off-Network Rate	R 2.70	R 2.70	0.00%
Off-Peak (in bundle) on-Network Rate	R 0.90	R 0.90	0.00%
Off- Peak (in bundle) Off-Network Rate	R 1.00	R 1.00	0.00%
Overall Package Reduction			0.00%

The corporate Cell C Bus Chat Max 690 indicates no change:

Bus Chat Max 690	1-Feb-2010	01-Jun-10	% Reduction
MTR Peak	R 1.25	R 0.89	-28.80%
MTR Off-Peak	R 0.77	R 0.77	0.00%
Expected Reduction from Cell C based on MTR			-18.14%
Subscription	R 690	R 690	0.00%
Free (in bundle) Peak On-Network minutes	0	0	
Free (in bundle) Peak Off-Network Minutes	0	0	
Free (in bundle) Off- Peak On-Network Minutes	0	0	
Free (in bundle) Off-Peak Off-Network Minutes	0	0	
Peak (in bundle) On-Network Rate	R 1.46	R 1.46	0.00%
Peak (in bundle) Off-Network Rate	R 2.15	R 2.15	0.00%
Off-Peak (in bundle) on-Network Rate	R 1.20	R 1.20	0.00%
Off- Peak (in bundle) Off-Network Rate	R 0.86	R 0.86	0.00%
Overall Package Reduction / Increase			0.00%
Connection Incentive Bonus			

The Winc Prepaid has no per second billing making it look prima facie cheap but in reality, the lack of per second billing hides an approximate additional 25% onto the cost. Nonetheless there is no change in the pricing of this package.

Winc Prepaid (per second)	1-Feb-2010	01-Jun-10	% Reduction
MTR Peak	R 1.25	R 0.89	-28.80%
MTR Off-Peak	R 0.77	R 0.77	0.00%
Expected Reduction from Cell C based on MTR			-18.14%
Subscription			
Free (in bundle) Peak On-Network minutes	0	0	
Free (in bundle) Peak Off-Network Minutes	0	0	
Free (in bundle) Off- Peak On-Network Minutes	0	0	
Free (in bundle) Off-Peak Off-Network Minutes	0	0	
Peak (in bundle) On-Network Rate	R 1.50	R 1.50	0.00%
Peak (in bundle) Off-Network Rate	R 1.50	R 1.50	0.00%
Off-Peak (in bundle) on-Network Rate	R 1.50	R 1.50	0.00%
Off- Peak (in bundle) Off-Network Rate	R 1.50	R 1.50	0.00%
Happy Hour Rate	R 1.50	R 1.50	0.00%
Overall Package Reduction / Increase			0.00%
Connection Incentive Bonus			

CONCLUSION

31. It is our belief that government and ICASA's intention has always been to reduce the effective retail rate of mobile calls to consumers. It is our contention that:

    a. reducing the Mobile Termination Rate is an ineffective and inefficient means to do so;

    b. the MNOs have kept retail rates to the consumer as high as possible and have not passed on any meaningful savings to the consumers;

    c. the drop in the MTR has reduced Network income from:

        i. Telkom;
        ii. Neotel;
        iii. VoIP providers; and international Telecoms companies.

d. In order to protect their margins, the MNOs have not only not passed on the benefits to consumers but in many instances have actually increased their rates either directly or surreptitiously by:

   i. Changing tariffs
   ii. Removing specials such as happy hour
   iii. Decreasing Connection Incentive Bonuses.

32. If we are serious about reducing the retail costs to consumers then government and ICASA must stop attempting to address the issue through back-channels such as the MTR and take on the MNOs directly by regulating retail tariff plans.

33. Only then will we see some benefit to consumers in the process.

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