

CELL C LTD  
ORAL HEARINGS: DTPS  
6 MARCH 2018



# **RESPONSE TO THE DRAFT BILL TO AMEND THE ELECTRONIC COMMUNICATIONS ACT, 2005**

# Agenda

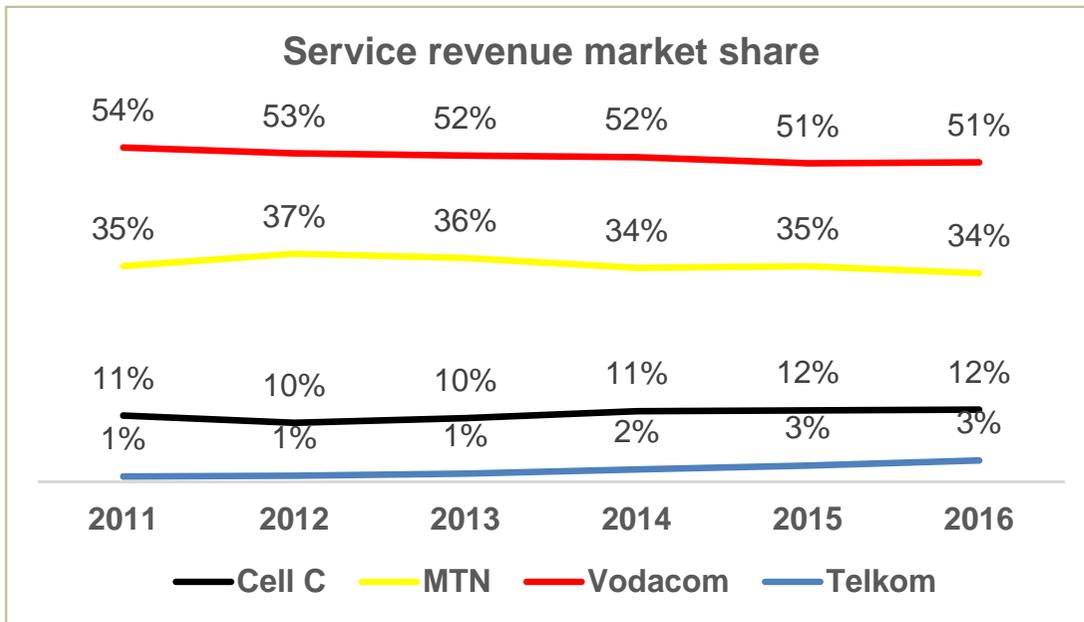
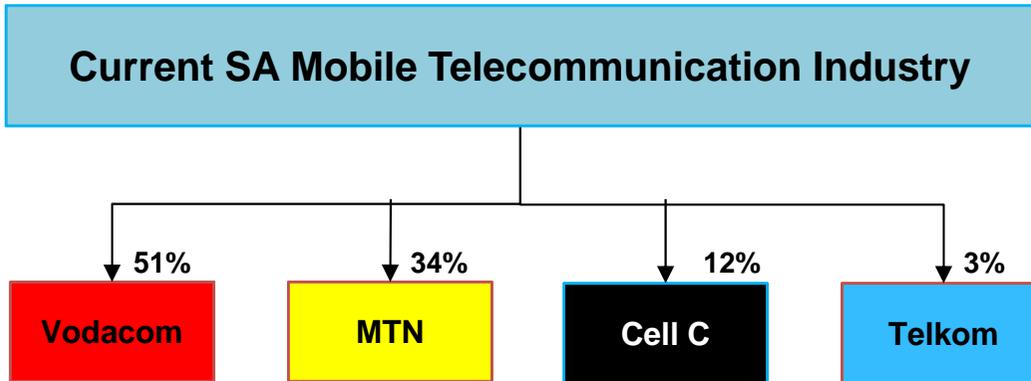
1. Introduction
2. Market structure & policy goals
3. The WOAN as a potential enabler
4. SA market experience with Open-Access infrastructure
5. Critical success factors for successful implementation

# Introduction

- Cell C's detailed comments on the proposed amendments to the ECA have been made with regard to whether or not the amendments are:
  - likely to have positive effect on and support current and future landscape for electronic communications operators and investors
  - in step with international best practise (and here we worked with international experts)
  - lawful and appropriate
- The comments are grouped in 7 key themes within our submission, and in each case we have included recommendations on text or approach. The themes are:
  1. General drafting matters
  2. Roles and responsibilities of various entities
  3. The WOAN
  4. Universal service
  5. Rapid deployment
  6. Spectrum
  7. Open access
- **In this presentation, we focus only on the key issue:**  
**Market structure, the problem and the WOAN as a solution**



# Policy Goals: Current Market Structure



## Market Structure

- Highly concentrated (HHI index > 3,900)
- Dominated by Vodacom and MTN, with little change over the years
- Extremely high barriers to entry:
  - Infrastructure
  - Spectrum

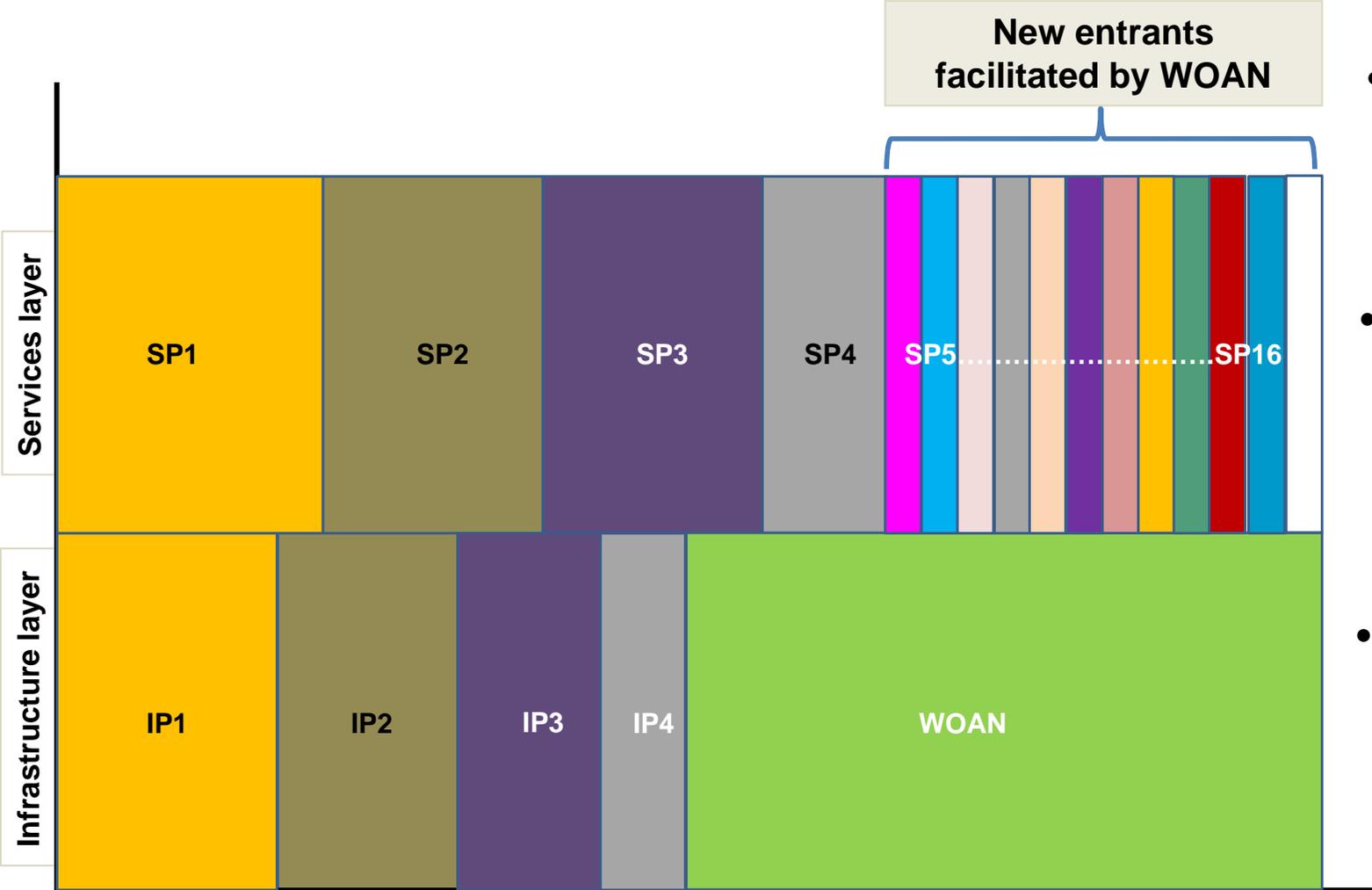
## Problems

- High cost to communicate
- Accessibility
- Transformation of ownership

## Causes

- Inadequate competition
- Duplication of infrastructure
- Spectrum allocation

# Policy Goals: Envisaged Market Structure



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

**SP** – Service Provider  
**IP** – Infrastructure provider

# The WOAN as a potential enabler

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

... however ...

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



# SA market experience with Open-Access infrastructure operators



Since 2009, Open-Access players have deployed infrastructure across the broadband value chain: submarine cables, data centres, long-distance and metro fibre rings, access fibre to base stations, businesses and homes.

**Their impact has been positive:**

- intensifying wholesale and retail competition
- reducing Internet access pricing for end users ...



# Case Study 1

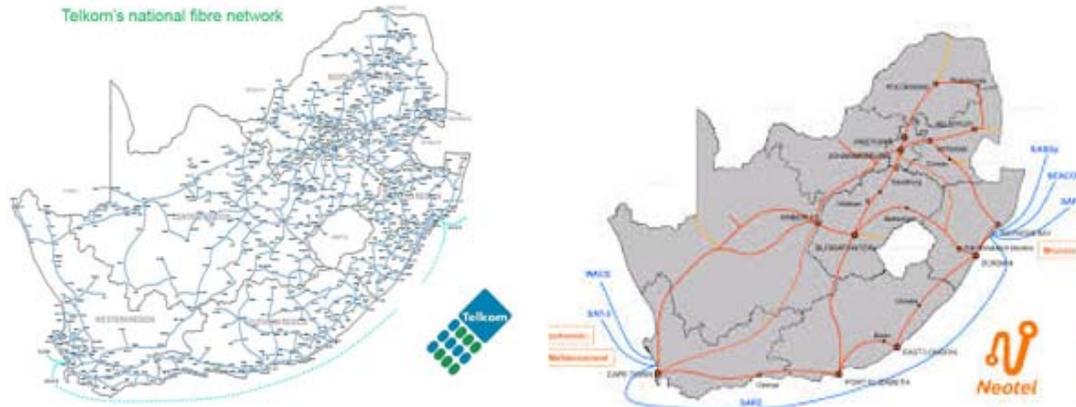
## FibreCo impact on long-haul pricing

Market pricing on long-haul transmission routes where Open-Access options exist has declined sharply since 2014. Impact on Jo'burg – Bloem route is shown below:

### FIBRE NETWORKS

#### Up to 2013

- 2 major fibre routes between Johannesburg and Bloemfontein



#### 2014 onwards

- 2 new fibre routes completed (NLD and FibreCo)
- FibreCo link fully open-access



### TX PRICING

Monthly charge for 12m lease

**2013**

**STM-4 (600Mbps):** R350-450,000

**1Gbps:** R500-550,000



**2015**

**STM-1 (150Mbps):** +/-R20,000

**1Gbps:** +/- R64,000



**2018**

**1Gbps:** +/- R30,000

**10Gbps:** +/- R60,000

Source: FibreCo analysis based on 3<sup>rd</sup> party quotes

# Case Study 2

## Vumatel as catalyst for FTTH in SA



Coincidence?

- Vumatel - 100% privately funded start-up with no infrastructure was able to offer:
  - FTTH services at the same price-point as ADSL with vastly superior speed
  - Choice of 8 different ISPs initially, now > 40, including Cell C, Telkom and Vodacom
  - Month-to-month contracts right from inception

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# SA market experience with Open-Access infrastructure operators



Question:

If these outcomes can be delivered in the fixed-line telecommunications domain, why not in wireless?



# Critical success factors for implementation

- **Operators should receive new high-demand spectrum alongside WOAN**
  - WOAN is a catalyst, not a monopoly
  - Offtake from MNOs acquiring new spectrum
  - Infrastructure sharing as licence condition
- **Creating an attractive financing structure for equity and debt investors is key**
  - Debt secured by substantial offtake
  - “Cost +” revenue model, including reasonable return on capital
  - Similar to other infrastructure PPPs in SA (e.g. roads, power)
- **WOAN must have national coverage including both urban and rural areas**

*New high demand spectrum:  
most allocated to WOAN*



*Existing spectrum: unchanged*

# Key arguments against the WOAN

## Argument

1. Creation of a new monopoly
2. No international precedent
3. Data prices are already falling
4. Existing MNOs already provide coverage

## Our view

- In our construct WOAN increases competition but other MNOs still get some new spectrum
- Successful Open-Access network operators in SA and globally – what makes wireless different?
- True, but optimal efficiency not reached given:
  - High level of market concentration
  - Ongoing infrastructure duplication
- Are SA prices *really* that low?
- Access to 3G is not ubiquitous, let alone LTE
  - Access duplicated in profitable metros before expansion to wider SA
- Gap will worsen with tech advancement (5G, ...)

# Conclusions

- If implemented correctly, **WOAN could be the catalyst to enable the SA market structure to evolve in line with the Policy Goals**, delivering major benefits:
  - Lower cost to communicate for end users
  - Increased consumer choice through greater competition and innovation at service level
  - Enhanced broadband access in underserved areas
  - Transformation of industry ownership (WOAN and new SPs)
- **Open-Access competition should drive efficiency across all networks**
  - Share existing infrastructure, aggregate demand for new build areas
  - Enhance service-based competition through true wholesale/retail separation
- These Open-Access dynamics have been demonstrated in SA already, **Cell C has an in-depth understanding of the commercial model**

# Conclusions

- **Successful implementation of WOAN requires pragmatic commercial approach:**
  - Voluntary buy-in (and significant offtake) from the MNOs
  - Some new high-demand spectrum must be available for existing MNOs
  - WOAN must be able to secure financing and compete
    - Spectrum pricing – no up front fees
    - Access to existing infrastructure
    - Reasonable RoI

# Thank you

