

if we made policy...

one VANS' outlook on the Convergence Bill

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1. Members of the Parliamentary Portfolio Committee On Communications, fellow Citizens of South Africa – thank you for the opportunity to address you today.
2. Last year - voiced frustration - action taken - Minister of Telecommunications - journalist challenged me – **“what would YOU do if you were made Minister of Telecommunications today?”**
3. **Approach** we would like to take here.

## Purpose.

Yours: Macro - Prosperity for all.  
Macro - Affordable communications.  
Micro - Facilitate competition.

Ours: Storm's mission statement.

***"We believe that cost effective voice and data telecommunication solutions should be available to every South African business"***

1. I'd like to give you an **indication** of **where we're coming** from before we **focus on** what we believe are the **critical success factors**.
2. I will **not** quote from President Mbeki's **State of Nation Address**. Nor will I quote from **statements from DoC or ICASA** - highlight the **need** to make **telecommunications more affordable for all**.
3. It is **plain** to us all that we need **more jobs, less crime, more houses, less poverty, more prosperity** for all.
4. **Policy, legislation and government** are vital in the **growth** of the economy. If bad, it **chokes** it, if good, it **stimulates** it.
5. However, we **believe** that the **engine** not only for economic growth, but **for driving down telecommunications prices**, is **competition**. One needs **look** no further than **kalula.com** in the airline industry for a good example of that.
6. **Storm's mission statement** – is **etched** into the front windows of all our offices



## Telecoms drives growth which drives prosperity.

...when telecom is dragged down, the entire country is affected. The telecom network is not only a source of jobs, value and innovation in its own right, but it is also the central nervous system of the overall economy.

In today's service-driven economy, the speed of the telecom network determines the speed of commerce, which we measure as GDP.

**America's silent crisis in telecoms**  
By John Rutledge and Sonia Arrison  
February 22 2005

1. There are possibly research papers that I have yet to find that **prove** the **effect** that an **efficient Telecommunications system** has on a **country's economy**, but this statement by a leading US economist, Dr John Rutledge, is one of the most apt I have ever seen.
2. Many of us **take for granted** the fact that we can pick up an **instrument** made of plastic and metal and speak to **anyone, anywhere** in the world at the touch of a few buttons .
3. The **commercial internet, did not exist** until 10 to 15 years ago. It is **now** the business **communication medium of choice**.
4. **Telecomms drives the economy**. Let us **ensure we build a healthy** telecommunications market.

## Solution. Fierce competition.

Get more competitive.

A belated duopoly is not enough. Two players, and of late three, in our cellular market, have not managed to drive down the costs of mobile communications significantly.

Open up. Responsibly.

1. At the **DoC Colloquium** held on July at Gallagher estate, the **Telkom representative** was **quick** to state that they had **not raised** prices beyond **CPI** in the last few years. **In my world**, we have only been able **raise** the price of **one** of our products, and that **only once** in the last 6 years. Each year **we drop our prices**. **Our competitors force us to**. **Welcome to the life of David Gale**.
2. At the same Colloquium **Dr Taylor Reynolds** of the **OECD made** (among others) the **following points** which we fully endorse:
  1. **Effective competition** leads to **lower prices, faster speeds, improved quality of service** and innovative new services. In **some markets** prices have **dropped by 10x** in as many years.
  2. **Duopolies** on their own have traditionally **not** provided **sufficient competition**.
  3. **Competition flourishes** when there is an **independent regulator** with the **authority** to do it's work well
  4. The **private sector** should take the **lead** in telecommunication markets **while government** must **ensure** that there is adequate **competition**.
3. The "almost Imminent" **SNO**, often referred to as the Never, Never Operator, **will not be sufficient on its own**. We **have to introduce more competition soon**. We understand that it **cannot be done** in an **irresponsible** manner.

## The right foundation.

Convergence Bill creates four layers:  
infrastructure, services, application and content

Aligned to the developments in technology

But... the intent of regulating according to layering  
of services is not clear

Need different grades of regulation for each  
- what is good at infrastructure level can be  
disastrous at application level!

1. The convergence Bill is built in our opinion on the **correct foundation**. **Gone** are the **vertical silo's** where someone like **Telkom** or **MTN** or the **SABC did everything** from **copper and fibre** cables to **Value Added Services** and content.
2. The **introduction** of the **Internet Protocol** into our lives has ensured that we now have a telecoms **market** which is built on **horizontal layers**, not vertical, where some of the **best players** tend to **specialise** in one two areas.
3. The **problem** we see is that there is **no clear intent** in the Bill for **different regulatory approaches** at the **different layers**. One thing we would do, is **make** that intent and principle **clear**.
4. **The higher** up the layers, **the lighter** needs to be the **regulatory touch**, allowing for more players, especially entrepreneurial startups. **The lower** down the layers, **the heavier** needs to be ICASA's touch, with **fewer**, players engaging in a **fair and energetic** fight.

Fair. Same rules for all.



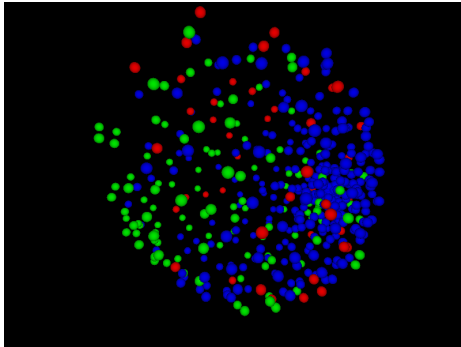
Telkom wholesale needs to treat VANS the same way as it treats Telkom Retail.

A healthy wholesale structure will stimulate fierce competition



1. The recent **Telkom Price Cap** regulations **begin to define** a manner of controlling prices.
2. Unfortunately, it is **easy for Telkom to hide** the real costs of any particular product within the basket. They can **raise** the price **heavily** on product **where** they have the **monopoly** while **discounting another** where there is **competition**.
3. Looking at **ICASA's** recent **actions** on **ADSL pricing** – good to see them **taking firm action** – but will be **difficult** for them to **sustain a piecemeal approach** as technology becomes more complex – **better** to **establish long term, transparent wholesale pricing structures, unbundle the local loop** and **let the competition drive prices down**.
4. **Telkom** are **not as yet** required to **provide separate accounting** for all its products **and** to provide **wholesale services** to **VANS** at the **same manner, price and quality** as they do to Telkom's **Retail** division.
5. **If policy does not address** this issue, **competition** at Service Provider level will be **stunted**.

Connect. Now.



Provision for interconnect of smaller players and bigger players is needed.

AND

timelines have to be set.

Telkom, for one, is a master of the art of delaying tactics.

1. We are **encouraged** to see that the recent **Terms and Conditions for VANS** have **ensured** that all **VANS** have the **right to interconnect** with **any** other telecommunications **licensee**.
2. Our **concern** is that only Communication **Network** Service Providers are **required** to interconnect **in the Bill, not Communication Service Providers**. This does not provide for VoIP service providers (VANS) – likely to be licensed as Communication Service Providers.
3. **No timelines** are specified in the VANS T's and C's which is the only place VANS have any recourse to regulated interconnect.
4. **Telkom**, for one, are the **masters of delaying tactics**, as storm has discovered through painful experience over the last 6 years.
5. There is a **need to include** Communication Service Providers **in the Interconnect portion of the Bill and** ensure that **reasonable timeframes** are defined.
6. Ideally **market forces should drive the pricing** of interconnects, **but** while the **market** is **dominated** by a small number of **players** with **significant market power**, it is **important** that the **pricing of interconnects be regulated**.

## Dial. Now.

Numbering resources need to be available to all players who can make effective use of them.

This looks good so far and as long as there are no delays in issuing numbers, no additional action is recommended.



1. It is also **encouraging** to see that **VANS may apply** to ICASA for **numbering resources**.
2. Despite moves toward number portability, **without its own number range**, a Service Provider will **never be able to compete** on **equal terms** in the market.
3. The legislation w.r.t. numbering seems to be **adequate** and unless there are **undue delays** or **problems** in the **issuing and administration** of number ranges, we have **no major concerns here**.
4. **Until** there is **interconnect**, **numbering** is **inconsequential**



Ease. Speed.



Concern that the licensing process will be slow.

Timing is critical. We can not wait.

There are 100's if not 1,000's of applications.

Unless a class licence system is developed, ICASA will drown in its own paperwork

1. The **licensing process** as described in the Bill **appears** to have been **designed** for **low numbers** of market **players** and **low volumes** of **applications**.
2. This is **workable at** the **infrastructure layer**, **but** is **unworkable** at **Communication Service Provider** or Application Service Provider **level**.
3. **ICASA will not cope**. Manhla Langa stated as much before he left the organization.
4. **A class licence approach** where a **simple application form** needs to be completed, a **set of conditions** need to be complied with and an **application fee** needs to be paid. That and **a regulator** who is able to **act swiftly** and **decisively** against those who break the license conditions.
5. **Timelines** need to be written into the Act, or ICASA needs to issue **guidelines**
6. **Foreign investors** are attracted to countries where the **regulatory environment** is not only **predicable** but **efficient**.

## Independence. Blurred.

The lines between governing & policy making, regulation and commercial activity are in danger of becoming blurred.

Clear enabling policy  
+  
political will to create and support a strong, capable, independent regulator  
=  
good competition, efficient telecoms, a growing economy and lower prices



1. There are a number of places in the Bill where we note with grave concern that it **appears** to be the **desire** of the Minister to **be involved in regulatory or commercial affairs** in the Telecommunications market – these were highlighted in our written submission earlier this year.
2. The **government** needs to **focus** on **creating clear enabling policy** and **governing**.
3. The **regulator** needs to **focus** on **appropriate regulation** for the **various levels of licensees**
4. **Commercial** players should be **left to slug it out** on the battlefield while prices fall.

Competition. Fierce. Now.



Without strong competition prices will not come down.

Fierce and fair competition can exist even with few infrastructure providers.

Your purpose is to facilitate this.

1. At the national **infrastructure level**, there is **no possibility** of **more than a Duopoly** right now. **Even when** the **SNO** finally appears. **Even with** the likes of **Sentech** exploring its options within its multimedia licence, **it is not going to be enough**.
2. There are **many voices** calling for **VANS to self provide**. While self provision has **significant advantages** for the likes of **storm**, **we do not advocate that path** at this moment.
3. **If** one were to **allow** self provisioning by VANS, one would **have to attach** significant **limitations** to self provision:  
Limit VANS to **geographical** areas;  
**Provision** of **services** to **schools, clinics**, police stations, hospitals and the like;  
**Contribution** to **Universal Access** funds;  
Charging **appropriate** licence **fees**.
4. This will be **difficult to manage**. So what do we advocate?
5. The **only hope** for increasing competition significantly **without undermining** the **business cases** of **Telkom**, the **SNO** and other licensees is **increase competition at Service Provider level**. – **Wholesale pricing and interconnect being key**.
6. **Simpler, easier** to manage, yet **providing a platform** for **fierce competition**.
7. We're **used to fierce** competition, we're **used to dropping** our prices, we're **ready to play** our part



We bring more to telecoms than cheap talk.  
thank you.

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1. Thank you again for your time.
2. I **trust** you will **do your job** with the **same passion** we approach ours.
3. **It is now up to you.**