MYTH BUSTER ON REASONS FOR SA HIGH PREPAID MOBILE PRICING

The reactions of various interest groups to yearlong study by RIA into pre-paid mobile prices across the continent, and South Africa's relatively poor showing in it, are perhaps not surprising. They nevertheless prompt clarification and hopefully further debate - before the issue of the high price of communications in South is again swept under the carpet. RIA Executive Director, Alison Gillwald responds.

MYTH ONE – THE MISCONCEPTION THAT TERMINATION RATES AND RETAIL END USER PRICES ARE NOT CONNECTED.

In Vodacom's response in the online Mail & Guardian report (13 April 2012) Richard Boorman seeks to dispel a "common misconception repeated in the report" that links terminates rates to end users and questions why termination rates price reductions are not passed onto consumers.

As the dominant operators have consistently claimed in public hearings and the media he argues that "mobile termination rates (MTRs) are not an industry-wide cost that the consumer bears -- the net cost of MTRs to consumers is and always has been zero," he said. "MTRs are paid by operators to each other to terminate calls on the other's network."

He goes on to say that this does increase competitiveness within the market, which has led to a 24% decrease in Vodacom's "effective average price" for end users in   South Africa.

This separation of termination rates as a cost element (and revenue stream) from final end user prices (retail tariffs) is contradictory and essentially tries to deflect arguments in favour of more cost-based regulation of termination rates and indeed end user prices.

The questions this begs then is how does the reduction in termination rates induce competition?

This is empirically demonstrated in   five in- depth case studies (Kenya, Namibia, Tanzania, Uganda and South Africa conducted by RIA which show that when terminates rates are reduced sufficiently toward their real costs, they enable competitive pressure from new entrants unable to do so when this wholesale element of their costs is high, or even higher than the cost of on-net calls of incumbents in some countries prior to the regulated reductions. The pricing pressure has positive competitive outcomes as operators are forced to use their networks more efficiently to sustain their profits.

MYTH TWO - THAT SOUTH AFRICA'S PRICES ARE HIGH BECAUSE WHAT WE GET IS BETTER OR PREFERABLE

Sadly the regulator, ICASA, played directly into the hands of operators by defensively responding to the reportage that at least some of the reason for high prices was ineffectively regulated prices. While acknowledging that SA's prices are comparatively high Pieter Grootes, Icasa GM for markets and competition justified these by endorsing the operators contention that: "Coverage comes at a price and greater geographic coverage comes at a greater price." Pointing to maps of network coverage in Tanzania and Kenya, Grootes says SA has far wider coverage than some other nations and this is not factored into Research ICT Africa's report.

In fact this is not a factor considered in this pricing index as would be impossible to do a comparison across so many criteria across the entire continent, hence the use of the internationally accepted OECD pricing baskets.

However for the purposes of debate let's pursue this line of argument. Examining the GSMA coverage map reference used by ICASA in the Techcentral report we see that the country against which South Africa is extensively benchmarked because they started off with the same mobile termination rate three years ago, Namibia, despite the population being concentrated in three main centres, has 98% coverage. Kenya, has 89.10 population coverage%.

Further, arguments that South Africa's prices are so high is because of its state of the art network s as a result of constant obviously desirable reinvestment in new networks is both true. Namibia and Kenya, with amongst the lowest charges in Africa, however are poised to introduce 4G networks, probably before South Africa, with its spectrum access delays.

They have been able to do so because despite the dramatic reductions their end users prices, made possible by significant reductions in mobile termination rates, the have gained more customers, innovated whole new lines of business such as mobile money, while keeping their companies as profitable or some case more profitable than every before.

The net outcome in these countries is the attainment of all our countries common public policy objectives of affordable access to communication - and the creation of environments conducive to investment and sustainable enterprises - which continues not to be the case in South Africa, despite ICASA's defence of the status quo.

MYTH THREE - REDUCTIONS IN MOBILE DATA PRICES CAN BE EQUATED WITH REDUCTIONS IN VOICE CALLS AND PARTICULAR PREPAID MOBILE VOICE CALLS WHICH IS WHAT THE MAJORITY OF SOUTH AFRICAN CONSUMERS ARE AFFECTED BY.

Strangely then, because the report is very clear in addressing pre-paid mobile voice services only, ICASA's Grootes then fails to address mobile voice prices but instead speak about the 30% price reduction on 1 April in IP Connect charges — the fees Telkom levies on Internet service providers (ISPs) to access its fixed-line digital subscriber line network .

While this is a significant and much welcomed development is diverts the debate from the cost of mobile prepaid services which as primary source of communications for the most South Africans should be at the core of public policy and the consumer welfare, one of the primary rationales for regulation. Instead we are left with justifications for South Africa having such high pre-paid mobile prices, despite having economies of scale and population densities far in excess of either Namibia or Botswana, neighbouring countries both of which are considerably cheaper, and both of which have regulated terminates with regulators a fraction of the size of ICASA.

MYTH FOUR – IT"S ALL ICASA's FAULT.

That being said, the reduction of this problem to ICASA is erroneous. Pricing indicators are one of the most effective measures of the competitiveness of a market. This is a policy outcome. The regulator should not be scapegoated for these negative outcomes.

The reasons for them are complex and relate to the poor market structure (lack of competition in the sector but are also reflective of the compromised authority of regulator as a result of the institutional arrangements for the sector - the appointment processes of decision makers, the legacies of cadre deployment and the absence of technocratic competence.

It should be emphasized that the latter two are not mutually exclusive. However, in this sector weak political appointments over more than a decade without strong technical competencies has undermined the capacity of the regulator and other institutions in the sector, and with them the sector's role in the national transformation project.

Let's hope that with the National ICT policy colloquium due to get underway this week that as a country we can acknowledge the policy failures of the last decade and half and move swiftly to address these in both our market structure and institutional arrangements, so that at last our policies can at last support the pro-poor agenda they have fictitiously claimed to serve in the past.