

The end of re-arranging the deckchairs: using competition to change what happens

Russell Southwood, Balancing Act

What do you want competition to do?

- Thus far regulation incremental. No clear sense of the journey's destination. "Illogical scenario" of defending the incumbent and its revenues
- Need overall policy objectives. Might include..
- Spreading access as widely as possible
- Cheaper voice and data costs - closer to European levels
- Encouraging locally-financed SMEs
- Strong competition at customer level
- Empowering citizens through ICT at low cost

Who plays what roles in achieving these objectives?

- Government: Sets overall policy with clear, achievable objectives. Helps facilitate, not ordering things into place. Sell incumbent. Competition law????
- Regulator: Independent of Government but interpreter of policy and objectives.
- The local private sector: Take some of the risks and act as innovative entrepreneurs who can respond to wide range of local needs. Take out the barriers.
- External investors: Need to behave ethically and transparently but need conditions to invest. Take some of the larger financial risks.
- Consumers: Need to amplify their voice and influence to bring pressure on pricing and service issues

Emerging patterns in the industry

- Kenya VoIP fraud. Mali “back-door” deals. Senegal’s 2nd mobile operator. Separation of services/infrastructure or retail/wholesale
- Competition issues: ISP markets in Senegal and Mauritius
- Mobile operators as the new incumbents - issues around competition and pricing
- Collapsing incumbents except where protected monopoly
- Technology beats regulation (wi-fi, VoIP) Illegal? Users don’t care. Lowering the cost access.
- Vertical integration vs horizontal, layered, markets. Key question: who operates infrastructure and under what terms?

How can competition be the spur to action?

- Look to create competition holistically across all levels in the network. Encourage existing players to respond competitively
- Local: Plug-and-play, edge of network companies providing voice and data. Technology allows low-cost entry (GSM-lite, CorDECT). Universal access responses inadequate. Reverse auctions.
- National: Encouraging new entrants to build new links. Creating municipal networks.
- Regional/International: Licence cross-border links for new entrants. Ensure EASSy is structured in an Open Access way.

The significance of VoIP

- Telephony is a highly centralising technology. The “intelligence” is located centrally and usually controlled by one organisation
- IP (internet) is by contrast a network where no single entity controls it and the “intelligence” can as easily
- IP telephony offers the opportunity to change the structure paradigm from the former to the latter

The gap between the retail and wholesale price

- May 2004 estimated that Senegal's incumbent Sonatel was buying international outgoing minutes at approximately US\$11-12 cents but selling the same minutes to its customer for US\$29-33 cents a minute (off-peak/peak) from 1 June, having just made a 33 per cent price cut on its international rates.
- Explain arbitraging. Wholesale prices often as low as 1 cent a minute.
- Broader shift from low volume, high margin to high volume, low margin

The international trend towards VoIP

- VoIP accounted for 12% of all international traffic in 2003
- VoIP carriers iBasis and ITXC (now part of Teleglobe) acct for for 30% of this traffic.
- MCI 100% by 2005; AT&T 100% by 2010 and Telecom Italia 80% by end 2003

VoIP regulation in Africa - 1

- Crackdown: Jail, seize equipment. Largely ineffective
- Corruption means incentive to reconnect
- Filtering and traffic management: A blunt instrument. Annoys corporate customers and doesn't deal with the root of the problem

VoIP regulation in Africa - 2

- Approaches to legalising
- Incumbents negotiate “under-the-counter” deals- Kenya without success and Mali (four companies)
- Licensing services that are technology-neutral: Nigeria - Adesemi and Mauritius
- Recent competitive frameworks announced: Kenya, Senegal (announced) and South Africa. Nigeria and Uganda follow mid this year. Reaching a “tipping point” - Who will get left behind?

VoIP regulation elsewhere

- Indian regulator, TRAI, allows VoIP without licensing, and considers service licensed under existing licensing mechanism
- Most other countries almost no restrictions on VoIP provision