



Workshop on Further Liberalisation

1st February 2005

**Botswana Telecommunications
Corporation**

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▪ **Day 2: Market Situation**

▪ **Day 3: Impact of Liberalisation on Market development**



Day 2 : Agenda

- **BTC History in brief**
- **Introductory comments on Liberalisation and the Market**
- **Market Challenges and Opportunities**
- **Liberalisation – Principles**



BTC History & Mandate

- BTC formed in 1980 following separation of P & T
- Parastatal Governed by Telecomms Act 1996
- Required to provide service to all for a reasonable rate of return
- Monopoly Telephone service provider until 1999
- Excluded from Mobile franchise in 1999
- Capital Investment in Network P2Bn to date
- P250m spent on Training & Development
- Over 250 rural villages have been provided with service in the past years



Liberalisation – Introductory Comments

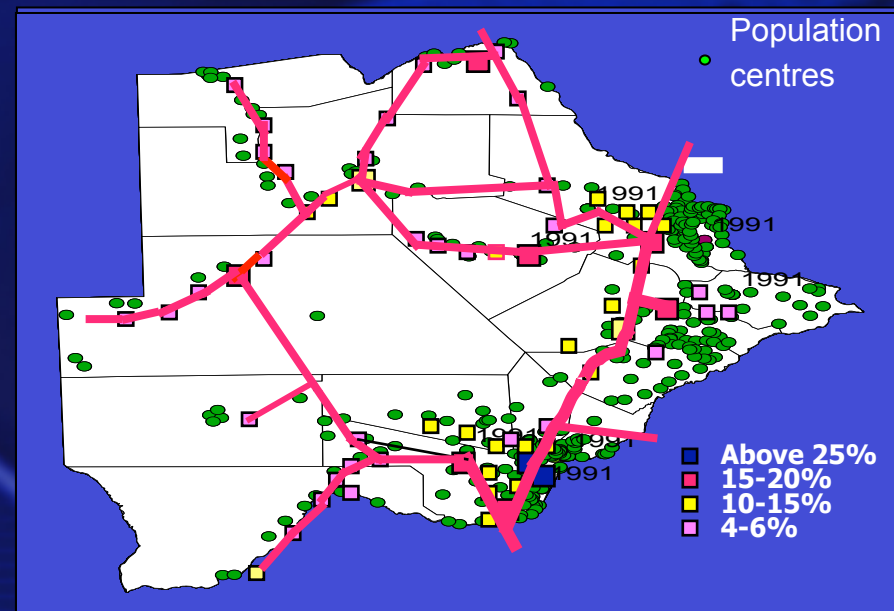
- **Axiom that “people love to hate” the incumbent Operator**
- **Debate on liberalisation is ,in fact, very welcome to BTC**
- **Clear and consistent framework for liberalisation vital**
- **BTC looking forward to exercising commercial freedom in an improved competitive environment, encouraging:**
 - **Product and service innovation**
 - **Economically efficient prices**
 - **Investment in the economy**



Botswana : Market Challenges (1)

- Botswana has a relatively small population spread over a vast area, making it one of the least densely populated countries in the world
- There are obvious challenges for the fixed line telephone business in such an environment as telephone costs are inversely proportional to density
- Access deficit loss on all lines is estimated at 187m Pula per year
- Additionally BTC funds rural universal service lines costing 25m Pula annually in operating costs

	Botswana	Namibia	South Africa
Land area (000' s km ²)	600	825	1 220
Population (m)	1.6	1.9	44
Population density (people/km ²)	3	2.3	36



A significant number of customer lines are uneconomic



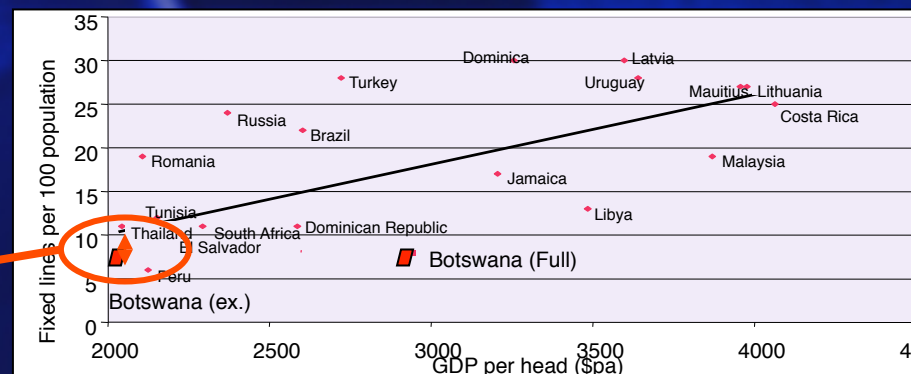
Botswana : Market Challenges (2)

■ Even though Botswana is a relatively high GDP/capita country, it is heavily skewed towards mining

■ On a modified GDP/capita basis, fixed line penetration is in line with Peers

■ Additionally, looking at household penetration shows a greatly improved picture

	Botswana (Full)	Botswana (Ex. mining)
GDP (\$b) – '02/03	4.5	2.9
GDP/Capita (\$/person) – '02/03	2 800	1 800



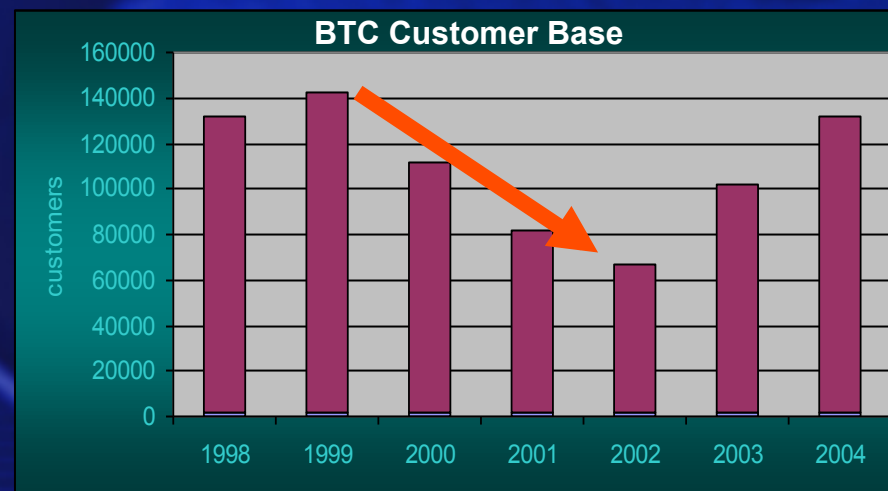
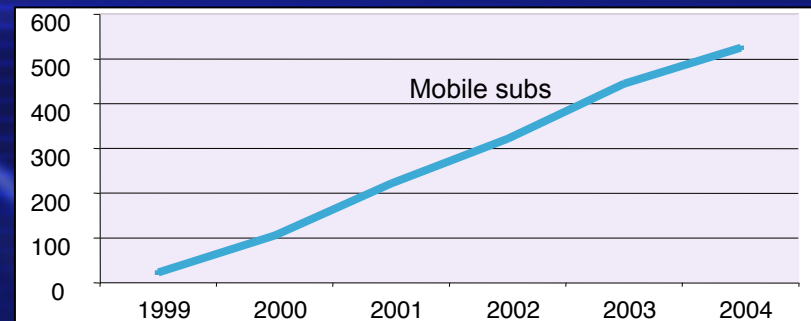
	People (Individual)	Households
Numbers (000' s)	1 600	400
Lines (000' s)	130	130
Density	8%	33%

Despite the challenges Fixed line penetration is higher than portrayed by some



Botswana Market – growth of mobile

- Mobile has grown strongly throughout the world driven by consumer demand
- Botswana is no exception
- National coverage assisted by BTC extensive and robust network infrastructure
- BTC faces real competition from Mobile
- From 1999 to 2002 :
 - BTC lost half of its customers to mobile
 - Mobile have over 600,000 customers
 - BTC has recovered to 130,000 customers

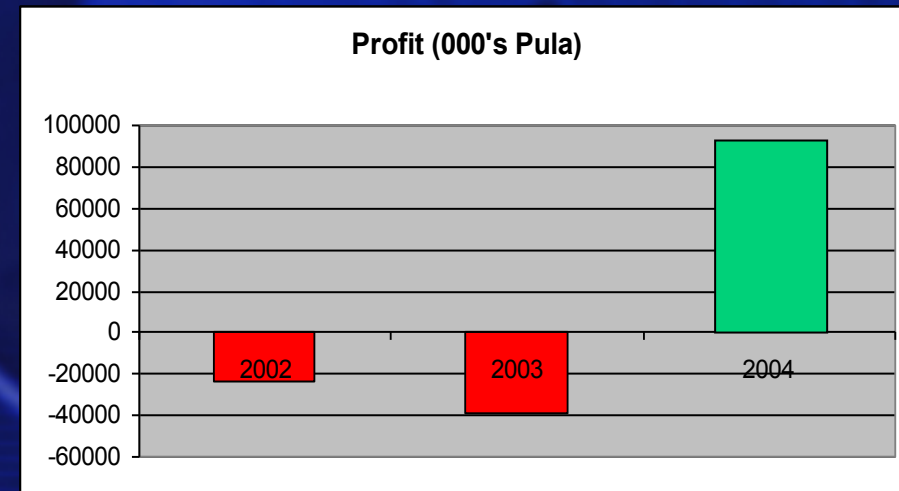


Mobile has become a significant competitor to BTC in the voice market



BTC : Response to Challenges

- Despite competition from mobile, BTC continues to win back customers
- BTC is steadily improving its performance through Transformation
- BTC has now been returned to viability...
- ...despite no price increases since 1999



Performance is better now ...but precariously based on unbalanced prices



Ovum Report – points of departure

Ovum Report says

- Liberalisation needs to be a managed process
- Rebalancing is a precondition
- Competition rules must be fair and evenly applied
- International Facilities should be separated

BTC Says

- Must recognise the specific circumstances in Botswana
- Must be translated into specific, concrete and quantified steps
- Must be translated into jointly agreed milestones
- Must also apply to other elements of pricing
- Licenses should be technology neutral
- Funding for universal access and access deficit must be concrete and specific
- Rationale and benefits unclear



Conclusion – Principles for Liberalisation

- Liberalisation objectives should be to create a framework for growth
- Price Rebalancing is a critical pre-condition
- Competition rules must be fair, open and transparent
- Licensing should be technology neutral
- Jointly agreed Timetable must be critically linked to agreed milestones
- All Operators should share obligations as well as opportunities fairly
- Regulation should only apply where market forces don't work



- **Day 2: Market Situation**

- **Day 3: Impact of Liberalisation on Market development**



Introduction

- Liberalisation Principles (recap)
- Price Rebalancing
- Interconnect
- Milestones
- Conclusions

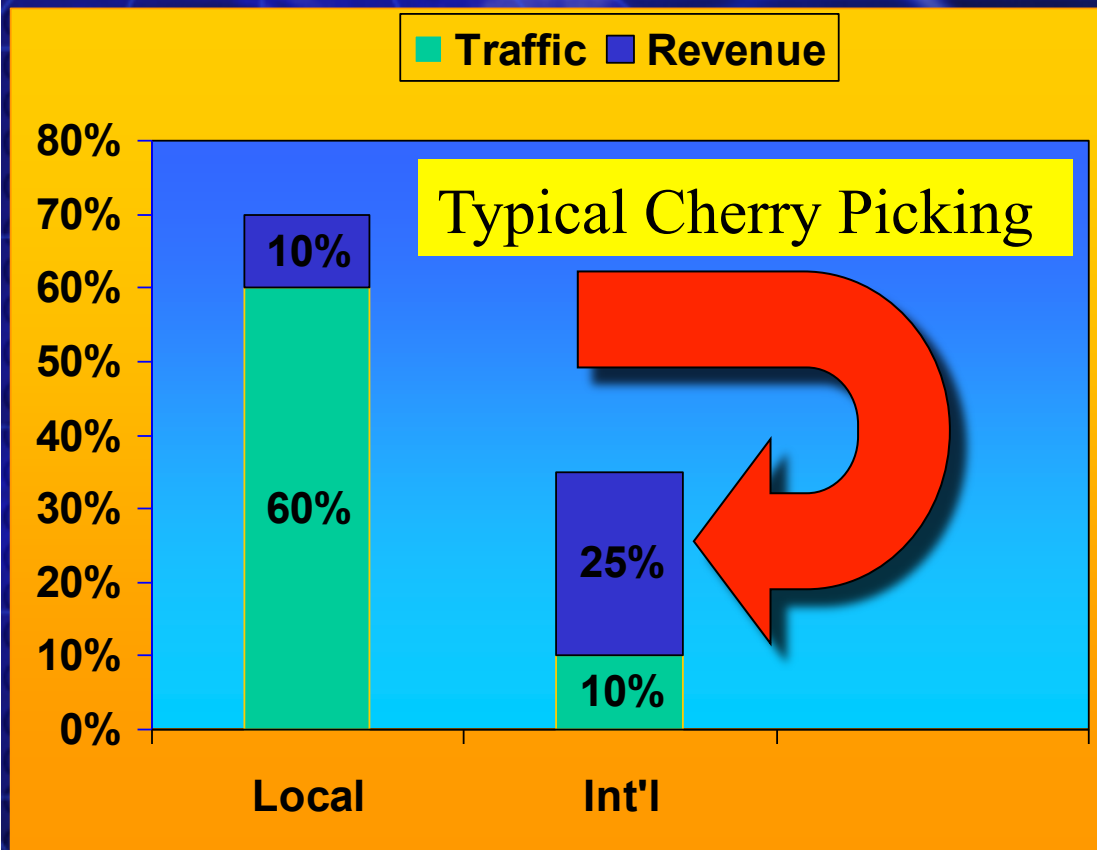


Liberalisation – A matter of Principles (recap)

- Liberalisation Objectives should be to create a framework for growth
- Competition rules must be fair
 - Regulation symmetry between fixed and mobile is essential
 - Rights and obligations for interconnections – and rates – should be symmetric
 - Licensing should be technology neutral; regulations should not impede the natural evolution of telecoms (e.g. convergence, IP networking etc.)
- Timetable must be critically linked to agreed milestones for :
 - Price Rebalancing
 - Terms and conditions for network interconnection
 - Access Deficit compensation
- All Operators should share obligations of universal service
- Regulation only where market forces don't work



Price Rebalancing is Critical



BTC has long sought to rebalance its prices – a precondition to establishing efficient market entry and sustainable competition

New Entrants look to cherry pick profitable product and customer segments

BTC needs these profits to continuously modernise its infrastructure for the benefit of the country

Need to agree milestones which would act as triggers for liberalisation steps



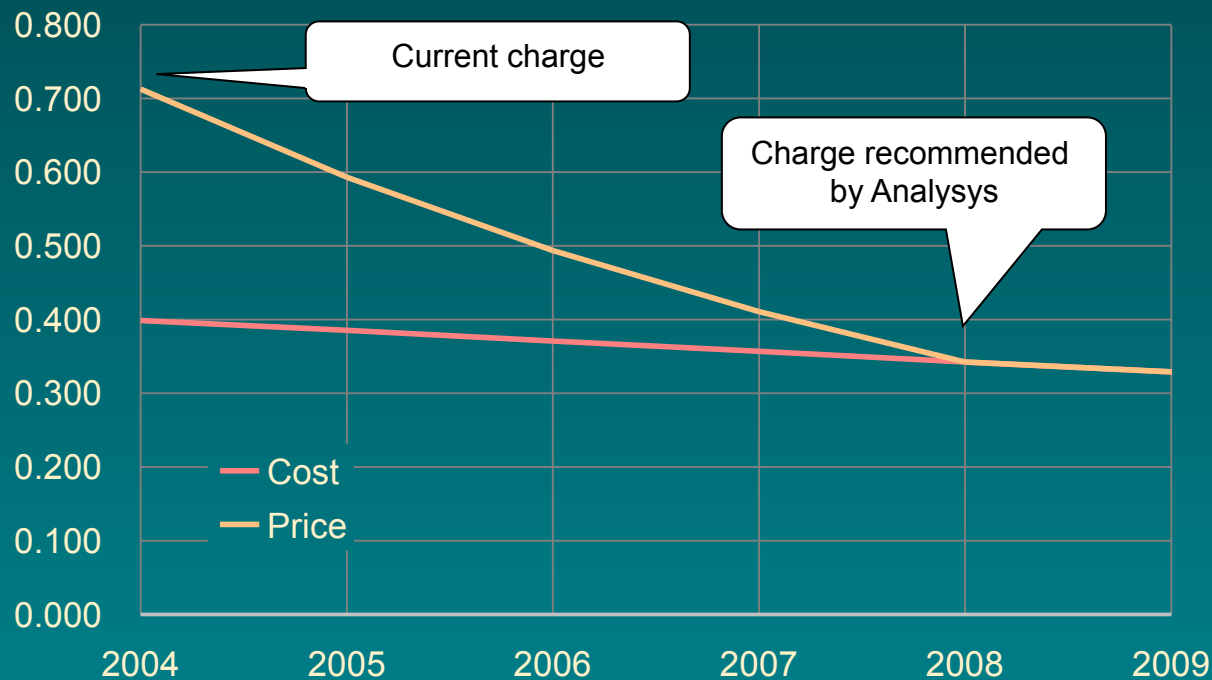
Congruence of Ovum and Analysys reports

- Separate study into costing and tariff regulation has been carried out in parallel by Analysys
- The assumptions for cost modelling and tariff rebalancing do not align with the proposals by Ovum
- The Analysys model suggests that BTC's charges to the mobile operators are close to cost
- The Analysys model suggests that the mobile operators' charges to BTC are significantly above cost (70%) and have been for many years



Analysys Report : Looking for congruence

BTC payment for fixed to mobile calls



Analysys report confirms that BTC is being overcharged for interconnect

These must be corrected before MNO is allowed to self – provide infrastructure and the National Network is liberalised

Year	2005	2006	2007	2008
Price at year start (Real 2003 Pula)	0.59 *	0.49	0.41	0.34

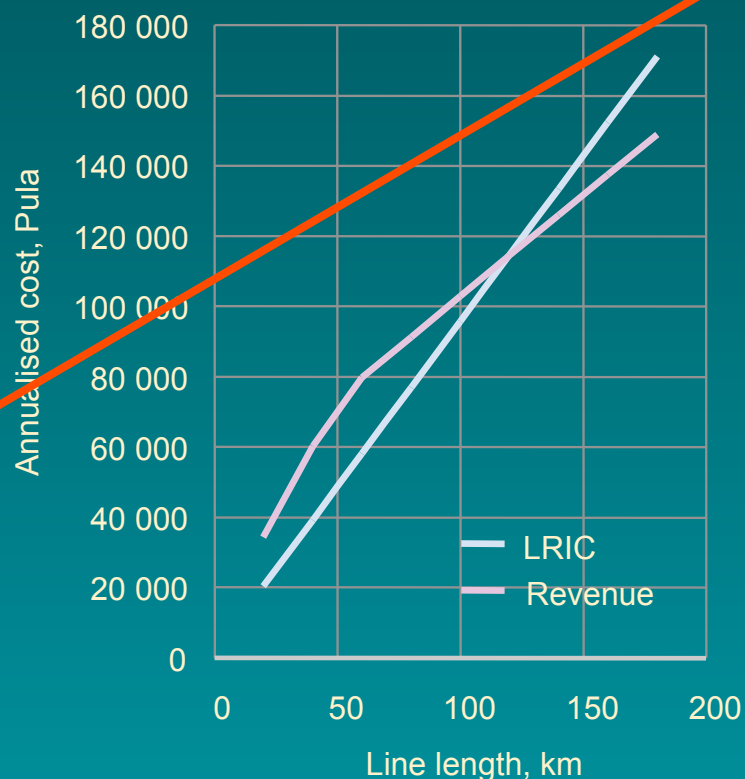


Analysys Report: Leased lines to mobile operators

Recommendation of no intervention

- Model results show that leased-line costs are approximately in line with current prices for an average leased-line length of 100km
- Granularity of input data means the conclusion **at this stage** is that there is no justification for regulatory price control

Leased-line annualised cost and revenue



Analysys report recommends no regulatory price control for MNO leased lines

Recommendations of Analysys should be integrated with Ovum liberalisation steps

Liberalisation steps must be consistent and tied to specific measurable milestones



Milestones and Triggers – illustration

Proposed Step	Required Milestones	Rationale
Fixed/network infrastructure competition introduced	<ol style="list-style-type: none">1. Tariffs rebalanced such that the ratio of long distance to local calls is at an agreed level2. Mobile interconnection charges reduced to cost3. Removal of leased line tariff control4. Licensing BTC to deploy wireless technologies5. Implementation of access deficit and USO cost recovery	<p>Commercial arbitrage must be removed from the national call market before competition can be introduced.</p> <p>The mobile operators should not be subsidised by BTC for interconnection traffic when market is opened.</p> <p>In a liberalised market BTC must be freed from price control</p> <p>The playing field must be levelled by permitting BTC to use wireless technologies to best meet customer needs.</p> <p>Services that use BTC access lines must share the cost of Access deficit .</p>



Milestones and Triggers – illustration

Proposed Step	Required Milestones	Rationale
Self provision of transmission links by mobile operators	<ol style="list-style-type: none">1. Mobile interconnection charges reduce to cost2. Removal of leased line tariff control3. Licensing BTC to implement 3G data and fixed voice technologies4. Agreement on commercial and technical arrangements for MVNO	<p>Interconnection payments must not provide a subsidy to Mascom and Orange to install their own transmission equipment.</p> <p>In a liberalised market BTC must be freed from price control.</p> <p>The playing field must be levelled by permitting BTC to use mobile technologies and offer mobile services, at the same times as the mobile operators are permitted to use fixed technologies.</p>



Milestones and Triggers – illustration

Proposed Step	Required Milestones	Rationale
International voice services liberalised	<ol style="list-style-type: none"><li data-bbox="533 379 1068 419">1. All of items above<li data-bbox="533 483 1068 1086">2. Continue with tariff rebalancing so that the tariff ratio between average international and local calls is at an agreed level. BTC is not able to specify this ratio until the outputs of the Analysys cost modelling report have been fully understood and finalised.	BTC must be given allowed to remove the opportunity for significant cherry-picking by any new international operators.



Conclusion

- **Clear Programme and Milestones for Liberalisation must be based on sensible and balanced Principles**
- **Privatisation should precede completion of Liberalisation**
- **BTC requires ongoing investment, therefore liberalisation needs to ensure a viable fixed line operator**
- **BTC will retain key role in economic development**
- **All existing and Future Players must also contribute to development (possibly through Universal service and Access deficit funds)**