

20 October 2016

Telkom states its position on Integrated ICT Policy White Paper

Telkom has welcomed the publication of the Integrated Information and Communication Technology Policy White Paper noting in particular the policy's attempt to balance universal access with the need to innovate and grow the industry.

Speaking at a technology conference today, Chief Commercial Officer, Dr Brian Armstrong set out Telkom's high-level observations on the positive and potentially negative implications of the policy.

"Our reaction to the white paper is that there is a lot of good in it. Some of it is concerning and there some parts that are potentially dangerous. Our view is that one should regulate where it is necessary and this includes when there is market failure," said Armstrong.

Planned regulatory interventions should be geared toward improving the overall health and sustainability of the industry for the benefit of consumers. To this end Armstrong said that policy must promote competition, promote investment, and ultimately deliver universal access, reduced costs to communicate and enhanced consumer choice. It should recognise the evolution of technology, and there needs to be policy coherence across the various arms and institutions of state.

He highlighted the following positive policy proposals:

1. **Evidence Based Regulatory Interventions:** The commitment that planned future interventions in the ICT sector will be evidenced based is encouraging. This will assist in avoiding untested proposals that may cause irreparable harm to the sector.
2. **Favourable Technology Mix:** The policy recognises that wireless solutions will often be the appropriate manner in which to provide access to rural areas. Telkom has long had the view that rural connectivity should be anchored to key points, such as schools and government departments, by a fixed network. Beyond these points connectivity should be provided via mobile wireless solutions. "This is recognition that fixed and mobile have an important part to play and it's not just about fibre. The open access principles are sound and recognises that mobile is as important for access as fixed," said Armstrong.
3. **Over the Top (OTT) Services:** Telkom supports the measured approach toward the possible regulation of OTT services. We are of the view that regulatory intervention should not compromise innovation, investment and competition.
4. **Open Access Principles:** The policy acknowledges the convergence of fixed and mobile services and also the concentrated nature of the mobile market and to this end proposes an accounting separation of dominant incumbent mobile network operators with significant market power and potential mandatory sharing of their radio access network infrastructure. We are of the view that this is an important first step towards creating a healthier industry that will better serve consumers.

5. **Single Wholesale Open Access Network (SWOAN):** Telkom supports the SWOAN as a means to extend coverage and promote service based competition in underserved areas where the duplication of network infrastructure is economically infeasible. “The principles of such a Wholesale Open Access Network are not yet clearly defined. This includes how existing networks have access to it, who pays for what and who shares what. Issues of demarcation have not been clearly defined. The debate on this is just starting,” said Armstrong.
6. **Restructuring of the Regulator:** We support the need to emphasize economics in the regulation of the sector. We hope the proposal to restructure the regulator will foster a greater degree of alignment between policy and regulation.

Telkom has and always will be an advocate for the democratisation of communication – a prerequisite for inclusive digital transformation. However a balance between business interest and social benefits is necessary.

Armstrong pointed to the following policy proposals that pose a risk to current and planned investment and ultimately the overall health and sustainability of the industry.

1. **Return of Assigned IMT Spectrum:** The proposal to return the currently assigned IMT spectrum goes against international best practice where there is a reasonable expectation of spectrum renewal. Operators have made significant investments in network infrastructure with the expectation of recovering costs over a period. “The fundamental problem is you have spent millions on the network and then have to return it. We need industry engagement on this issue,” Armstrong stated.

The withdrawal of IMT spectrum compromises the operators anticipated return on invested capital and disincentives future expenditure towards network upgrade and maintenance. The result is that the network coverage footprint will stagnate, innovative new services will fail to materialize and the quality of service will deteriorate. This is contrary to the policy objectives enshrined in the Integrated ICT Policy White Paper.

2. **Net Neutrality:** We support the notion of an “Open Internet” and the critical requirement to provide differentiated quality of service in response to consumer requirements. However, the establishment of indiscriminate and unfavourable net neutrality regulations could pose threats to the quality of service delivered to consumers, stifle innovation and may compromise the functionality of the Internet, which is inherently counterproductive.
3. **Designation of Deemed Entities:** The definition of “deemed entities” is too broad as it includes market entities with limited market power and does not specifically address the concentrated nature of the mobile market. According to international best practice, significant market power alone is the criteria for sector specific regulation. An IMT spectrum assignment itself should not be used as a defining criteria for a deemed operator, as having a spectrum assignment does not necessarily lead to market dominance or abusive behaviour. Defining deemed entities in terms of spectrum assignments could entrench the current concentrated mobile market structure and disincentives future investment by new/smaller operators, which are yet to obtain sufficient market share or even enter the market.
4. **Open Access Principles (Fixed Context):** The fixed industry is a dynamic and competitive market, where great progress has been made in the implementation of wholesale architecture. We are seeing very vibrant innovation and competition in the Fibre market and imposing open access to layer 1 of the network may compromise this. It is unnecessary in a market that operates efficiently and will discourage investment towards the expansion, upgrade and continued maintenance of the fixed network.

5. **Single Wholesale Open Access Network (SWOAN) in Metro and urban areas:** “What we are not enthusiastic about in the policy is the assumption that a single access network will also be good for a well-functioning market as we have in urban areas. We don’t believe this is the best way to go for efficiency and competition in the metros. It will also disincentivise investment” said Armstrong. Notwithstanding the relatively concentrated nature of the mobile market at the moment, we are of the view that infrastructure based competition should be preserved in the areas which are currently well served. It will drive innovation, improve quality of service and result in reduced prices.

“It is important that we engage as an industry on these matters. We are heartened by the Department’s openness for discussions on the policy. Any policy should provide predictability and certainty., and drive alignment across the sector. We can’t start the process using one set of rules and then a few years later have another set of rules that applies. The process of regulation must be legally and procedurally sound and focussed on what we want to achieve as country,” concluded Armstrong.

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ABOUT TELKOM:

Telkom is a leading communications services provider in South Africa. We had consolidated operating revenue of R37.3 billion and normalised profit after tax of R4,052 million for the year ended 31 March 2016. Total assets amounted to R46.8 billion and equity attributable to the owners of Telkom to R26.1 billion as of 31 March 2016. The group generated normalised free cash flow of R3.9 billion for the year ended 31 March 2016.

As of 31 March 2016, we had approximately 3.2 million telephone access lines in service and 1,077,939 ports connected via MSAN access. We offer business, residential and payphone customers a wide range of services and products, including:

- fixed-line retail voice services using PSTN (Public Switched Telephone Network) lines, including ISDN (Integrated Services Digital Network) lines, and the sale of subscription based value-added voice services and calling plans;
- fixed-line customer premises equipment rental and sales services both voice and data needs and these include PABX, Computers, Routers, Modems, Telephone handsets and other ancillary equipment;
- interconnection services, including terminating and transiting traffic from South African mobile operators, as well as from international operators and transiting traffic from mobile to international destinations;
- fixed-line data services, including domestic and international data transmission services, such as point-to-point leased lines, ADSL (Asymmetrical Digital Subscriber Line) services, packet-based services, managed data networking services and internet access and related information technology services;
- Data Centre Operations includes e-commerce, application service provider, hosting, data storage, e-mail and security services;

- W-CDMA (Wideband Code Division Multiple Access), a 3G next generation network, including fixed voice services, data services and nomadic voice services;
- mobile communication services, including voice services, data services and handset sales through our mobile brand called Telkom Mobile;
- information and communication services including cloud services, infrastructure services, workspace services, global service integration management and hardware and network equipment sales locally, in seven African countries, the UK and Dubai through Business Connexion Group; and
- other services including directory services, through Trudon (Pty) Ltd, wireless data services, through Swiftnet (Pty) Ltd.
- Convergence is one of our key strategic initiatives in building a sustainable future for Telkom. We will lead the provision of converged services in South Africa in support of our mission statement: Seamlessly connecting people to a better life.