

# Keep our wireless communications industry competitive

By [Luke Muller](#)

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South Africa has leapfrogged into the information age with extensive wireless communications services and speedy smartphone adoption. PricewaterhouseCoopers recently reported that mobile internet penetration is expected to exceed 70% in South Africa by 2020.



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Communication costs in South Africa have been falling in recent decades and more can be done to ensure that progress continues. This was the motive behind the Parliamentary Portfolio Committee on Telecommunications and Postal Services' *Cost to Communicate* report. Some of the proposed interventions, though, will have the opposite of intended effects and instead push communication costs upward.

## A disaster for competition

The committee's report follows a two-day hearing on mobile and data costs in September. One of the strongest recommendations is that the government communications regulatory body (ICASA) should prevent vertical integration by investigating ways to split the wholesale network functions of mobile operators from their retail service operations. This spells disaster for competition.

The recommendation does not seem to differentiate competition and sharing. A split would encourage freeloading by rivals. While this would create a temporary rise in the number of retailers, it would also destroy competition in network creation. The separation of wholesale and retail functions would break down the economic signals which would otherwise steer investment decisions. Technology in the mobile operators sector advances rapidly and companies need to continuously update and create networks.

Over the long run, network creation is more important than increasing the number of retailers on the already existing networks. It would be unwise to sabotage the rapid progress that private mobile operators have made in South Africa since the 1990s. A forced split would remove competitive advantages and disincentivise mobile operators from expanding their wholesale network functions.

A separation will cause a number of significant regulatory and market structure challenges. It will be difficult for regulators to identify an appropriate boundary between wholesale and retail for the split. There are substantial costs associated with the break-up of the integrated firm, both for regulators and the private sector. Costs that South Africa can ill afford to place on a relatively young industry.

## **Spectrum allocation**

The committee's report highlights another issue that deserves more attention. The inefficient allocation of the radio frequency spectrum is a major bottleneck to the expansion of infrastructure by network operators. A bottleneck that was narrowed even more when Telecoms and Postal Services Minister Siyabonga Cwele went to court to stop ICASA from auctioning spectrum licenses. The lack of additional spectrum allocation constrains the rollout of new technologies such as 4G/LTE.

## **The nationalised network**

Another crippling blow to the telecommunications industry is looming if the government carries out its plans, put forward in a recent ICT policy white paper, to create an open-access national network with unallocated mobile spectrum. It also proposes that operators be made to hand back existing spectrum allocations. The white paper creates huge uncertainty for investors in South Africa's mobile network operators. Private companies could not possibly continue to expand and offer new services when competing with a nationalised network.

Communication networks have progressed far since the days of having Telkom as the single monopolistic telecommunication provider. Telkom still hinders competition in fixed-line broadband provision because state ownership does not promote competition. Policy makers and regulators should be celebrating the success of private network operators, not looking to reduce their user base or hinder them. A strong telecommunications sector is the backbone of information industries and a modern economy.

If parliament is serious about lowering communication costs, it would remove regulatory and licensing hurdles, allow ICASA to auction spectrum, move to fully privatise Telkom, and abandon ideas of creating new nationalised networks. A widespread and competitive telecommunications sector is fostered when private companies are allowed to compete without government preference, unnecessary regulation or competition from state owned enterprises.

South Africa's operators have already reached tens of millions of subscribers. User growth trends are continuing across all mobile networks and should be applauded and supported, not sabotaged.

## **ABOUT THE AUTHOR**

Independent economist Luke Muller has published and presented academic papers for the Human Sciences Research Council and writes for the national media on various policy issues including South African markets, globalization and education. He has a particular interest in ICT Policy and the current White Paper. Luke has three degrees in Economics including a Masters.

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