Fixed Mobile Convergence : A regulator's response

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PART 1

Africa: The last telecom frontier

- Explosive growth of mobile telephony
  - 13 million new subscribers in 2003
  - Mobile penetration of 6.2 per 100 inhabitants
  - Revenues of \$ 10 billion and over \$ 1 billion in profits in 2003
  - \$ 1 billion in license fees
  - \$5 billion equipment manufacturers earning since 2000
    - *Reference: Africa: http://www.africafocus.org*

Africa – on the cutting edge of technology

- Most GSM-oriented market outside Europe
- A “wireless continent” characterised by:
  - Pan-African mobile operators
  - Mobile lines surpass fixed line connections
  - Relatively new regulatory frameworks
  - Pre-paid services

What drives FMC?

- Wireless services
- High penetration of mobile telephony
- Fixed mobile call substitution
- Opportunities for reduced CAPEX through network level integration
- Comparative Fixed mobile pricing
- New technologies such as Internet and VoIP to give subscribers one number, one handset, always on.
- Breakdown of international accounting rate for int. traffic due to new technologies

Evidence of response to FMC in the market

- Cross-product and cross-platform development
- Cross-sector shareholding
- Change of consumer behaviour
- Mergers and Acquisitions
- Lowering of barriers to entry
- Cross-jurisdictional operations
- Heavier branding by operators

What opportunities does FMC present?

- New services to consumers
- New ways of doing business
- Potential for innovation and creativity
- New routes to reaching the citizen
- Promotion of consumer choice
- Market growth and transformation
- Increased competition in national and global markets
- Potential to improve quality of life.

How is a regulator to react?

- Need to re-assess the role of regulation
- Divergence on views on role of regulation
- Calls for caution against over-estimating speed of development
- Traditional mono-media regulation hangover
- *Proactive and responsive*

At the basic minimum….

- Regulation should be guided by a need for clear and predictable framework
- Regulation needs to meet a range of public interest objectives whilst recognising the need to promote investment particularly in new services
- Regulation should facilitate full participation by citizens in the information society
- *Regulation should be limited to what is strictly necessary to achieve clearly identifiable goals*

Basic Questions to ask…

- What are the identified regulatory goals?
- Is framework appropriate for their achievement?
- Are competing interests being reconciled?
- Do we need more or less regulation?
- Market leadership or public interest considerations?
- Any evidence of regulatory uncertainties?
- Is market structure adaptive to changes?

And the time to decide is now

- Regulation will play a transitional role as convergence of technologies and markets leads to greater competition: **Fact**
- To shy away or embrace convergence: **Choice**
- Getting the regulatory framework right will assume a higher profile with more competition: **Fact**
- **MAKE A WISE CHOICE**!!!!!

PART 2

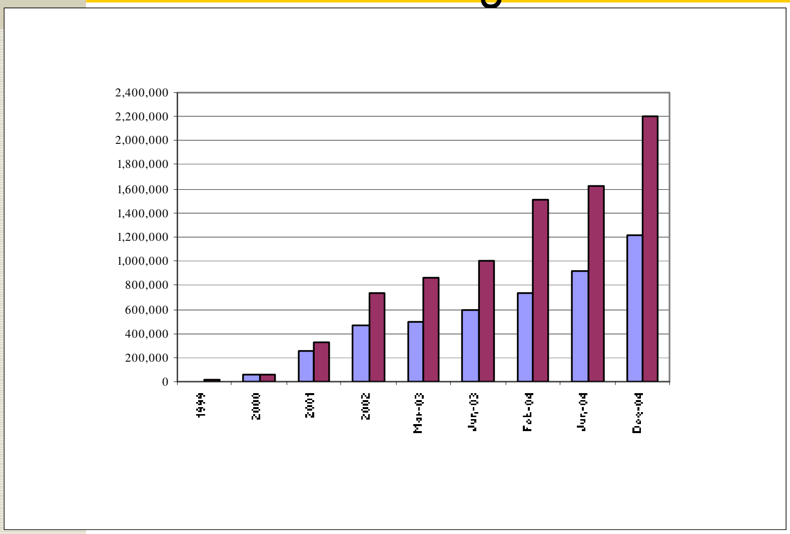
The case in Kenya

- Government owned and controlled prior to 1999
  - Kenya Post & Telecommunications Corporation
- Kenya Communications Act of 1998
  - Sector-specific legislation
  - Liberalization and creation of a regulator
- Sector Policy Statement : issued in April 1999, revised in Dec 2001
  - Technology specific policy and market segmentation

Outcomes Sector Reform

- Liberalization and privatization of the sector to:
  - Encourage private sector **investment**
  - Improve economic **accessibility** to services
  - Improve **quality** in service delivery

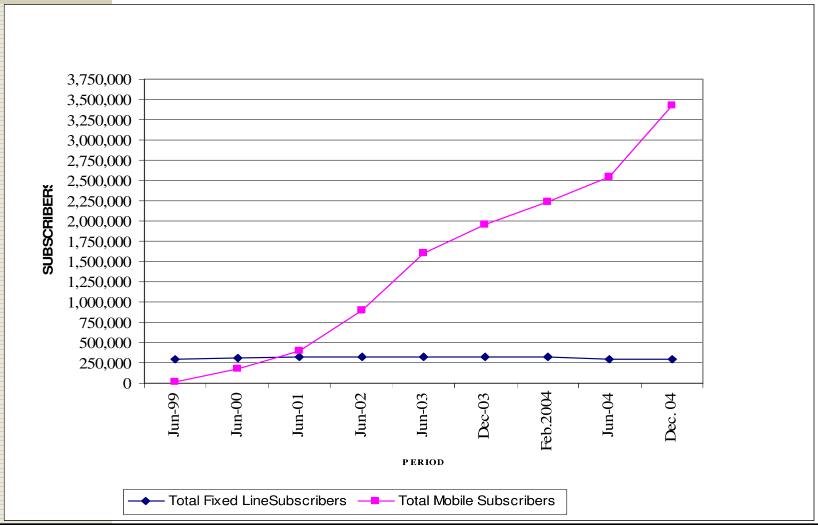
Outcomes Sector Reform : Mobile Subscriber growth



Outcomes Sector Reform: Fixed-Mobile Comparison

Type of Service	Kenya
Fixed Line Operators	1
Fixed Line Subscribers	299,255
Mobile Cellular Operators	**2**
Mobile Cellular Subscribers	**3,421,343**

Outcomes Sector Reform: Fixed-Mobile Comparison



Mobile Telephone Demand Forecast

Total Population*	31,500,000
Total number of households(National)	6,371,370
Households above absolute poverty line	1,593,789
%Households above absolute poverty	25
Population above absolute poverty line	7,875,000
Served	1,600,000
Children below 7 and adults above 90	1,500,000
Difference	4,775,000
Current demand	4.7M-9.4M

* Source: Economic Survey - 2003

Analysis outcomes

- The unmet market demand for telephony in Kenya is between 4.7 and 9.4 million
- Expected economic growth will enhance both qualitative and quantitative demand
- Mobile telephony is poised to meet this demand
- Need to re-assess the regulatory framework

Kenya's reaction

- Views convergence as an opportunity
- Willingness to understand it
- Need for change

1. Licensing

- Licensing framework: Encourage **investment** and foster **competition**
- Phase 1: Technology specific licensing guided by Market structure 2002
- Phase 2: Unified technology neutral licensing proposed in the post exclusivity licensing framework 2004

2. Regulations

- Phase 1: Kenya Communications Regulations 2001
- Phase 2: Kenya Communications Regulations 2005 proposed to cover:
  - Number portability
  - Universal service
  - Competition
  - Consumer protection

3. Initiatives

- Initiative driven by convergence include:
  - **ENUM**: Seamless connectivity between IP and PSTN networks
  - **Network cost study**: Cost based interconnection and retail tariffs
  - **X-border interconnection**: Pan-African mobile operators operating in East Africa

Way forward: The future shape of Regulation

- Optimise opportunities offered by convergence
- Need for an appropriate regulatory environment to complement trend of convergence
- Need to reconcile public interest and competition considerations
- Technological neutrality
- Focus on competition safeguards and consumer protection

Secure public interest objectives

- Appropriate design for universal service provision
  - Should scope of USO be widened ?
- Regulatory harmony for x-jurisdictional operations
  - Initiatives under COMESA, WATRA, ARICEA
- Deal with regulatory barriers

Deal with regulatory barriers

- Market entry: stable and predictable
- Access to networks and content
- Standards interoperability
- Licensing
- Allocation of resources e.g. Frequencies
- Greater focus on consumer interests

CONCLUSION

- Convergence is the way of the future
- Embrace it and run with it or else you will be a museum piece tomorrow

Thank you