South Africa's Mobile Termination Rate Debate: What the Evidence Tells Us

South Africa's (SA's) mobile termination rate (MTR) reductions of March 2011 and March 2012 have not, contrary to the claims made by operators, hurt the industry or led to higher retail prices, lower investments or retrenchments. While end-user prepaid mobile telephony prices have come down to some extent, the prices are still high, and SA's MTRs are still far above the cost of an efficient operator. The regulator's (ICASA's) glide path is too slow and will not take the MTRs down to the cost of an efficient operator. As a consequence, South Africa continues to be among the most expensive countries in Africa for prepaid mobile usage. Fair competition is needed in order to ensure a decrease in mobile tariffs, and above-cost MTRs are one of the main obstacles to fair competition.

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Retail price cuts
Retail prepaid mobile telephony prices have started to drop, but only since the second MTR reduction, which moved the MTR closer to the cost of an efficient operator and allowed smaller players to reduce their off-net prices.

SA still expensive
Prepaid mobile prices remain high. South Africa's mobile affordability is ranked 33rd out of 44 African countries surveyed for cheapest price available from dominant operators. SA's dominant players are still able to retain customers with low on-net and high off-net prices.

Cell C lowers off-net prices
Cell C dropped its off-net rates to R0.99 per minute to match its on-net price, a move only possible after the second MTR reduction (and which was briefly matched by Vodacom).

8ta doubles up airtime
8ta increased its nominal tariffs in September 2012 but offered double-value on airtime recharges, improving SA's affordability ranking to 19th out of 44 in terms of cheapest product in the country.

Telkom biggest winner
Telkom's annual net termination payment (termination revenue minus termination expenses) was R1.9billion less in the 2011-12 financial year than in 2010-11, contradicting its complaints about the impact of MTR cuts on its bottom line.

Vodacom a net beneficiary
Vodacom netted R66million more from call termination in 2011-12 than in the previous year, despite claiming, when the MTR cuts were announced, that it would suffer a R500million net loss.

Introduction

South Africans are beginning to see the benefits of competitive pricing pressure in the prepaid mobile market following the second mobile termination rate (MTR) reduction set by the sector regulator, the Independent Communications Authority of South Africa (ICASA), in March 2012. SA is now, in late 2012, past the midpoint in its three-year glide path as established by ICASA – a path which is to take both peak and off-peak MTRs down to R0.40 by March 2013.

Table 1: Mobile termination glide path in Rands

	Peak	Off peak
March 2011	0.73	0.65
March 2012	0.56	0.52
March 2013	0.40	0.40

Asymmetrical termination rates may apply, whereby operators with less than 25% market share could charge up to 20% more for calls they carried on their networks between 1 March 2011 and 28 February 2012. Thereafter, the maximum premium they could charge fell to 15%, and finally, in March 2013, it will fall to 10%. Only Vodacom and MTN have more than 25% of the mobile market, and only Telkom has more than 25% of the fixed market.

Source: ICASA (2010, 2011)

ICASA's initial downward adjustment of the MTR – the rate that operators charge each other to terminate calls on each other's networks – in March 2011 did not have the intended outcome of a reduction in prices for consumers. Prices remained high in comparison with other African countries. Out of 44 African countries on the Research ICT Africa (RIA) mobile prepaid pricing index, South Africa's ranking (based on the cheapest product of the dominant operator) worsened between January 2012 and September 2012 from 30th to 33rd position. Although in terms of the cheapest product available in the country, SA's ranking improved from 32nd to 19th place for the same period (see Table 6).

Call Termination Regulation

The rationale for regulatory intervention in MTR pricing is that call termination is a monopoly. While call origination can be made competitive in numerous ways, there is simply no alternative to terminating a call on the network of the operator which owns the number a caller is trying to reach. Termination rates above the cost of an efficient operator distort the market and produce anti-competitive effects. Given that mobile termination is an inherent monopoly, regulators have no alternative mechanism besides adjusting termination rates in line with costs – if such adjustments are not made by opera-

Table 2: Claims made by operators in termination rate debate				
Date	**Source**	**Author**	**Title**	**Claim**
15 April 2010	Timeslive	Zweli Mogata	MTN, Vodacom to lose billions over new termination rates	MTN, Vodacom to lose billions
17 May 2010	News Today	Candice Jones & Nicola Mawson	Rate cuts cost Vodacom R200million	Vodacom CFO Rob Schuter said net interconnect revenue is down from R2billion to R1.75billion, a massive 10% loss
22 July 2010	News Today	Leigh-Ann Francis	Rate cuts knock Vodacom	Cost Vodacom close to R400million in one quarter
1 March 2011	ITWeb	Leigh-Ann Francis	No winners from interconnection cuts	Staff retrenchment to offset impact CFO Robert Shuter: Vodacom will incur R800-900million loss in revenue
17 May 2011	ITWeb	Nicola Mawson	Two more years of interconnection pain	Vodacom lost R1.5billion in revenue, net interconnect loss of R500million (quoting CFO Rob Shuter) MTN: R 2.5billion lost in revenues Telkom: interconnect revenue dropped 37.4%
28 March 2012	businesstech (interview on Radio 702)	Rudolph Muller	Lower interconnect rates mean higher retail prices	"I know that it is counter intuitive, but it is what happens," said Knott-Craig, Cell C CEO

tors. Determining costs can be done by a regulator through a benchmarking exercise of termination costs, such as was undertaken in Namibia in 2009, or through detailed cost studies such as those undertaken in Botswana, Kenya, Nigeria, Tanzania and Uganda.[1] There is now overwhelming international evidence from across the world that cost-based MTRs encourage competition and more affordable pricing.[2]

Cost-based termination rates remove market distortions and provide efficient investment incentives. The net effect of fairer competition is lower costs of communication, better services, and more equitable returns on investment for all operators (Stork, 2011, 2012). In support of retaining high termination rates, dominant mobile operators have argued that lowering MTRs will lead to increases in access and usage prices,[3] resulting in fewer people being able to afford communication services and lower profits that limit operators' capacity to invest in network extension and upgrading.

Incumbent operators are quick to point out, and the media to report, the loss in revenue suffered due to termination rate cuts, while generally omitting to report on incumbent operators' cost savings from reduced termination payments. Operators receive termination revenues from, and pay termination fees to, other operators. The question is thus not whether an operator has less revenue from termination after MTR cuts, but rather, how the net profit or net loss from termination has changed and how this affects the operator's overall performance. For example, the annual net profit from termination of South Africa's largest mobile operator, Vodacom, increased by R66million, despite a reduction in its incoming termination revenue, after MTRs were cut by ICASA (see Table 3).

Vodacom

Vodacom's CFO Rob Shuter was quoted in May 2011 as saying that Vodacom would lose R1.5billion in revenue, and would incur a net interconnect loss of R500million, due to the March 2011 MTR cut imposed by ICASA. In reality, Vodacom's annual interconnect revenue dropped by R693million, while its termination rate expenditure decreased by R759million, resulting in an *improvement* of R66million in Vodacom's net interconnect position.

Table 3: Vodacom: impact of mobile termination rates in South Africa, FY ending March			
	2010-11	**2011-12**	**Change**
Interconnection revenue Rands million	6,755	6,062	-693
Interconnection expenditure Rands million	5,682	4,923	-759
Net interconnect profit Rands million	1,073	1,139	66
Subscribers in million	18.8	22.8	4
Operating profit margin	36.8%	37.3%	0.5%
Operating profit Rands million	15,522	16,671	1,149
Traffic (million of minutes)	30,233	35,029	4,796
Prepaid minutes of use (MOU)	95	97	2
Prepaid ARPU in Rand	106	91	-15
Implied minute prices (ARPU/MOU) Rand	1.12	0.94	-0.18
Source: Vodacom (2012a) segment analysis			

Vodacom made R1.1billion net in the 2011-12 financial year (ending March 2012). Given that its operating profits, EBITA margins, subscriber numbers and traffic numbers are all up,

[1]The regulators concerned would do well to share the results of these studies with other regulators, because in vastly different environments the results have tended to be very similar.

[2]See, for example, Stork (2012) for OECD countries.

[3]This is often linked to the waterbed effect and the two-sided market argument. Examples include: http://www.vodafone.com/content/dam/vodafone/about/public_policy/policy_papers/public_policy_series_7.pdf, and http://stakeholders.ofcom.org.uk/binaries/consultations/wholesale/responses/vodafone.pdf (accessed 20 November 2012).

Vodacom was incorrect in its prediction in March 2011 that MTR cuts would force the operator to retrench workers (Mawson, 2011).

An indirect measure of prices is the link between average revenue per user (ARPU) and minutes of use (MOU). Vodacom's prepaid ARPU declined in 2012 while its prepaid MOU increased, which indicates an implied per-minute drop of R0.15. This measure is, however, only a very rough approximation since ARPU includes many other revenue streams in addition to voice such as data/SMS revenues.

Telkom

Strangely, the incumbent fixed-line operator Telkom, which has been at the wrong end of asymmetrical termination rates for nearly two decades, also complained about a loss in termination rate revenue through MTR cuts.[4] In reality, Telkom's total interconnection revenues increased in the 2011-12 financial year.[5]

Table 4: Telkom fixed-line interconnection revenues and expenses in Rands million for financial years ending in March

		2009-10	2010-11	2011-12
Interconnection revenues	Mobile domestic	1,043	498	375
	Mobile international		186	630
	Fixed	228	328	262
	International	1,337	667	490
	Total	2,608	1,679	1,757
Interconnection expenses	Mobile network operators	4,847	3,704	3,218
	Fixed	273	404	306
	International network operators	2,323	792	1,029
	Total	7,563	5,193	4,839
Interconnection loss total		-4,955	-3,514	-3,082
Interconnection loss mobile only		-3,804	-3,206	-2,843
Source: Telkom (2011, 2012)				

As one would expect with there being over 60 million SIM cards active across South Africa's mobile networks, Telkom is a net termination rate payer. Accordingly, Telkom's net termination payments decreased, largely due to the MTR reductions, from R5billion (in the 2009-10 financial year) to R3.1billion in 2011-12. The logic behind Telkom's complaints about the MTR rate cuts thus remains unclear, unless the operator was asking for greater mobile/fixed symmetry (an argument Telkom has not made explicitly).

MTN

A further (frequently overlooked) fact is that termination rate payments are payments between operators. Lower termination rates mean only that net payers pay less and net receivers receive less. No money is taken from the sector; it is a zero sum game. MTN, for example, is a net receiver. Its net profit from call termination (revenues in excess of expenses) for South Africa decreased from R1,085million (in its financial year ending December 2010) to R741million (in its financial year ending December 2011), a decrease of R644million and not a loss of R2.5billion as claimed in May 2011. Its termination revenue decreased by R644million in 2011, while its termination expenses dropped by R300million, leading to a net reduction in termination revenue of only R344million in 2011. And given the large number of subscribers on its network (second only to Vodacom), MTN remained a net receiver of termination rate payments in 2011.[6] MTN's Capex, revenue and EBITDA margins all increased in its financial year ending December 2011 compared to the previous financial year.

Table 5: MTN South Africa: financial years ending December

	2010	2011	change
Interconnection revenue Rands million	6,568	5,924	-644
Interconnection and roaming expenses Rands million	5,483	5,183	-300
Net interconnect cash flow	1,085	741	-344
CAPEX in Rands million	3,908	4,105	197
Revenue Rands million	35,822	38,597	2,775
EBITDA margin	34.1%	35.2%	1.1%
Blended ARPU Rands	152	134	-18
Outgoing MOU	71	69	-2
Implied minute prices (ARPU/MOU) Rands	2.14	1.94	-0.20
Source: MTN (2012)			

MTN's implied per minute price (ARPU/MOU) decreased by R0.20, similar to Vodacom's implied price. The estimate for MTN is based, however, on blended ARPUs (because prepaid APRU and MOU are not reported separately from contract/postpay APRU/MOU by MTN.)

Cell C and Neotel

Because they are private, unlisted companies and non-dominant players, no public information is available for Neotel and Cell C in relation to the impact of MTR cuts. These operators were not willing to divulge such information - even in generalised form without actual figures. With Vodacom and MTN being net receivers, Vodacom even receiving more in

[4]See https://secure1.telkom.co.za/apps_static/ir/pdf/financial/pdf/Annual_Results_Presentation_2011.pdf, p. 6 (accessed 19 June 2012).

[5]See https://secure1.telkom.co.za/apps_static/ir/pdf/financial/pdf/Annual_Results_Presentation_2012.pdf, p. 30 (accessed 20 November 2012). At this time, Telkom had sold its lucrative shareholding in Vodacom (which had enjoyed significant revenues for years from some of the highest (asymmetrical) termination rates in the world), and now had its new mobile service 8ta. 8ta did manage to secure, from the regulator, an asymmetrical termination rate, together with Cell C, for its terminations with the dominant operators Vodacom and MTN. (accessed 20 November 2012).

[6]See http://www.mtn.com/Investors/Financials/Documents/ar_integrated_report2011.pdf, p. 38 (accessed 20 November 2012).

2012 than in 2011, and Telkom being a net payer but paying less in 2012 than in 2011 and 2010, one can assume that Neotel is a net payer.[7]

Link between MTR and retail prices

It is clear, therefore, that there is not, despite what is often claimed by those defending the *status quo* of arbitrarily high termination rates, a uni-directional link between termination rate cuts and higher retail rates. It was thus ironic when the new CEO of Cell C (and former CEO of Vodacom) Alan Knott-Craig, having just slashed the price of prepaid mobile calls by 32% following the latest termination rate reduction, claimed that such a link existed. In an interview on Radio 702, Knott-Craig claimed that lower mobile termination rates typically result in higher retail rates, and not lower mobile call rates. "I know that it is counter intuitive, but it is what happens," said Knott-Craig.[8]

The evidence, as outlined in this Policy Brief, is that Vodacom's interconnection revenues increased due to MTR cuts, and Telkom had to pay less net, while MTN received less net. According to the revenue-replacement-based argument cited above, Vodacom and Telkom should have dropped their retail prices while MTN should have increased retail prices to make up for lower interconnection profit compared to the previous financial year. The reality was different, demonstrating very clearly that operators are affected differently and therefore react differently. The evidence shows that Telkom, for example, passed its MTR savings completely on to its customers, by lowering the cost of fixed-line-to-mobile calls (Telkom, 2012), as did Neotel.[9] This partly explains the higher termination rate profit of Vodacom. Vodacom received 230 million more minutes from fixed-lines in the 2012 financial year compared to the 2011 financial year (Vodacom, 2012b). This is an example of how one operator's net termination profit can increase due to *other* operators' decisions to pass on termination cost savings to their users.

Impact on Retail Prices

The OECD basket methodology used in this paper is based on the OECD's 2006 basket definitions (OECD, 2006). The OECD released new basket definitions in April 2010 (OECD, 2010). One key difference between the 2006 and 2010 mobile basket definitions was the range of operators included. The 2006 definitions included dominant operator/s that together had 50% market share. The 2010 definitions included the two largest operators. Thus, basket analysis of those countries with only two licensed mobile operators would automatically include all operators.

The basket methodology has strengths and weaknesses. Strengths include its ability to compare the products of an operator, to compare cheapest products across operators, and to compare cheapest products available in a country. The basket method thus allows benchmarking of countries, operators and products, and applied consistently, it allows consumers to compare the products of a single operator and between operators. The weaknesses of the basket method include:

- The OECD methodology of 2006 only included dominant operators, and the 2010 baskets included only the two largest operators. The weakness in this focus on dominant/large operators is that price changes following regulatory interventions would mainly be expected from small operators that attempt to gain market share through lower prices. On the other hand, focus on dominant/large operators reflects what people actually pay better than comparing the cheapest product(s) available in a country.
- OECD baskets of mobile packages do not take into account the number of people on each package and the actual minutes of use for each package. The reality is that no one user is "average" and thus actual consumption patterns of individuals might be poorly be reflected by the basket approach. An alternative would be a web-based tariff calculators in which users can input their actual consumption patterns.
- The same on-net/off-net basket is used for all operators, in spite of the fact that subscribers to smaller operators are likely to have different typical on-net/off-net ratios to those of larger operators.

In an effort to compensate for some of the weaknesses just outlined, the analysis provided in this paper was based on application of the 2006 OECD basket definitions to all operators from 53 African countries, including all prepaid products. The data related to 342 mobile prepaid products from 188 operators from 53 countries, as collected by RIA from January 2010 to September 2012.[10] Table 6, as in the previous policy brief, displays the results for 44 countries. This data collection over more than a year allows the comparison of the cheapest prepaid product available from dominant operators in a country with the cheapest prepaid product available across all operators in the country – thus capturing the degree of pricing-pressure competition in each country studied.

South Africa performed poorly in the January 2012 price comparison, ranking only 30th in terms of the affordability of prepaid mobile products from dominant operators. The cheapest product from Vodacom (dominant operator) for the OECD low-user basket had a price of R81.3/USD11 in January 2012 (the Prepaid All Day rate per minute), compared to only USD2.4 in Mauritius. Meanwhile, for the cheapest prepaid product in the country across all operators, South Africa only ranked at 32nd in affordability in January 2012. The cheapest products were from Cell C's EasyChat 99c offering, at a tariff of R0.99 per minute.

[7]This highlights the need for ICASA to collect actual figures for all interconnection revenues and payments from operators, for standardised time periods, in order to determine exactly the impact of termination rate cuts.

[8]See http://businesstech.co.za/news/mobile/8603/lower-interconnect-rates-mean-higher-retail-prices-cell-c-ceo/(accessed 20 November 2012).

[9]See www.techcentral.co.za/neotel-cuts-call-prices/21409 published 25 February 2011 last viewed 26 April 2012 (accessed 20 November 2012).

[10]See data reported at www.researchICTafrica.net

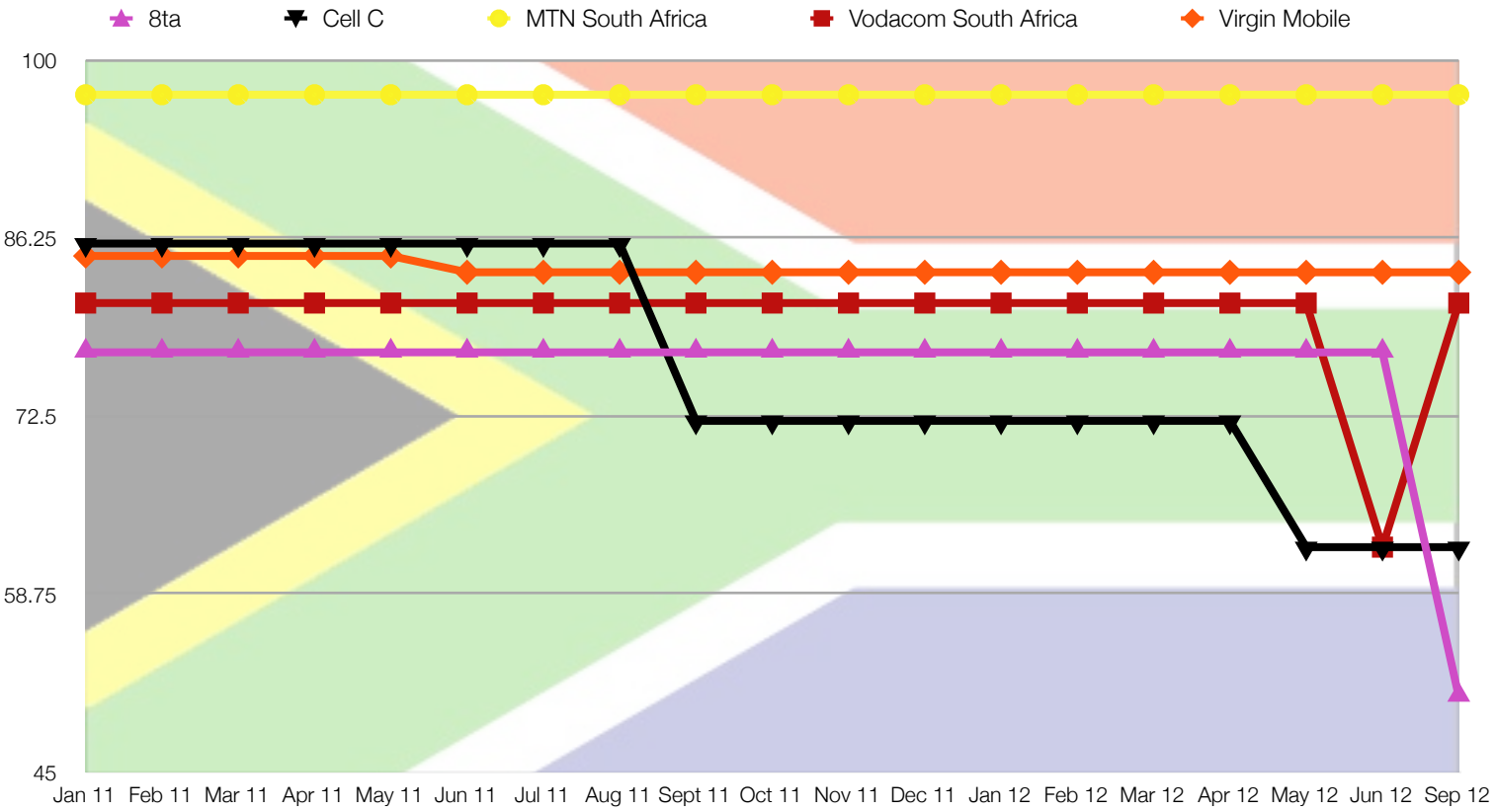

Figure 1: South Africa, low user basket in Rands (source: Fair Mobile Index available at www.researchICTafrica.net)

ICASA's MTR cut of March 2011 did not have the intended outcome of creating a fairer competitive environment and a reduction in retail prices for mobile subscribers. Cell C, which as a later entrant into the market (after Vodacom and MTN) has, together with 8ta, enjoyed asymmetrical termination rates since the introduction of the glide path in March 2011, reduced its prices in September 2011. By lowering on-net prices to R0.99 per minute via its 99c product, Cell C became the cheapest in the market. However, the other operators withstood this pricing pressure and retained their prices.

Pricing pressure did come after the second termination rate cuts of March 2012, when Cell C slashed its prepaid off-net and fixed-line rates by 32% to R0.99 per minute (previously only on-net prices had been at R0.99 per minute) while retaining per-second billing. Vodacom immediately followed suit with a promotion offering the same price of R0.99 across all networks as one of its prepaid products (called Freedom 99). This was presumably a cautionary step by Vodacom designed to test price elasticity among its own subscribers. Vodacom withdrew the product after a few months.

8ta is, in November 2012, the cheapest operator in South Africa – not based on its tariffs but on its provision of 100% free airtime for every recharge (i.e. a R100 recharge gives the user R200 airtime). It remains to be seen whether this will be a temporary promotion or a long-term feature of 8ta's packaging. Regardless, this offering had the effect of moving SA's ranking, in terms of the cheapest product available in a country, up to 19th place in mobile prepaid telephony affordability in the September 2012 ranking (see Table 6). Meanwhile' SA's ranking in terms of cheapest product from a dominant operator worsened between January 2012 and September 2012, dropping to 33rd position (see Table 6).

Figure 1 shows that the dominant operators MTN and Vodacom kept their prices unchanged in 2011. 8ta, the latest entrant into the market in October 2010, was the cheapest operator in the country until August 2011 when Cell C, which has only managed to acquire 10% market share since it became operational in 2001, introduced its aforementioned 99c tariff.

However, dynamic pricing as offered by MTN and Vodacom is difficult to track for an outsider or regulator. Changes in discounts granted would not show in RIA's prepaid price comparison, which is based on advertised tariffs. MTN, for example, states that its on-net prices may be discounted at up to 100%, but it does not specify which discounts are available for off-net and fixed-line calling prices. RIA thus assumed that across Africa, an average discount of 30% was given by all dynamic pricing products from all operators, for on-net as well as off-net and fixed-line calls and also across peak, off-peak and off-off peak time periods. This assumption may be high for on-net but low for off-net discounts. It may also be high for off-off-peak discounts and low for peak discounts.

However, in the absence of any better information (MTN opted, for example, not to disclose actual discounts to RIA), these are the best and fairest assumptions that can be made (and equally applied to all operators and countries).

The implied price comparison (ARPU/MOU) indicates that both Vodacom and MTN granted better discounts for their dynamic pricing products in the last financial year compared to the previous year.

Table 6: September 2012: Monthly costs of OECD low user basket 2006 definition in USD

Country name	Cheapest product from dominant operator		Cheapest product in country	
	Rank	US$	Rank	US$
Mauritius	1	2.39	6	2.39
Kenya	2	2.61	3	1.90
Namibia	3	2.74	7	2.74
Egypt	4	2.85	8	2.85
Sudan	5	3.08	1	1.17
Ethiopia	6	3.33	10	3.33
Ghana	7	3.38	9	3.28
Libya	8	3.90	14	3.90
Rwanda	9	4.28	15	4.28
Tunisia	10	4.30	2	1.81
Guinea	11	4.62	4	1.93
Sierra Leone	12	5.04	12	3.88
Benin	13	5.21	17	5.21
Tanzania	14	5.40	11	3.75
Uganda	15	5.51	16	4.51
Congo Brazzaville	16	5.63	18	5.63
Nigeria	17	5.85	13	3.89
Algeria	18	6.21	5	2.28
Mozambique	19	7.20	20	7.20
Mauritania	20	8.02	23	7.77
Sao Tome & Principe	21	8.21	25	8.21
Liberia	22	8.51	24	8.09
Mali	23	8.78	28	8.78
Burkina Faso	24	8.88	27	8.53
Togo	25	9.28	31	9.28
Botswana	26	9.41	22	7.66
Cameroon	27	9.61	33	9.61
Central African Republic	28	9.86	34	9.86
Senegal	29	10.08	32	9.37
Chad	30	10.14	35	10.14
D.R. Congo	31	10.37	21	7.62
Côte d'Ivoire	32	10.41	36	10.41
South Africa	**33**	**11.07**	**19**	**6.93**
Zambia	34	12.05	26	8.22
Madagascar	35	12.24	37	11.71
Niger	36	12.30	29	8.88
Swaziland	37	12.53	40	12.53
Morocco	38	12.93	42	12.93
Zimbabwe	39	13.48	41	12.56
Angola	40	13.76	38	12.13
Malawi	41	14.51	43	14.51
Lesotho	42	15.24	39	12.43
Gabon	43	16.11	30	9.09
Cape Verde	44	18.15	44	18.15

Source: Research ICT Africa
FX= average 2010

The available evidence on mobile prepaid pricing in South Africa demonstrates that the dominant mobile operators, Vodacom and MTN, are sufficiently entrenched in the market as to not be significantly worried by the price-cutting efforts of late entrants Cell C and 8ta.

However, and more importantly, none of the prepaid mobile prices has increased since March 2011, despite two MTR cuts, demonstrating, at the very least, that there is no "waterbed effect" (i.e. a reduction in termination rates resulting in an increase in retail rates).

Operators have argued that it is flawed to compare different countries without comparing quality and coverage, arguing that South Africa has some of the most advanced networks in the world and extremely high population coverage.[11] While these assertions are true, it is also true that other countries with much lower prices are enjoying extensive national coverage and latest-generation networks with the help of proactive regulators, engaged governments and booming economies. Movicel of Angola[12] and MTC of Namibia[13] were the first operators in Africa to deploy LTE, in April/May 2012, followed by Mauritius's second-largest mobile operator, Emtel, launching its commercial LTE service at the end of May 2012, and Smile Communications in Tanzania launching commercial LTE service in June 2012.

Conclusion

The belated and insubstantial MTR reductions in South Africa, initially through political pressure rather than cost-based regulation, have failed to produce the positive competitive outcomes witnessed in countries such as Mauritius, Kenya, Namibia and Ghana. In South Africa, dominant operators have been able to withstand pricing pressure because the MTR reductions have apparently been too small to allow marginal late entrants to sufficiently undercut incumbent operator prices.

The cases of Namibia and Kenya, where significant MTR reductions have occurred, demonstrate the positive effect on retail prices which can occur as a result of pricing pressure on dominant operators. Meanwhile, the South African case demonstrates that the pass-through to consumers of MTR savings is not automatic, and that relatively small reductions in termination rates do not provide new entrants with sufficient room to compete, i.e. to put their off-net prices in competition with the on-net prices of dominant operators in order to attract subscribers to their smaller networks. Only MTRs set at the costs of an efficient operator will lead to the dynamic competition, with all its benefits for the consumers and the economy, witnessed in Namibia and Kenya.

On the other hand, mobile retail prices in South Africa have certainly not gone up to compensate for losses in MTR revenues – contrary to what the regulator ICASA was told about the unintended outcome of termination rate reductions.

[11] See Lloyd Gedye (13 April 2012) Mail & Guardian at http://www.mg.co.za/article/2012-04-13-icasa-fails-consumers-report-says (accessed 20 November 2012).

[12] See http://www.pcadvisor.co.uk/news/network-wifi/3353225/angolas-movicel-launches-lte/ (accessed 20 November 2012).

[13] See http://www.news24.com/SciTech/News/Namibia-rolls-out-LTE-network-20120521(accessed 20 November 2012).

Moreover, the MTR reductions have not pushed Vodacom or MTN to the brink of bankruptcy or into worker retrenchments. Both did better in the last financial year, compared to the previous year, in all key performance areas – and should in fact be basking in the knowledge that they have grown the market.

The case of South Africa, as in many other countries, shows that there is no uni-directional link between MTRs and retail prices, contrary to the claims of those defending the *status quo* of arbitrarily high MTRs. The evidence in South Africa, as elsewhere, is that the setting of mobile retail prices is not primarily a question of revenue replacement but rather one of profit maximisation in a competitive environment where the choices of one operator influence the revenues and profits of another. The erroneous argument sold to regulators – that termination rates and retail prices are linked through a two-sided market, and that reductions in termination rates will result in an increase in retail prices – is not supported by the evidence.

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