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ERSA working paper 729

January 2018

Economic Research Southern Africa (ERSA) is a research programme funded by the National Treasury of South Africa.

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Regulatory ambiguity and policy uncertainty in South Africa's telecommunications sector*

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January 17, 2018

Abstract

The competitive effects of telecommunications transactions and the related impact that they have on economic growth and employment are influenced by the regulatory environment that governs the sector. In South Africa, the Independent Communications Authority of South Africa (ICASA) is responsible for implementing and enforcing ex ante regulation, while the Competition Commission's role is to identify and remedy anti-competitive behaviour. In this paper it is shown that a lack of clarity about the joint jurisdiction of ICASA and the Competition Commission has created an uncertain regulatory environment with high costs to the South African economy.

Date Submitted: June 2016

1 INTRODUCTION

Technological development in the communications sector creates overlap in the platforms through which services are provided, and increases the variety

*There have been many developments in South Africa's telecommunications sector since this paper was originally submitted. The Competition Act and Electronic Communications Act are both currently being amended, and the Competition Commission as well as ICASA have launched inquiries into the sector. These developments emphasise the importance of the issues raised in this paper, and create scope for further academic and policy research on these matters.

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of services that can be offered over a single device. This process is known as convergence. Consider, for example, the Skype application which offers video-calling services with equal ease on smart phones as well as computers. These kinds of developments in telecommunications markets require operators to adapt their service offerings to remain competitive. To do so, it is often more cost effective for service providers to acquire existing firms than to invest in new infrastructure or to grow these services organically.

These dynamics in South Africa's telecommunications sector are evidenced by a number of transactions that have recently come before the competition authorities. An example is MTN (a mobile network operator) who acquired a controlling share in Afrihost (an internet service provider), with the transaction approved by the Competition Tribunal in October 2014. The transaction allows MTN and Afrihost to leverage off each other's investment in broadband and other infrastructure. A further example is Telkom's acquisition of Business Connection (BCX) during 2015, a company experienced in the provision of information technology (IT) services, which was conditionally approved by the Competition Tribunal. Rather than growing Telkom Business organically, the transaction enables Telkom to use BCX to enhance its IT services offering. Also during 2015, the Competition Commission ('the Commission') recommended that the Tribunal prohibit the proposed large merger whereby MTN would acquire certain aspects of Telkom's Radio Access Network (RAN)¹. It argued that the merger would limit Telkom Mobile's ability to grow and compete independently against MTN and other mobile operators. This recommended prohibition caused the parties to abandon the transaction.

The proposed merger between Vodacom (the largest mobile network operator in SA) and Neotel (the second fixed line operator), had to be adjudicated by both the Commission and the Independent Communications Authority of South Africa (ICASA). ICASA approved the transaction (subject to some conditions) during 2015. This decision was however reviewed and set aside in its entirety by the High Court early in 2016. The merger before the Commission was also abandoned by the parties. This transaction is dealt with in detail later in the paper.

The competitive effects of these transactions and the related impact that they have on economic growth and employment, is a function of the regulatory environment that governs the telecommunications sector. South Africa's telecommunications sector is regulated by ICASA², which shares responsibil-

¹The RAN network is the telecommunications network that connects subscribers to immediate service providers. It consists of base stations (RAN sites) on which network infrastructure (e.g. user equipment, antennae, etc.) is established.

²ICASA was established by the ICASA Act in 2000 to regulate broadcasting and

ity with the Commission to facilitate competition. This is provided for by sections 3(1A)(a) and 82 of the Competition Act (as amended), according to which concurrent jurisdiction over competition matters applies where a sector is subject to regulation by another regulatory authority.

In this paper, we consider the role of the South African competition authorities (the Commission and Tribunal) to facilitate competition in the telecommunications sector, and the telecommunications regulator (ICASA) to correct market failure through implementing pro-competitive licencing conditions. We compare ex ante economic regulation and ex post competition policy with a focus on telecommunications transactions. We further evaluate South Africa's experience in implementing concurrent jurisdiction in the telecommunications sector, by looking at three examples: an abuse of dominance complaint against Telkom, mobile termination rate regulation, and the role that spectrum regulation played in the failed acquisition of Neotel by Vodacom.

2 EX ANTE ECONOMIC REGULATION VERSUS EX POST COMPETITION POLICY

"Ex ante" regulation refers to explicit market intervention by the regulator 'before the fact'; in other words regulation in order to establish conditions within the industry so as to ensure that the relevant market functions optimally. "Ex post" regulation refers to the opposite situation, where no explicit market intervention is performed, but the regulator will detect and investigate alleged prohibited practices within any industry or sector and, if necessary, punish or remedy any identified unlawful conduct. Competition authorities enable competitive markets ex post by investigating alleged anti-competitive behaviour and evaluating merger activity. In contrast, sector regulators are obligated to implement ex ante regulation to correct market failure. The table below provides an overview of the general differences between ex ante regulation and ex post competition policy.

Before we investigate the application of these characteristics to South Africa's telecommunications sector, it is worth noting that the EU and US differ in their use of ex ante regulation and ex post competition policy. The differences stem from a broader contrast in how these jurisdictions view the role of competition authorities, and is in their treatment of dominant firms: while the US places a strong focus on the protection of consumers and the competitive process, the EU focuses on the preservation of competitive telecommunications in the public interest.

valry and argues that the protection of competitors is essential for consumer welfare . EU competition law, for example, tries to protect competitors by emphasising the importance of 'equality of opportunity' to enable new entrants to enter the market .

In the EU, competition policy is enforced by the European Commission across its member states. Individual member states still have national regulatory authorities responsible for regulating their telecom sectors, but operators remain liable for cross-border competition infringements under European competition law. This approach was highlighted in the case of alleged price squeeze by *Deutsche Telekom*³ (DT), the dominant provider of fixed telephone networks in Germany: the European Commission found DT guilty of a price squeeze despite the fact that DT's pricing practices complied with the specifications of the German telecoms regulator, RegTP. It evidences that, in the EU, national sector regulation effectively has a secondary role and is seen as complementary to competition rules.

In contrast, the US places a greater emphasis on the role of sector regulators to maintain competition, and considers competition law as supplementary to ex ante regulation. US case precedent has shown that in evaluating a price squeeze in a regulated industry, there is hardly a role for competition law. In *Verizon Communications Inc. v. Law Offices of Curtis V. Trinko*, the Court argued that "the additional benefit to competition provided by antitrust enforcement will tend to be small, and it will be less plausible that the antitrust laws contemplate such additional scrutiny" . It was further argued that it would be difficult for antitrust courts to evaluate competition infringements in regulated sectors, given their lack of sector specific knowledge .

South Africa's approach to synthesising competition and regulatory policy seems to align more closely with that of the EU. In what follows, we consider the various characteristics of ex ante regulation and ex post competition policy summarised in Table 1.

2.1 General purpose

To avoid over-regulating a sector, ex ante regulation should in principle only be applied if ex post competition policy alone cannot address observed market failure. Ex post competition policy addresses competition concerns by identifying harm and implementing necessary penalties or remedies. Potential competition concerns in the telecommunications sector include denying access to infrastructure for downstream service providers (i.e. a refusal to deal),

³Deutsche Telekom AG v Commission of the European Communities (2003)

or implementing non-price strategies (such as bundling and tying, delaying tactics, quality issues, etc.) or price strategies (such as price discrimination, predatory pricing, margin squeeze and cross subsidisation) with the aim of excluding other market participants .

Forward looking ex ante regulation can however prescribe business conduct in markets where structural problems cause market failure. The European Commission lists three criteria, all of which need to be satisfied, to identify markets in which ex ante regulation is required. If a market does not satisfy these criteria, ex post regulation through competition policy should be sufficient to address competition concerns.

" National regulatory authorities should ensure that the following three criteria are cumulatively met⁴:

- (a) the presence of high and non-transitory barriers to entry. These may be of a structural, legal or regulatory nature;
- (b) a market structure which does not tend towards effective competition within the relevant time horizon. The application of this criterion involves examining the state of competition behind the barriers to entry;
- (c) the insufficiency of competition law alone to adequately address the market failure(s) concerned."

With reference to the first criteria, high and non-transitory barriers to entry are common in the telecommunications sector. Fixed line networks are expensive to duplicate and can create a structural entry barrier, giving incumbent operators access to a large share of the network infrastructure necessary for providing downstream services. It may be more effective to impose ex ante regulation than ex post competition policy on such 'high risk' markets, but in the absence of ex ante regulation, it remains the competition authority's responsibility to ensure competitive wholesale markets.

Barriers of a regulatory nature, such as access to radio frequency spectrum, can also limit the ability of new operators to enter the market. In South Africa, spectrum allocation is regulated by ICASA, but in merger assessments the Commission may be required to evaluate the competitive effects of changes in the control of spectrum. In fact, this is exactly what

⁴Commission Recommendation of 17 December 2007 on relevant product and service markets within the electronic communications sector susceptible to ex ante regulation in accordance with Directive 2002/21/EC of the European Parliament and of the Council on a common regulatory framework for electronic communications networks and services (2007/879/EC)

happened in the proposed acquisition of Neotel by Vodacom. The Commission took a view that spectrum regulation should be finalised within a period of two years and therefore recommended that Vodacom should not get access to the Neotel spectrum during this period.

In defining markets for ex ante regulation, note that a lack of competition in the retail market does not necessarily imply a need for ex ante regulation at this level. Ex ante regulation at the *retail* level should only be implemented if regulation at the wholesale level has failed to affect competition. The rationale is that "[by] intervening at the wholesale level, NRAs can ensure that as much of the value chain is subject to the competition process as possible, thereby delivering the best outcomes for end-users".

Recommendation 2007/879/EC of the European Commission notes that "[t]he objective of any ex ante regulatory intervention is ultimately to produce benefits for end-users by making retail markets competitive on a *sustainable basis*". In line with the criteria presented above, ex ante regulation should not be imposed to the extent that it stifles investment and innovation. At the same time, authorities should heed against too little regulation at the cost of consumer choice and competitive dynamics. Ex ante regulation should be progressively reduced as competition develops, so that the telecommunications sector is ultimately governed by competition law only.

2.2 Policy intervention

Ex ante regulation is typically implemented by a sector regulator, such as ICASA, which imposes licence conditions or regulations to govern the activities of licensees. In contrast, ex post competition policy relies on general competition principles captured in competition legislation that spans across all sectors. It occurs by way of market enquiries (such as the Commission's ongoing private healthcare enquiry and retail market enquiry), and the enforcement of penalties and remedies for anti-competitive behaviour.

As per the South African Competition Act of 89 of 1998, the Commission is responsible for the "investigation, control and evaluation of restrictive practices, abuse of dominant position, and mergers⁵". In contrast, ICASA's ex ante policy mandate is to licence and regulate broadcasting and telecommunication services in South Africa, as set out in the Electronic Communications Act (EC Act). The EC Act came into effect in 2005, repealing the Telecommunications Act of 1996 and the Independent Broadcasting Authority Act of 1993. It was introduced as a result of the increasing overlap between telecommunications and broadcasting services (as a consequence of

⁵Competition Act 89 of 1998.

convergence), and gives ICASA the power to advance competition in these sectors. The EC Act allows ICASA to issue licences for Electronic Communication (EC) services, Electronic Communication Network (ECN) services, and broadcasting services. Specifically, Chapter 10 Section 67 of the EC Act gives ICASA the power to deal with competition matters in the telecommunications sector.

The relationship between ICASA and the Commission is captured in a Memorandum of Understanding (MoU), 2002, which sets out the "manner in which the parties will interact with each other in respect of the investigation, evaluation and analysis of mergers and acquisitions transactions and complaints involving telecommunications and broadcasting matters"⁶. The MoU states that in terms of merger applications, the parties "shall submit separate and concurrent applications to the Commission (in accordance with Competition Act) and to the Authority (in accordance with the Independent Broadcasting Authority Act, the Broadcasting Act and the Telecommunications Act) for their respective consideration"⁷. The Commission must deal with complaints about restrictive horizontal and vertical practices and abuse of dominance, while ICASA must deal with contraventions of telecommunications and broadcasting licence conditions and legislation. This process was followed in the proposed Vodacom/ Neotel transaction, which had to be approved by both the Commission and ICASA, due to the implications of the proposed merger on, inter alia, the change in control of spectrum.

Despite the provisions of the MoU, it has not always been clear where ICASA's responsibility ends and the Commission's responsibility begins. Various amendments to legislation over the past decade have attempted to refine the nature of concurrent jurisdiction between the Commission and ICASA. Prominent examples include the Competition Amendment Act of 2009, the EC Amendment Act of 2014, and the ICASA Amendment Act of 2014. One of the provisions in the legislation which continues to complicate questions of concurrent jurisdiction, is section 67(9) of the EC Act, which reads: "Subject to the provisions of this Act, the Competition Act applies to competition matters in the electronic communications industry" (own emphasis). This section of the EC Act implies that ICASA has the final say in the conduct of telecommunications licensees, and in effect excludes the application of the Competition Act from all competition matters addressed by the EC Act. The Competition Amendment Act is intended to make an important change to this section by replacing the phrase "*Subject to*" with "*Despite*",

⁶Government Gazette No. 23857. 20 September 2002. Memorandum of Agreement entered into between the Competition Commission and ICASA (para. 1.1)

⁷Government Gazette No. 23857. 20 September 2002. Memorandum of Agreement entered into between the Competition Commission and ICASA (para. 2.1)

to clarify that the Competition Act applies despite the existence of provisions in the EC Act dealing with competition matters. However, the Competition Amendment Act has not been brought into effect as a whole. Only two sections of the Amendment Act have been promulgated⁸, while the rest of the Amendment Act (which was signed into law in 2009) has been waiting to be brought into effect.

A change to the EC Act itself partially addressed this problem: the EC Amendment Act of 2014 removed Section 67(1) to (3) of the EC Act. These sections previously granted ICASA the authority to act against a licensee (or a person providing a service pursuant to a licence exemption) who engages in acts that may "substantially prevent or lessen competition by, among other things (a) giving undue preferences to; or (b) causing undue discrimination against" any other licensee⁹. The deletion of these sections absolved ICASA from enforcing ex post competition regulation, and helped to clarify that the Commission has the primary responsibility to deal with ex post competition contraventions in the telecommunications sector.

However, ICASA maintains its ex ante competition jurisdiction and has the power to promulgate regulation or impose licence conditions aimed to address the conduct of licensees that have significant market power (SMP). Sections 67(4) to (7) in the EC Act set out the conditions that allow ICASA to impose ex ante pro-competitive regulation. It considers how ICASA should define the relevant markets, prescribes the methodology for identifying SMP, and how ICASA should go about imposing pro-competitive terms and conditions. ICASA's mobile termination rate regulation flows from this mandate. Section 67(8) of the EC Act stipulates the process that ICASA must follow to determine whether a lack of competition in a market justifies imposing pro-competitive licencing conditions for licensees who are found to have SMP . The removal of sections 67(1) and (2) from the scope of ICASA's mandate therefore followed the logic that in markets where structural market failure inhibits competition, ICASA's power to impose ex ante regulation (as per the rest of section 67 of the EC Act) should invalidate the need for ex post jurisdictional responsibility .

A further change in the ICASA Amendment Act of 2014 also goes some way in clearing up some of the remaining uncertainty of implementing concurrent jurisdiction, by adding, as section 4B(8)(b) the following provision: "subject to section 67 of the Electronic Communications Act and the terms and conditions of any concurrent jurisdiction agreement concluded between

⁸The market inquiry provision was brought into effect in March 2013 by Proclamation 5 of 2013, GG36221.

⁹Government Gazette No. 28743. 18 April 2006,

the Authority and the Competition Commission, bear in mind that the Competition Commission has primary authority to detect and investigate past or current commissions of alleged prohibited practices within any industry or sector and to review mergers within any industry or sector in terms of the Competition Act¹⁰. However, as will be shown below, this amendment does not provide sufficient clarity, as ICASA chose to defer the analysis of competition issues in the Vodacom/ Neotel merger to the Commission, but was found to have been 'wrong in law' by the High Court on this point.

2.3 The role of market definition

Market definition lies at the core of ex post competition policy and is an important step in determining anti-competitive behaviour. It also plays an important role in ex ante competition regulation, as section 67 of the EC Act mandates ICASA to identify and define markets with SMP. In the European telecommunications regime, market definition for the purpose of identifying a need for ex ante regulation is common practice. Article 16(6) of Directive 2002/21/EC ("the Framework Directive") stipulates that national regulators need to carry out a round of market analyses every three years to ensure that the markets defined as requiring ex ante regulation still satisfy the criteria. Recommendation 2007/879/EC identified seven markets (one at retail level and six at wholesale level) that required ex ante regulation, and reduced these to five markets in 2014.

Table 2 lists the markets identified in the EU in the 2007 and 2014 Recommendations. The boundaries of markets 4, 5 and 6 were redefined in 2014, and are listed next to the corresponding market as defined in 2007. Fewer markets in need of regulation were identified than in 2007, and specifically no retail market requiring ex ante regulation was defined in the 2014 Recommendation. This attests to the effectiveness with which market liberalisation has given rise to more effective competition and has reduced the need for ex ante regulation.

Following European precedent, in 2007 ICASA gave notice of its "intention to prescribe regulations in terms of section 67(4)(a) [of the EC Act] to define and identify the retail or wholesale markets or market segments in which the Authority intends to impose pro-competitive measures in cases where such markets are found to have ineffective competition"¹¹. ICASA accordingly listed in excess of 30 potential retail and wholesale markets to investigate for signs of SMP or ineffective competition, with the aim of imposing

¹⁰Government Gazette No. 37537. 7 April 2014.

¹¹Government Gazette No. 30622. 21 December 2007. Notice 1809 of 2007.

pro-competitive conditions in markets where anti-competitive conduct is detected.

Since announcing its intention to do so in 2007, ICASA has only defined one market in which to impose ex ante pro-competitive measures: the market for "wholesale call termination on a service provider's network, where each market is national in scope"¹². To define this market, it (1) followed the principles of the Hypothetical Monopolist Test, taking into account non-transitory entry barriers and the dynamic character of the relevant markets; (2) did an assessment of market shares in the relevant markets; and (2) did a forward-looking assessment of competition and market power in the relevant markets. ICASA then published Call Termination Regulations in 2010 ('the 2010 MTR regulations') and introduced a three year glide path from March 2011 to March 2014 for mobile (and fixed) termination rates (MTRs), as well as associated levels of asymmetry.¹³ These regulations were implemented to correct four types of observed market failures: (1) a lack of the provision of access; (2) a potential for discrimination between licensees offering similar services; (3) a lack of transparency; and (4) inefficient pricing.¹⁴ Yet, as discussed later in this paper, ICASA's attempt at fostering competition in the telecommunications sector through ex ante regulation of termination markets has been slow and difficult, which may be the reason why no further markets for ex ante regulation have been defined to date.

2.4 Information requirements

The Commission and ICASA rely on largely similar sources of information to inform their decisions, but follow different approaches in the way they analyse the information. The Commission primarily evaluates market conduct by investigating behaviour at the firm level. It evaluates anti-competitive behaviour or proposed transactions by looking at the activities of e.g. a dominant mobile operator within the context of the broader telecommunications market.

ICASA casts the net wider than the Commission by focusing on the general market structure. It evaluates the industry as a whole to identify potential market failures, but also relies on detailed firm level information to gain an understanding of market conditions. An example of this approach is ICASA's Cost to Communicate Programme (announced in 2013), which has the overall goal of "[achieving] fair and reasonable prices for products

¹²Government Gazette No. 30449. 9 November 2007. Notice 1627 of 2007.

¹³Government Gazette No. 33698. 29 October 2010. Notice 1015 of 2010.

¹⁴Ibid.

and services offered by licensees"¹⁵. In addition to the regulatory review of call termination markets, the Programme planned to include a broadband value chain analysis, recommendations to guide local loop unbundling, the finalisation of the review of the market for wholesale transmission services for Digital Terrestrial Television, and the monitoring and evaluation of ICT indicator data.

2.5 Remedies and conditions

Regulatory authorities enforce remedies through imposing fines when licence conditions are not met, while competition policy can similarly remedy anti-competitive behaviour through fines. In addition, competition authorities can remedy potential anti-competitive effects of mergers by imposing structural or behavioural remedies prescribed to govern the activities of merging firms. Structural remedies prescribe structural change on the part of the merging parties, and although it is easier to monitor, structural remedies are irreversible. While behavioural remedies require close monitoring, it holds the potential to be adjusted as the market develops.

The Commission's recommended conditions for the proposed Vodacom/ Neotel merger are an example of behavioural remedies. The proposed conditions included preventing Vodacom from using Neotel's spectrum to offer wholesale or retail services for two years following the transaction, and requiring Vodacom to commit to R10 billion investment in fixed line infrastructure. A similar approach was followed in evaluating the Telkom/ BCX merger, which was approved with conditions by the Competition Tribunal in 2015. Although generally more benign in terms of competition effects, vertical mergers in telecommunications markets may give rise to anti-competitive effects through strategies that raise rivals' costs. Because of these concerns, Dimension Data intervened in the Tribunal's decision, arguing that the proposed remedies would not be sufficient to prevent Telkom from engaging in anti-competitive conduct. The parties subsequently proposed additional conditions, which were approved by the Tribunal.

¹⁵Government Gazette No. 36532. 4 June 2013. Notice 574 of 2013.

3 EXAMPLES OF REGULATORY AMBIGUITY IN SOUTH AFRICA'S TELECOMMUNICATIONS SECTOR

Despite the amendments to the ICASA Act in 2014, there is still no clarity as to how concurrent jurisdiction between ICASA and the Commission should be dealt with in practice. The implications and costs of an ambiguous regulatory framework in the telecommunications sector are illustrated with three examples below: abuse of dominance by the fixed line incumbent (Telkom); the regulation of mobile termination rates; and the importance of spectrum regulation for a competitive telecommunications environment, with a focus on the Vodacom/ Neotel merger.

3.1 Telkom case

Ambiguity in the different jurisdictional responsibilities of the Commission and ICASA emerged in May 2002, when the South African VANS Association (SAVA), the Internet Service Providers Associations (ISPA), as well as 18 VANS providers lodged a complaint ("the SAVA complaint") with the Commission against Telkom for abuse of dominance and anticompetitive behaviour. A further complaint by Internet Solutions and Omnilink in August of the same year was combined with the SAVA complaint.

In 2004, the Commission referred the complaint to the Tribunal for adjudication, arguing that Telkom's behaviour "constituted an exclusionary act in terms of section 8(c) of the Act, and/or a refusal to provide access to an essential facility in terms of section 8(b) of the Act, and/ or price discrimination in terms of section 9 of the Act". Telkom applied for a review of the referral on the grounds that - among other constraints - the Commission did not have the power to refer the matter to the Tribunal, and that the Tribunal did not have the power to make a judgement on its conduct in this regard, as the dispute involved matters dealt with in the telecommunication licenses and consequently was the responsibility of ICASA and not the competition authorities. The Commission in turn opposed the review, reasoning that Telkom's alleged contraventions of the Competition Act were not authorised by the Telecommunications Act (which was the legislation in force at the time of the referral by the Commission), ICASA, or its licence conditions.

The High Court ruled that the Commission's complaint referral was invalid (although its decision was not based on the question of the respective authorities' jurisdiction). Both the Commission and Telkom appealed the decision. The Commission appealed on the grounds that the High Court

erred in its judgement, while Telkom appealed for a further judgement that the competition authorities were not entitled to investigate and make a ruling regarding Telkom's conduct .

This raised the matter to the Supreme Court of Appeal to test whether the Telecommunications Act limited the application of the Competition Act. The Supreme Court of Appeal set aside the earlier High Court ruling , thereby allowing the Commission to examine Telkom's conduct and clarifying that there is concurrent jurisdiction between the competition authorities and ICASA in investigating competition issues in South Africa's telecommunications sector.

The matter was referred back to the Commission who found that Telkom had contravened the Competition Act by engaging in exclusionary practices and refusal to provide access to essential facilities. More than a decade after the initial complaint was brought before the Commission, Telkom was ordered to pay a fine of R449 million . A further complaint, relating to a later time period, was settled between the Commission and Telkom in 2013 .

One anomaly remains: the Supreme Court of Appeal's decision was based on the Telecommunications Act, which was the legislation governing the telecommunications sector at the time that the Commission investigated Telkom's conduct and at the time that the referral was made to the Tribunal. The remaining contradictions between the EC Act, the ICASA Act and the Competition Act (given that section 67(9) has not yet been amended) could mean that if the Supreme Court of Appeal were to decide in favour of Telkom in respect of a referral that took place after July 2006, the outcome could have been different.

3.2 Mobile termination rates

Another example of the importance of a coordinated approach to ensure competition in the telecommunication sector is illustrated by the regulation of mobile termination rates (MTRs). As described above, ICASA introduced asymmetric MTRs in 2010 with the purpose of acknowledging the higher costs of the smaller operators (such as Cell C and Telkom Mobile) as compared to the larger operators (Vodacom and MTN). After the expiry of the 2010 MTR regulations in March 2014, new MTRs with a higher level of asymmetry were introduced, but were taken on review by Vodacom and MTN and were declared by the High Court as unlawful and invalid. The declaration of invalidity was suspended for six months while the regulations were reviewed, and new MTRs with a lower level of asymmetry were published by ICASA in September 2014 ('the September 2014 regulations'). Shortly after publication, however, Cell C announced that it would challenge the new rates based

on the premise that the new regulations would be ineffective in promoting competition and would further entrench the dominance of incumbent players . The review of the September 2014 regulations reached the end of the road when Cell C withdrew their application early in 2016.

Besides the difficulty that ICASA has had in determining the appropriate mobile termination rates, it could be argued that asymmetry had the unintended consequence of exacerbating on-net/ off-net price discrimination. Such 'tariff mediated network effects' are predicted by the economic literature, following a widening of asymmetry. Operators can adjust their on net/off-net price differentials to promote on-net offers thereby enhancing the 'club effect'; the rationale being that if a smaller operator imposes a higher termination rate as a result of asymmetric MTR regulations, a larger operator can increase its off-net price by the difference between its own MTR and that of the smaller operator . In October 2013, Cell C lodged a complaint with the Commission against Vodacom and MTN, alleging anti-competitive conduct through price discrimination and excessive pricing by the incumbent operators.

This example illustrates the importance of ICASA and the Commission coordinating policy: while ICASA imposed ex ante regulation to correct market failures in wholesale termination markets, the Commission has to rely on ex post competition policy to address the anti-competitive conduct that arises as a result of the incentives created by the regulations.

3.3 Spectrum regulation

While applications for mergers and acquisitions are lodged with the Commission, ICASA needs to provide regulatory approval for service and spectrum licence transfers in terms of section 13(1) of the EC Act (as amended). The EC Act states that "an individual licence may not be let, sub-let, assigned, ceded or in any way transferred, and the control of an individual licence may not be assigned, ceded or in any way transferred, to any other person without the prior written permission of the Authority".

With demand for mobile data expected to continue increasing in the coming years, access to high quality spectrum is pivotal in allowing mobile operators to provide such services. The growing demand for broadband has led ICASA to formulate policy proposals for the assignment of high demand spectrum, specifically in the 800MHz and 2.6GHz bands . However, the policy directive published in 2011 has not yet been finalised, and has delayed ICASA's spectrum assignment plan. ICASA's delays in allocating spectrum are forcing operators to think strategically about transactions which provide access to spectrum. More spectrum allows operators to expand their net-

works without having to invest as extensively in fixed infrastructure such as RAN sites.

Access to spectrum was an important rationale in the Vodacom/ Neotel transaction, and illustrates the conundrum of concurrent jurisdiction between ICASA and the Commission: whereas ICASA had to evaluate the legality of the change in control of spectrum (amongst other things), the competition authorities have the primary authority to review the merger and the competitive effect that it may have on the telecommunications industry. ICASA hearings on the acquisition of Neotel by Vodacom saw the *transfer or control* of Neotel's spectrum licence as a key point of contention. Neotel has access to high quality spectrum in the 800MHz, 1.8GHz and 3.5GHz bands, which Vodacom could repurpose to roll out its 4G/LTE broadband network . At the ICASA hearings, MTN specifically objected to the transfer of Neotel's spectrum to Vodacom, arguing that in order for the deal to proceed, Neotel's spectrum should be handed back to ICASA and reassigned to operators on an equitable basis. ICASA nevertheless approved the merger, subject to certain ownership conditions.

This approval was taken on review by Cell C, Telkom, MTN and Dimension Data, to the High Court. The judgement of the High Court is important as it illustrates the problems with concurrent jurisdiction. The judgement explains that ICASA decided that it was not necessary to consider the impact of the Neotel/Vodacom application on competition and deferred this issue to the Commission. The judge then questions whether ICASA misdirected itself in law and concludes on this issue that: "I am of the view that ICASA had a statutory duty to also consider the issue of competition in order to promote the objects of the EC Act before a decision was taken. Put differently, the statutory obligation to promote competition within the ICT sector implies an obligation to also consider and take into account competition, which is part of the decision making process and cannot be delegated or deferred to another organ of state. ICASA's failure to do so and its decision to defer to the Competition Commission were both, in my view, wrong in law". The Vodacom/ Neotel transaction confirms the ongoing uncertainty in the telecommunications regulatory environment and the associated costs thereof.

4 CONCLUSIONS

ICASA and the Commission share the responsibility of preventing and penalising anti-competitive conduct, to enable effective competition in South Africa's telecommunications sector. Regulatory and competition legislation

have created a framework whereby ICASA has the mandate to impose ex ante regulation to foster competition in the telecommunications sector through implementing pro-competitive licencing conditions, while the Commission has the power to address competition complaints through the Competition Act. The ICASA Amendment Act of 2014 gives the Commission the primary responsibility to review mergers and identify and address alleged competition concerns in the sector. However, this did not clarify the uncertainty around the respective roles of ICASA and the Commission.

The European Commission has dealt with such uncertainty by defining specific markets where the market structure implies a need for ex ante regulation by an independent regulator. ICASA's attempts to follow a similar route has achieved limited success to date, with only the wholesale call termination market being identified as in need of ex ante regulation. Complaints about resulting anti-competitive behaviour by operators have subsequently been handled by the Commission.

The importance of concurrent jurisdiction is observed in the Vodacom/Neotel transaction, where the transaction had to be approved by both ICASA and the Commission. In addition, the Commission had to evaluate the anti-competitive effects of the merger prior to ICASA's finalisation of its regulatory processes in regards to the allocation of spectrum. The Commission tried to accommodate this policy lacuna by proposing behavioural remedies (conditions) which would have prevented Vodacom from using Neotel's spectrum for two years after the approval of the transaction. ICASA's conditional approval of this merger was later reviewed and set aside by the high court, and the transaction was abandoned by the parties. The criticism of the judge against ICASA's deferment of competition issues to the Commission, illustrates that even though the ICASA Amendment Act grants the Commission the primary authority to review mergers in the sector, ICASA cannot simply ignore the effects of its actions on competition. To avoid further unnecessary costs to the South African economy, more clarity is needed on what concurrent jurisdiction in South Africa's telecommunications sector means in practice.

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Table 1: Comparison of ex ante regulation and ex post competition policy in South Africa

	EX ANTE REGULATION	EX POST COMPETITION POLICY
General purpose	Forward looking: prescriptive business conduct	Backward looking: harm based
Policy intervention	Sector specific intervention by an independent regulator	Overarching legislation based on general competition principles
The role of market definition	The market is defined in broad terms to avoid over regulation and having adapt regulations to subtle shifts in technology/ innovation	Likely to adopt a relatively narrow view of product markets
Information requirements	General as well as detailed information on market structures	Fact-specific information regarding specific market conduct
Remedies and conditions	Very specific in the prescription of remedies; requires extensive monitoring (e.g. adhering to specific licencing conditions)	Structural or behavioural remedies to address a specific abuse

Source: Adapted from (Alexiadis, 2012); (Buigues, 2006)

Table 2: Markets susceptible to ex ante regulation in accordance with Directive 2002/21/EC

	2007 Recommendation	2014 Recommendation
Retail markets	<u>Market 1:</u> Access to the public telephone network at a fixed location for residential and non-residential customers	
Wholesale markets	<u>Market 2:</u> Call origination on the public telephone network provided at a fixed location	
	<u>Market 3:</u> Call termination on individual public telephone networks provided at a fixed location	<u>Market 1:</u> Wholesale call termination on individual public telephone networks provided at a fixed location
	<u>Market 4:</u> Wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location	<u>Market 3a:</u> Wholesale local access provided at a fixed location
	<u>Market 5:</u> Wholesale broadband access	<u>Market 3b:</u> Wholesale central access provided at a fixed location for mass-market products
	<u>Market 6:</u> Wholesale terminating segments of leased lines, irrespective of the technology used to provide leased or dedicated capacity	<u>Market 4:</u> Wholesale high-quality access provided at a fixed location
	<u>Market 7:</u> Voice call termination on individual mobile networks	<u>Market 2:</u> Wholesale voice call termination on individual mobile networks

Source: Recommendation 2007/879/EC; Commission Recommendation of 9.10.2014