



Competition Assessment of Tanzania Telecoms Market



Dr. Raynold C. Mfungahema

**Director, Consumer and Industry Affairs
Tanzania Communications Regulatory Authority (TCRA)**



Tanzania Basic Statistics



Total population	47,133,000	2013	NBS
Demographic growth	2.70	2012	NBS
Total population 2015	52,291,000	2014	FAO
Ratio rural population %	75.21	2014	UNDP
Country area (km ²)	945,000	2012	NBS
Population density (hab. / km ²)	51	2012	NBS



Layout of the Presentation



1. **Introduction**
2. **Overview of the Telecommunications Industry in Tanzania**
3. **Approach to Market Definition and Analysis**
4. **Findings of the Competition Assessment Study**
5. **Conclusion**



1.0 Introduction



- Assessment of competition in the Telecoms Market is a study to review the state and nature of competition in the market
- The study provides the bases for understanding the level and nature of existing competition in relevant markets and recommend appropriate regulatory measures
- The main objective is to regulate and promote effective competition and economic efficiency in the communications sector



Introduction Cont'd



Specific objectives are;

- To review and assess the level of competition in each identified markets
- To determine the existence of dominance in the identified markets
- To identify anti- competitive practices in the markets
- To determine the markets which will be subject to revised and/or additional ex-ante regulations



Introduction Cont'd



- Two studies have already been undertaken so far; 2011 by PWC (identified 9 relevant markets) and in 2014 by TCRA (identified 10 relevant markets)
- Sections 61 and 62 of EPOCA gives powers to the Authority to determine dominant position of electronic communication licensee in the relevant market
- Section 62(1) of EPOCA requires the Authority, not later than 31st December, of each year, to publish relevant markets in the Gazette a list for the following calendar year

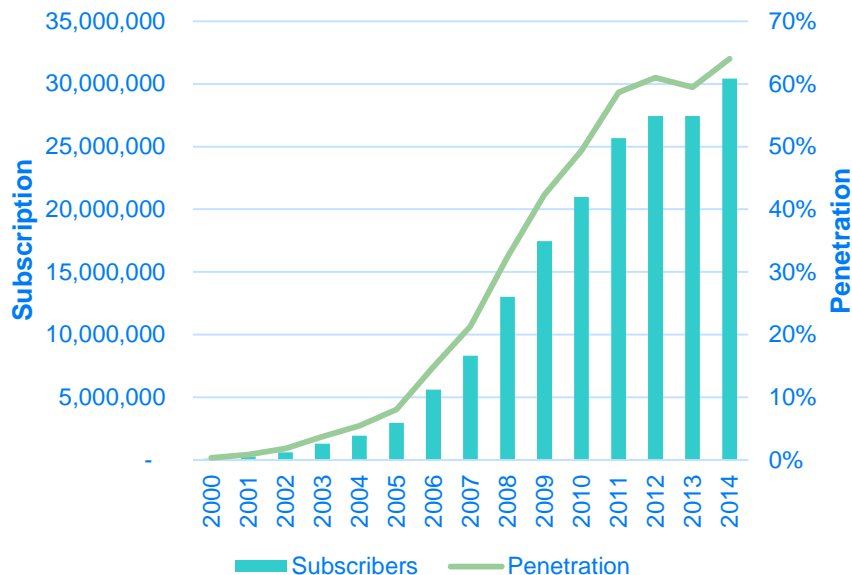


2.0 Overview of the telecom Industry



- Mobile Subscribers have increased considerably in recent years reaching 30,580,609 million in September 2014 with a penetration rate of 64%.
- In contrast, the number of fixed subscribers continued declining reaching 150,149 as of September 2014 (with a penetration rate of 0.3 %)

Mobile Subscription and Penetration



Fixed Subscription and Penetration



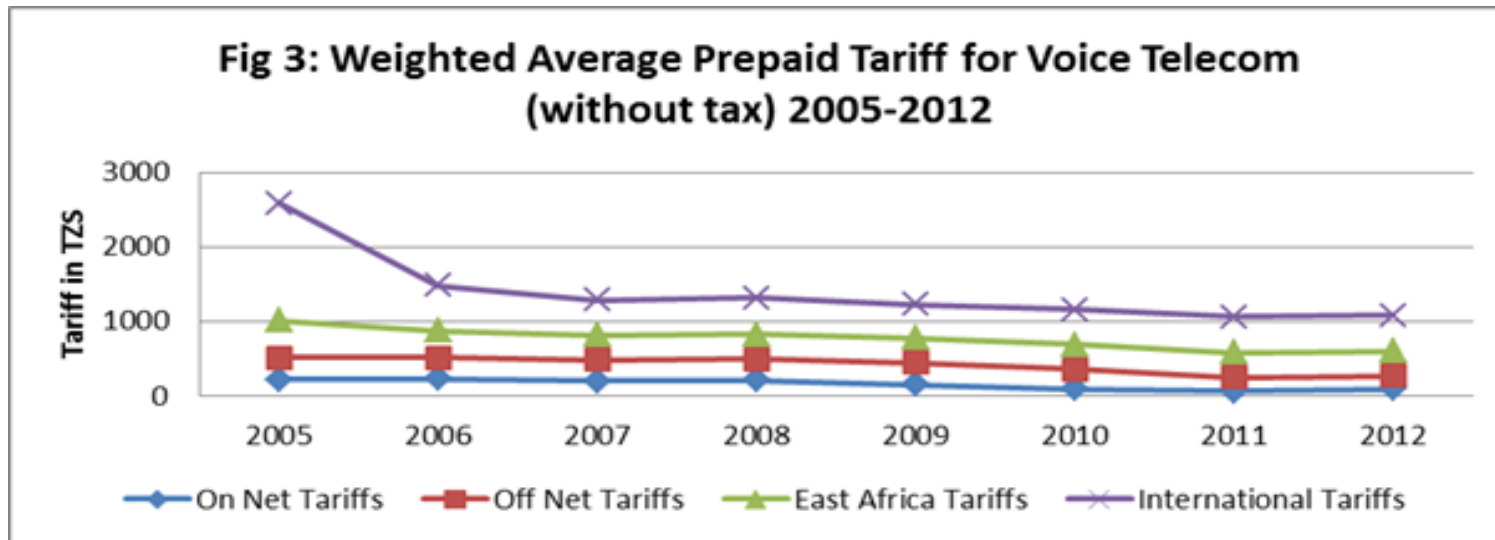


Overview of the telecom Industry Cont'd



Evolution of Tariffs for voice telephone

- Generally, there has been a decline in tariffs since introduction of competition in 2005
- Increased market competition has generated good market outcomes in terms of decreased prices and affordability.





Overview of the telecom Industry Cont'd



Data Markets & Internet Services

- Tanzania has experienced a rapid growth in the uptake of the Internet services since the introduction of Converged Licensing Framework (CLF) in 2005.
- The Internet services are provided by operators with Application Service Licenses (ASLs).
- The number of ASL increased significantly from 23 licensees in 2005 to 95 by December 2012
- The number of the Internet subscribers increased from 3,565,740 in 2008 to 9,314,285 million in 2013

Access Type	Subscriptions by Access Type (Dec.2013)					
	2008	2009	2010	2011	2012	2013
Internet Cafes	126,000	215,640	264,960	216,720	228,960	234,720
Organizations/Institutions	244,000	2,588,000	2,663,200	2,824,550	2,758,250	3,359,200
Household/Individual	993,732	1,574,752	2,132,360	2,269,948	4,533,668	5,718,352
Total	1,365,740	4,380,401	5,062,530	5,313,229	7,522,890	9,314,285



3.0 Approach to Market Definition and Analysis



Regulation of telecoms – why and how...

Why

is telecoms
regulated?

- Market power
- Externalities

How

is telecoms
regulated?

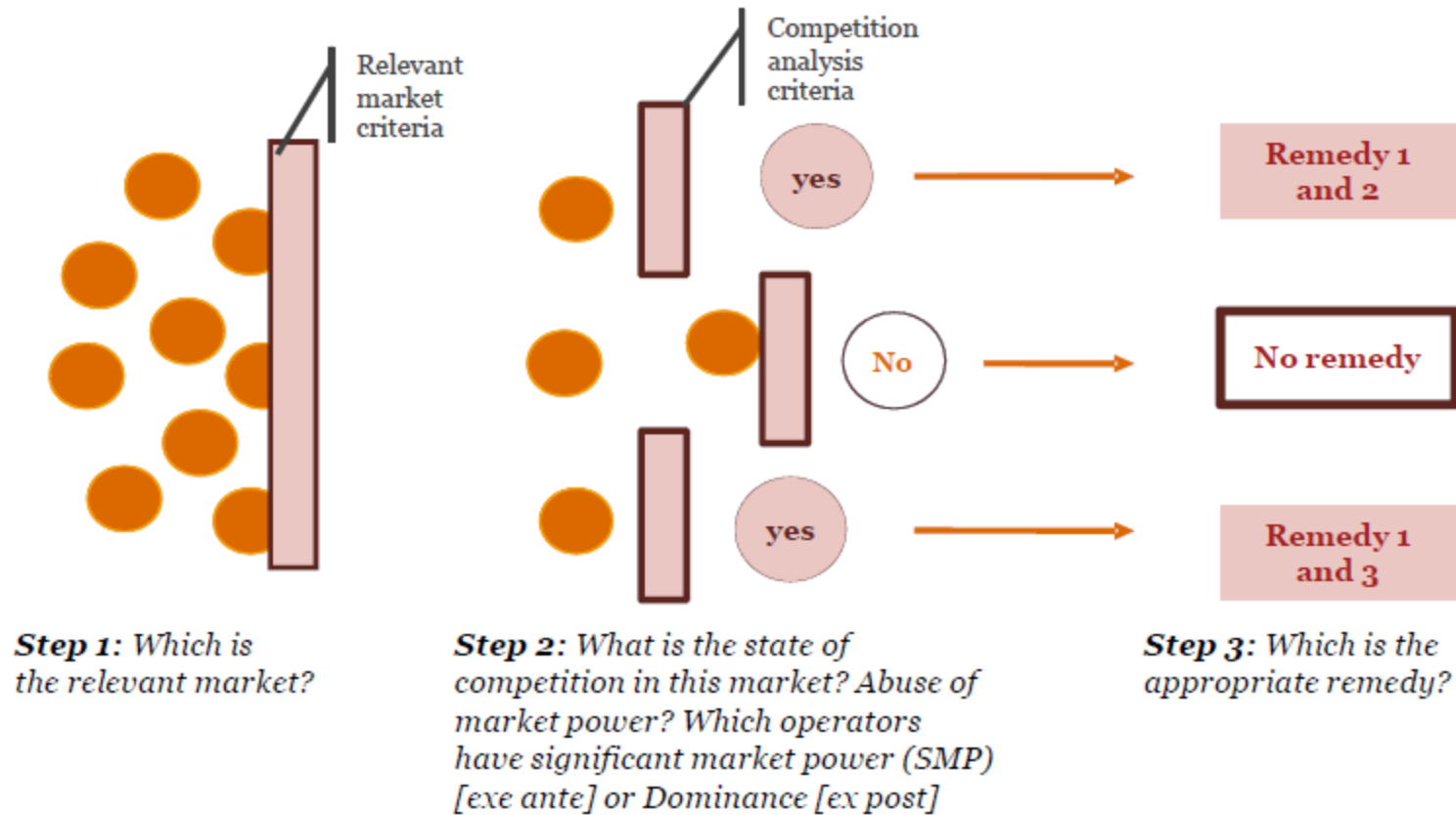
- *Ex ante* regulation
- *Ex post* competition
law



Approach to Market Definition and Analysis Cont'd



We have adopted a 3 step procedure...





Market definition must precede the assessment of competition

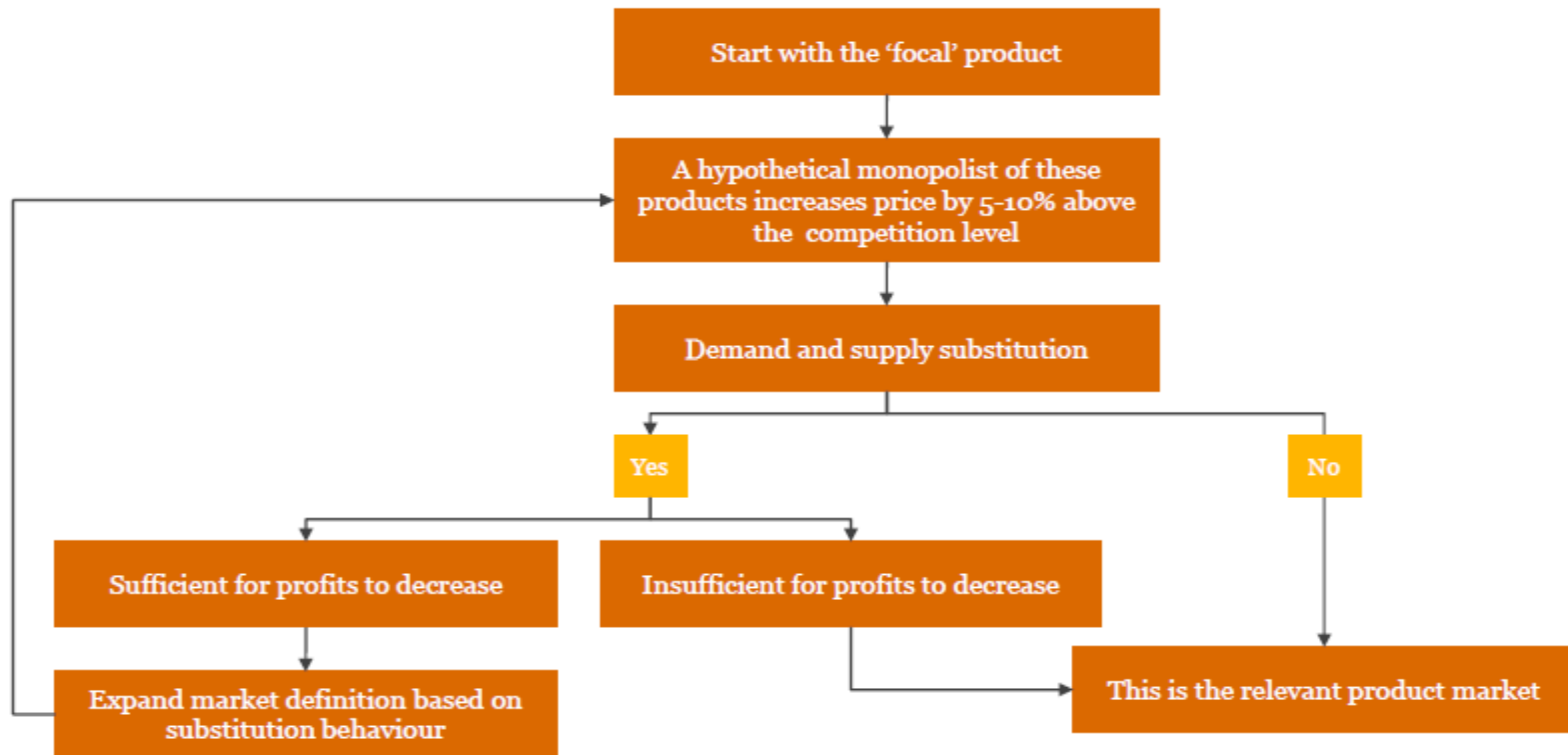
- Why *market definition* first?
 - Enables a focused and rigorous assessment of the most relevant competitive constraints on firms
- We define markets at the retail level before the wholesale level
 - wholesale markets represent derived demand from retail markets



Approach to Market Definition and Analysis Cont'd



We define the boundaries of relevant markets in Tanzania based on the concept of substitutability, guided by the SSNIP or HMT test





Approach to Market Definition and Analysis Cont'd



Once relevant markets were defined, they were subject to Market Analysis for the purpose of assessing whether or not there are operators with SMP/dominance

Underlying model

Structure-Conduct-Performance (SCP) paradigm

- Primacy placed on the structural characteristics of markets
- Especially relevant in the context of forward-looking *ex ante* regulation, since conduct detrimental to competition must be anticipated primarily on the basis of the market's structural characteristics
- Weaknesses: does not recognise reverse linkages and feedback

SMP/dominance analysis

- Direct observation of market power difficult:
 - Hence we look at indirect measures
- The most relevant criteria are
 - Market shares
 - Concentration
 - Entry barriers
 - Pricing and non-pricing conduct

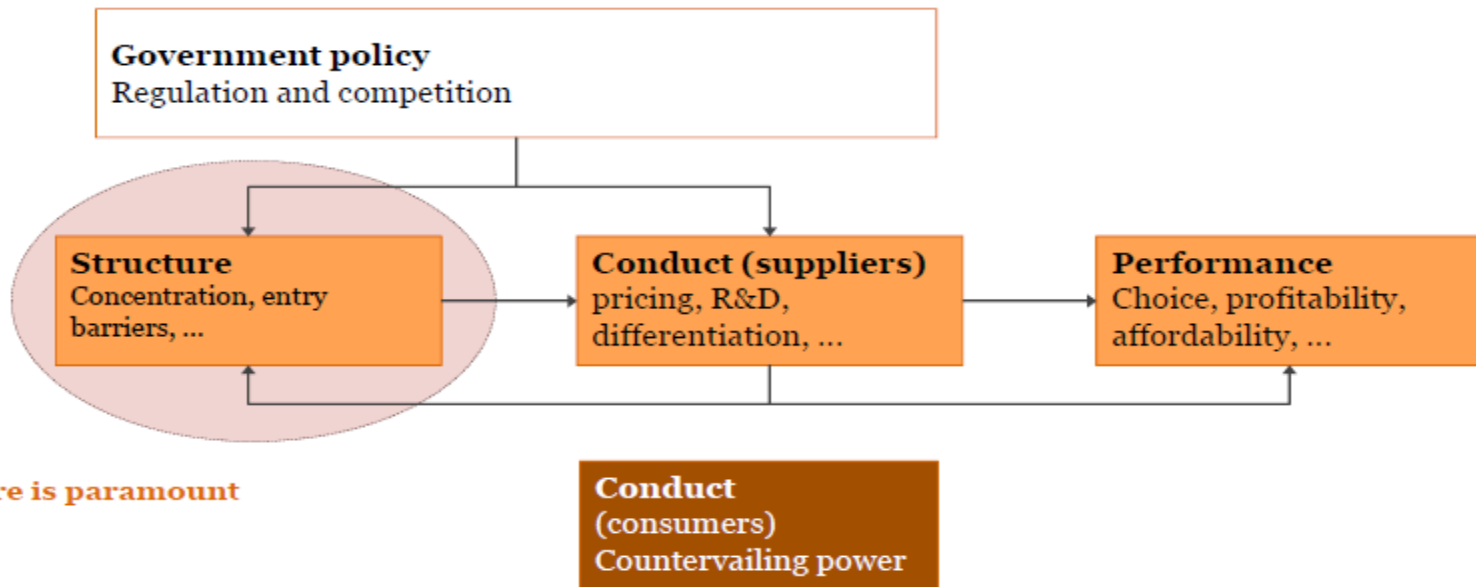


Approach to Market Definition and Analysis Cont'd



The well-known Structure-Conduct-Performance (SCP) paradigm provided the underlying model for developing criteria for assessing competition

Structure Conduct Performance (SCP) model





Approach to Market Definition and Analysis Cont'd



Example of SMP criteria...

Category	Criteria	Indicators
Market structure	<ol style="list-style-type: none">1. Horizontal market concentration2. Structural barriers to entry3. Barriers to expansion4. Legal and regulatory barriers to entry	<ol style="list-style-type: none">1. Market shares, concentration ratios and HHI2. Sunk cost Economies of scale and scope3. Switching costs4. Licenses, patents, exclusivity provisions, availability of spectrum
Supplier Conduct	<ol style="list-style-type: none">1. Pricing strategies2. Non-pricing behaviour	<ol style="list-style-type: none">1. Pricing trends Excessive pricing; cross subsidisation, predatory pricing2. Refusal to supply or delay in access to wholesale Advertising and branding Product diversification/bundling



Approach to Market Definition and Analysis Cont'd



Third stage: formulate regulatory remedies which address market power issues

- Market power is not a vague concept but something which is held by specific firms in relevant markets
- Remedies are recommended on specific operators, namely those deemed to hold a position of Significant Market Power (SMP) or Dominance in a relevant market
- Remedies need to be appropriate and proportionate to the competition problems associated with market power
 - Appropriate: designed to address identified competition problems
 - Proportionate: no more interventionist than necessary to achieve regulatory objectives, taking account of potential regulatory failure



4.0 Findings of the Study



S/No	Market	SMP Operator	Remedy
Retail Markets			
1	Call origination (Mobile and Fixed Origination)	None	Though there is no operator with SMP in this market, there are some competition concerns in the following areas, spectrum availability, advertising and branding (false advertising) and high price differential between off-net tariff and on-net calls.
2	Fixed access	TTCL	TTCL is an SMP in this market, however, no remedy is required because the possibility for TTCL abuse its market powers is limited by the availability of mobile access
3	Retail Internet access	None	
4	Retail leased lines	TTCL	No remedy as competition issues should be dealt with in the wholesale leased market
5	Mobile money	Vodacom	Propose BoT to regulate money transfers charges as well as introduce interoperability to facilitate money transfer across networks.



Findings of the Study Cont'd



Wholesale Markets			
6	Fixed termination	All Operators	TCRA to set cost based interconnection rates
7	Mobile termination		
8	Wholesale broadband internet access	None	
9	Wholesale leased lines and transmission	NICTBB	TCRA to Regulate NICTBB bandwidth price in the form of price caps or cost plus.
10	International connectivity	None	No remedy required as each operator has own international gateway and there three submarine cable landed in Dar es salaam and there option to use satellite

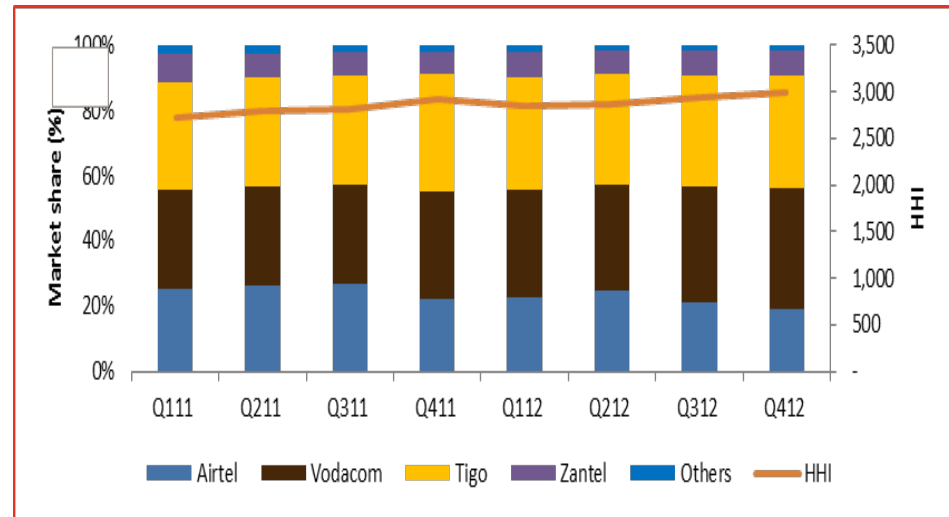
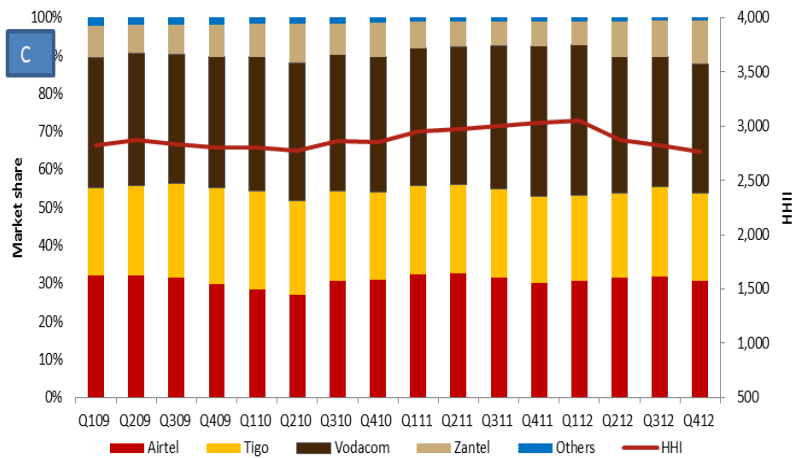


Findings of the Study Cont'd



Market Share by Subscription and Revenue

- Four main operators (Airtel, Vodacom, Zantel, and Tigo) held more than 85% of mobile subscribers.
- In terms of Revenue, Vodacom was leading the market by 37.2%, followed by Tigo (34.4%), Airtel (19%) and finally Zantel 7.8%
- The analysis showed that competitive positions/edge shifts from one operator to another at a faster rate and does not allow operators exploit their dominant positions in the market.



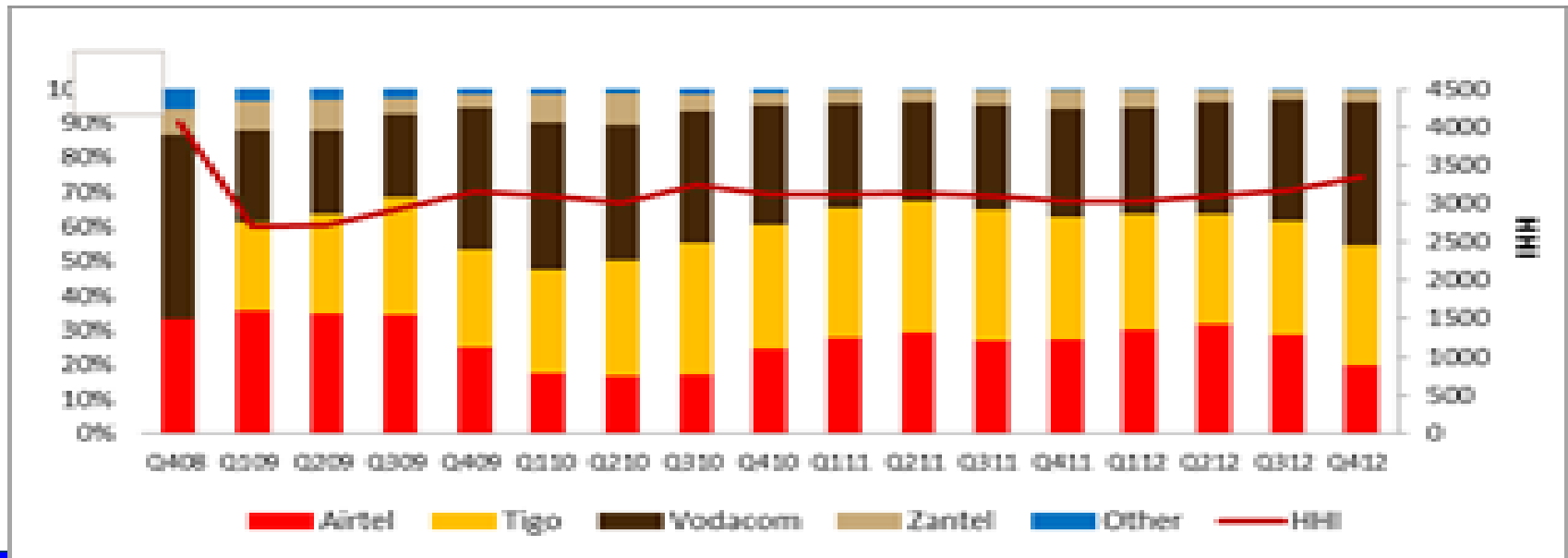


Findings of the Study Cont'd



Market share by traffic

- Figure below show trend of market shares in terms of national traffic (i.e. On-net & Off-net traffic) expressed in call minutes.
- The analysis indicates that traffic for three major operators



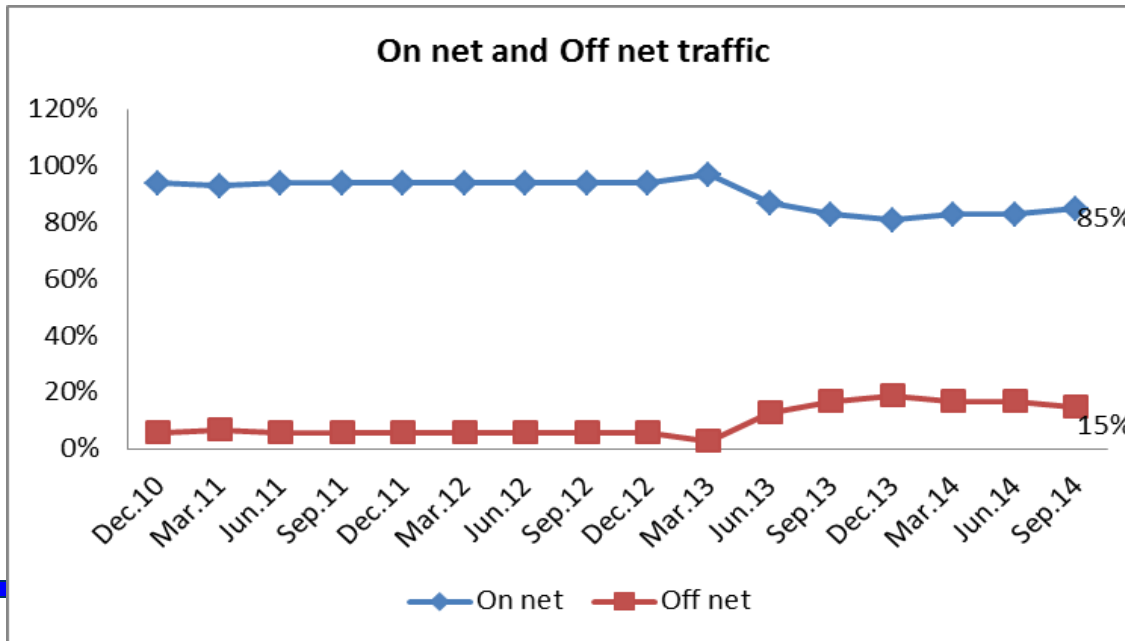


Findings of the Study Cont'd



On-net and Off-net tariff

- From December, 2010 to September 2014, On-Net call traffic was 85% of the total traffic
- Difference in traffic distribution is due to tariff differential between on-net and off-net calls
- Off-net tariff was 42% (TZS 326) higher than on-net tariff (TZS 230) as of September 2014. It was supposed to be 15% higher (TZS 264.6)



Operator	On net tariff (TZS/Min.)	Off net tariff(TZS/Min.)
Vodacom	226	330
Tigo	255	330
Airtel	219	330
Zantel	150	198

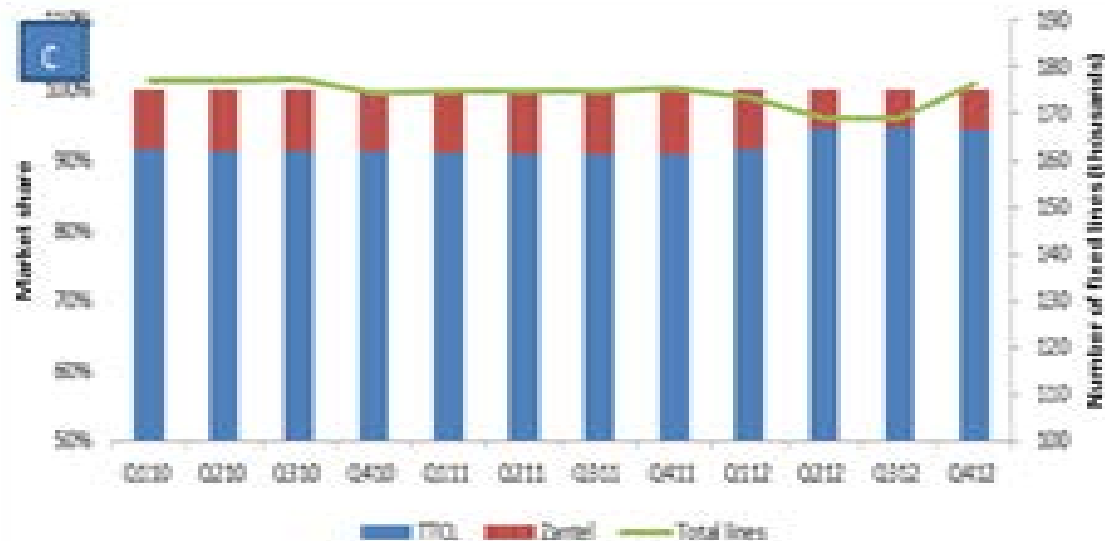


Findings of the Study Cont'd



Fixed network

- There two players in this market, TTCL and Zantel.
- TTCL operates both fixed wire-line and fixed wireless in Tanzania mainland and Zanzibar.
- On the other hand Zantel operates fixed wireless in Zanzibar. In total, fixed access subscriptions by 2012 were 176,367 whereby TTCL subscriptions were 166.148 (94%) and Zantel 10.219 (6%)





Conclusion



- The Tanzanian market has a total of 10 relevant markets, 5 at the wholesale level and 5 at the retail level
- Tanzania telecommunications market is sufficiently competitive, with minimum anticompetitive practices
- 4 markets have dominant operator ; Fixed Access and Retail Leased Lines market (TTCL), Mobile Money market (Vodacom), Wholesale Leased Lines and Transmission (NICTBB)
- There is a great deal of Infrastructure competition across a variety of platforms
- Main issues for the Regulator to address in the market are
 - Continued need for MTR/FTR regulations
 - Open and fair access to NICTBB's facilities
 - TCRA to regulate NICTBB bandwidth price
- BOT to regulating mobile money market by setting price cap for money transfer charges



Appreciation



Thanks for your Intention

mfungahema@tcra.go.tz

www.tcra.go.tz
