

FOCUS ON **INTERNET SERVICE PROVIDERS (ISPs)**



East African Submarine Cable Systems (EASSy)

Stormy landings

An effectively open market has remodelled Internet services in SA

LAST YEAR THE SEACOM under-sea cable landed in South Africa, being the first competitor to arrive to test Telkom's traditional monopoly on international bandwidth. For the first time Internet service providers had a choice as to which cable to use when connecting their customers to the world. SEACOM was the first of several scheduled cables but already this lone competitor has changed things significantly.

Buying bandwidth in bulk from SEACOM allows service providers to significantly reduce their costs, and prices on all forms of connectivity have since been reduced. SA also has uncapped ADSL connections for the first time, following the introduction of such services from Naspers-held MWEB, one of the country's biggest Internet service providers.

Telkom recently also began upgrading its ADSL infrastructure to speeds of 10Mbps, while cellular providers – including Vodacom, MTN and Cell C – have upgraded their 3G infrastructure to handle up to 21Mbps. Speeds are increasing and prices are coming down, even if neither is happening as quickly as South Africans hoped for. There are also many choices when connecting, from many ADSL service providers to traditional cellular operators and other wireless providers, such as iBurst and Neotel.

Whereas South Africans have traditionally had to contend with limited bandwidth caps it's now possible to affordably connect to uncapped services, although some warn those may not be all they're cracked up to be.

CONSIDER QUALITY

Internet service provider Web Africa CEO

Matthew Tagg says lower prices can come at the cost of reduced quality. "The growing interest from consumers shows uncapped Internet is definitely here to stay but an 'uncapped future' for SA is unrealistic. Stories about SA being one of the few 'capped' bandwidth countries are making local users feel cheated. They're disappointed by the limited data speeds available and high costs they need to pay for them. The ISPs are aware of that but instead of being honest with the public and explaining why certain restrictions exist they're falsely offering unlimited and unrestricted 4Mbps lines to those desperate consumers."

Tagg says Internet connections advertised as uncapped often produce reduced speeds. He says good quality bandwidth only exists in capped offerings and at a higher rate. "The 'too-good-to-be-true' competitive uncapped data costs currently being offered should be taken with a pinch of salt. Ultimately, the rule of thumb remains: you get what you pay for. So 384Kbps is in the realms of reality but 4Mbps is certainly not. If the quality of uncapped is just as good as capped then why do the two options even exist separately?"

Tagg adds SEACOM created the expectation of vastly reduced prices, but that never materialised. "SEACOM cost US\$650bn to implement. Although carriers such as Neotel invested large sums of money to make the deployment possible they're charging ISPs to use the cable and they, in turn, have to up their prices to the consumer. Ultimately, it's the consumer who has to pay.

"First, you pay for the data cost and, second, you pay for the line. The price of the line is a regulatory issue: it's a set price. That

isn't the choice of the carriers or operators, but regulatory bodies such as Icasa [Independent Communications Authority of SA] that determine that pricing. The competition lies in the data. So wouldn't it make sense to focus on data quality rather than cost?"

Tagg says users need to look past the hype and properly assess their needs before signing on to any broadband service. "If you need to use and download high-volumes of data and you don't care about quality, uncapped broadband isn't a bad option for you. If it's speed you're looking for then a capped data line would be much more suited to your needs," he suggests.

Fortunately, it's simple enough to switch between accounts as long as subscribers stick to a month-to-month arrangement with their ISP instead of signing extended contracts.

DOWN TO SCALE

Rudi Jansen, CEO of MWEB, which to a large degree sparked the SA market for uncapped connections, says the service has been performing well. He believes it's possible to offer good quality on uncapped connections. "Price always plays a big part. After that it's service that's offered, up-time, throughput and reliability. Those are the main reasons the MWEB Business uncapped and unshaped products has performed so well," he says.

Jansen also expects price cuts to pick up speed. "We expect further decreases in national and international bandwidth, which will translate into further savings for the consumer. However, the Telkom line rental cost for ADSL is still a major concern. That still remains the biggest part of the end consumer cost for ADSL. We do think the

next big price breaks will come from the mobile players."

But despite the gains being made in wireless, Jansen believes wired ADSL connections will continue to be the most favourable form of connectivity in terms of price and reliability. "For uncapped services the line speed determines the product. Then there's unshaped services mainly sold to higher speed 4Mbps customers. This product is also available in lower speeds but the uptake is low for those. There are still a number of capped services for lower end users. The higher end ADSL services compare very well with traditional leased lines at the lower end of the scale and we expect more users to migrate to ADSL over time. For other BB [business-to-business] services wire line services still significantly outperform wireless services in throughput, latency and reliability," says Jansen.

However, connectivity across the board is still limited in SA by national networks. While international bandwidth is cheap and getting cheaper, bandwidth in SA is still largely controlled by Telkom.

"We need further growth of end users that will drive further investment from Telkom and thereby drive prices down as volumes grow," says Jansen. "With an alternative provider in the market, price will reduce but Telkom still has a significant role to play. We need to put pressure on telecoms companies to act more competitively and open up their networks. Only fair competition at the end of the day will reduce prices. Government also needs to use the universal access fund to fund further network rollout and then make sure regulations control access to that network."

DOMESTIC BOTTLENECK

Vox Telecom CEO Doug Reed agrees SA's bandwidth charges are a barrier to lower prices for ISPs and their customers. "Local charges now account for 60% of ISPs' total bandwidth costs," Reed says. "Until there's a viable alternative to Telkom's ADSL service, dramatic price decreases are unlikely. It costs us more to get traffic from Johannesburg to Cape Town than from Cape Town to London. This will start to come down once operators other than Telkom get their national networks in place – but people shouldn't expect dramatic price drops."

Reed predicts a steady deflationary trend of 10% to 15%/year – compensated for by an equally steady 30% to 40% increase in demand each year. But until there's a viable alternative to ADSL

Reed says prices can't drop significantly. "The only real alternatives are fibre to the home – which we won't be seeing in a hurry – and wireless, which is getting better all the time. In Japan they're currently delivering 1GB to cellphones over wireless. We'll get there in five to 10 years. It would be faster if SA wasn't still hamstrung by so many vested interests and dominant incumbents."

Reed says increased international bandwidth as more cables land will have a minimal impact on pricing. "From SA we still have to travel 6 000km just to get on to the net – it's never going to be cheap. There's also the fact that if you're even remotely serious you have to provide a redundant service – as some ISPs' uncapped customers discovered to their cost when SEACOM went down. If you're using a proper data product you'll have SEACOM backed up on SAT3, and vice versa, which adds to the costs."

But Reed does predict the arrival of the EASSy cable (see below) will have some impact on reduced price.

When choosing an ISP, Reed adds to the sentiment there's more to the decision than just cost. "There's been market consolidation over the past couple of years, to the point there aren't many little ISPs left. Economies of scale count in the telecoms

business. But beyond a certain size you start to hit the problems of bureaucracy and inefficiency. As far as we're concerned the ideal is to be large enough to take advantage of the economies of scale but still small enough to be agile and innovative."

EASSY ONLINE

The next cable project to come online for SA is the East African Submarine Cable Systems (EASSy) that went into commercial service at end-July this year. This new cable adds further competition in terms of international bandwidth and is expected to further affect prices. More than 25 telecoms operators – mainly from Africa, along with a number of global operators who invested in EASSy – have already commenced customer service on the cable, which was funded by a consortium of telecom operators, including MTN, Neotel and Vodacom.

Jacques van der Walt, chairman of the Procurement Group – responsible for technical aspects of EASSy – says the system uses state of the art technology capable of delivering 3.84 Terabits/ second, making EASSy the largest capacity submarine cable system currently serving Africa. It will remain the largest until the West African Cable System (WACS) is connected next year.

EASSy project chairman Trevor Martins says its owners' funding structure ensures the most sustainable and financially secure submarine cable business model in the market. "The presence of multiple investors and participants in EASSy ensures open competition, resulting in benefits to the market as a whole – as can be seen in SA by the participation of operator investors being MTN, Neotel, Telkom and Vodacom."

Martins says the cable is currently "lit up" to allow for 60Gbps of bandwidth, compared to around 90Gbps currently available on SEACOM. However, EASSy is already planning to light up more capacity.

With the international bandwidth challenge all but solved, the remaining issue for local ISPs is domestic bandwidth. Eventually, the ability of self-provision in SA's market – thanks to the court case between Altech and the Department of Communications in 2008 – might solve that problem, as sooner or later Telkom will either have to compete with other domestic providers or those competitors will eventually be able to get customers connected with Telkom. ■

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Matthew Tagg

