

THE UNITED REPUBLIC OF TANZANIA
TANZANIA COMMUNICATIONS REGULATORY AUTHORITY



PRESS RELEASE

DECISION ON INTERCONNECTION RATES IN THE UNITED REPUBLIC OF TANZANIA, INTERCONNECTION DETERMINATION NO.3 ISSUED IN 2013

1.0 INTRODUCTION

This Determination is made under the Tanzania Communications Regulatory Authority Act, Chapter 172 of the laws of Tanzania (TCRA Act). In compliance with the requirements of the TCRA Act, an inquiry was conducted by a Panel of Inquiry from 17th December 2012 to 28th January, 2013. The Panel of Inquiry considered among others the report of PricewaterhouseCoopers (UK) LLP; the Consultant who carried out the cost study to establish cost based interconnection rates among the telecommunications network operators in the United Republic of Tanzania. The study used the Forward Looking Long Run Incremental Cost (FL-LRIC) Methodology. The Panel of Inquiry submitted its report on 28th January 2013.

This Determination shall be known as Determination No.3 issued in 2013 on cost based Interconnection Rates for voice call termination in the United Republic of Tanzania (hereinafter referred to as the "Determination"). This Determination shall be effective on the 1st day of March 2013 and is binding to all Telecommunications Network Operators operating in the United Republic of Tanzania following the expiring on 28th February 2013 of Determination No. 2 of 2007 as extended vide Government Notice No.425 published on 28th December 2012.

2.0 CONSIDERATION OF THE FINDINGS OF THE PANEL OF INQUIRY

After thorough scrutiny of the Report of Inquiry on appropriate cost based interconnection rates, the Authority concurs with the findings of the Panel of Inquiry that:

2.1 CONFORMITY WITH THE LAW

2.1.1 Panel of Inquiry

The Panel of Inquiry was appointed by the Authority in accordance with rule 6(1) of the Tanzania Communications Regulatory Authority (Procedure for Rules of

Inquiry) Rules, 2004. The notice of inquiry was published in the Gazette on 28th December, 2012.

2.1.2 Procedure of Inquiry

The procedure laid down in Section 18 of the Tanzania Communications Regulatory Authority Act, 2003, and the Tanzania Communications Regulatory Authority (Procedure for Rules of Inquiry) Rules, 2004 was complied with. The inquiry was conducted at the instance of the Authority pursuant to Section 18(3) of the TCRA Act. The inquiry was conducted as a condition precedent to the issuance of interconnection rates determination as required by Section 18(2) of the TCRA Act.

The inquiry was conducted in a transparent manner involving all the Telecommunications network operators and other stakeholders including the general public in accordance with the Tanzania Communications Regulatory Authority (Procedure for Rules of Inquiry) Rules of 2004.

The inquiry process involved literature review, stakeholders consultations, written submissions and public hearing to get views from operators, consumers, Government officials and other stakeholders including the general public. Finally, the Panel of Inquiry produced the Report that was submitted to the Authority on 28th January 2013.

The Panel of Inquiry established that all operators are in agreement that the current interconnection rates are high and should be reduced; however, they differ on the rate and percentage of reduction. Five operators, namely; Benson Informatics Limited, Dovetel Tanzania Limited, Six Telecoms Company Limited, Tanzania Telecommunications Company Limited (TTCL) and Zanzibar Telecommunication Company Limited (ZANTEL) accepted the results and proposed even further reduction of the interconnection rates. TTCL went further suggesting that the proposed interconnection rates should be applied retrospectively (i.e. from 1st January 2013).

Airtel Tanzania Limited, MIC Tanzania Limited and Vodacom Tanzania Limited, rejected the results and each proposed different interconnection rates arguing that drastic decrease will affect their capacity to invest in the rural areas.

2.2 NATURAL JUSTICE

The Authority has noted that the Panel of Inquiry has been satisfied that no principle of natural justice was breached in view of the fact that all procedural requirements were complied with and every interested party was afforded an opportunity to be heard during the Public Hearing.

2.3 INVOLVEMENT OF STAKEHOLDERS

In compliance with the Terms of Reference, the Authority is satisfied with the finding of Panel of Inquiry that all stakeholders were involved in a transparent

manner. There was a stakeholders' workshop with the Consultant on 18th December 2012. The Authority notes that the Panel of Inquiry visited all Telecommunications operators, namely Tanzania Telecommunications Company Limited, Benson informatics Ltd, Six Telecoms Company Limited, Airtel Tanzania Limited, Vodacom Tanzania Limited, MIC (Tanzania) Limited and Zanzibar Telecommunications Company Limited and; other stakeholders, namely; Ministry of Communication, Science and Technology of the United Republic of Tanzania and Ministry of Communications and Infrastructural Development of Tanzania Zanzibar from 7 to 15 January, 2013. The Panel received written submissions, and all stakeholders made oral submissions during the Public Hearing on 17th January 2013. The Authority concurs with the Panel of Inquiry's major finding at the Public Hearing that the current interconnection rates are still high and they need to be reduced to reflect actual costs involved.

2.4 THE COST STUDY ON INTERCONNECTION

The Authority has satisfied itself that the M/S PriceWaterHouseCoopers' cost study on interconnection of 2012 is relevant to the current market environment of the Telecommunications industry in Tanzania. The Authority found that the cost study and the Forward Looking – Long Run Incremental Cost (FL-LRIC) model are in line with international best practices and are in accordance with the laws and regulations governing the ICT sector in Tanzania.

2.5 WEIGHTED AVERAGE COST OF CAPITAL

The Authority agrees with the value of Weighted Average Cost of Capital (WACC) of 22.88 % as used by the Consultant in the final model. The Consultant's WACC figure was estimated mainly by using the Tanzanian local parameters amongst others the Tanzanian long term inflation rates provided by the Bank of Tanzania (BOT), country risks, risk free rates and corporate tax, which the Panel considers to be more relevant to the issues under discussion.

2.6 OTHER METHODOLOGIES FOR INTERCONNECTION RATE DETERMINATION

The Authority has noted that the Panel of Inquiry has considered other methodologies particularly benchmarking. The Panel of Inquiry has looked at benchmarks of selected African countries which have undertaken some form of cost studies. The Authority finds that the interconnection rates have decreased across countries during the past five years. The current interconnection rates in Tanzania are higher than in some considered African countries.

2.7 DESIRE TO PROMOTE COMPETITIVE RATES AND ATTRACT MARKET

The Authority concurs with the Panel of Inquiry's observation that all operators have monopoly on terminating calls on their networks. In order to promote fair competition, there is indeed a need for regulating interconnection rates.

2.8 FINANCIAL IMPLICATIONS

The Authority accepts the view that in the short run there will be less revenue to be realized from interconnection by operators who are currently net receivers. However, net payers will experience a reduction in costs by paying less interconnection charges to other operators. It is the considered view of the Authority that traffic patterns will change through increase of subscribers and air time.

2.9 CONSUMERS INTEREST

The Authority concurs with the Panel of Inquiry's support of majority of operators and other stakeholders that reduction of interconnections rates should translate into a reduction of retail tariffs.

2.10 INVESTORS INTEREST

The Authority dismisses arguments by some operators that reduction of interconnection rates will hinder the roll-out and expansion of networks in the rural areas because there is no direct relationship between interconnection rates and investment & rollout in rural areas. The Interconnection Rates ought to reimburse efficient cost incurred in terminating the traffic to from another network. The Authority is of considered view that the Infrastructure sharing, Universal Communications Services Access Fund (UCAF) and the National ICT Broadband Backbone (NICTBB), if utilised properly, will augment efforts to cut cost and facilitate rollout especially in rural and urban underserved areas.

2.11 MARKET TREND

The Authority notes the observation of the Panel of Inquiry that the market is very dynamic and there is increasing competition evidenced by new products and services.

2.12 TREATMENT OF OUTGOING INTERNATIONAL CALLS

The Authority is in agreement with the Panel of Inquiry's observation that outgoing international calls are not subject to regulation because an international gateway operator must pay to an international carrier to terminate a call in a foreign country and the charges should continue to be determined through commercial negotiations.

2.13 TREATMENT OF INCOMING INTERNATIONAL CALLS

The Authority notes that an incoming international call from outside Tanzania transits through an international gateway within Tanzania and terminates on a national network. The Authority reaffirms that calls transited through a gateway in Tanzania, irrespective of their origin, fall within the scope of the Determination.

The incoming international traffic calls transiting through the international gateways within Tanzania irrespective of their origin pay cost for terminating calls on the national network, and hence is subject to the Electronic and Postal Communications (Interconnection) Regulations, 2011 and this Determination.

3.0 THE DETERMINATION

The Authority hereby determines Interconnection rates to be applied among the Telecommunication network operators in the United Republic of Tanzania as follows:

- 3.1** The appropriate cost-based interconnection rates and the glide path shown in the Table below.

Table on Glide path for cost-based Interconnection rates (TZS) with effect from 1st March 2013 to 31st December 2017:

Year	1 st March 2013	1 st January 2014	1 st January 2015	1 st January 2016	1 st January 2017
Voice call termination rates in TZS per minute	34.92	32.40	30.58	28.57	26.96

- 3.2** The determined Interconnect Rates are upper ceilings, but the Interconnecting Operators are free, within the law, to commercially negotiate and agree on lower rates.
- 3.3** The interconnection rates shall be used for termination of traffic in network services operators in Tanzania; this includes traffic coming from International network services operators licensed in Tanzania.
- 3.4** All operators are required to enter into new Interconnection Agreements and submit the same to the Authority by 31st March, 2013.

Prof. John S. Nkoma
DIRECTOR GENERAL
TANZANIA COMMUNICATIONS REGULATORY AUTHORITY

29TH JANUARY, 2013