<u>Press Statement by CCK Director General, Mr. Francis W. Wangusi, during a press conference to announce the CCK Board's decision on Mobile Termination Rates held on 26th November 2012</u>

The CCK Board Chairman
Mr. Ben Gituku
CCK Board members present
CCK Management members
Members of the Fourth Estate
Ladies and gentlemen

It will be recalled that the Communications Commission of Kenya (CCK) commenced regulation of interconnection for mobile and fixed voice services in 2007 through Interconnection Determination No.1 dated 22nd February 2007.

Interconection constitutes one of the key drivers of competition in the telecommunications market. Indeed, interconnection serves as a critical public policy tool for the proper functioning of a competitive communications market. It is therefore important that interconnection is regulated.

The period between 2007 and 2010 witnessed significant market developments in the communications sector. These developments included entry of two new mobile network operators (i.e. Essar Telecoms Kenya Limited and Telkom Kenya Limited – Orange) in the market, introduction of a Unified Licensing Framework (ULF), and landing of three undersea cables and rollout of terrestrial and undersea fibre optic cables. In addition, the period recorded tremendous growth in both subscriber numbers as well as call (and data) volumes.

In order to capture these developments and also include new and up to date data in the network cost modeling, the Commission undertook a detailed and consultative review of a Network Cost Study in 2010 with the objective of developing a new interconnection framework that promotes competition, operational efficiency of the firms and further growth of the sector through continued investments and innovations.

Following the review, the Commission issued the Determination No.2 of 2010 on Interconnection Rates for Fixed and Mobile Telecommunications Networks; Infrastructure Sharing and Co-location; and Broadband Interconnection Services on 16th August 2010. The Determination was to be effective from 1st July 2010 to 30th June 2014. This Determination was updated on 30th December 2010 to include Short Message Service (SMS) Termination Rates effective from 1st January 2011 to 30th June 2014.

Following the issuance of the Determination No.2 of 2010, retail price competition in the mobile voice services intensified with the actual retail off-net call prices falling from a high of KES12 per minute in August 2010 to between KES 5 and 3 per Minute currently. In addition, on-net call retail tariffs dropped significantly from a high of KES7 per Minute to KES 3 per Minute over the same period.

Moreover, mobile operators also intensified efforts to generate new revenue streams from non-traditional services such as SMS based applications, Internet offerings and mobile money transfer services.

Despite these positive signals in the market, some operators made written submission to the Commission arguing that the ensuing retail price competition in the sector was detrimental to the continued growth of the sector and the economy. In particular, some of the licensees complained that the retail price competition in the mobile voice market would adversely affect Government Tax Revenues, stability of the stock market, Government macro-economic agenda on employment and investments; and the profitability and viability of telecommunication enterprises.

Considering that the issues raised were of a significant public policy nature and in order to ascertain the veracity of these concerns, the Commission suspended further implementation of the glide path for mobile and fixed termination markets by upholding the mobile and fixed termination rates for 2010/11 for one year as it evaluated these concerns. The glide was thus to remain as follows:

1. Call Mobile Termination Prices					
Nominal KES.	**1st July 2010**	**1st July 2011**	**1st July 2012**	**1st July 2013**	**1st July 2014**
Mobile Termination	2.21	2.21	1.44	1.15	0.99

Subsequently, the Commission contracted the services of a consultant to undertake a study on the impact of the ensuing competition in the retail mobile voice market on the Government Tax Revenues, stability of the stock market, Government macro-economic agenda (such as employment and inflation and the profitability) and viability of telecommunication enterprises.

The consultant was expected to finalize the study and submit a report to the Commission by early October 2012 but there were delays in submission of data and information by the mobile industry players which affected the project delivery timelines. Consequently, the Commission further upheld the freeze of the mobile and fixed termination rates on 15th May 2012 as it awaited finalization and presentation of the findings by KIPPRA to the Commission.

The consultant has since submitted the final report to the Commission, which has considered by the Board today. The findings of the study confirm that contrary to the allegations made by some players in the market, retail price competition has not had any adverse impact on the economy. In particular, the study established that competition had no adverse effects on the quontum or stability of tax revenue, employment, inflation, investments, performance of the telecoms shares in the stock market, stability of the Nairobi Stock Exchange, business process outsourcing and access and affordability of communications services.

Considering that the Commission suspended the glide path in order to evaluate these issues as presented by the industry, the CCK Board has, in its sitting today, resolved to re-instate the glide path and implement the 2nd phase of the Mobile and Fixed Termination Rates with effect from 1st July 2012.

This means that starting from 1st July 2012, the Mobile Termination Rates will, for instance, go down to KES1.44 per Minute from the current KES.2.21.

It is our sincere hope that today's Board's decision will put to rest the speculation and innuedo that has characterised discussions on this matter. We appreciate that the Commission has taken quite some time to make a decision on this matter. But as indicated earlier, the delays were occasioned by the need to study the public policy concerns raised by our stakeholders. By making this decision, our Board has clearly demonstrated that CCK is not beholden to any political and business interests. As an evidence-based regulator, CCK, shall if necessary, adjust the MTR in line with the findings of the network cost study expected to be carried out in the next financial year.

I thank you all for your attention.