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ETHIOPIAN
COMMUNICATIONS AUTHORITY

Determination on Mobile and Fixed Termination Rates

Determination No. 2 of 2024

April 2024

1. Introduction

The Ethiopian Communications Authority (ECA) is publishing this determination on Mobile and Fixed Termination rates based on the cost study undertaken on the Telecommunications market in Ethiopia.

2. Legal Background

Pursuant to article 47 of the Communications Service Proclamation No. 1148/2019, the Authority is fully mandated to regulate market competition in the telecommunications sector. Notwithstanding the provisions of any other law, the Authority shall have exclusive power to determine, pronounce upon, administer, monitor and enforce compliance of all persons with competition laws and Directives, whether of a general or specific nature, as it relates to the Ethiopian Communications Service market.

Pursuant to Article 8 of the Telecommunications Interconnection Directive No. 791/2021, Interconnection Providers shall charge justifiable and reasonable charges that are cost-based, and not unduly discriminatory among Interconnection Seekers.

Pursuant to sub article 3(b) of article 8 of the Telecommunications Lawful Tariff Directive No. 797/2021, for setting a Controlled Wholesale Tariff the cost basis shall be established by using any of the following cost modeling methods:

i) Fully allocated costs;

ii) Long-run incremental cost (LRIC); or,

iii) Long-run incremental cost plus (LRIC+), which allows for joint and common costs.

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According to article 8, sub-article 7 of the Telecommunications Lawful Tariff Directive No. 797/2021, a Controlled Wholesale Tariff shall be deemed unduly discriminatory if Vertically Integrated Operator providing the corresponding Wholesale Service self-supplies its Downstream Operation at a lower cost than it charges other operators for that same or similar Wholesale Service.

3. Rationale for Regulating Termination Services

The rationale for regulating termination rates is to ensure that they are set at an efficient level. In the absence of regulation, Operators face no pressures on termination rates. They have the ability and incentive to set high termination rates. They also have no incentives to keep cost down. If the termination rate is left unregulated, the mobile termination rate (MTR) and fixed termination rate (FTR) would most likely be set above cost and this would lead to excessive prices overall. Termination rates set at levels in excess of cost would lead to distortions of competition.

Effective communications in the telecommunications industry relies on various inputs, one of which is termination services. Wholesale call termination on mobile networks is a critical service that enables customers of one mobile network to connect with customers on another network. This wholesale service is transacted between Mobile Network Operators rather than individual customers. Without termination services, communications would be restricted to within the same network, limiting the reach of mobile services. Wholesale termination extends its relevance for fixed network customers and Short Message Services (SMS)

Mobile Termination Rates (MTRs) form a substantial component of the overall cost of communication for mobile subscribers. Recognizing the impact of MTRs on end-users, it is, therefore, important for ECA to address any market failures in the supply of mobile termination services and to ensure that the interests of consumers are protected.

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ECA has the duty to promote effective and fair competition between new and existing operators and to protect the interests of users in respect to pricing, availability, and quality of services offered.

4. The Existing Termination Rate Agreement

In 2022, ECA has mediated the interconnection agreement process between Ethio Telecom and Safaricom Telecommunications Ethiopia PLC. The mediation process set out, inter alia, the mobile and fixed termination rates, of ETB 0.31 per minute, and the two parties concluded the interconnection agreement subject to revision of the rates based on the termination rates which will be determined by a cost study to be carried out by the ECA.

5. Setting Termination Rates

The objective behind implementing cost-based rates is to establish a "level playing field" among operators: where the operators have equal and fair opportunities to access and participate in the market. By ensuring that rates are set based on the costs of providing services, it aims to create a competitive environment where operators can compete fairly. In essence the intention is to promote competition among operators, prevent anti-competitive behavior, and encourage a market structure that benefits consumers by offering them a variety of choices and competitive prices. The use of cost-based rates is seen as a pro-competitive measure to foster a more balanced and competitive telecommunications market.

Setting telecommunications operators' retail prices below termination rates violates the principles of cost-based pricing. This action is likely to lead to either margin squeeze or predatory pricing, or both. The resultant situation can be characterized as anti-competitive, causing market failure and eventually driving competitors out of the market.

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Setting cost-based termination rates necessitates the selection of cost models that will be used for the cost study. It is found to be important for ECA to implement a Top-Down Fully Allocated Cost (TD-FAC) model at this stage as this relies primarily on financial and accounting information that should be readily available. This is consistent with the experience in many countries around the world on initial market reviews where communications regulators start the price control regime based on benchmarking, then proceed to implement top-down cost model followed by hybrid top-down and bottom up cost models and finally implement bottom-up LIRC cost models. Top-down models use cost accounting data of the operators under consideration, expressed typically in current cost terms, and allocate only current costs to the relevant services. Top-down models reflect existing networks.

ECA has utilized a Top-down cost model to set the level of termination rates applicable to the operators. ECA's decision to use a top down cost model is fully consistent with the Telecommunications Lawful Tariff Directive No. 797/2021 and ECA's duties to promote competition and to protect consumers. The Telecommunications Lawful Tariff Directive requires cost to be fair, reasonable and non- discriminatory.

Existing Telecommunications Operators - Ethio Telecom and Safaricom Telecommunications Ethiopia PLC were engaged in providing input data for the development of the model and the data provided was analyzed and assessed. Where sufficient data was not provided, international benchmark data was used to make suitable estimates for populating the Top-Down Cost Model.

The Top-Down model cost-based termination rates have been calculated based on the information collected from the telecommunications operators and forecasted over a period of five years glidepath.

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6. Determination

Having undertaken a detailed costing study in the telecommunications market in Ethiopia, the Authority hereby determines the Mobile and Fixed Termination Rates (Interconnection Rates) as follows:

i) All mobile and fixed telecommunications operators in Ethiopia shall implement the MTR/FTR for a period of five (5) years as outlined in Table 1 of this Determination:

Table 1: Mobile and Fixed Voice and SMS Termination Rates

Type of Service	Unit	May 1, 2024 to April 30, 2025	May 1, 2025 to April 30 2026	May 1, 2026 to April 30, 2027	May 1, 2027 to April 30, 2028	May 1, 2028 to April 30 2029
Mobile voice Termination Rate	ETB /min*	0.23	0.22	0.21	0.20	0.19
Fixed voice Termination Rate	ETB / min*	0.15	0.14	0.13	0.13	0.12
SMS Termination Rate	ETB / SMS*	0.05	0.05	0.05	0.04	0.04

* Before taxes

ii) Retail tariffs of Mobile and Fixed Voice, as well as SMS services including regular packages with or without any bundling set by all licensed mobile and fixed telecommunications operators shall not be lower than termination rates.

iii) This Decision shall be implemented by all mobile and fixed telecommunications operators in Ethiopia with effect from 1st May 2024.

iv) The prescribed MTR/FTR is a price cap, therefore, all mobile and fixed telecommunications operators have the freedom to negotiate interconnection rates that are lower.

v) All mobile and fixed telecommunications operators shall be required to amend their interconnection agreements in line with this Determination and file the amended interconnection agreement with the Authority before 1st May 2024.

The Federal Democratic Republic of Ethiopia Ethiopian Communications Authority

DONE AT ADDIS ABABA on the 15th DAY of APRIL 2024

BALCHA REBA (ENGINEER)

DIRECTOR GENERAL

ETHIOPIAN COMMUNICATIONS AUTHORITY