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Reducing the Cost of Broadband in Suriname

I believe this question has been set for today's discussion since it has been assumed or is the perception that the low penetration rate of broadband in Suriname and to a similar extent our Caribbean region is a result of the current and recent costs of broadband. I will try to address this question in my introduction presentation this afternoon but I will also ask (and try to answer) a related question of my own. Is the current cost of broadband the reason for the low penetration rates of broadband in our countries?

To analyse the present and to predict the future we need to go back and look at our history specifically I would look at the telecom sector in SVG and the OECS in general around 10 years ago 1999-2000 as it related to the cost of mobile telephony/cellular phones. I believe this experience will also be similar to the situation that has occurred in Suriname. At that time the cost of a mobile local call was about \$1.15EC/.42 US per minute. (We can also remind ourselves of the cost of broadband/internet at that time). To make an international call it was the sum of the fixed line rate plus the local mobile rate. The market was a post paid market with a fixed monthly charge of around \$50.00EC/18US before even making a single call and the handsets cost were high, a few hundred dollars and up. As one would expect the penetration of mobile telephony at that time was around 3% in SVG and similar numbers in other regional markets of the OECS. The question at the time was "can the cost of mobile telephony be reduced?" The reason for that question at that time is the same reason I believe the question is being asked today. That the low penetration rates of mobile telephony at that time was due to the high cost of mobile calls (monthly subscription and per minute rate). The answer to which we all know today is yes, or is it?

While we have had mobile penetration rates move from around 3% in 1999 to over 100% around 2006 , three years after the liberalization of the telecom market in the

OECS one needs to look closely at what the reasons were for this rapid expansion and see if we could learn from this experience in our attempt to answer today's question? I believe we can. Was the reason for the rapid expansion due to a reduction in mobile telephony costs or was it a combination of other factors? I believe it was a mixture of factors and the reduction in cost not being the dominant factor. This may seem strange but I would like the audience to bear with me on this issue. In essence while we may believe the reduction of broadband costs should be our goal it should not be our dominant objective. Since we may strive to achieve this goal and be successful but still not achieve the penetration numbers for broadband that are similar to those for mobile telephony which I believe is our ultimate goal both in the OECS and in Suriname.

The fact of the matter is that mobile telephony costs has not dropped that drastically since competition came to the market in 2003 but we have been able to obtain 33 times the penetration rate that existed hitherto. Broadband costs have dropped comparable or even more than mobile over the same period but there has not been similar penetration rates for broadband. We in the OECS have moved from a rate of \$1.15EC/.46 US in 1999 to around .75EC/.27US in 2009 for mobile calls. Rates that are similar to what exist in Suriname today. This current mobile rate is still 10 times that of a local fixed line call in the OECS. What did change from 1999 to when competition came to the market was that mobile telephony became "affordable" to the masses. The cost might not have changed much but it became affordable. This ladies and gentlemen is what we have to strive for in broadband. Make it affordable to the masses. In other words while a reduction in broadband costs will make it somewhat more affordable to the masses it is not the dominant feature in bringing it definitely "affordable".

At this point I will like to examine what made mobile telephony affordable and see how these could guide us in our drive to make broadband affordable.

1. The costs for mobile was reduced as outlined above and which occurred for both post paid and pre paid customers with prepaid rates actually being slightly higher than post paid. However, it is seen that the post paid customer penetration rate SVG has not changed since 1999. At that time the market was fully post paid with 3% penetration. Today it is still 3% with the other 97% being prepaid. It is evident then that the prepaid model caused the drastic increase in penetration rates. Even with higher costs than post paid it was the choice of the masses. Again the issue of affordability comes up as the explanation. The masses could afford to obtain prepaid service even with slightly higher rates and higher handsets costs.
2. Prepaid was made affordable because there was no fixed monthly fee . This entry barrier was removed. Persons with a handset and 5-10EC/2- 4US dollars could get service.
3. Persons who did not qualify income wise were not required to post a security deposit to obtain service as required with post paid accounts. Another entry barrier was removed.
4. Persons can maintain service based on what they could afford monthly to charge their accounts. Not the case with post paid that expected a fixed minimum payment monthly.

Following from the above is the new question "can we make broadband affordable in Suriname and other Caribbean countries?"

1. If history is a guide it will seem that we need to have broadband follow the prepaid model of mobile telephony.
2. Second even if we were to make the actual cost of broadband access affordable we would still not be where we want to reach. The missing piece is the access instrument the CPE, in this case the computer. Without the computer there is no access. The strange part of the puzzle is that while the telecom companies are in the business of selling CPE for mobile telephony they do not do the same for broadband except for small promotions that are done infrequently. This ladies

and gentlemen is the dominant barrier to broadband in all of the developing countries Suriname not excluded. It is the reason why the drop in broadband costs over the last ten years **(explain this drop, not entry level)** has not seen any sizable increase on the broadband penetration rates of our countries. We were at 2% in 1999 in SVG and around 10% in 2009 with similar numbers across the OECS. In other words we can have broadband costs reduced tomorrow to zero and we would not see any penetration rates similar to that of mobile telephony unless the CPE /computers become affordable.

At this point in time and I speak not as an NTRC representative I do not believe the telecom providers in our region including those seated here today is at the point in their business life cycle where they are willing to make broadband access affordable to the masses as they did with mobile telephony six years ago. They maybe valid reasons for this position from a business perspective and which I hope may come out today in their presentations. Six years ago competition was the factor along with the availability of the prepaid platform that pushed the mobile providers to make mobile telephony affordable. At this time I do not believe this will be the deciding factor it will have to come from the public and private sectors and through public policy initiatives such as Universal Service Funds , etc.

In closing I wish to address directly the question being asked today since I also do believe the cost of broadband can be reduced from the level that it is at presently but it may not be in the interest of existing service providers of Fixed line service. To make the point I would like you to follow this scenario which I would like those companies seated here this after noon to try to address .

If the cost of voice service on a mobile network is ten times the cost of voice services on the fixed line network which is the case today why is it that the cost of internet access on the mobile network is not ten times the cost of internet on the fixed network? In fact the cost of Internet on the mobile network is actually lower than that of the fixed network and is comparable with the cost of voice services on the mobile network.

One may say that the internet on our mobile networks are not at broadband speeds but I can say that certain providers has increased their internet mobile speeds in recent times with different technology but no change in price. The point that I want to get at is that it seems to me that if mobile internet can be similar in cost to voice services on the mobile platform and could even be considered lower since it is usually unlimited then why should the cost of internet on the fixed network not be similar or lower to the cost of voice services on the fixed network that currently stands at around \$20-25EC/7-10US per month in the OECS?

Currently our entry point to the Internet in SVG on the fixed network which is the service needed by most homes is around \$80.00EC/30US. A lot higher than the 7-10US and even higher than what exist on the mobile networks.

I see no valid reason why the entry cost to broadband on the fixed network cannot be closer to the cost of voice service on the same network as is the case on the mobile networks. This reduction coupled with addressing the issue of CPE/computer cost will see us getting closer to our ultimate goal of bringing broadband penetration to the same levels of mobile penetration.

The counter argument that maybe put forward by the providers are that they businesses which have to provide a return to their shareholders annually. As regulators we have to always keep this fact in mind. However, we have also ensure that apart from ensuring that the providers can give a return to their shareholders and also keep investing in their networks we also have to be mindful that they do not produce extraordinary profits at the expense of high tariffs to their consumers. A fair rate of return should be our objective as regulators. Taking this into perspective it is one of the reasons that maybe put forward for the cost of broadband not be reduced on the fixed network or be inline with the cost of voice services on the fixed line as it is on the mobile network. With mobile service each consumer is a potential customer of a provider and a source of revenue. With fixed line service this is not the case instead of each consumer being a potential customer it is every household, since the service is shared at that level. This reduces the ARPU for the provider and is the reason I believe providers today are targeting the mobile customer and not the fixed. It is also one of

the main reasons that providers are not pushing for fixed broadband customers with the same effort as they are with mobile internet customers. In simpler terms fixed broadband customers will be more or less limited to the number of households in the country. As an example in SVG we have 30,000 households with a population of 107,000. The maximum fixed broadband customers would be limited to approximately 30,000 customers. If you multiply this by the monthly cost of a 256k broadband connection, which at this time is \$149.00EC or \$55.00US you will get a maximum revenue per month of \$1,650,000US or yearly revenue of \$19,800,000US. The question one has to ask can this yearly revenue which is the best case scenario (100% broadband penetration) sustain an existing provider that has been accustomed to higher revenues or even more is this revenue sufficient to cover the cost of operations of the company? Taking into consideration that we are looking for these rates for broadband to be even lower. Now I would like to look at the mobile side. With the mobile market the 107,000 in SVG (and similarly the 497,000 in Suriname) are potential mobile internet customers. Looking at the current rate of mobile internet plans in SVG of \$55.00 EC or \$20.00US they can get a possible monthly revenue of \$2,140,000US or \$25,680,000US which is more than is possible with fixed broadband and at lesser cost. Please also keep in mind that the mobile Internet that I am comparing is not even at broadband speeds but more like dial up. Looking at the above I believe I see a compelling reason for providers today to be concentrating on pushing mobile Internet (and mobile broadband soon) as compared to pushing for fixed broadband. In short it is in their business interest. We however as regulators and policy makers have to see how we can partner with the providers to see a business case for fixed broadband, which is so critical for the development of our countries. It might be that we may have to wait until we have Mobile broadband that can be accessed by PCs before we actually see a reduction in the entry price for broadband access since a business case for fixed broadband might not be feasible.

Thank you.