



COMPETITION COMMISSION OF SOUTH AFRICA

In the matter of

ONLINE INTERMEDIATION PLATFORMS MARKET INQUIRY PUBLIC HEARING (OIPMI)

held at

***DTI Building
Sunnyside and virtually via MS TEAMS***

on

2 November 2021

PANEL: *James Hodge – Chairperson
And Doris Tshepe*

TECHNICAL TEAM

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PROCEEDINGS ON 2 NOVEMBER 2021

CHAIRPERSON: ... intermediation platform market inquiry.
My name is James Hodge. I am the Competition
Commission's chief economist and Chair of the inquiry. I
am joined by Ms Dorris Tshepe [no sound 00:00:16]
Ithumeleng Lesufi and Mr Hariprasad Govinda.

At the outset I wish to apologise for the delay in the
start. Clearly the shift to the digital economy is not as
seamless as we would like. But hopefully these technical
10 glitches have been sorted out. So by way of introduction,
on April this... in April this year the Competition Commission
announced the inquiry into online intermediation platforms.

These are platforms that facilitate transactions
between businesses and consumers. So called B to C
platforms for the sale of goods, services and software. So
for the public they include E-commerce, app stores, delivery
platforms, travel accommodation and online classifieds as
well as elements of specialist search in each of these
areas.

20 The inquiry was launched as a proactive measure to
get a greater understanding of the online markets operating
in South Africa and whether there are factors that may
hinder competition or undermine inclusive participation in
these markets. In this way an inquiry is different to an
abusive dominance investigation, as it concerns market

features and not necessarily the conduct of a single firm.

It also covers the purposes of the Act and that includes not just competition, but including consumer choice and participation of small businesses and historically disadvantaged individuals in the economy. The launch happened in the context where online commerce has become an increasingly important channel for business to reach consumers and where the experience of other jurisdictions is that there are features of these markets
10 which may tip them towards high levels of concentration.

The experience is also that concentration is hard to reverse once entrenched, which is why a proactive approach is needed. In those circumstances, business using the markets may be exploited or discriminated against and consumers may not be presented with the optimal choices.

So the proactive approach will ensure that these markets are contestable and competitive which is in the long term best interest of the South African consumer and the businesses that depend on them. It will also ensure
20 that these markets are inclusive and support the development and growth of the economy.

This includes in ensuring South African businesses are able to make use of the opportunities afforded by global and local platforms, but also including small businesses and firms owned by historically disadvantaged individuals. The

inquiry was launched in May this year with the terms of reference that focussed on three broad areas.

Namely market features that may hinder competition between platforms, market features that may give rise to discriminatory or exploitative treatment of businesses on the platforms and features that may negatively impact on the participation of small business or historically disadvantaged individuals.

The launch was accompanied by a statement of
10 issues and information request a wide range of online platforms operating in the country as well as the launch of a business user survey as well. Following that initial process and the receipt of the information, this was followed by further statement of issues which homed in on certain issues that the inquiry wanted to understand a lot better.

The public hearings that we are commencing now are the cornerstone of a fair and transparent process that foster's accountability and public confidence in the inquiry process and outcomes. They provide an opportunity for
20 stakeholders to put forward their perspectives on the issues raised by the inquiry and for the inquiry panel and technical team to engage those views in a two-way debate.

The public nature of the hearings also permits that all stakeholders and the public can appreciate the differing viewpoints which will ensure a more informed public debate

with the inquiry around what the platforms are, how it may serve our best interest and ensuring that at least that debate does not happen in private.

The public hearings will take place over the next three weeks and the schedule for the daily hearings is provided on the inquiry website, on the Commission's web page. There will be a morning sitting from ten to one, and an afternoon sitting from two to five in the afternoon, with two evening sittings planned for this week on Wednesday
10 and Thursday to accommodate participants from Silicon Valley.

The running order over the next three weeks is to cover app stores today and tomorrow, general stakeholders tomorrow and travel accommodation platforms later in this week. Next week will be E-commerce and the delivery platforms, and in the third week online classifieds along with those stakeholders who could not make it earlier in the proceedings.

Before each group of platforms starts, the technical
20 team will briefly introduce the nature of the platforms as well as some of the discussion and questions raised in the further statement of issues. More detail on that is available on our web page.

I think at the outset the panel would like to thank all of those participants that have offered to give some of their

valuable time to come and engage with the panel and with the public on these important issues that will shape the digital economy in this country.

In terms of the next steps following this public hearings, we will be engaging with some of the stakeholders on in camera sessions, confidential sessions, where we can take the questioning further by traversing confidential information and this will take place in January and February next year.

10 Also participants that wish to provide expert reports or legal opinions on matters that are raised by the market inquiry have until the 1st of February to do so. The inquiry panel and technical team will then hold engagements with those that have submitted expert reports or legal submissions in February and March and the idea is to provide a preliminary report by May this year. Basically on the anniversary of the inquiry.

Following that preliminary report there will be engagements with stakeholders till a final report is issued
20 around October next year. I will now hand over to Mr Hariprasad Govinda to introduce app stores and a further statement of issues on app stores.

MR GOVINDA: Thank you Chair. Mobile app is a standardised piece of software that has been developed for the use on mobile devices. It adds extra functionality to a

smart device and it provides content to users and it provide convenient and efficient ways for businesses to interact with their customers, and the app stores are a type of market place platform that allow consumers to discover, install, update and remove applications from the devices and for app providers to reach consumers with their content and services.

There are four types of pricing. That is free apps, free apps within app purchased, paid apps and subscription apps with in app purchases often included. There are four mobile stores available in South Africa. Google Play store by the Google, App Store by Apple, Samsung Galaxy Store by Samsung and App gallery of Huawei.

The... we have looked at the market shares in terms of mobile device and as of June 2021 Samsung is the largest seller with a 45% market share and Huawei stands at 28%, Apple at 15% and we do have Nokia, LG, Sony and others and most of the except for Apple, all the other mobile devices work on Android OS system.

App Stores have arisen as part of a different device eco systems and as we see... as we have seen from the market share figures, the most prominent eco systems in the mobile device are App Store and Google Play Store and Google is the largest due to the Android operating system on which many other mobile devices rely on.

Apple devices seems to be targeting higher income bracket and so App plan shares is higher than the share of devices. Device manufacturers such as Huawei and Samsung are starting to develop their own operating systems and offering their own App Store on devices loaded on their own operating system.

However, the share of actual site visits, active users, transactions is currently very small in South Africa and we have understood from some of the case laws across the
10 jurisdictions that App Stores do not compete directly. The... when it comes to business users, the terms and conditions by platforms are standardised to deal with millions of app developers globally.

Platforms reserve the right to change these terms and conditions at times unilaterally. App stores provide app developers with development tools, API's, to assist them in developing apps for the eco system. Granting access to different API's need to be motivated for by the app developers and some developers appear to be getting better
20 access than others.

The large mobile app stores host millions of apps across a range of different categories with even smaller new app stores hosting over a hundred thousand apps. This means the discoverability is critically important and the ranking in the list is influenced by user experience and app

quality.

App stores have typically charged a listing or an annual fee and then a 30% commission on paid transactions. 30% fee has been the focus of litigation across many jurisdictions which has resulted in both Apple and Google reducing the fee for app developers to 15% for the first one million earned annually.

App stores themselves offer apps in competition to third party apps. This could have an impact on preferences
10 on their own apps and also giving better ranks for their own apps. So this is just to broadly introduce what we have today and tomorrow when we discuss the app store, the public hearing.

It is starting with Huawei soon after this, at sorry we are delayed but soon after this remarks we are starting with Huawei and then followed by Iterative Entertainment South Africa at around half past twelve noon and in the afternoon we have Samsung app developer studio, Debson and tomorrow evening we are starting with Google.

20 Thank you, over to you Chair.

CHAIRPERSON: Thank you. I think we would like to now invite into the virtual room, the Huawei team. Maybe they can put on their cameras and also whoever is leading the delegation just to introduce the team for I believe making a presentation.

MR QINGCHENG: Hello?

CHAIRPERSON: Welcome Mr Du.

MR QINGCHENG: Ja, we also have our [indistinct –
00:11:53] from our team is here, and I would also like to
introduce our team.

MS POTGIETER: Good morning everybody. I am Michelle
Potgieter, and I am on the Huawei Mobile Services side, and
with myself I have got Du, who is the head of operations on
our side. We also have more Huawei representatives on the
10 call. Maybe they can just introduce themselves?

MR QINGCHENG: Do we need to do the presentation for
the... our app store, app gallery because some of you I
think we introduced our store before. Maybe some of you
maybe do not know?

CHAIRPERSON: I think it would help because this is a
public hearing. So whilst there has been some
engagements with the team, previously I think it would
benefit the public to also see the app gallery offering and
then we can follow that with some questions.

20 So I think you have right to launch your presentation.

MS POTGIETER: I see Craig is on the call. Craig, would
you like to introduce yourself?

MR LAWRENCE: Hi everybody. It is Craig here. I am the
head of legal for the consumer business group for Huawei
South Africa.

MS POTGIETER: Alright. I am displaying my screen. Just let me know if you can see it.

CHAIRPERSON: We can. If you can put it in presentation mode. I think that would help.

MS POTGIETER: Sure, I am going there.

CHAIRPERSON: Great, you are all set Michelle.

MS POTGIETER: Yes, I am. Thank you. Alright. So I will just go through an introduction of Huawei app gallery and what the product consists of or the platform rather as well
10 as our offerings. So we focus on a one plus eight eco system. So your device can also connect with your wearable.

With your laptop, with your tablet, in future with your VR and so the app gallery can also be experienced via these different platforms. So we are creating an open win-win, an innovative eco system. That is what the app gallery is all about and Huawei offers our consumers high quality, a digital life experience in all their scenarios.

So whatever product you are using. We are
20 concentrating on data, on apps, on travelling and our entertainment. Those are the type of apps that you can find within app gallery. So app gallery for South Africa, it is a localised app store with high quality content and just to give you a little bit more information.

We have got four major pick areas in the world where

development takes place. We are in China, Russia, Germany and Singapore and they also represent those specific continents and then we have got 15 data centres. We do not have a data centre in South Africa and Huawei is also compliant and subscribes to the general data protection regulation principles.

So the question can be asked how does Huawei interact with device users. So we have got two different approaches. The one is via a paid promotion service called
10 Huawei adds or PPS in short, and another is via Huawei app gallery which offers device users access to variety of apps, which they can download and use for free or share or pay for as a service.

So what is this PPS all about? So Huawei paid promotion service, also called Huawei adds, provides a convenient and quality platform for paid promotion services to increase app exposure and download rates. The promotion service is charged based on a cost per download, so maybe I can just say this is similar to Facebook adds or
20 Google adds.

That is what Huawei adds is all about. The platform offers three key features. For instance the first one is new user based service fee. The funds in your account will be invested in your app promotion only and you will be charged only after a new user has downloaded your app.

Then we have got controllable cost. So this is if you... you will have full control over your account. You may start or end a promotion or a task and you may set a daily budget or cost that you want to invest and when your account balance is insufficient for a promotion, if you want to promote your specific app, then the system will suspend the promotion until you top up again your account.

Then we have got transparent data. There are plenty of opportunities in Huawei app gallery to generate
10 impressions, but you do not have to study the value of each promotion slot. So instead you may simply select an app you want to promote and offer your bid and leave the rest to the system to run it.

So the cost per download, this process, how does it work? to start a cost per download paid promotion service an advertiser or a developer or a partner, commercial partner you should firstly make sure that your app is already within the Huawei app gallery, and then the first step would be for instance for the interested developer.

20 He or she could register through the business development team to start promoting his or her app. Huawei app gallery will then make the assessment whether the app is suitable for promotion to end users and then they can apply for permission for paid promotion services on the platform.

That is the first step. The second step would be after the application is approved, he or she can then top up for their pay promotion account in their account through a bank transfer and then they can start to bid on the paid promotion platform. That is the third step.

While you can then check for the promotion data from the report and optimise your promotion. Similar to what is happening if you advertise on Google adds or Facebook adds and the last step is you can then apply for invoicing on
10 the platform when the recharge amount is exhausted which you invested in your promotion.

So we also offer different, Huawei offers different add offers. Sections within app gallery where an advertiser can then promote what he or she would like to promote. So for example, some of these sections are the popular app section. This host the most popular apps, for example now during if I have to think locally, now during loadshedding, Eskom's PUSH app can be found in this section as most device users are seeking information with regards to a
20 loadshedding schedule.

There is also a section called new apps we love. An app can also be promoted within this section. The third one is app rankings, where apps are ranked by usage where people download it so there can be specific apps that is downloaded more than others, and the ranking would then

display this.

Then also there is a search result section. So Huawei app gallery offers a series of services, including content distribution, content operation, collaboration for partners which are what we call joint operation services. The features of these joint operation services, what does it mean?

It gives convenient services for developers. It provides basic product capabilities such as an account set
10 up or a payment set up or data analysis. It also gives professional application operational team, provides free product evaluation, seem recommendations, application exposure and date optimisation.

Our partners can start their joint operation services by signing an online agreement and integrating apps with Huawei's... Huawei Mobile Services platform. From Huawei's side we will provide professional strategy or strategic support services, technical support services and recommendation resources to help developers succeed.

20 That is what we then offer them. On the app side that is the process but there can also be on the gaming side. So developers can also upload games. The access process for developers who developed games, consist of six different steps. Obviously the developer will apply for an account and then if he has... the game has been developed, he can

also then set up a pre-order service which allows the developer to create exposure for his or her game before it officially is launched within the app store, and the next step is from Huawei Mobile Services is access preparation where the service delivery kit is then set up.

Then obviously we will move into a beta testing phase followed by an official launch of the app on app gallery. Thereafter, it is the daily operation of the app that takes place. So that is the process for a game, should they
10 launch a game. So the question can then probably be asked and I know that it was addressed previously.

What is the share and settlement value to developers? As Huawei we have been offering an above industry incentive share. During 2020 we offered an 85/15% share, and from 2021 we have been offering an 80/20% share, as well as a 25% promotion.

What that means is we give the developer then promotion value back on our app gallery to promote his or her app or game and that is what we have offered them.
20 This is obviously higher than the industry standard that is out there of 70/30%.

In terms of the promotional resources, these that I have just referred to now. What is the 25% that we offer the exposure that we offer. They will receive exposure of the following platforms. So for instance within app gallery we

offer splash screens.

We also have an immersive detail page. We offer banners. For instance if there is a pre-order of a game, we can offer them a banner and we also have side slip resources which we can offer to promote their specific app.

Thank you. That is it from my side.

CHAIRPERSON: Thank you very much. I think you can stop sharing your screen now.

MS POTGIETER: Let me just... no no no, do not glitch.

10 CHAIRPERSON: I think we have lost Michelle but she will come back in. Thank you Mr Qingcheng Du for also assisting. The panel have a number of questions for Huawei that we would now like to just traverse with you.

MR QINGCHENG: No problem.

CHAIRPERSON: And I think, I just want to start with some questions of clarity. Just so that we get a good understanding of Huawei's current position, because in 2019 Huawei was placed on this US blacklist, the US Entitles Act, and as we understand the outcome of that was
20 that for phone models sold prior to that Act, that you could continue to access Google Services and after that you could not.

MR QINGCHENG: Ja.

CHAIRPERSON: But I think just for clarity, and I mean or the phones offered in South Africa at least operating on the

Android operating system still?

MR QINGCHENG: Because we have our own HTMS core platform, we also have some existing forms that are running the HTMS system and service on the existing phones, but our new device we launched in South Africa we are using HTMS core system already.

So currently the new... we can call it the Huawei new HTMS phone sir. Now we use our own platform to support the Android system, because these are Android open source
10 projects, we are using the similar mechanism to build this new HTMS core. So our phones, if other phones want to use the system, they also can use.

HTMS core is another way to offer the service to other consumers in South Africa on the new Huawei phones.
Ja.

CHAIRPERSON: Right, because I think where our uncertainty was what is the difference between the Harmony operating system which we understood only operated in China and HTMS. So our understanding is HTMS replaces
20 the suite of mobile services that used to be done by Google.

So it would be obviously this play store, but it would also replace maps, search and other features which app developers may wish to tap into, and so it offers a different set of API's I suppose to replace Google mobile services, but is it an operating system or is the operating system still

Android?

MR QINGCHENG: Currently what we call the HTMS core, this is the only service we distributed on the Android phones. Harmony was always the system, now only available in China. This system is not available in South Africa, and also Harmony OS is a totally new system.

It is not... but this system we used a lot of technology on the [indistinct – 00:28:09] and the platform, but we have a total different you know, new technology to collect some
10 smarter terminals. This is the system to developed for the maybe we can say for the 5G environment.

It will collect a lot of devices. HTMS system actually is a system based on the Android platform, but this service even included the Google Mobile Service, core service. Like Gmail, YouTube and some other service pre-installed on the HTMS phones.

Now we cannot use this service on the Huawei phones. So we developed a lot of services that can replace or offer a similar service to the users like we have also have
20 some video service, we have some map service on the phones, that can help other consumers experience some similar you know service from the mobile platform before, and also maybe people need to... some of the people, some of the apps they need to register a new account, like on the HTMS system, they need to have a Google ID right.

On our new system we are different eco system. Maybe some of the developers, they have their own account system. Huawei also have our own account system. This will help the consumers to get a better experience to a storage of their data and to get a local... more localised service.

That is what we are offering. What we are offering to the local consumers. So the difference between Harmony OS and HTMS, you can just say this. Harmony OS is the
10 latter generation system for the terminal devices and HTMS is just a replacement of the system.

Okay.

MR LAWRENCE: [indistinct]

MR QINGCHENG: We cannot hear you.

MS POTGIETER: We cannot hear.

MR QINGCHENG: We cannot hear you. Hello?

CHAIRPERSON: We also cannot hear.

MR QINGCHENG: Hello?

MS POTGIETER: I have advised that we cannot hear. They
20 say they can hear you.

MR QINGCHENG: Okay.

MS POTGIETER: Must just test on their side.

MR QINGCHENG: End the mute. Can they hear us?

MS POTGIETER: They can hear us, but we cannot hear them.

MR QINGCHENG: Okay.

MR LAWRENCE: I can hear you guys.

MR QINGCHENG: Okay.

MS POTGIETER: Okay.

MR LAWRENCE: Am I audible now?

MS POTGIETER: We can hear you now again.

MR LAWRENCE: Ja.

MS POTGIETER: There is quite a feed from your side, a back feed on your voice.

10 MR LAWRENCE: [indistinct – 00:33:01]. Can you hear me now? Michelle and Du, can you hear me now?

MR QINGCHENG: Yes, we can.

CHAIRPERSON: I do apologise. We should have got Huawei in to assist us this morning. I think it is because we are trying to link transcription systems as well as the feed, but let me continue with some of the questions we have. I am just getting a sense of your sales of Huawei phones in South Africa and what proportion are sitting on the GMS suite and what proportion are on the HTMS suite.

20 MR QINGCHENG: Okay, I do not have the accurate date about this, but most of the phones that now we sell in South Africa is HTMS phones, I mean the new phones. Some of the data I checked on the report system is about... now is about 80% of the system now are using HTMS system.

Some existing, I mean the older phones we sold

before, also we got some information, it still have about 20% of the market share in the existing phones on the market.

MS POTGIETER: I think just to elude or broaden what Du has said, so since last year... middle of last year we have only been selling HTMS devices. So obviously that has far smaller base than what we used to sell with GMS in the past.

So the majority of phones were still GMS, but all our
10 new devices only carries HTMS.

MR QINGCHENG: Yes, exactly.

CHAIRPERSON: Alright, thank you. Can I just understand the origins of the app gallery and I am asking in part because as I understand Google Play has historically been prohibited from being on phones in China. Is that correct?

MS POTGIETER: I am not sure if I am following you but historically Google and Huawei have worked closely together to develop new Android versions and billed products. Up to 2019 when Google stopped cooperation
20 with Huawei on software, hardware as well as technical service, and this then resulted in the failure to update Android on our old Huawei phones or devices.

So Google's GMS core services and software including for instance Gmail, YouTube, Chrome, Google play store, all of those are then no longer available on new

Huawei devices, and therefore we had to develop Huawei mobile services with app gallery, with petal search to search, with petal maps and those are now the devices that we sell.

Sorry, I hope I am answering your question.

CHAIRPERSON: No, I suppose where my question maybe comes from is if some of the Google services were historically prohibited in China, then surely you may have developed these services already for that market previously.

10 So I just want to understand where the app gallery is a new innovation or whether it was being provided in at least China rather than the rest of the world prior to 2019.

MR QINGCHENG: Ja, we developed the Huawei app gallery in China before we are facing the tough situation, because in China we have our own [indistinct – 00:40:22] is isolated from the you know, other markets. Like in China we do not... we cannot use YouTube.

20 So we have our own video service and also we have third party app stores, like in China we have the biggest app store come from the [indistinct – 00:40:38]. Most of people download the games, apps from that platform and also some manufacturers, like Huawei and other countries, they also have their own app store.

So it is not dominated by Google play in China. Actually in China Google play service, most of the Google

play service are not available in China. Ja.

CHAIRPERSON: Thank you Mr Du, and that is what I just wanted to pick up. I went to the third party app stores. I mean I know it seems like bit of a tangent, but China is different from the rest of the world as you indicated. Google play was not there or not pre-installed, and so it was just to get an understanding of app store competition in China.

I mean it is interesting, you mentioned that Ten Cent
10 is the biggest app store and yet they are not a mobile device producer. Obviously they have the We Chat element, which is enormously popular. But I mean as I understand there is other like I think 360 Mobile Assistant, which are also large stores with 100 million users or more.

So can I just understand in China, do you get default installed app stores on the home screen much like Google has enforced in the rest of the world?

MR QINGCHENG: Ja, they have because most of the phones are sold by the manufacturer. They have their own
20 app store. Like in China, show me you know. Show me and maybe we can have the [indistinct – 00:42:12] these manufacturers they all have their own app store, but in the meanwhile they also open to the partners that have their... the third party app store.

Like Huawei app store also can install on their

platform. If they can support the basic API, you know we can install the app store on a different type of the... different brands of phones.

Like the app store in China, is named Inova. It is also like an app store, the name. So different companies they have... they competed with each other. They also cooperated with each other on their mobile apps industry.

CHAIRPERSON: Alright. So do you get sufficient business from other devices? I mean, are there... you have
10 mentioned that you were able to load onto other phone makers devices.

MR QINGCHENG: Ja.

CHAIRPERSON: But you know, as I said what we have seen with Google in the international markets and your experience was the same. That their mobile application distribution agreements prevented others from at least being on the home screen and so Google Play, Google Search and the other Google apps were presented on the home screen.

20 Tsiami and Huawei in China would, it may be the default is your own app, but are other apps present on the home screen? Do they get loaded onto the home screen? I am just trying to understand how competition may differ in China compared to international markets?

MR QINGCHENG: Okay. Because Google have no HTMS

pre-installed on the phones, although all the manufacturers they are using the, you know the Google's basic service, but from the consumer's perspective they cannot see YouTube, Gmail and other new apps.

So this [indistinct – 00:44:23] home screen. Maybe the first screen to pre-install their own app store or other service and the Google also accepted this because China... in the China market, they cannot you know distribute their service.

10 So it is not like in other countries maybe the manufacturers have to pre-install their service on the first home screen. In China it is totally different. So the manufacturers can install their apps default on the home screen and any [indistinct – 00:44:55] you want to install.

Because Google has very strict rules on this.

CHAIRPERSON: Alright. So users could also load the Ten Cent app store on the home screen, alright.

MR QINGCHENG: Ja, Ten Cent app store is not pre-installed on most of the phones. The manufacturers, they
20 have their own store. Most of this app store are pre-installed on their own branded phones.

CHAIRPERSON: Alright, and just so that I understand. I mean Google has often said that these agreements are necessary to support the development of Android. That where their own revenue is from exactly play store, search

and others.

But obviously those apps are not available in China. So are there licence fees for the use of Android in China or does Google in a sense accept that it will earn revenues in the international market and that will cross subsidise China?

MR QINGCHENG: I do not have more details about this, because I am from the operation team, Huawei. I remember, I need to check with our team internally. I
10 remember they still have to pay the licence fee. Even the...
even Chinese consumers cannot use the GMS service.

They need to get a licence from Google and pay them for the licence, because some of the manufacturers also have some market in other countries besides China. So they have to pay them. Even Huawei we also pay them before.

CHAIRPERSON: Alright. Thank you very much. So if I understand right, app gallery may have been developed prior to the 2019 event because you needed to develop an
20 app store for your consumers in China. So has the challenge been you know, integrating the sort of HMS system into the international market in getting the apps from the international market onto the Huawei app gallery as opposed to just the apps that was servicing the Chinese market?

MR QINGCHENG: I think from the technical perspective, we did not encounter any technical issue to develop this app store, but you know a platform needed some local continent service. You know, like some of the apps from America, maybe they cannot cooperate with us anymore.

So this kind of a service we cannot distribute on our app gallery. But the meanwhile, most of this companies they have some solutions to download the apps for their official website. So we just... if the consumer ask us how
10 to get like WhatsApp, we just tell them you can download that apps from the official website.

We do not recommend that you download the apps from like a... like some platform are not very popular. That is our suggestion, and also the challenges maybe we are facing is about the because different countries have different policy and regulation.

We have a legal team to do some insights into this market, whether we can cover those... we can offer the service and to cover this [indistinct] countries. So that is
20 the some business challenges that we are facing.

But from a technical perspective, we I think it is not very difficult for us, because the system like the Android platform is an open source platform. So we can develop our own system based on the ASOP [indistinct – 00:48:55] because Huawei is also a contributor of these projects.

CHAIRPERSON: But before I get onto the HMS phones and the app gallery, can I just ask on the old GMS phones was app gallery available but just not on the default screen or it was not available at all in the international market?

MS POTGIETER: No, it was not.

MR QINGCHENG: Ja. On some of the GMS phones we used... in the oversea market, like the market except China, the overseas market, we only offer the GMS service before and app gallery was not pre-installed on the phone, but
10 after the... after 2019 because we are... we develop... we launched the app gallery in the oversea market.

So people can download the app gallery from our own website, on Huawei website. But it is not pre-installed on most of the older phones. That is the history information. So because most of the phones on the overseas market now, is the HMS phones.

We do not have any difficulties on this point, because Google also supported on older phones people still can use the GMS service. So that is not a big problem for the
20 consumers.

CHAIRPERSON: And so for the older GMS phones and the older service, I mean the app gallery is available and presumably is available potentially on other devices as well. Is it something you are actively trying to promote or is it more promoting on HMS phones now on your own eco

system?

MS POTGIETER: We are promoting it on our HMS phones. You can download it from the website if that is what you wish to do, but it is obviously a platform that is available on all our HMS devices now.

CHAIRPERSON: Alright. So that is your main focus. It is not to try and gain share on GMS phones at all.

MS POTGIETER: No.

MR QINGCHENG: Yes. We focus on the new HMS phones
10 and the HMS eco system.

CHAIRPERSON: Can I just ask then on the HMS phones and as I understand it is the default, it is pre-loaded. I mean, just in terms of device competition and the importance of app stores, you know. There were some new stories we were referred to at least that said you know subsequent to 2019, Huawei lost some share at least in the high end market in Europe.

Because some people wanted access to some of the GMS sort of apps. I just want to understand you know, from
20 your perspective was that... first of all was that the case in South Africa and secondly, what were the more important apps that consumers missed that may have diverted their purchases to other device manufacturers.

MR QINGCHENG: In South Africa the situation is similar with... similar as Europe countries. Many people, because

South Africa culture is affected by some Europe countries. This is the difference between, like South Africa and like Arabic countries.

So the culture is similar. That is why people are using the similar apps. On our platform we found that many people, they want to use WhatsApp, they want to use Instagram, Snap chat. All these apps are popular in Europe, also are very popular in South Africa.

So these apps that are not available on app gallery
10 we have some other solutions to tell our consumer, because we have a hotline, we receive a lot of calls to check how can they get these apps. We just tell them please download these apps from the website, official website and also if you do not know how to download these apps, you can use some because we have some service team, retail team you can go to the offline store.

We can give you some guide how to download this service from the official channels. We do not recommend users to use some like site loading, from you know some
20 small platforms because they will bring some secondary issues on your phones and also from compatibilities issues, we are also doing ham for our Huawei brand.

Because people maybe they will complain I downloaded some apps from the website on the phone, but then I lost some data or some information is not safe on the

phone. So we do not recommend any you know, third party platforms to our consumers.

We only tell them please download these apps from the official website of these developers. Also, we are trying our best to cooperate with these companies. Like, not all the American companies stopped cooperating with us. Some of the companies still are cooperating with us.

We try our best to get more apps to launch in South Africa. Like Microsoft, these companies also have apps on our platform, but some of the apps like Facebook and
10 WhatsApp now are not available. People only can download it from their own websites.

CHAIRPERSON: Great, thank you and so people can download the apps directly as you say. You prefer the official website rather than third party sources. I mean just to understand, so the sort of device competition. You faced this shock in 2019 when you no longer had available certain, and as you indicated other American companies have also chosen to restrict their interactions with you.

20 I mean there are literally millions of apps on Google Play or Apple app store. What in your view is almost essential for consumers to have a credible offering? I mean I would imagine I want to, as you say I may want my WhatsApp, I want to operate with my bank, I may want to stream music or shows.

So I mean is it important to have the million apps or is it just important to have an essential group of apps in order to make sales to consumers and to be a credible offering in the market?

MS POTGIETER: I can... I think from a consumer point of view, local consumer point of view. Consumers always want choice. They do not want any restrictions. So for instance your financial apps is definitely a portfolio of apps that they want.

10 You know, you need to be able to do your financial banking, and they do it on their mobile devices. So it is imperative that we had to sign agreements with all of these... with all our financial institutions to get these local content onto app gallery.

So globally across the world, for every market there is... we have identified which apps are imperative to have and the partnerships are then formed. South Africa is a casing point where we have done exactly that, but at the end of the day we also have for instance a new app called
20 Petal Search and on Petal Search you can download whatever app you wish to have, to your heart's desire.

International apps etcetera. You can search for a specific app name, and on HMS you can then search and download that app safely onto your HMS device.

CHAIRPERSON: And is that Petal Search basically

identifying the source for that app outside of your own app store, so it is almost... it is not side loading but it is loading from the official source?

MS POTGIETER: Yes, correct.

MR QINGCHENG: Yes.

CHAIRPERSON: On those, would you earn any revenue if it was a paid app?

MR QINGCHENG: It is totally free. No [indistinct – 00:57:30] from this service, because we just offer the
10 service to our consumers to improve the user experience.

MS POTGIETER: Correct.

MR QINGCHENG: Because our company still is a manufacturer company. We sell the phones, mostly randomly from the device, not from the software.

CHAIRPERSON: But I think it is interesting because there has obviously become a global debate about side loading, offering alternatives, but it seems what you are saying is that you have put in place a service that takes you direct to the app developer's own website which should be safe, and
20 that does not require that you charge a fee.

So it is different to what I suppose we are hearing globally that it is highly insecure to not operate through the app store directly. I mean we obviously hear you that side loading from some third party site, unknown site might bring with it some risks, but going to the own site of an app

developer, is something that is feasible and not as risky. Is that correct?

MR QINGCHENG: Ja. No, apps are from this unknown platform will always have some risk. So we recommend the users, consumers, to download the apps from our app gallery because our gallery we have very strict rules to test the phones manually.

Some of the apps are tested manually. Also, we have a lot of secondary tools to do the verification and are we
10 complying with all the regulations. In Europe we complied to the GDPR. In South Africa we know the new regulation.

We also have some legal team to check all these loopholes after this arose on our platform, because that is the... because Huawei take the privacy of our users as the most important thing. We you must do lots of resource and also some team on this kind of work.

CHAIRPERSON: Alright. So I mean, to see if I can get this correctly. I mean if the app is available on your app store, that is the preferent, but in order to make consumers or
20 allow consumers of Huawei phones to still access apps that are not on the app store, you have the Petal Search which allows them to be linked to a secure source as well, whilst you are building your own ...[intervenes]

MS POTGIETER: Correct.

MR QINGCHENG: Ja. We will tell the consumers that

which apps are from the official website, and these apps are recommended a priority. We cannot find an official website, we also can have some third party source. We will tell them this platform is not Huawei partner.

If you download these apps you need to... it is better to test yourself and maybe to the [indistinct – 01:00:38] on your phones. That is our recommendation, because many apps especially for some new apps, we cannot cover all the apps.

10 We only can cover the most popular apps. We have some solution, perhaps otherwise to the consumer. Some new apps we need to encourage them to do the integration with the HTMS eco system. If they cannot support, we just... we cannot tell people you need to download these apps from some third party platform, because this is also a risk for us.

CHAIRPERSON: So can I just understand your strategy in South Africa, as you said in local markets people want to access their banking. They want their financial apps, they
20 want some popular local apps. So as I understand, what you have been saying is you identify what is the more popular and then look to bring those into your app store, and has that been the priority since 2019 in most countries to bring the popular apps from each country onto the app store?

MR QINGCHENG: Ja, actually we already went through the most tough time. In 2019 was the most difficult time for us. Now in 2021 we already have lots of partnering in South Africa. What we support in South Africa is the remote technical support.

You know in China and in other countries we have some technical centre. We provided remote technical support for local developers to integrate with our Huawei mobile service eco system and meanwhile, we also have
10 some marketing support, for example if local developers need to use our Petal promotion service on our platform, they can contact our team.

Maybe the team is from China. The team is from Dubai. This is a big team to help them to design the marketing strategy and also give some guide how to promote in the other countries. Even South African developers, if they want to launch the apps in like Russia, in UAE, England, we also give them some support.

This is our strategy. So either the first, we invest in
20 local resource to encourage it. Some local developers to launch the apps on the app gallery, to launch the apps on app gallery is not the... is not enough. We also need to ask the developers to do the compatible testing on our platform because many apps, they are using some Google service API.

For example, some apps like Mr D, the food app. They are using Google maps as their API, to use the Google maps service but on our phones if they want to offer a better service, they need to integrate our Huawei map API. So this work is a long time work because many mobile developers, they have a vision.

They have an update and also have some change on their product. We keep in touch with them. As soon as they launch some new apps we will do some testing, whether the
10 app works well on our platform for our consumers, because we need to ensure if they experience a similar is it GMS phones.

So this is the strategy. We have a long term strategy to encourage more local developers to join our eco system and also we can have a more local corporation with our local developers, because Google they cover the most of the countries.

In most of the countries they do not have a local you know eco system as strong as us. We have a very big team
20 in China and also in some other countries to support, but in South Africa we support remotely. We do not have too many there.

CHAIRPERSON: Ja, can I just ask that so, I mean you I think Michelle had highlighted the incentive program. I mean, is the incentive program in essence to bring

developers who might have apps on Play Store already, to integrate with HMS and as you put it Mr Du, the... to link with API's that may be of relevance to ensure enhanced performance on the HMS phones.

So the incentives really, I mean they seem temporary and short term but is it ready to bring developers who have apps on other stores onto your system?

MR QINGCHENG: From the developer perspective, if they counter-integrate our API instead of Google's previous API,
10 it is also a bigger loss for them.

MS POTGIETER: Ja.

MR QINGCHENG: Like Huawei market share, I mean no matter the GMS or the HMS phones. In this market we still have about 28%. If you cannot support the new API or cannot support the obviously the service on our phone, it means you will lose almost 30% of this market.

That is why when we communicated with some local developers, especially for the top partners like banking companies, some carrier companies, they were happy to
20 support our needs because they have a larger user base in this market.

If people complain to them, they have to help. We also have to help them to fix these issues. For example, if you want to top up with some airtime, you cannot download the Vodacom or MTN, these kind of apps. People will

complain.

Give them a call to the carrier's companies. So if they receive these complaints, we communicate with them to encourage them to the integration with us, because all the technical support is not very difficult technical issue. It is not very difficult.

I mean in terms of [indistinct – 01:07:16] in your app, then you know, it works well and also you take the size of the app. It will not be, you know become too big. It is very
10 similar as Google's app package technology. So from a developer perspective, if they want to get more users for the apps, they will support us to do this kind of work.

Because we give them the technical support and our marketing support to encourage them to cooperate with us. Also we have some incentive plan like in 2019, if people lodge the service or integrate our API, we will give them like 500 Euro promotion resource.

No matter this resource used on the Google adds platform or first Google adds platform, we just give you this
20 resource. The only condition is you need to ensure that your apps work well on Huawei phones. That is our incentive plan for them.

MS POTGIETER: Maybe I can add on. For the developer of an app or a game it is for them important to ensure that they are on IOS or on Google or on our platform, because

otherwise you miss out on the opportunity to generate revenue for yourself.

From Huawei's side we offer training workshops to help them to integrate these workshops, run from Dubai to local developers. Also in South Africa we try and with the support of the team in Dubai, to run workshops to train and to help the guys to integrate their apps on Huawei's app gallery.

10 So we do offer support, marketing support, resource support, training support to local developers, because we believe that you know, we need to grow the app gallery to be comparable to any other which is out there on other devices.

CHAIRPERSON: Ja, and that is our understanding, is that if you have got a consumer base, it is in the interest of app developers to produce for you, and obviously those that want to generate revenues even more so, but for those offering a service, they want to know that their customers can access their service regardless of the device that they
20 have chosen.

I mean just on the... just on your investment, I mean you have a, what is it? A DGX Lab in Johannesburg.

MS POTGIETER: Ja.

CHAIRPERSON: So Mr Du, you indicated that the serious support may lie elsewhere in a few centres in the globe, but

you have invested in the DGX Lab domestically. So maybe if you can just talk us through what additional efforts you are doing to support developers in South Africa.

MS POTGIETER: So maybe I can pick up on that. So the DGX Lab is here at the Huawei offices at Woodmead in Johannesburg. It is a facility that houses well different screens detailing you know, the integration kits, showcasing what a developer can do.

10 A developer can come here and then sit in the lab and we can then remotely connect them for export from Dubai from the technical team. So should he have an app that works on IOS or on Android, and he or she now wants to integrate it onto Huawei mobile services, they will have the opportunity to get remotely technical assistance.

So we have got about 14, 15 seats where we can then host developers where they can then come and they can get this... they can get the support. Besides that we also run workshops where we share just the integration. You know, the integration kits.

20 The detail of if you have got a map or location based kit that you have to integrate for your app to function on app gallery. We can show you the steps we have got you know, how to do that. Or show you the training material and take you through that and then locally also we have gone out and try and get local developers to register on Huawei's

developer platform.

It is a global platform where they register. Where they get local news and updates on a regular basis and monthly newsletters. So these are the initiatives that we have taken to share information with developers locally.

CHAIRPERSON: Thanks Michelle, and can I just ask on that. I mean when we talked to some of the app developers, and some will come after you and in the afternoon, but even more broadly when we interact beyond those who have
10 come to participate.

Getting visibility and discoverability on an app store seems to be an important issue.

MS POTGIETER: Ja.

CHAIRPERSON: Now I am interested that you offer a promotional package along with your incentive scheme and I just want to understand you know, whether that is effective. Having some free promotion. Because as I understand it is almost part of your fee is put into a virtual wallet that they can use to do pay promotions depending on their own sales.
20 I mean, have you determined how important promotions are on an app store?

MS POTGIETER: I think for the, well not... the commercial partners that, can you hear me?

CHAIRPERSON: We can, ja.

MS POTGIETER: We run promotions with commercial

partners on the apps that are in the app store, and normally there is definitely an increase in downloads when the app is promoted or if they offer a voucher to for a purchase. These are then selected by our consumers.

You know, or users on the device. So let me give you an example. Say we promote Debonairs Pizza as an app to download and for them to then transact and make a transaction. We also offer vouchers. Then we see that there is a huge update then, an engagement from app
10 gallery for this specific app.

So I would say promotion definitely works. It also depend, we do not do it for a long period. We do it you know a week and then on and off, because people want to see new things happening within your app gallery store.

CHAIRPERSON: And which type of promotions? You led us through a sort of flash screen features, I assume ranking on search might be another form or is that not the case?

MS POTGIETER: So we would have banners. We would have flash screens. We would have a specific promotion to
20 download. From app gallery's side, we also have monthly promotions that we run to promote specific apps you know. If there is ja, we can have a theme.

A specific theme. So for instance when it was women's month in August, safety apps, apps that women would use. So we would run from our side also besides the

advertiser, we would run specific promotional campaigns to drive apps that is on our platform.

CHAIRPERSON: And to what extent is our South African apps part of that promotion? I mean you said you had a local store front.

MS POTGIETER: Very much so. We drive the download of local apps. That is what... that is our core focus is to also generate awareness that these apps are available to be used. Definitely.

10 CHAIRPERSON: Alright. So you would look at what, so even if there was a safety app that is global in nature, you would look at apps South Africans produce as well.

MS POTGIETER: Yes, for instance we would focus on Amola, as a safety app.

CHAIRPERSON: And from the feedback you have got from developers, I mean have this provided them a lot more exposure than they are getting on other app stores? Has it assisted them in driving the awareness of customers and downloads?

20 MS POTGIETER: Definitely. Most definitely. I cannot speak for all the apps on app gallery, but the ones that we have promoted on local apps for instance. Another one is My Pregnancy app, a local small developer who have built an app for South African and African women to guide her through the pregnancy.

If you speak to her, she says... she would say that based on the marketing activities that she has [indistinct – 01:16:35] from us, her app downloads have increased, and the usage. The daily active users. The monthly active users.

CHAIRPERSON: Michelle, I think we lost you.

MS POTGIETER: There is ...[intervenes]

CHAIRPERSON: No, we have you back. Alright. Because obviously part of the inquiry is also looking at how do we
10 assure that South African businesses and in this case it would be apps, can participate more in these sort of platforms and so from your experience, I mean would you say promotion of South African apps, curation of South African apps would be a way to develop the South African app community?

MS POTGIETER: Yes, from our side we would promote a specific app but there is also another opportunity which I spoke to in my presentation, and that is Huawei adds or paid for adds. We call it PPS or Huawei adds where a
20 specific company could then invest and advertise their services on our platform at a paid rate.

So that is also a possibility of how to promote your specific app.

CHAIRPERSON: Alright. I am going to wrap up soon, just because we obviously your time is precious and we have

others to follow. I just want to go to the fees. I mean you have a temporary incentive program in place, but your standard fee will be 30%.

That seems to be I think as you indicated, it is the industry standard. That is what everyone else seems to charge. I mean just to understand is that how the 30% was set, just because this is what Apple and Google charge and that is an industry standard.

Is that right?

10 MS POTGIETER: Yes, I think that is correct. But to incentivise app developers, also to you know to take the time and effort to upload their apps and to integrate their apps onto app gallery. We have had the incentive which I shared earlier on, since 2019, 2020 and this year.

We will then at some stage align with the industry standard.

CHAIRPERSON: Now I just want to ask you on that because I recognise you have put in the incentive program but I mean you must be aware obviously there has been
20 quite a lot of legal cases and even a new law passed in South Korea around offering alternative payment systems to app developers.

I think Google has recently come and announced a drop in its commission fees as well. I mean, do you see these moves affecting Huawei and what they charge?

MR QINGCHENG: Internally we are discussing about this, because content, developers they offer the content to the platforms. Many content are very popular, so they want to get a more value share from the platform or they will distribute or publish their service themselves.

So this is the case happening in some countries. Even in China we also have some cases like Papa G is operated by Ten Cent. They also lodged these games on some platform. They want to get a more value share.

10 I think it depends on the marketer, because if the market is dominated by some big channel of platforms, you cannot have the capability to legally share being the same with them, to channel the running share. If your contents is very popular, you dominated this market, you can discuss with some platforms.

Even Google. Google Play. Some of the Chinese companies, they do not want to publish the content on the Google Play, even in the oversea market. Because of this field that if they publish this content themselves, they have
20 their own IP you know.

They have their own influencers in some markets, so they will publish it themselves. They do not want to share on the platform, but I think the platform also get a lot of work. It is not a free platform actually. We also invest lots on the platform.

Like we have some several cost, we also have some oppression team to [indistinct – 01:21:17] content and we also have some marketing teams supporting to help the customer, to help the developer to grow the user base and also grow the running.

So this is the industry, the responsibility magics that you can to most of the workers, I think we can discuss in a case by case. Also, we internally we also saw this trend, and we want to run some deep down promotion with a
10 partner.

You will have very good content, popular content. We can discuss the running share case by case. For example, you know Pop G this game is not available on app gallery. Huawei is discussing with them whether we can give you some marketing resource.

Then you launch your content in South Africa, because many people like this game in South Africa. We just change some resource or discuss you know, a better running share for this party. This things are happening and
20 also we have more cases in the future.

CHAIRPERSON: Alright. So as I understand, I mean there may be some of these gaming companies in China that could launch their own in a sense platform internationally. They do not have to share but they would incur some additional costs themselves.

They have got a market, they have got their IP and as you put it, the app stores do not just process a payment. They maybe do more than that in terms of support. So just understanding you know, Huawei's view of some of the remedies that are coming out, because you know, some of the I am sure app stores might argue that just allowing a side load or alternative processing does not mean that there is any revenue for the actual store itself and the efforts it is doing.

10 So what do you think is a sort of fair outcome if these alternative remedies that are being proposed through other law suits, come to fruition. What would your view be?

MR QINGCHENG: Michelle, maybe you can answer this from your perspective?

MS POTGIETER: First of all I think if you, well Huawei definitely has operational costs you know, that needs to be covered. So I think it always helps if there is some sort of a revenue model at play, and as Du said this can be negotiated on what we can do.

20 You know, with a specific partner, but ja. You know Huawei will determine the charging standards based on industry standards in future. Also we have to consider we have got real Huawei costs and also the competitiveness of our new platform.

At the end of the day you want to be competitive. You

do not want consumers to download from another platform which is not safe. We always say that if you download your app from app gallery, we guarantee that there is a safety that you know, it will not have any impact on your device etcetera.

So there is various factors that one needs to consider. I am not sure if I am answering you correctly.

CHAIRPERSON: Ja, that is... there is no correct answer anyway, but ja I suppose it is you know, from our
10 perspective as you indicated, someone with a lot of content, may be negotiable. Those that are smaller may be less so, and I suppose we need to ensure there is an equitable outcome even for the smaller developers.

Because again, you know obviously South Africa wants to participate in this market and some of the promotions that you do and development and local exposure all seem to assist that. We also want to ensure that those smaller developers get a fair deal as well.

So we will engage you more if these developments
20 unfold, but I am going to draw it to a close. I want to thank you so much for participating and apologies for the technical glitches that we have had. This is day 1, hopefully we will sort them out. But we look forward to engaging with Huawei for the rest of this market inquiry as well.

MS POTGIETER: Well, thank you for your time. Thank you for giving us the opportunity.

MR QINGCHENG: Thank you.

CHAIRPERSON: Thank you and I think for the public, I think we will take a five or ten minute break now, just to see if we can sort out the technical issues and so we can resume with the proper camera live stream and also allow those viewing just to also get a break.

So thank you very much.

10 MR QINGCHENG: Okay.

MS POTGIETER: Okay.

CERTIFICATE OF VERACITY

I, the undersigned, hereby certify that, *in as far as it is audible*, the foregoing is a **VERBATIM** transcription from the soundtrack of proceedings, as was ordered to be transcribed by Gauteng Transcribers and which had been recorded by the client

<u>Case No</u> RUNNING	<u>J33 No / Client Ref</u> OIPMI - HUAWEI
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PLEASE NOTE:

- 1. Parties sometimes unclear, therefore the "indistinct".***
- 2. Difficult to hear Mr Du, as he speaks a bit fast and unclear at times which leads to indistinct in the transcript.***



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