INTUG

Mobile telecommunications regulation

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www.INTUG.net

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INTUG contents

- successes of mobile
- market abuses
- fixed-to-mobile rates
- international mobile roaming
- SMS
- dearth of data revenues
- conclusions

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INTUG what is INTUG?

- members
  - national associations
  - corporations
  - individuals
- activities
  - ITU and WTO
  - OECD
  - APEC TEL, CITEL and EU

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INTUG our aims

- real and effective competition
- genuine choice for users
- lower prices
- higher quality
- more innovative services
- constructive co-operation with
  - international bodies
  - governments
  - regulators

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INTUG priorities

1. open access to global mobile networks
2. regulatory best practice
3. liberalization
4. leased lines
5. IP telephony
6. digital divide
7. universal access
8. numbering

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INTUG successes of mobile

- expanding access
  - especially pre-paid
- employment
- manufacturing
- new markets
- creation of a European high-tech "success" story

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a second GSM operator would

- bring competition
- allow the incumbent fixed operator to adjust to the world of competition
  – instead it encouraged lobbying
- EU members states
  – licensed third (and fourth) operator
  – N+1 in 3G

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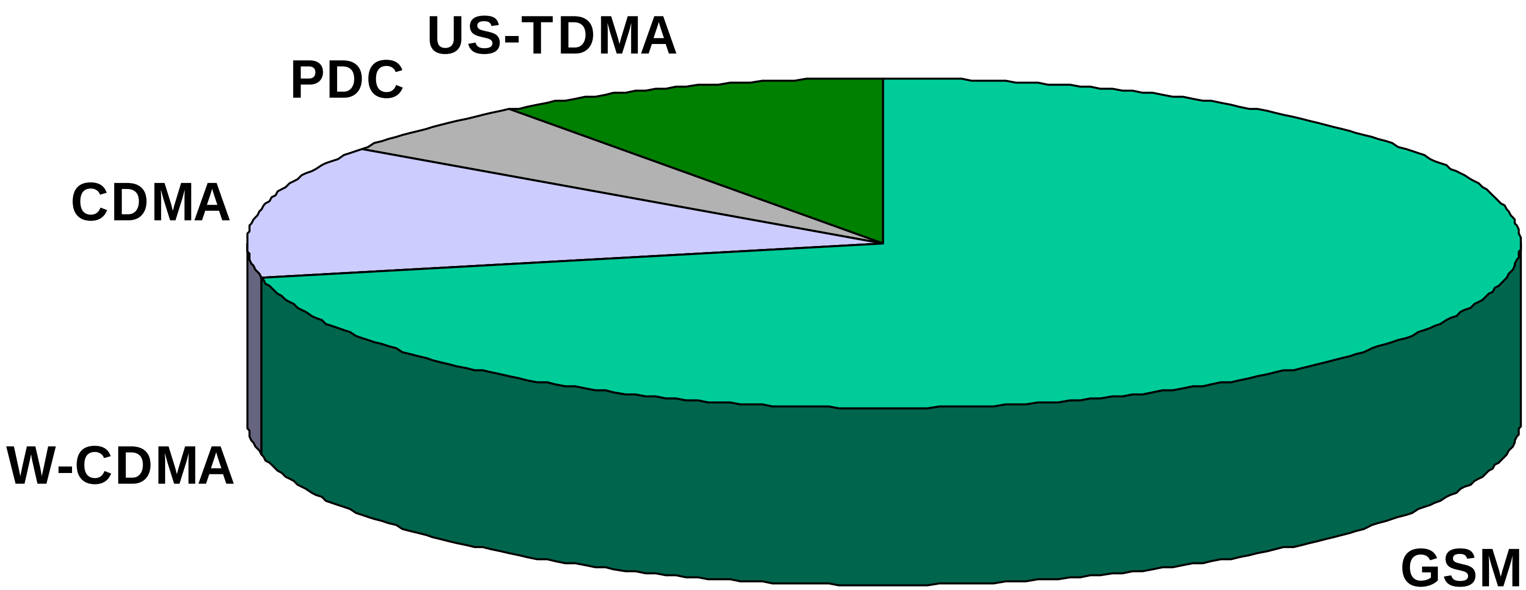
INTUG mobile techologies



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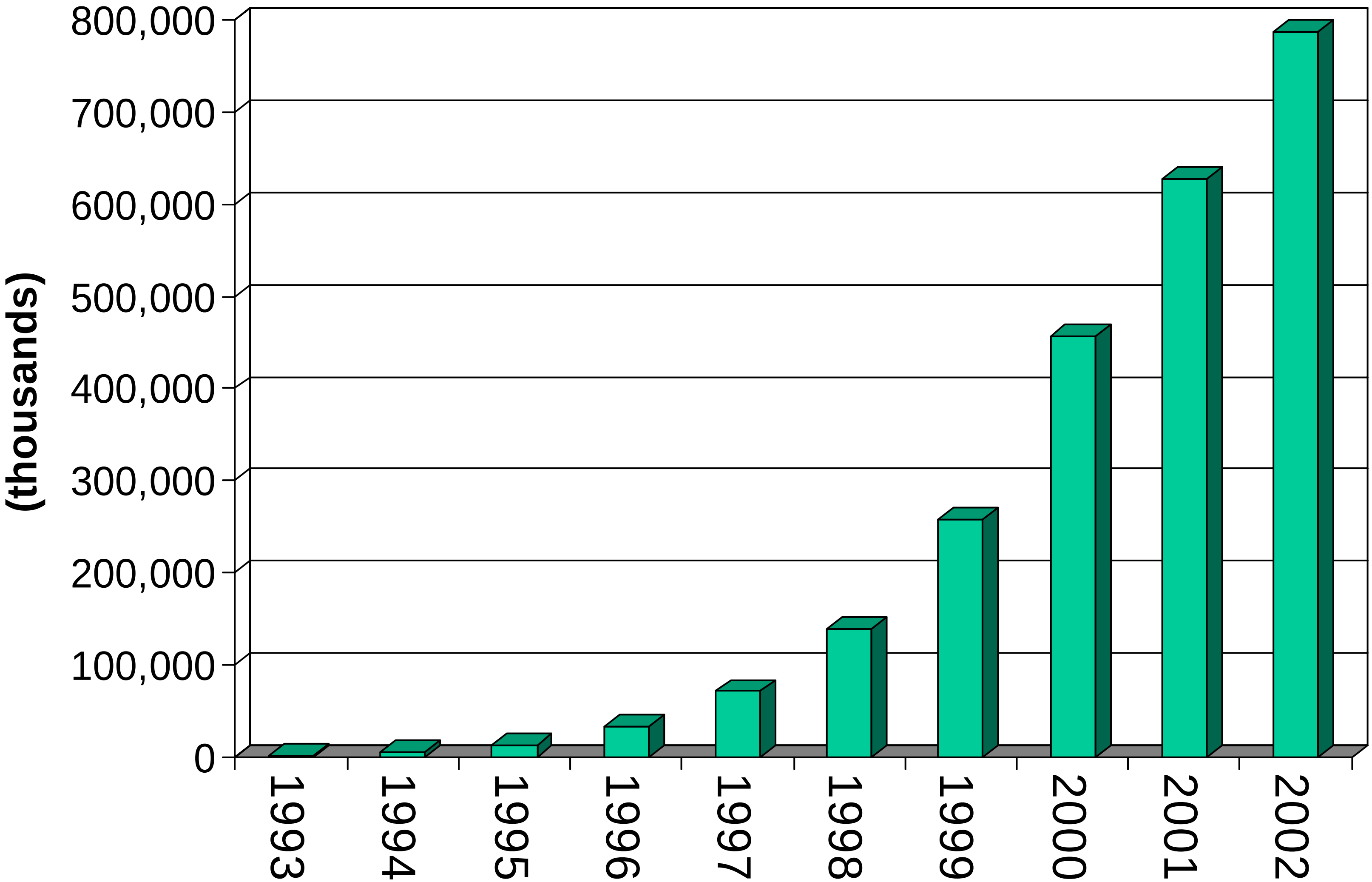
INTUG GSM global subscribers



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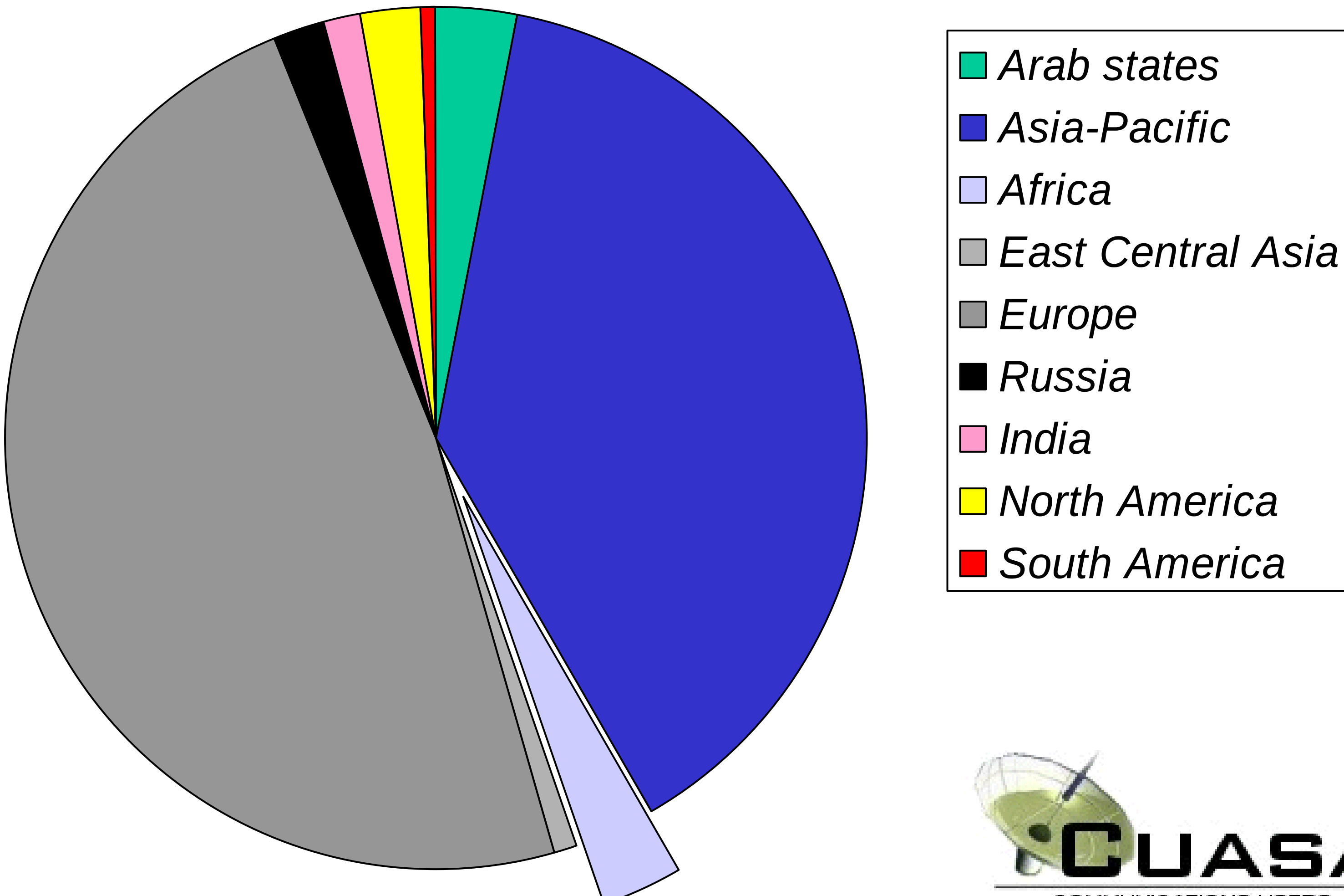
INTUG GSM worldwide



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INTUG market abuses

- call termination prices:
  - domestic
  - international
- international mobile roaming
- Short Message Service
- call origination on freephone
- financial market problems

Caused by an unwillingness to compete.

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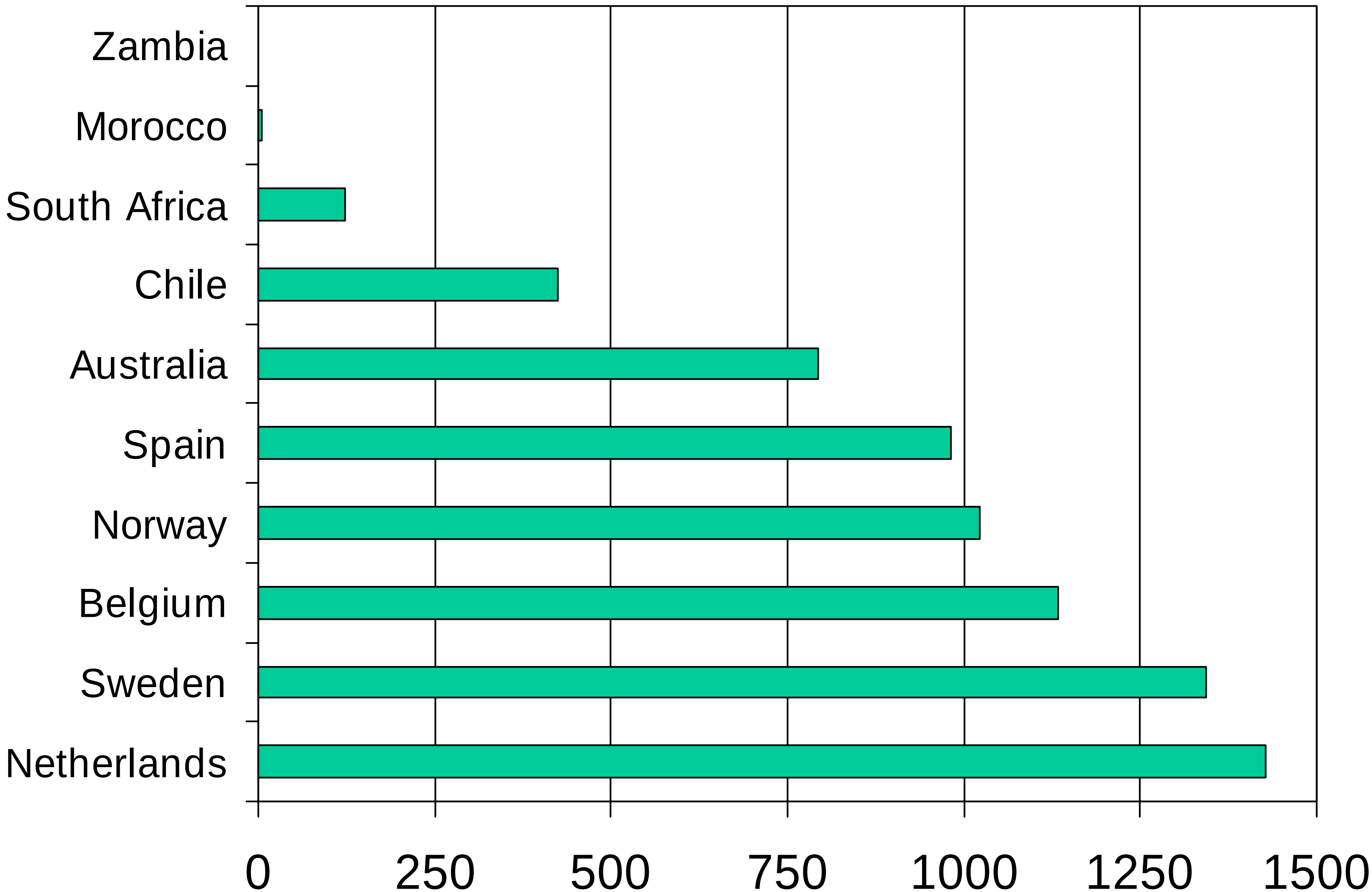
INTUG fixed/mobile price difference (%)



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INTUG call termination prices

- cheap origination because of regulated termination on fixed networks
- unregulated termination on mobile leading to high and sometimes rising prices
- leveraging power into origination markets
- started at home but extended abroad
- how to drive down prices?

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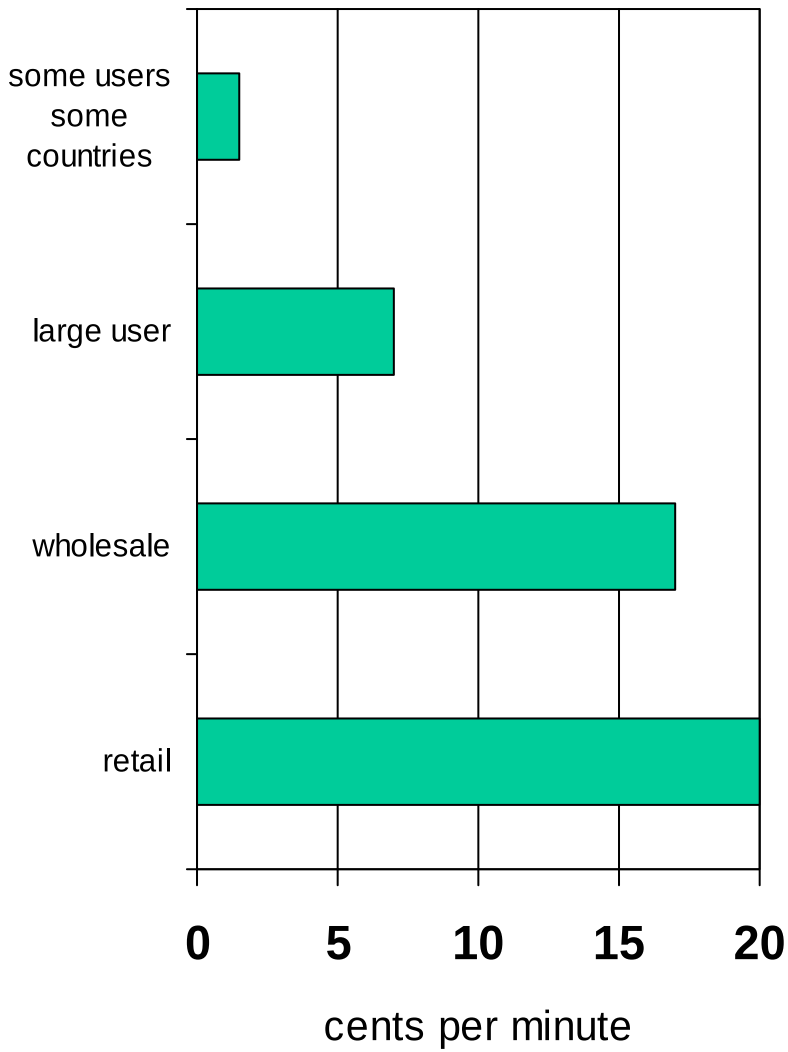
INTUG regulation

- left unregulated:
  - a European champion
  - a torch-bearer for competition
  - overwhelming lobbying from operators
  - uncertain legal basis
- recognition of problems
- rethinking the definition of SMP
- series of regulatory decisions
- competition law actions

INTUG discrimination



- against new fixed entrants
- some very modest signs of counter-vailing buyer power for large users
- “cost” seems to around 5-6 cents/min

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INTUG United Kingdom

- action by the Office of Telecommunications to reduce rates
- mobile network operators appealed to Competition Commission
- long and very detailed proceedings
- enforced massive cut in rates:
  - 15% in 2003
  - RPI minus 14% for following 3 years
- operators seeking judicial review

INTUG single operator definition

- consensus of competition authorities:
  - NMa
  - UK Competition Commission
  - EC DG Competition
- Independent Regulators Group (IRG)
- re-affirmed by European Commission in the Recommendation on Relevant markets (February 2002)

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INTUG EU new style legislation

- mobile markets:
  - access and call origination on public mobile networks
  - voice call termination on individual mobile networks
  - wholesale market for international mobile roaming on public mobile networks
- these will now be assessed by 15 NRAs, then the Accession Countries
- avoided (for now) the question of contestability between fixed and mobile

INTUG new process

1. define service market
2. define geographical market
3. test if it is (not) competitive
4. test for operators with (new) SMP:
   - dominance
   - joint dominance (oligopoly)
5. decide on obligations on SMP operators
6. repeat until competitive

INTUG US government

- Federal Communications Commission
  - consumer alert (September 2002)
  - NPRM on international settlement rates (October 2002)
  - extensive (defensive) filings by MNOs
- US Trade Representative
  - annual "1377" report
  - F2M has been an issue for several years

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INTUG ITU

- an issue at ITU-T Study Group 3
- stopped in December by Syria and Togo demanding higher international fixed rates
- had been substantial agreement, but not on:
  - real level of cost-orientation
  - network externalities
  - inclusion of licence fees

WTO - GATS

- commitment to **cost-oriented interconnection** to major suppliers at any technically feasible point
- **major supplier** is a supplier which has the ability to materially affect the terms of participation (having regard to price and supply) in the relevant market for basic telecommunications services as a result of:
  (a) control over essential facilities; or
  (b) use of its position in the market.
- **essential facilities** of a public telecommunications transport network or service:
  (a) are exclusively or predominantly provided by a single or limited number of suppliers; and
  (b) cannot feasibly be economically or technically substituted in order to provide a service.

INTUG international mobile roaming

- investigation by the Competition Directorate-General of European Commission begun in 1999
- looks like a cartel
- absence of competition
- inexplicable price variations
- ripping off each other's customers
- operators heavily reliant on this, can be 15% of total revenues

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INTUG DG Competition

- competition concerns:
  - national markets are highly concentrated
  - excessive pricing
  - price collusion
- market structure concerns:
  - high transparency favours collective dominance
  - non-typical cross-border relationships
  - GSM Association’s STIRA reinforces oligopolistic market structure
  - GSMA MoU non-discrimination obligation removes incentives to compete

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INTUG South Africa and Belgium

- Belgacom (fixed incumbent)
  - peak € 1.00 off-peak 0.86
- Proximus (Vodafone group)
  - international call to RSA € 1.66
  - forwarding to a roamer in RSA
    - € 2.08 MTN or Vodacom
  - calling from RSA to Belgium
    - on MTN €1.43 or €1.19 (off-peak)
    - on Vodacom € 1.51
- Telkom
  - peak R 3.64 or 3.29 off-peak (€0.34)
- Vodacom
  - international calls to Belgium
    R 5.30 and R 4.16 off-peak (€0.50 and 0.39)
  - Vodacom roaming on Proximus
    - Forwarding to a roamer R 4.23 (€ 0.40)
    - Call back to RSA R 32.12 and 30.18 off-peak (€3.00/2.82)

Price per minute
Min € 0.34 R 3.64
Max € 3.00 R 32.10

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INTUG carried over into new services

- GPRS
  – € 1.40 per Megabyte at home
  – €15 per Megabyte where roaming is available
- MMS
  – a small file for EUR/USD 0.40
  – roaming is free at present

INTUG regulation

- generally not covered by regulation
- complaint to European Commission under the competition law articles of the Treaty of Rome
- long and difficult investigation
- now EU regulators must assess their national wholesale markets

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INTUG SMS

- carried in the signalling channel
- costs to the operator are minimal
- massive contribution to revenues
- prices driven up in a spiral
- operators stabilising ARPU
- looks like a cartel
- a fairly straightforward case for a willing regulator

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INTUG financial markets

- until 2000 analysts used:
  - size of customer base
  - growth
- they got rid of the analysts
- operators now provide the Average Revenue Per User (ARPU) each month
- no remaining trust for telecommunications
- very little money is available, even for good ideas
- enormous pressure on operators

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operator dilemma

- regulated cuts to:
  - roaming is 15% of revenue
  - F2M is 25% of revenue
  - SMS is 15% of revenue
- MNOs cannot find compensating revenues from new services:
  - data
  - value-added services

INTUG marketing failures

- HSCSD
  - nobody has heard of this
- WAP
  - killed by an over-dose of hype
- GPRS
  - no business users, only trialists
  - prices are wrong by at least an order of magnitude

INTUG GPRS

- like ISDN for mobile phones
- only being used in trials
- even big companies see this as grossly over-priced
- roaming prices are higher still
- no signs or hopes of any revenues for the operators
- EDGE and 3G due very soon

INTUG 3G

- transition to 3G was to be easy and lucrative
- financial markets pushed the operators, now telling them to get out
- few handsets and no services,
  so no additional revenues
- regulatory problems of network sharing
- may only ever be consumer services
- competition from WLAN, Bluetooth, IR …
- ***today*** there is no business case for operators

INTUG other problems

- competition law problems
  - open access to 3G
- privacy and data protection problems
  - especially when roaming
- no billing software
- push adverts
- unsolicited messages (“spam”)

INTUG consolidation

- operators are keen to limit competition
- they want to “consolidate”
  - leave markets where they are weak
  - strengthen where they are strong
- secondary trading of spectrum
- divide the spectrum of the exiting player amongst the other operators
- want to avoid possibility of new entrants

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INTUG investment

- regulation and the investment decision making process are inextricably linked
  - timing
  - costs
- asymmetry between technologies
- operators play complicated political games for financial gain, regulate my competitors, not me

INTUG leadership

- GSM was a European flagship
- standard was adopted quickly and globally, beating USA and Japan
- now failing
- South Korea now winning:
  - global handset sales
  - revenues for mobile data
  - combining mobile and fixed access

INTUG conclusions

- well established market failures
- regulators now addressing these
- operators can show little (if any) revenue from either data or VANS on 2.5G
- very worrying signs from 3G especially when compared with WLAN

INTUG thank you

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