INTUG

Mobile telecommunications issues for users

Ewan Sutherland

Executive Director

International Telecommunications Users Group

ewan@intug.net

FCC, DC 25 April 2003

www.INTUG.net

INTUG contents

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

INTUG what is INTUG?

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

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

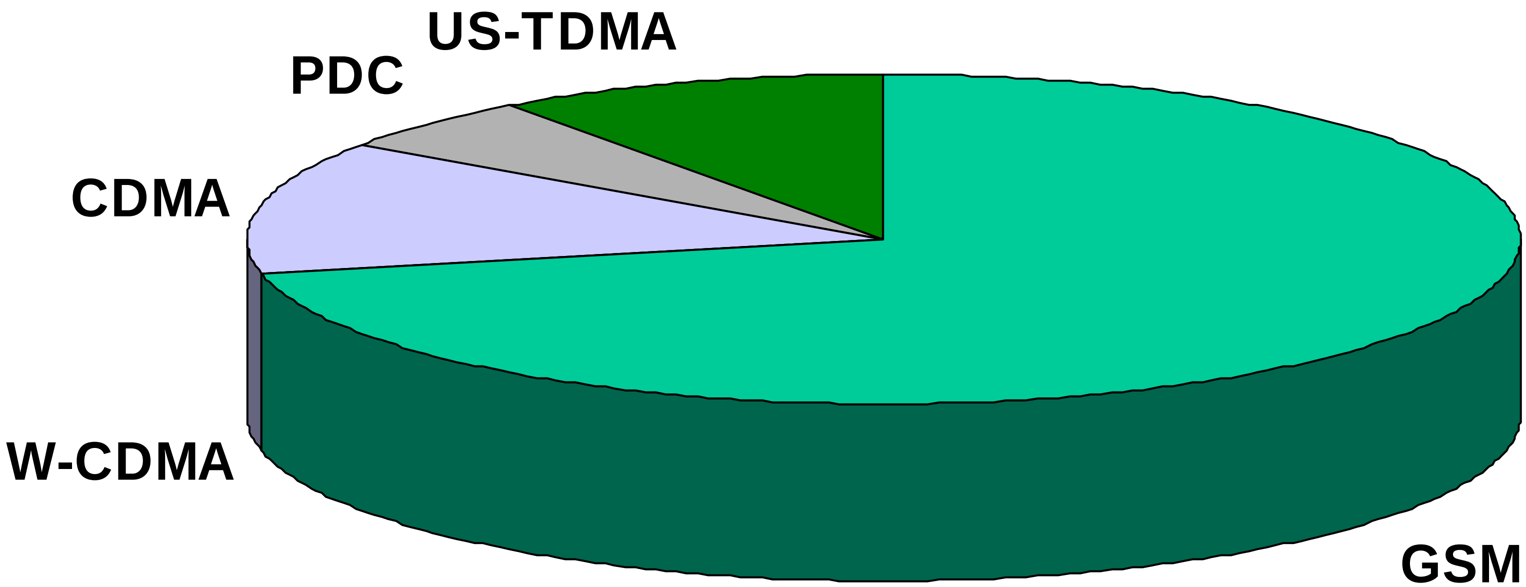
INTUG priorities

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

INTUG successes of mobile

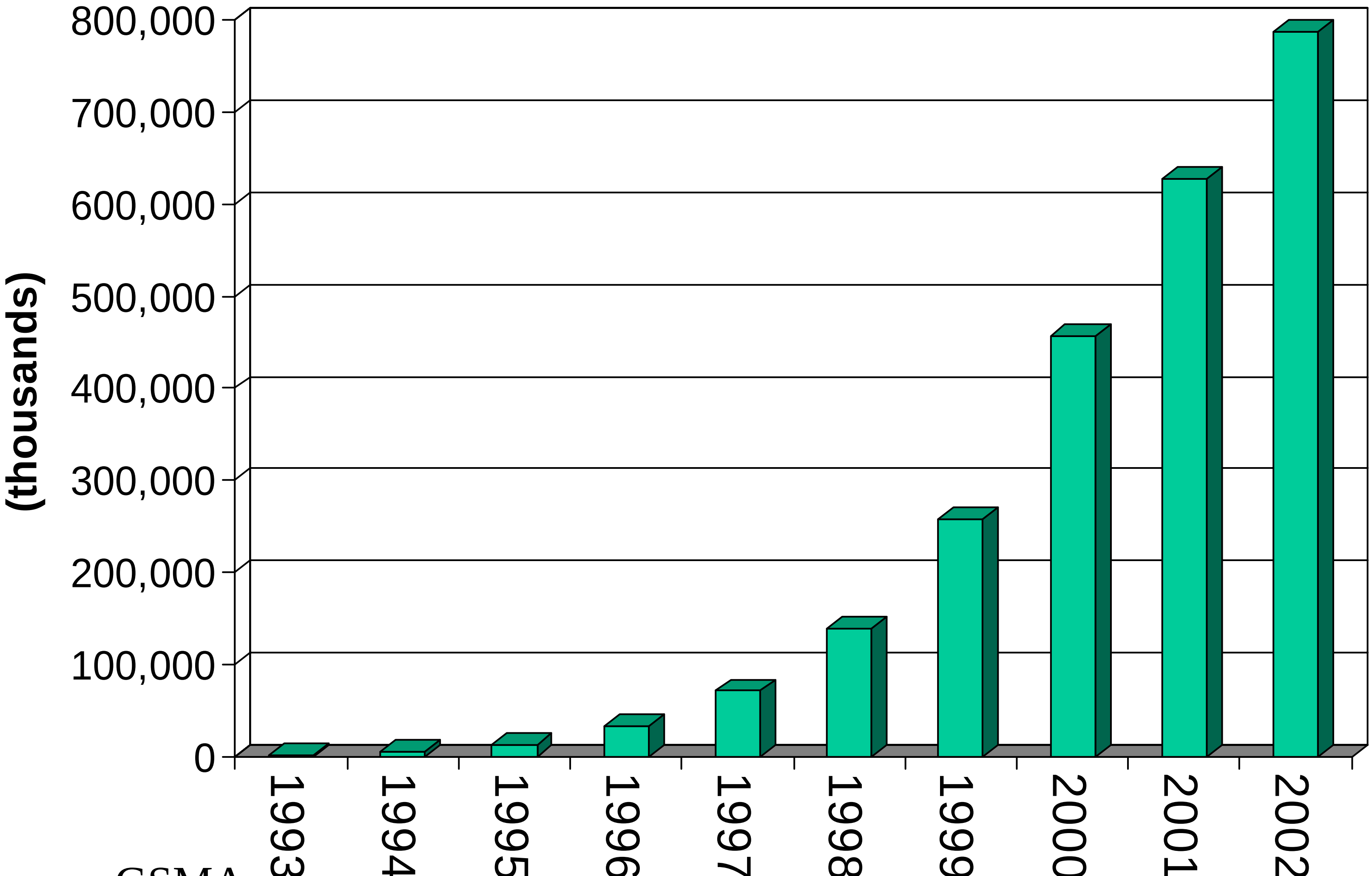
- expanding access
  - especially pre-paid
  - especially developing/emerging markets
- employment
- manufacturing
- new markets
- creation of a European high-tech "success" story

INTUG a market of many technologies



Source: GSMA.

INTUG GSM global subscribers

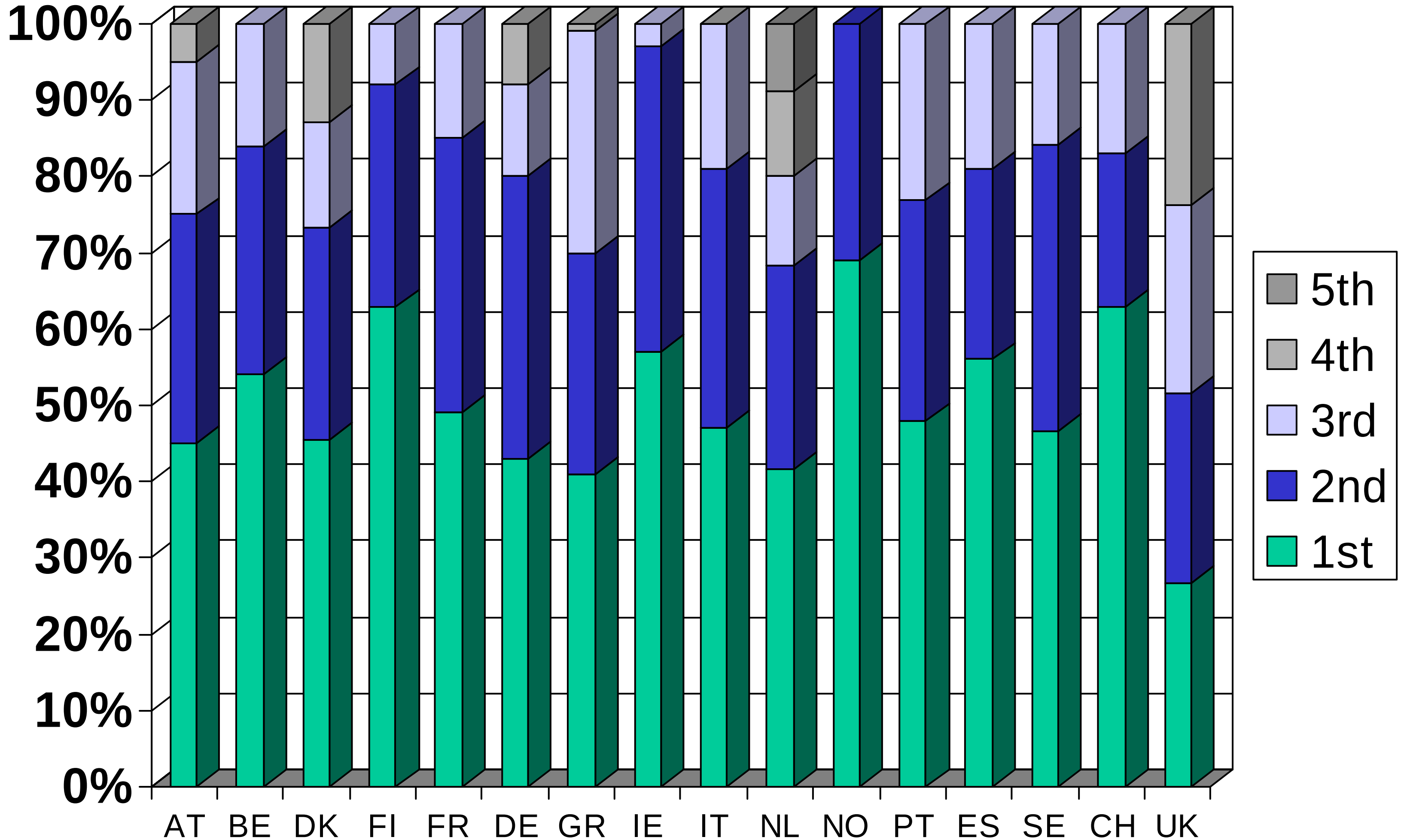


Source: GSMA.

INTUG a second GSM operator would

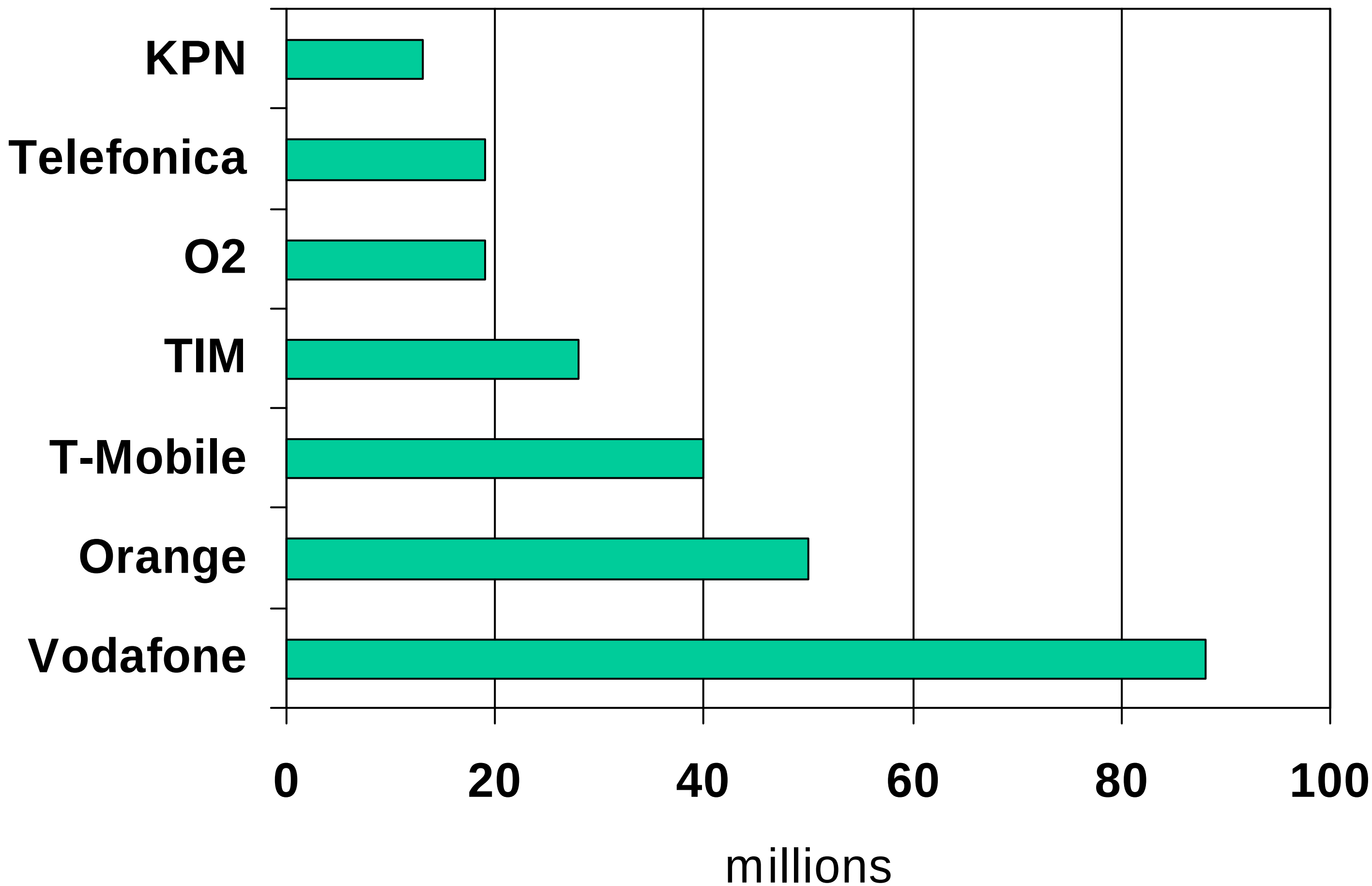
- bring competition
- allow the incumbent fixed operator to adjust to the world of competition
  - instead it encouraged lobbying
- European Union members states
  - licensed third (and fourth) operator
  - N+1 in 3G

INTUG market shares of mobile operators



Source: Squires Sanders Demsey & Ovum

INTUG numbers of subscribers



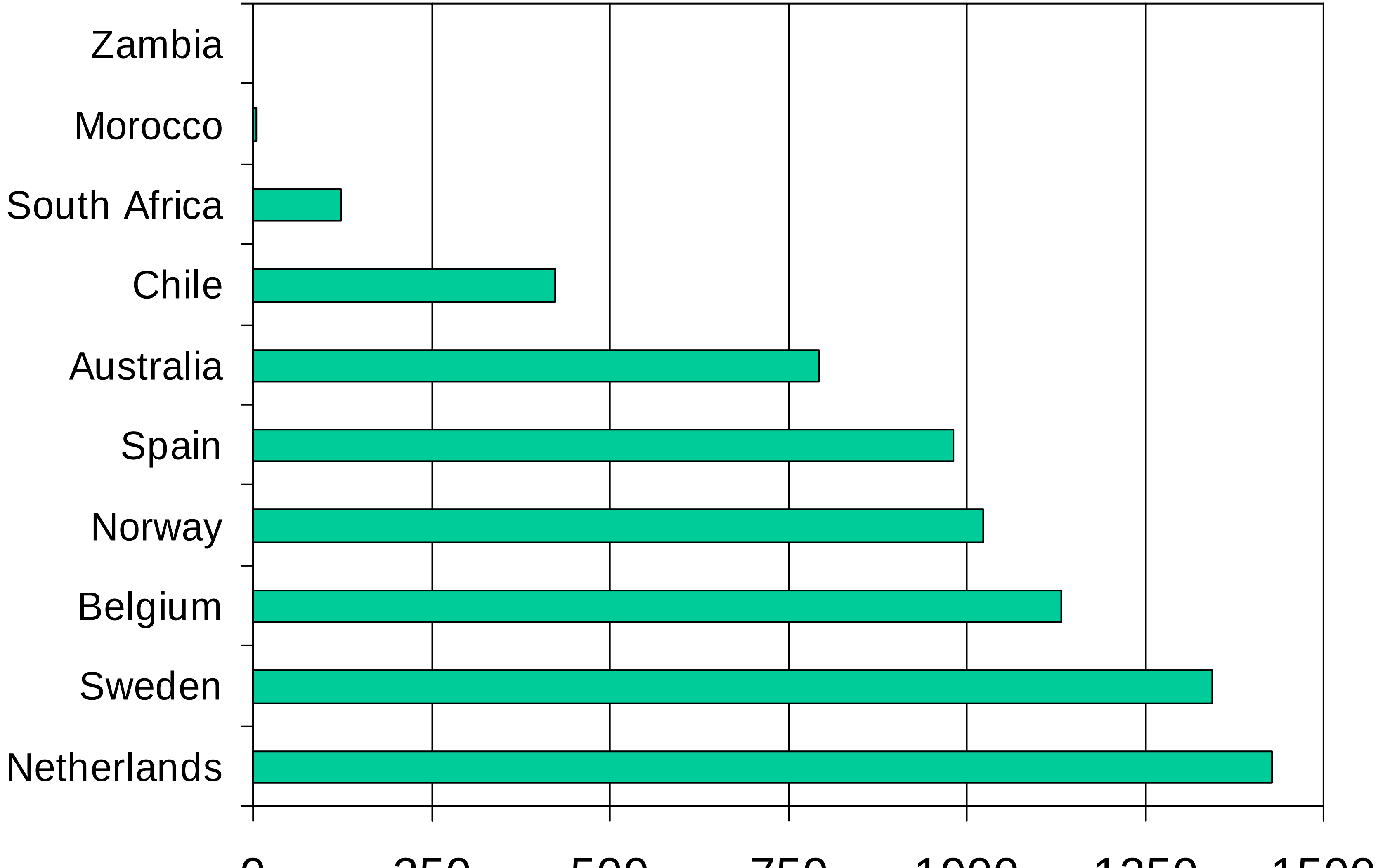
Source: Squires Sanders Demsey & Ovum

INTUG market abuses

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

caused by an unwillingness to compete.

INTUG fixed/mobile price difference (%)



Source: INTUG from spot market.

FCC, DC 25 April 2003

www.INTUG.net

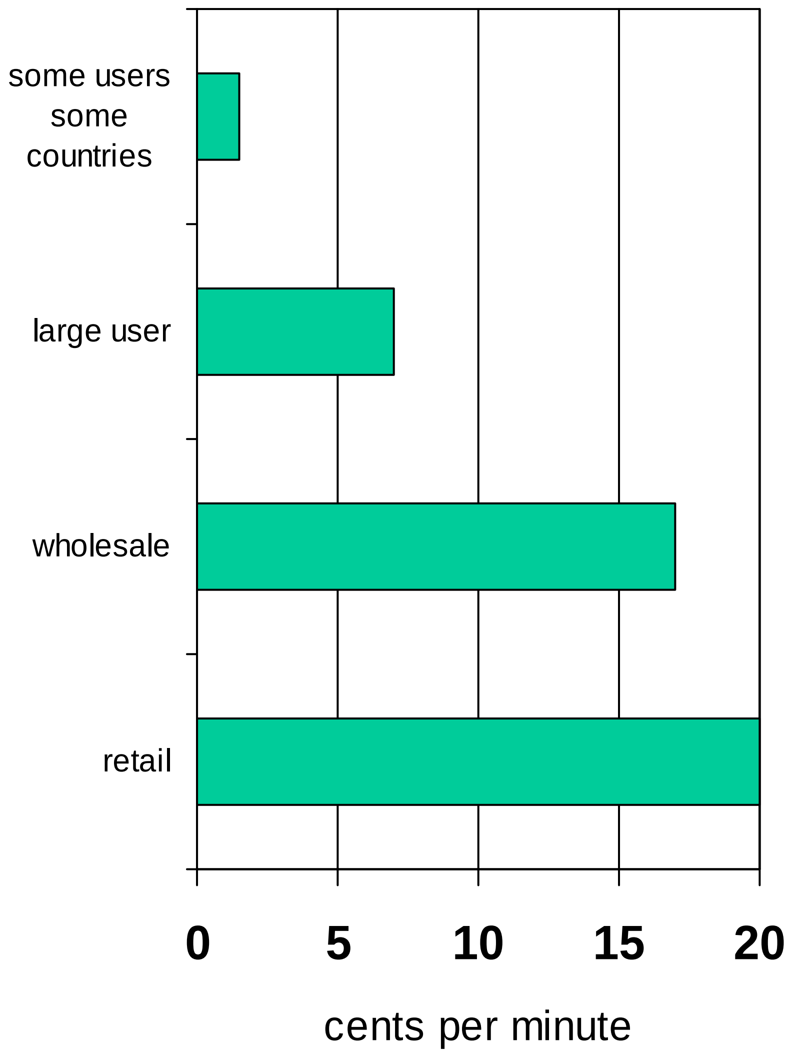
INTUG call termination prices

- 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?

INTUG regulation of mobile

- left unregulated:
  - a European "champion"
  - a torch-bearer for competition
  - overwhelming lobbying by operators
  - uncertain legal basis
- gradual recognition of problems
- series of regulatory decisions
- rethinking the definition of SMP
- also 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

Source: INTUG.

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
  - every extra day makes them a lot of money

INTUG single operator definition

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

INTUG EU new 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

RPP *versus* CPP

- some people claim RPP is better
- inconceivable a country could switch from CPP to RPP
- countries with CPP see substantially faster subscriber growth

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

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

INTUG WTO

- already has long lists of disputes between countries
- it would be slow, consequently enormously beneficial to MNOs
- relief might come in other sectors!
- applicability of the GATS is not accepted by all parties, certainly not by MNOs

INTUG 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.

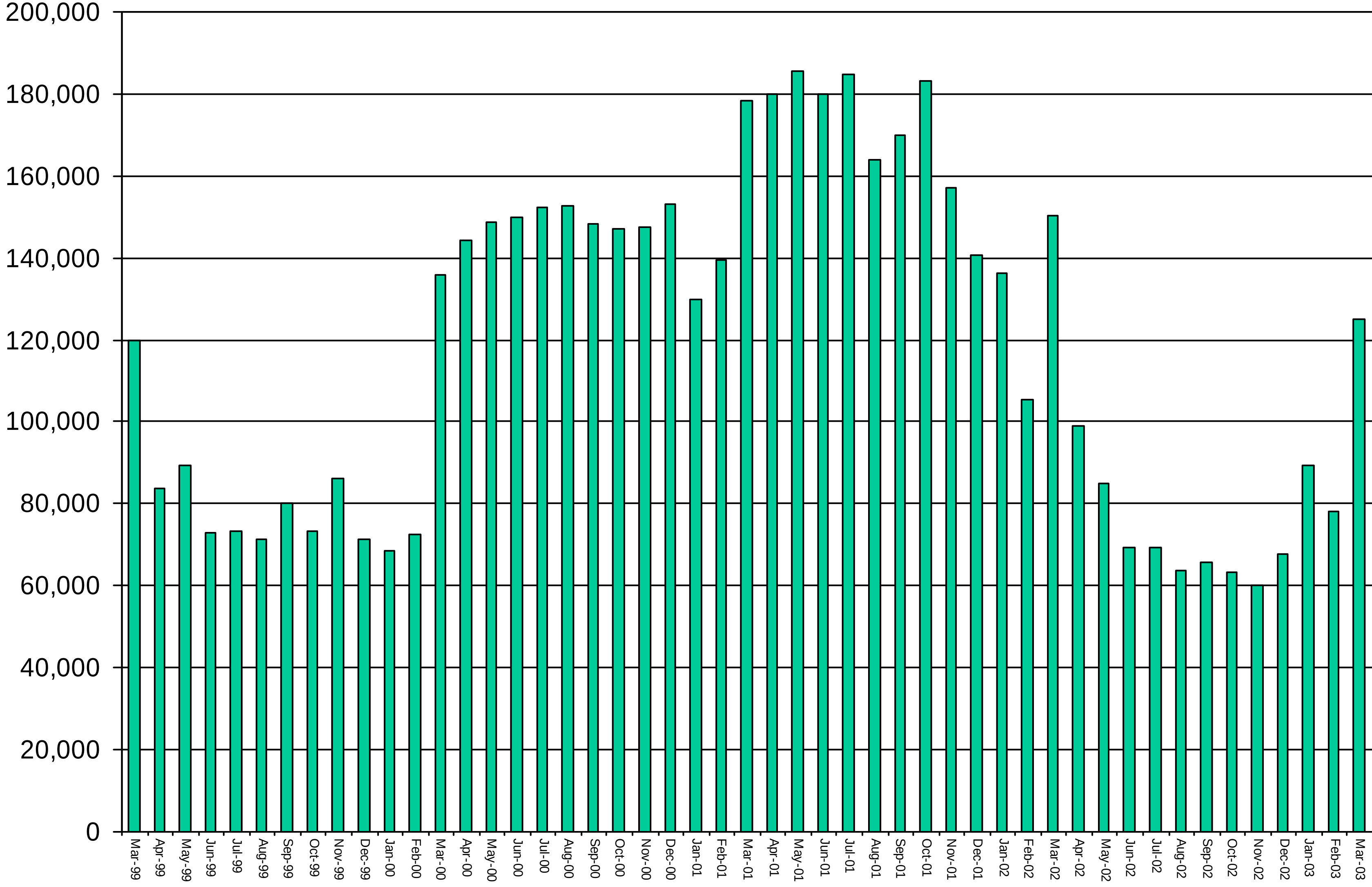
WTO and roaming

- since the GATS applies to fixed-to-mobile termination
- then it should also apply to the provision of cost-oriented international mobile roaming

INTUG mobile number portability

- now established global best practice
- prerequisite for a competitive market, especially in corporate sector
- by voluntary agreement in Australia
- legal obligation across European Union from 25 July 2003, but already in place in most countries
- established in Hong Kong, SAR, by law since March 1999:
  - 4.1M subscribers
  - 1.2M pre-paid
  - 100,000 number ports per month

INTUG MNP in Hong Kong SAR



FCC, DC 25 April 2003
www.INTUG.net

INTUG international mobile roaming

- began with NMT-450 standardisation
- extended to GSM-900
- a useful feature for business travellers in Europe and Asia
- expensive, but had seemed justified
- users became concerned in 1998

INTUG **international mobile roaming**

- investigation by the Competition Directorate-General of European Commission begun in 1999
- looks very much 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

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

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

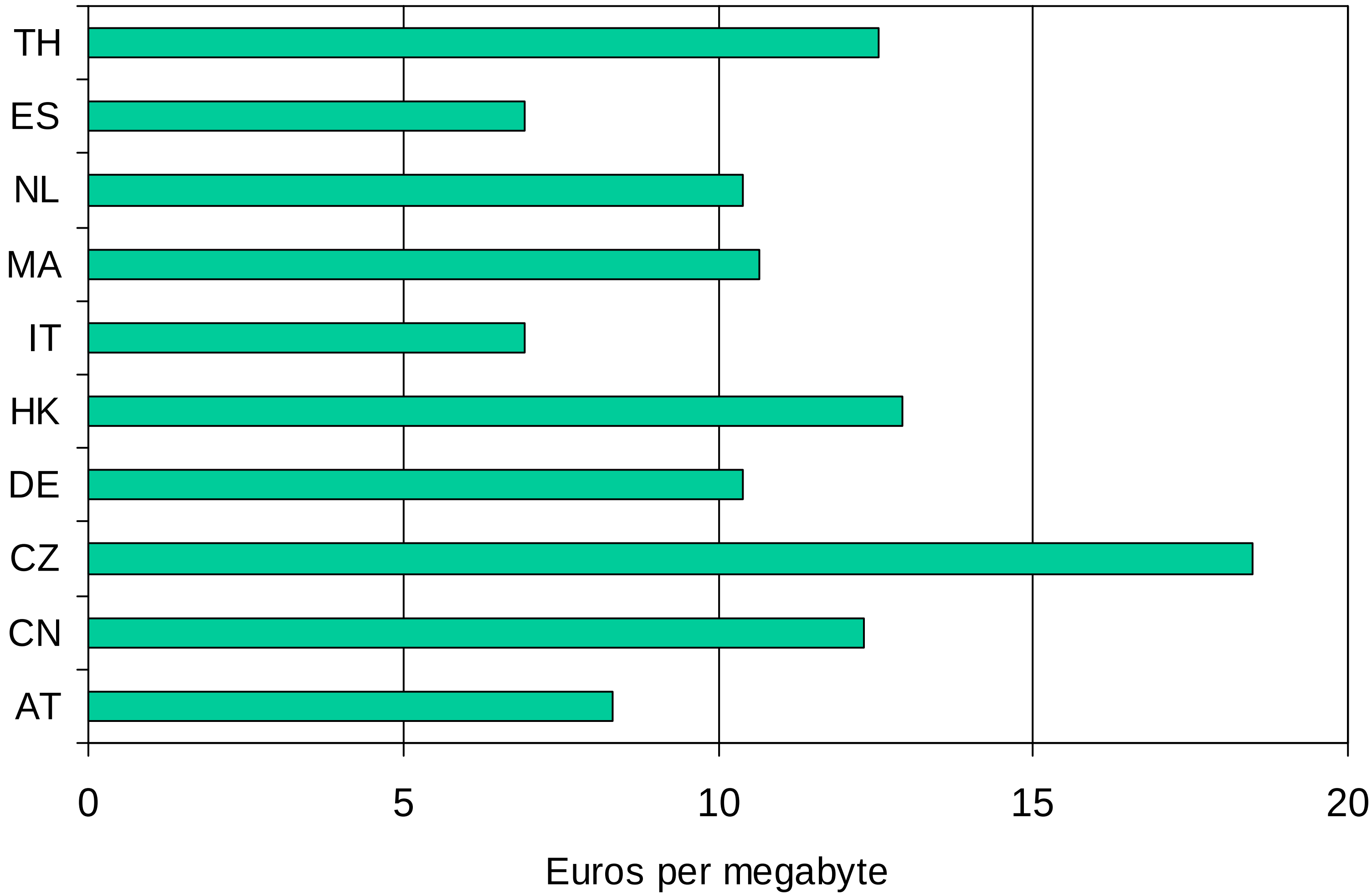
Source: INTUG, October 2002.

INTUG USA and UK

- BT
  - UK fixed to USA fixed 14p/min (8.99p off-peak)
  - UK fixed to USA cellphone 19p/min (13.99p off-peak)
- Vodafone
  - UK GSM to USA ???
  - T-mobile roamer
    - calling to USA or receiving from USA US$ 0.99/min
- Verizon
  - USA to UK fixed US$ .08/min (US$ 1.88 with no sub.)
  - USA to UK mobile ??? (.30/min)
- Sprint
  - fixed 0.14/min +0.22/min mobile surcharge
- T-Mobile
  - USA GSM to UK US$ 0.29/min
  - Vodafone roamer
    - calling to UK 82p/min
    - receiving a call from UK 110p/min
- Vonage
  - USA Internet to UK fixed US$ 0.06
  - USA Internet to UK mobile US$ 0.20
  - the same when roaming in UK

Price per minute
Min $ 0.06 £ 0.04
Max $ 1.73 £1.10

INTUG SingTel GPRS roaming rates



Source: Singtel. Currently "free" in Australia, Denmark, Finland, Indonesia, Malaysia

FCC, DC 25 April 2003

www.INTUG.net

INTUG mobile data in USA

- AT&T Wireless
  - mLife Local Plan - Next Generation US$ 30 per Mb
  - mMode Mega US $7.99 for 1 MB then US$ 10 per Mb
  - $7.99 monthly recurring charge to enable roaming, the US$ 70 per Megabyte.
- T-Mobile
  - t-zones (GPRS)
    - Service US$ 3 per Megabyte
    - Pro first 10 MB for US$10 then per US$ 9.99 per MB
    - US$ 15.00 per megabyte roaming in Europe and Asia

INTUG regulation of roaming

- 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

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

INTUG financial markets

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

INTUG 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 3G

- Games, Gambling, Girls
- Gullability, Greed, Grief
- Going, Going, Gone …

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

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

Ewan Sutherland

International Telecommunications Users Group

Boulevard Reyers 80

B-1030 Brussels

Belgium

+32.2.706.8255

http://www.intug.net/talks.html