

INTUG

EVUA, København 25 June 2003

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International mobile update

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INTUG contents

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- INTUG
- the mobile sector
- new EU legislation
- international mobile roaming
- mobile number portability
- the value of mobility
- conclusions

INTUG what is INTUG?

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

INTUG our aims

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- 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 mobile as top priority

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- International Mobile Roaming (IMR)
 - significant reductions in charges
 - availability of a range of services, including global and multi-country tariffs, without necessarily having to pay roaming charges
 - regulatory action to end the cartel of mobile network operators
- Fixed-to-Mobile call termination (F2M)
 - cost orientation of wholesale prices
 - wholesale price reductions speedily passed onto users
- Mobile Number Portability (MNP)
 - availability on demand
 - inexpensive
 - no consequential loss of facilities or special offers
- Short Message Service (SMS)
 - interconnection of all operators
 - significant reductions in prices
 - regulatory action to end the cartel of mobile network operators
- national mobile roaming
 - availability in areas of low population density
 - availability to support introduction of new operators and new technology

INTUG mobile sector

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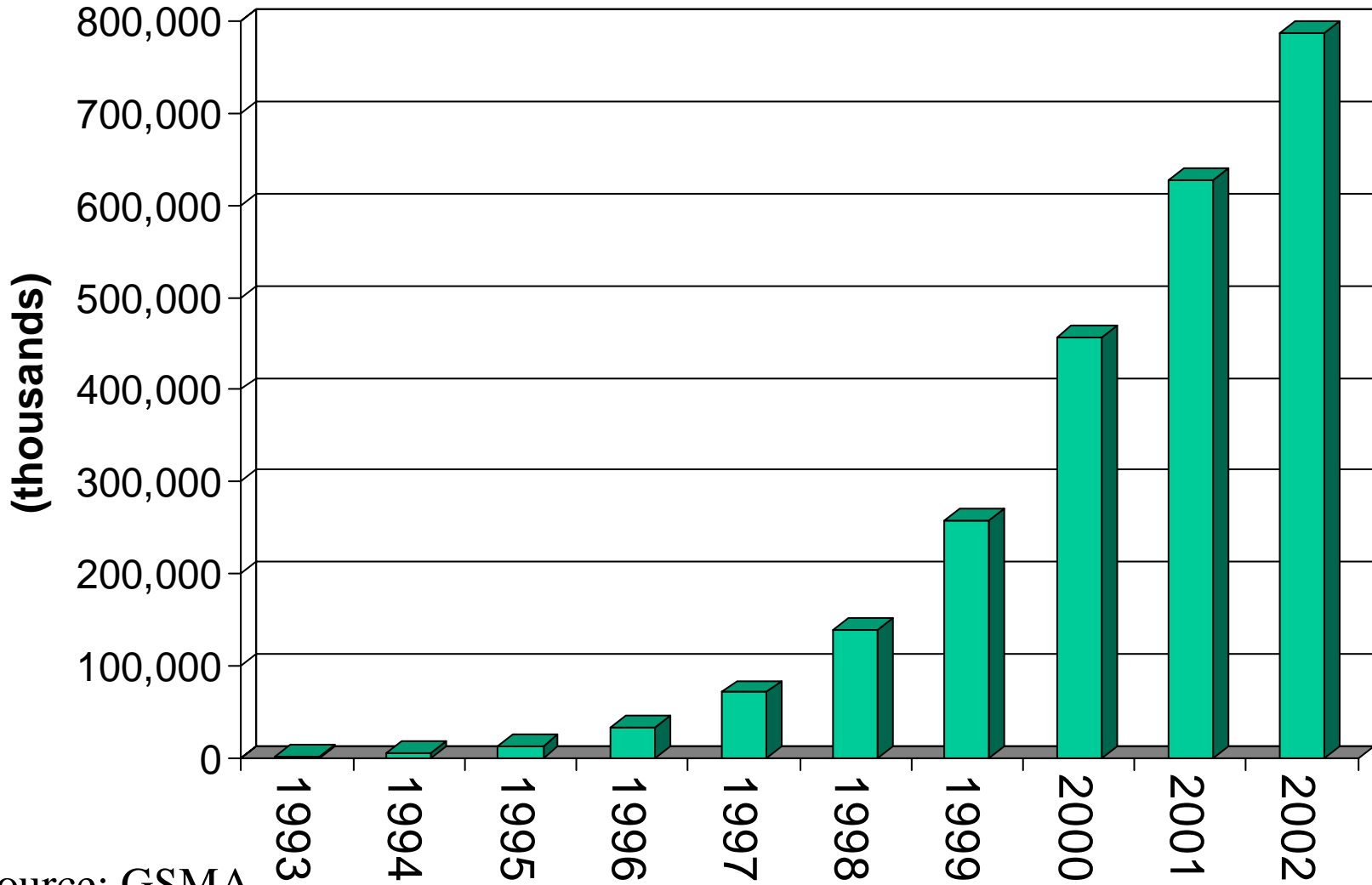
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- global growth is largely found in Asia and Latin America
- Europe is characterised by:
 - customer churn
 - stable ARPU
 - replacement handsets
- MNOs focus on revenue sharing for VANS
- acquisitions and privatisation processes not yet resumed, financial markets continue to be unwelcoming

INTUG GSM global subscribers

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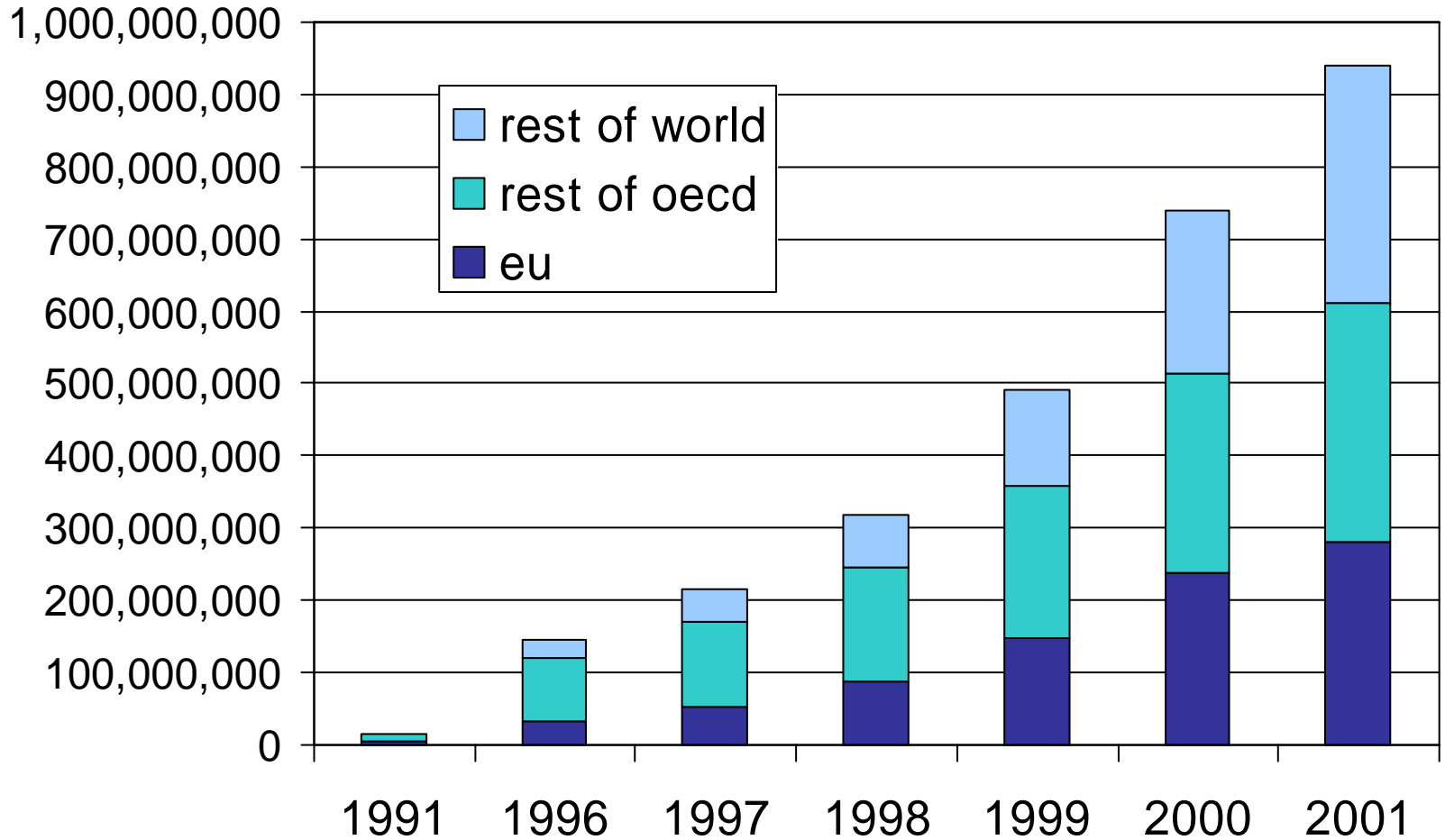


Source: GSMA.

INTUG cellular mobile subscribers

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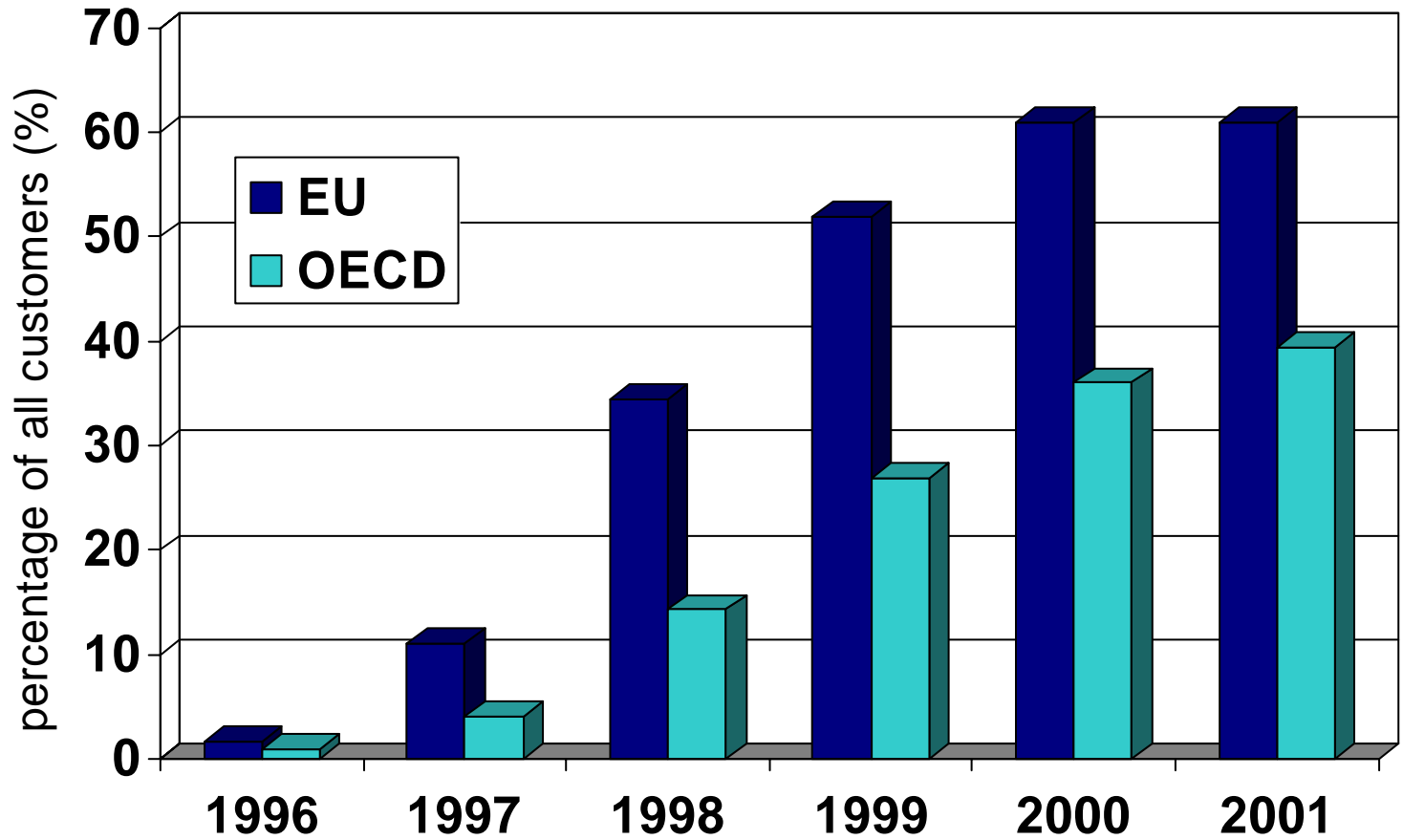


Source: OECD, 2003.

INTUG pre-paid customers

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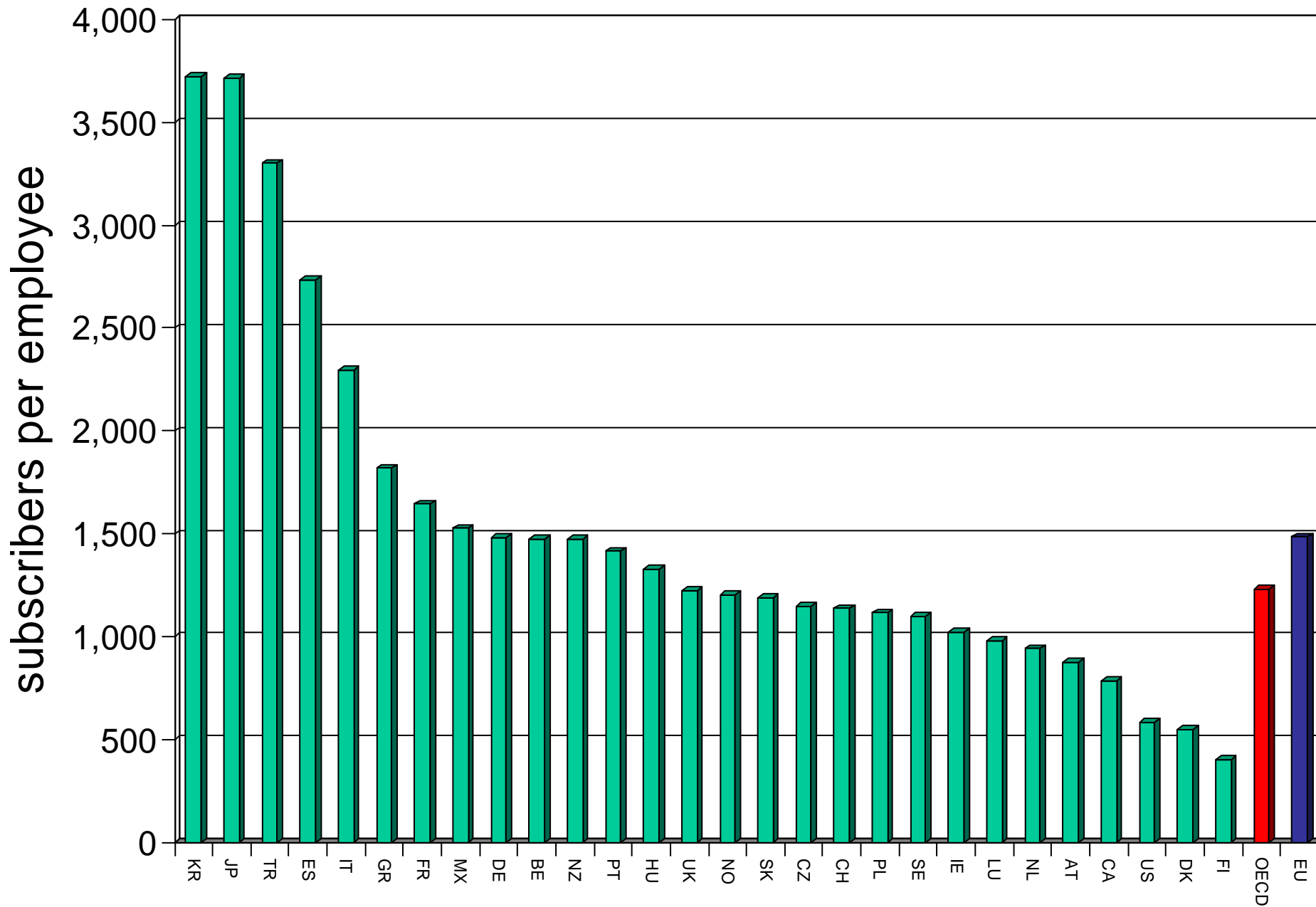
Source: OECD, 2003.

INTUG continuing state ownership

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- Austria – Mobilkom (35.85%)
- Belgium – Proximus (37.5%)
- Finland/Sweden – Telia (70.6%) Sonera (53.1%)
- France – Orange (56.45% of France Telecom)
- Germany – DTAG (42.77%)
- Greece – Cosmote (58.98%)
- Italy – Telecom Italia (4%) and Wind (49.36%)
- Luxembourg – P&T (100%)
- Netherlands – KPN (34.7%)
- Norway – Telenor (77.7%)
- Switzerland – Swisscom (100%)

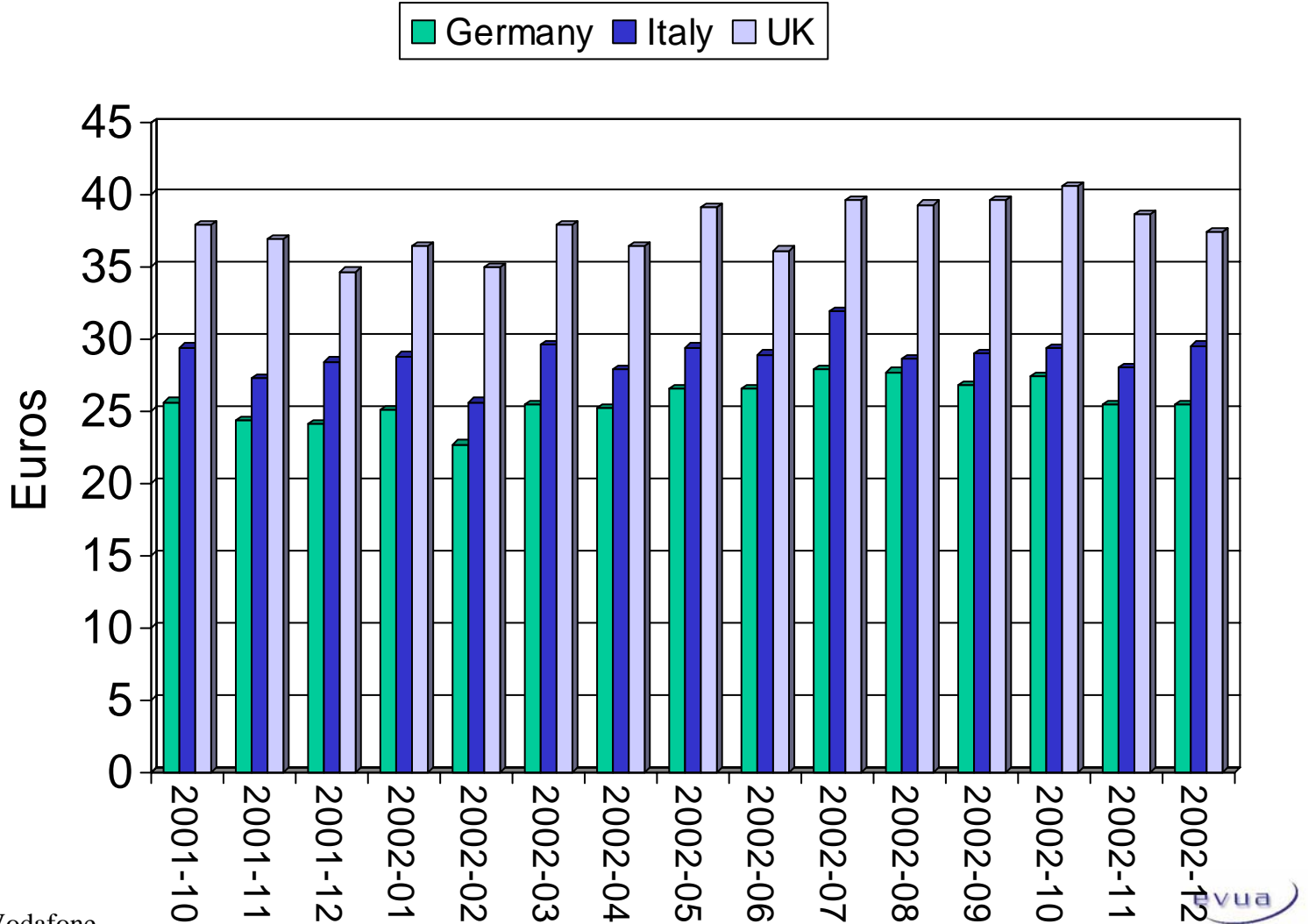


Source: OECD, 2003.

INTUG Vodafone ARPU

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Source: Vodafone.

£1 = €1.59 for UK ARPU

INTUG the value of mobility

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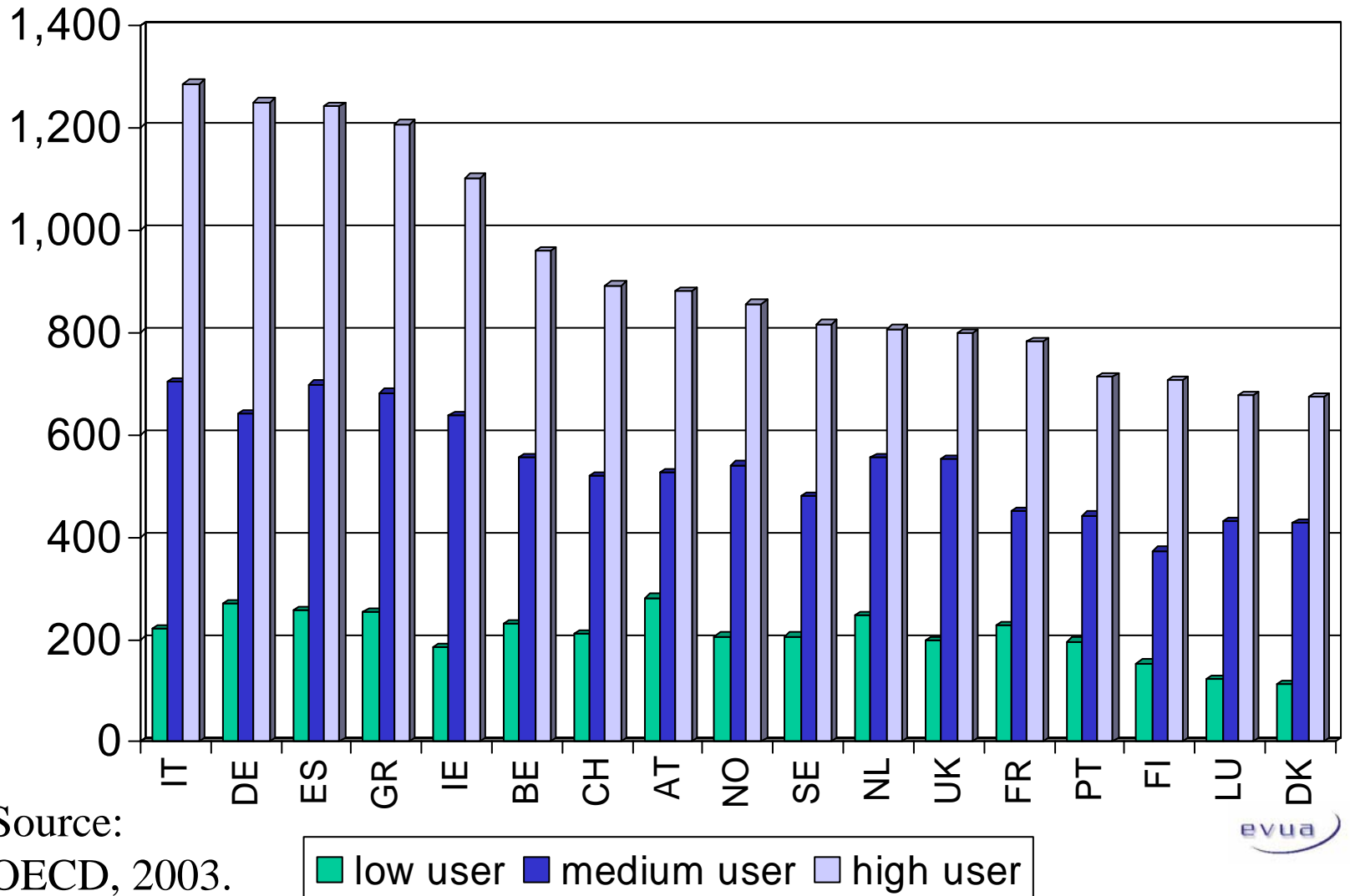
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- Wireless Local Loop (WLL) can provide “limited” mobility:
 - CMDA/WLL, PAS, etc
 - China, India and South Africa
- causes loss of growth potential for MNOs:
 - customer numbers
 - revenue
- raises questions:
 - how many users really need global roaming?
 - how much of a premium will they pay?
- but additional revenues from incoming roamers

INTUG basket of charges in USD/PPP

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Source:
OECD, 2003.

■ low user ■ medium user ■ high user

INTUG quality of service

- increasing complaints of calls being dropped in major cities
- reductions in capital expenditure are now hitting network
- insufficient capacity for voice
- almost no capacity for GPRS/EDGE

operators pushing Blackberry for €40/month
typically only 1Megabyte/month

INTUG EU telecoms legislation

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- agreed in December 2001
- EU law since April 2002
- must be transposed by 25 July 2003
- on time: Finland, UK, Ireland
- late: Netherlands, France, Greece
- very late: Germany
- also covers Liechtenstein, Iceland and Norway, then next year ten Accession Countries

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 every couple of years until competitive

INTUG EU new legislation

- mobile markets to be assessed:
 - **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
- not to act requires agreement of European Commission and other NRAs
- avoided (for now) the question of contestability between fixed and mobile

INTUG market abuses

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

caused by an unwillingness to compete.

INTUG results of abuses

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- very much higher charges to users
- lower levels of use
- users are unable to benefit from:
 - service innovation
 - technical innovation
- no progress on fixed-mobile convergence
- lack of trust in operators
 - users
 - fixed operators
 - financial markets

INTUG fixed-to-mobile

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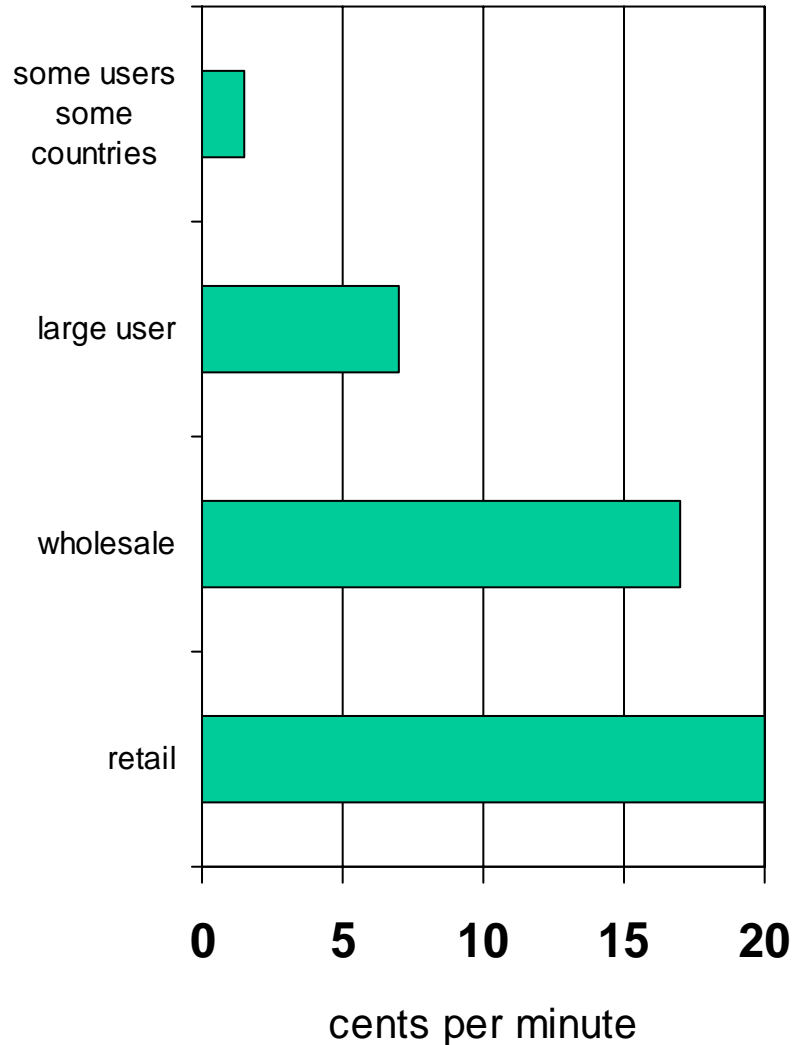
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- domestic abuse extended abroad
- long and unpleasant disputes
- cost orientation is around €0.05 per minute
- legal obligation in EU to regulate F2M
- MNOs argue they will have to raise origination prices and cut handset subsidies
- smaller operators claim they will be driven out of business
- Germany claims its consumers respond to prices

INTUG discrimination

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- 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

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- action by the OFTEL to reduce rates
- mobile network operators appealed to Competition Commission
- long and very detailed proceedings
- proved prices were excessive
- 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
- process begun again for new legislation

INTUG BT and Telenor

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- both found with “wrong” prices
- web sites claiming a surcharge to call a cellphone in USA despite Receiving Party Pays
- no explanation so far
- how many other “wrong” prices?
- did anyone pay these surcharges?
- do they check their web sites

INTUG international mobile roaming

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- 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 15-20% of total revenues

INTUG DG Competition

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- 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
- investigation still active

INTUG prices

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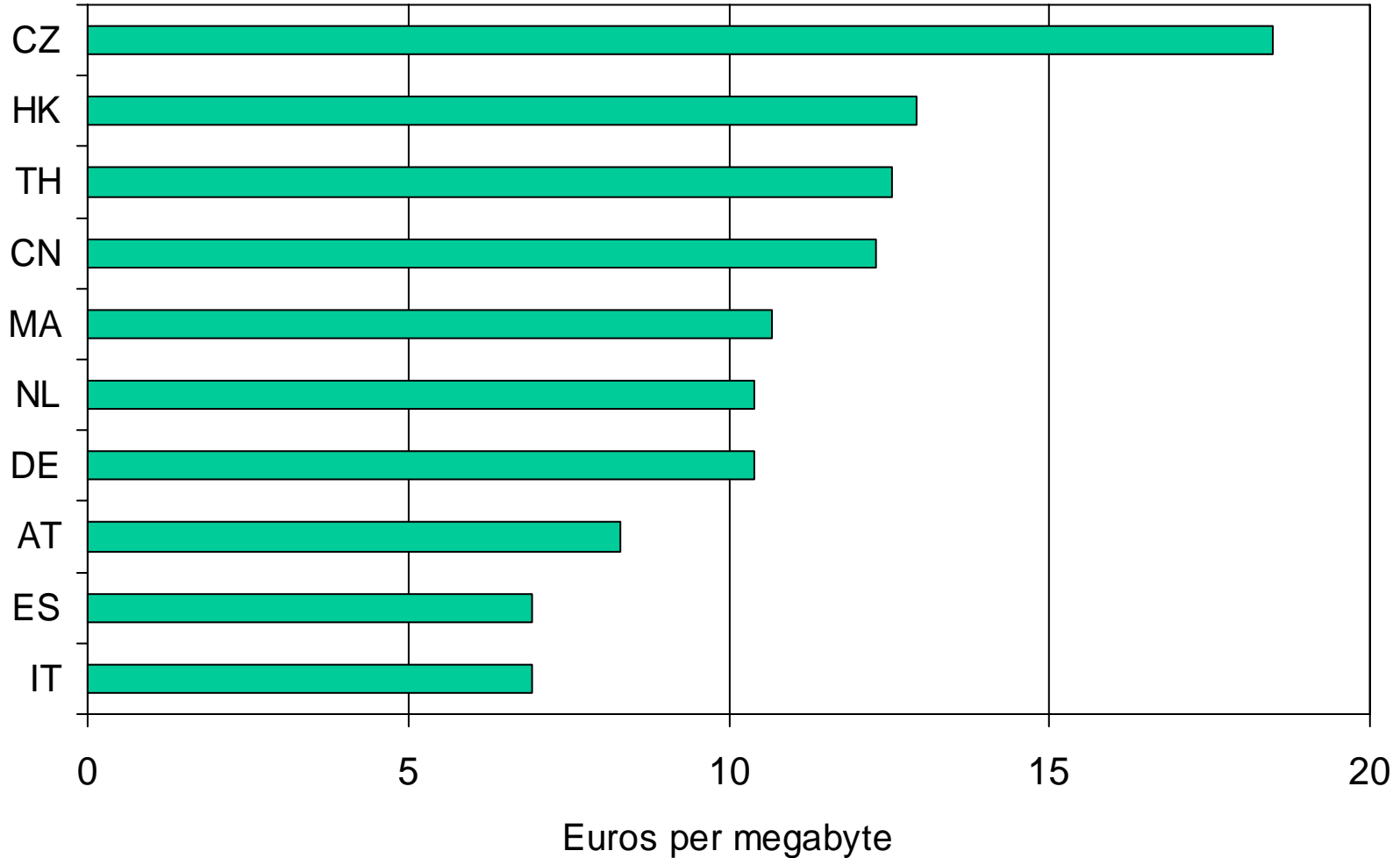
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- voice tariffs reducing, but with painful slowness
- old abuses newly extended to data
- data being sold in megabytes, a most peculiar unit

INTUG SingTel GPRS roaming rates

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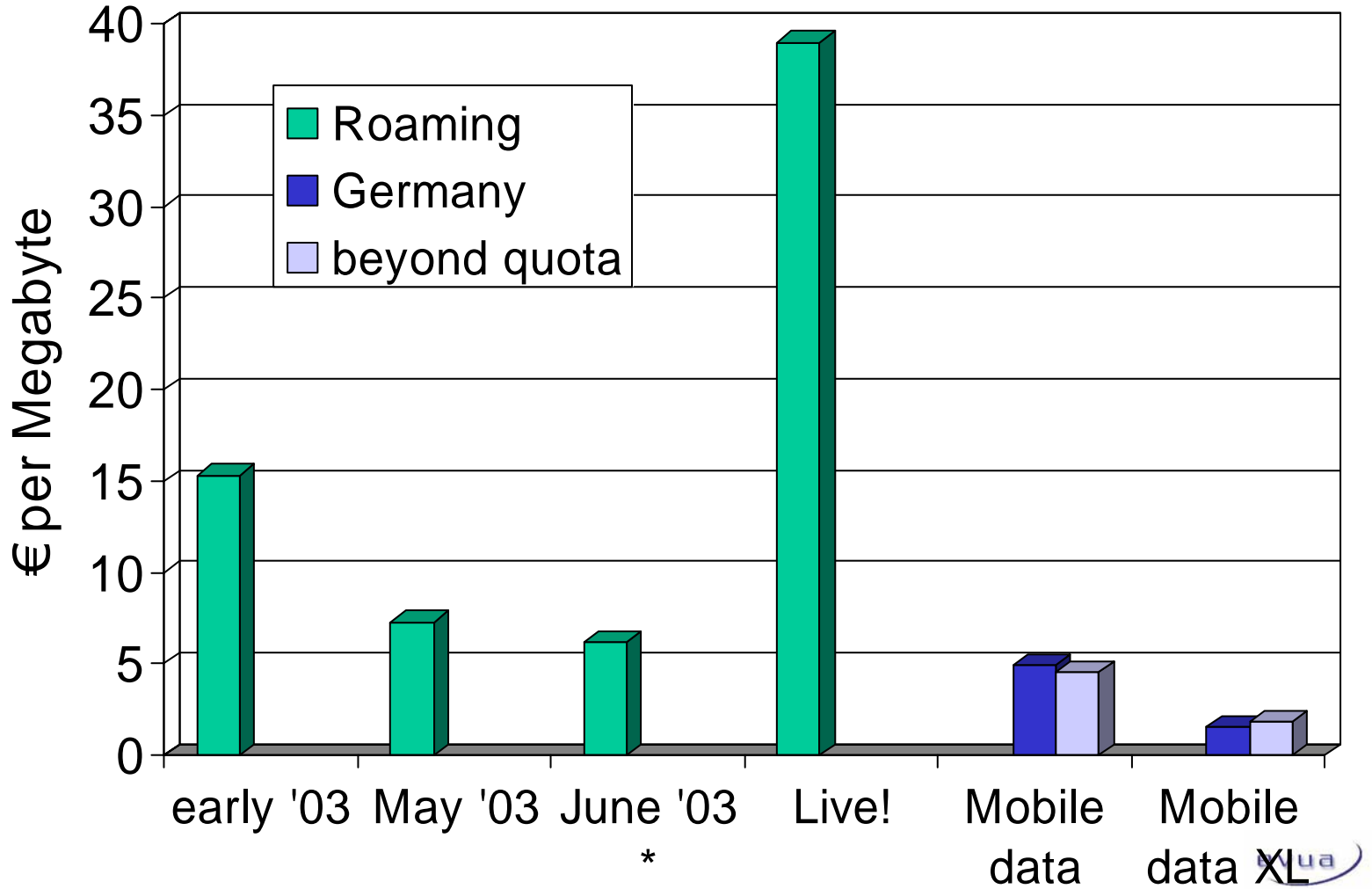


Source: Singtel. Currently "free" in AU, DK, FI, IN and ML.

INTUG Vodafone Germany

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INTUG roaming market analyses

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- wholesale market not retail
- very easy to show market is not competitive
- generally no MNO is dominant
- therefore, use joint dominance

INTUG possible remedies

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- must comply with:
 - policy objectives
 - proportionality
- options are:
 - benchmarking
 - linking to other prices
 - mandating market entry
 - cost orientation
- obstacles:
 - few remaining new entrants
 - none of whom trust the mobile operators

INTUG imposing obligations

- cost orientation is the only plausible remedy to market failure
- MNOs will appeal all decisions:
 - delay
 - protection of revenues
- MNOs will lobby against it
- how fast will it cut in?

Will demand rise as fast as prices fall?

INTUG the value of roaming

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- once exciting and highly praised
- now expected and taken for granted
- “limited” mobility is challenging GSM in many markets
- WiFi hot spots are popular for data
- the cash cow will not last for ever

IP telephony is driving down general telephony prices

INTUG public WLAN

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- 2.4 and 5GHz spectrum being opened up:
 - Hong Kong, Germany, France, USA
 - agreement this month at ITU WRC-03
- Korean-Japanese business model
 - roll-out fixed broadband services extremely fast
 - add Wi-Fi to the residential offer, for incremental charge
 - add public hot-spots for incremental charge, say US\$ 5-10 per month
 - now being used by Verizon

INTUG number portability

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- legal obligation in:
 - European Union
 - European Economic Area
 - Accession Countries
- Ireland: Comreg lost patience
- strong resistance in USA from CTIA, but likely to be driven through

INTUG Verizon

"Let's - as an industry - stop moaning and groaning about it ...

Our government has spoken. Our customers tell us they want it.

Let's clear the decks and get it done."

Dennis F. Strigl,

President and CEO, Verizon Wireless

INTUG new issues

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- financial future of mobile operators
- financial regulators requiring storage of instant messaging
- Voice over Wi-Fi
 - devices
 - capacity
 - is it legal?

INTUG conclusions

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- well established market failures now being addressed by regulators
- 40% of MNO revenues at risk, so they are fighting very hard
- operators can show little (if any) revenue from data or VANS
- medium term challenges to the value of mobility from:
 - Wireless Local Loops – limited mobility
 - Wireless LANs

INTUG thank you

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