Mobile prices & competition

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Contents

Economic growth

- President Mbeki's Accelerated and Shared Growth Initiative (ASGISA)
- Pursuit of a very significant level of economic growth
- The requirement to generate a substantial number of new jobs
- The need to improve national competitiveness
- ICTs are required to make an important contribution to:
  – economic growth
  – job creation

http://www.info.gov.za/asgisa/

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Objectives in the Telecoms Act

a) promote the universal and affordable provision of telecommunication services;

b) promote the provision of a wide range of telecommunication services in the interest of the economic growth and development of the Republic;

c) make progress towards the universal provision of telecommunication services;

d) encourage investment and innovation in the telecommunications industry;

e) encourage the development of a competitive and effective telecommunications manufacturing and supply sector;

f) promote the development of telecommunication services which are responsive to the needs of users and consumers;

g) ensure that, in relation to the provision of telecommunication services, the needs of the local communities and areas are duly taken into account;

h) ensure that the needs of disabled persons are taken into account in the provision of telecommunication services;

i) ensure compliance with accepted technical standards in the provision and development of telecommunication services;

j) ensure fair competition within the telecommunications industry;

k) promote the stability of the telecommunications industry;

l) encourage ownership and control of telecommunication services by persons from historically disadvantaged groups;

m) protect the interests of telecommunications users and consumers;

n) encourage the development of human resources in the telecommunications industry;

o) promote small, medium and micro-enterprises within the telecommunications industry;

p) ensure efficient use of the radio frequency spectrum;

q) promote the empowerment and advancement of women in the telecommunications industry.

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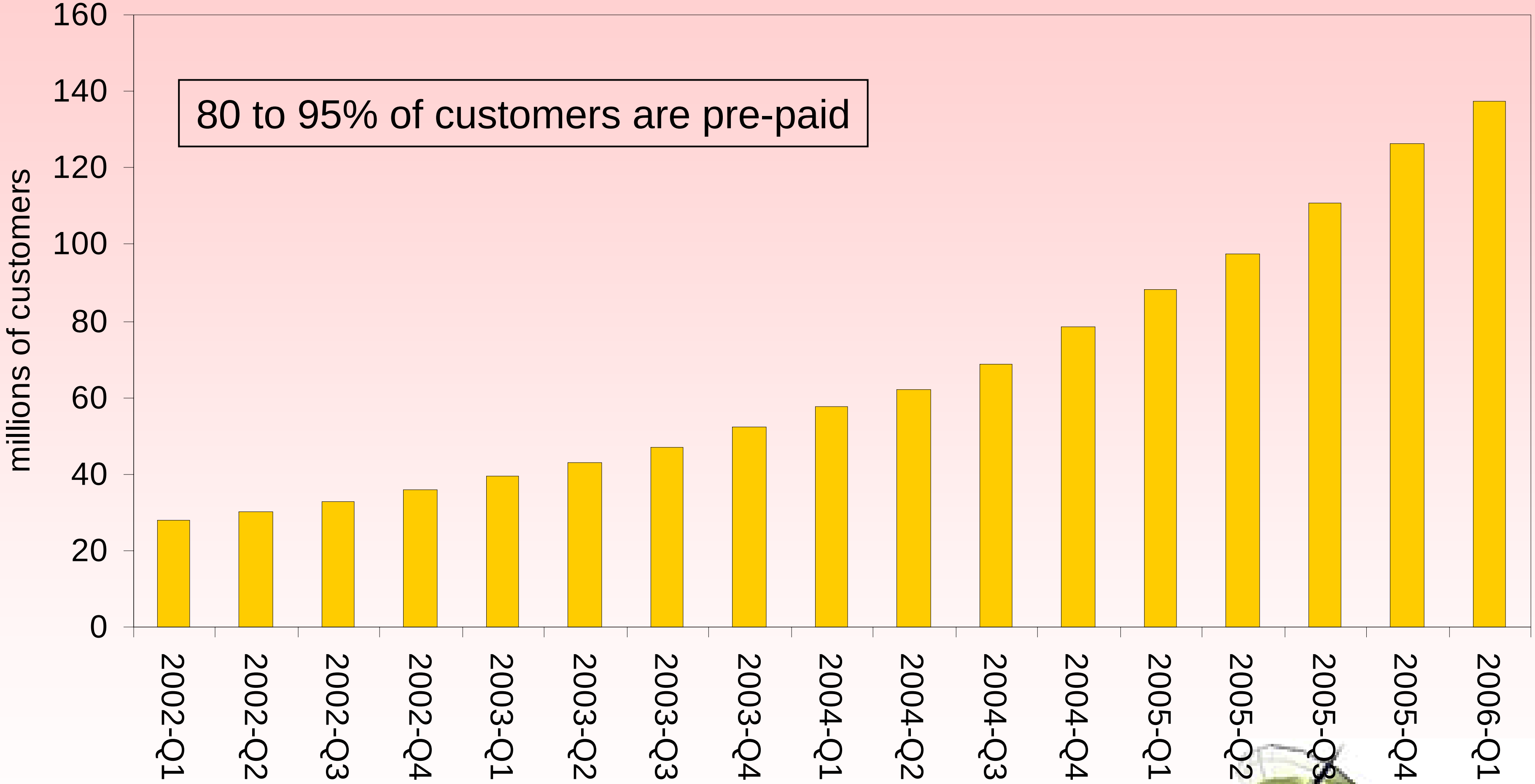
Growth of GSM in Africa



http://www.gsmworld.com/news/statistics/pdf/gsma_stats_q1_06.pdf

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Teledensity

- The mobile teledensity for South Africa is very high
- Growth cannot be sustained much longer:
  - the market ought to be close to saturation
  - especially given the income structures
- However, the figures may be exaggerated
- Customer numbers appear not to account accurately for:
  - owners of multiple SIM cards:
    - at ZAR 2 each, many people can afford multiple cards
    - “numbers for life” may no longer be active
  - significant numbers of SIM boxes
- Indeed the relatively high ARPU, compared with average income *per capita* and income distribution, seems to confirm the numbers are overstated

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Further licences

- Many other African countries support more than three operators
- The Competition Commission has urged the issuing of a fourth mobile licence
- This could easily be tested by inviting applications
- There are additional options for licensing in 450 MHz, 2.3 GHz and 3.5 GHz bands
- Some of these could be city, regional or provincial licences
- There are also opportunities with Mobile Virtual Network Operators (MVNOs)
- Language-based MVNOs could be very interesting (Xhosa, Kiswahili, Afrikaans, etc.)
- The future could be much more diverse than the present

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Mergers and acquisitions

- Investcom purchased 60% of Mobitel (Sudan) for US$ 1.3 Bn
- MTN purchased Investcom for US$ 5.5 Bn
- Millicom is subject to bids, believed to be:
  - China Mobile bid US$ 4 Bn
  - Investcom bid US$ 5 Bn
    (this may have lapsed, now it is owned by MTN)
- The financial markets appear to take a buoyant view of African GSM operators
- Is this irrational exuberance or even a bubble?

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More than one market

- There is no single mobile market
- Rather there are many markets:
  – wholesale and retail
  – origination and termination
  – voice and data
  – national and international mobile roaming

Termination markets

- Now universally accepted by regulators
- Termination is a separate wholesale market for each operator
- Under Calling Party Pays (CPP) there are severe problems of excessive prices
- Intervention by NRAs has become accepted practice, to reduce prices towards cost
- Such decisions have been upheld on appeal
- A radical option would be to force operators to move to “bill and keep” for wholesale

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United Kingdom – MTRs

- Office of Telecommunications inquiry
- Appeal to the Monopolies and Mergers Commission
- Office of Communications inquiry
- Appeal to the Competition Commission
- Judicial review by High Court
- Market analysis by OFCOM

http://www.ofcom.org.uk/

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New Zealand

- A protracted procedure has been followed for resolution of mobile termination charges
- Eventually, the decision was taken to reduce charges
- The decision of the Commerce Commission to regulate MTRs was upheld

http://www.comcom.govt.nz/

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Australia

- Long, drawn-out procedures at the Australian Competition and Consumer Commission (ACCC)
- Operators expressed unwillingness to pass on reductions to customers
- Vodafone appealed to High Court, but lost the case
- Price reductions are being introduced

http://www.accc.gov.au/

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European Union market 16

- Defined in the Recommendation on markets for analysis by NRAs
- Being used by all member states
- The market will be retained in the 2006 review of the list of markets
- It is a bottleneck controlled by mobile operators for termination of calls on their networks (including 3G)

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Billing for calls

- Many countries have mandated per second billing
- There is no reason why it is not required here
- One consideration is flat-rate pricing
- Some countries have “bundles” or “buckets” of minutes for a flat fee
- There are no technical obstacles to these, just a lack of competition
- Need to ensure all reasonable options are available to consumers

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SMS – text messaging

- Widespread concern at pricing
- Carried in the signaling channel at low priority so there is little cost on the network
- Operators have used SMS to increase ARPU of low-spending customers
- Regulatory action has been taken by:
  - France
  - Spain

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Conclusions

- Mobile prices are high because of limited competition
- Further action can be taken to increase competition
- However, MTRs are not susceptible to competition
- MTRs require to be regulated to ensure prices are cost-oriented:
  - the market definition is quite clear
  - no alternative remedy has been identified
  - the speed of price reductions is a matter of judgement
- Further analysis is required concerning:
  - the reality of mobile teledensity
  - the ability of operators to reach the poor

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Thank you

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