

# Key issues in the mobile sector

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# Overview

- Modus operandi of regulation
- Regulatory issues
  1. Market Reviews
  2. On-net off-net price differentials
  3. Direct Regulation
  4. Spectrum Management
  5. IP Interconnection
- Concluding remarks

# Regulating mobile – why?

Regulation is a response to market failure

1. Monopoly abuse ✓
  - Termination (calling party pays)
2. Externalities ✗
  - Handset (retail) subsidies (some exceptions)
3. Systemic protection ✓
  - Spectrum management

# Regulatory Issues

1. Market reviews
  - Mobile voice call termination
2. On-net off-net price differentials
  - Market foreclosure?
3. Direct regulation
  - EU Regulations
4. Spectrum management
  - Harmonisation and liberalisation
5. IP interconnection
  - Access issues

# Market Reviews

- Voice call termination SMP at the network level
- A few instances of SMS termination designated SMP (e.g. France, Gibraltar)
- Obligations have reduced MTRs
- EC wants lower MTRs and harmonisation

# Mobile Termination

- EC aims to reduce MTRs to around 1-2 Euro cents per minute by 2011
- Assuming effective competition in retail mobile markets, regulation of MTRs is likely to lead to price increase pressures elsewhere *ceteris paribus*
- Why bother regulating MTRs?
  - Relative prices distorted and may significantly impact welfare – plus cross-border price differentials are too high and arbitrary *i.e.* not consistent with efficient Ramsey prices or underlying cost differences

# Subscriptions fall?

- It has been claimed that lower MTRs would lower subscription volumes and hence mobile teledensity
- If subscription increases by \$10, then a subscriber may drop off if his or her change in value (consumer surplus) from lower call charges to mobile is less than \$10 (likely if in bound calls are not valued highly by the recipient)
  - Many subscribers dropping off will be accessible on fixed and broadband channels (substitution effect needs to be accounted for)
- Sceptical that change in consumer surplus would be negative
  - How many allegedly non-renewed subscriptions represent single phone individuals?

# Receiving party pays

- RPP includes bill and keep
- Intuitively RPP changes operators' incentives
  - MTRs reflected in what consumers pay for directly
- US performance is impressive
  - Low prices (and operators are not distressed)
  - Good teledensity despite geographical challenges and intense competition from high quality ubiquitous fixed networks and WiFi
    - It may be lower than teledensity in the EU – so what!
    - Regulation in mobile is much less than in Europe and the market works

# On-net/Off-net Differentials

- Small cost differences between calls
- On-net/Off-net differentials reflect market competition and excessive off-net termination rates
- Not harmful *per se*
- Competition law is sufficient
  - National retail calling mobile markets are not suitable for *ex ante* regulation

# Direct Regulation

- EC has acted to reduce European roaming rates
- Price ceilings for three years from 2007
  - Eurotariff maximum limit for calls made (€0.49 excl. VAT) and received (€0.24 excl. VAT) when abroad
  - Price caps further reduced in 2008 and 2009
- Following review proposed to be extended to data and SMS
  - The European Commission proposed July 2008 to reduce the price of roaming text messages by 60% as of 1 July 2009
  - EU citizens travelling in other EU countries should pay no more than €0.11 per SMS compared to the current EU average of €0.29
- Regrettable regulatory developments – RPP is needed to remove such invasive meddling

# Spectrum Management

- Radio spectrum decision under review
- Progress on EU harmonisation slow
- Wide variation in award mechanisms and role for markets

# IP Interconnection

- Evolution to LTE and 4G underway
- Access via other spectrum (e.g. WiFi, WiMAX) and fixed infrastructure
- Will MNOs permit or even be able to prevent open access to other applications?
  - Is competition law sufficient?

# Concluding remarks

- Mobile started with little economic regulation (e.g. protection for third party service providers) predicated on spectrum shortage
- As markets grew, regulation has become more invasive
  - Initially focussed on wholesale rates
  - EU has acted on roaming retail rates
- Need to reconsider appropriateness of calling party pays tariffs
- EU needs to be more serious about spectrum management harmonisation and liberalisation

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