Impact of roaming regulation on competition.

Mark Falcon
Head of Economic Regulation, Three UK
Mobile Roaming World Summit 2011

Three.co.uk

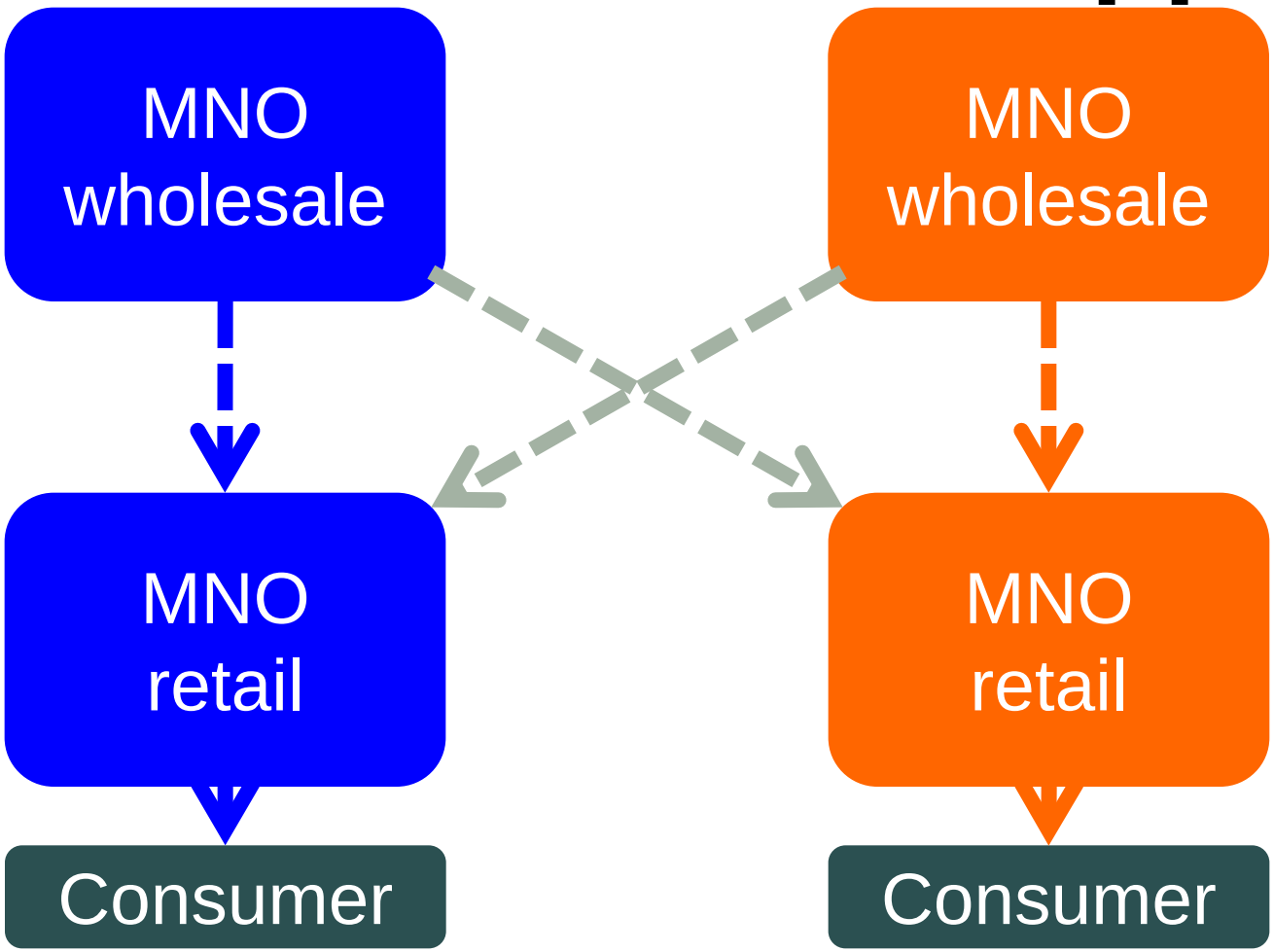
About 3 Group.

Hutchison Whampoa Ltd

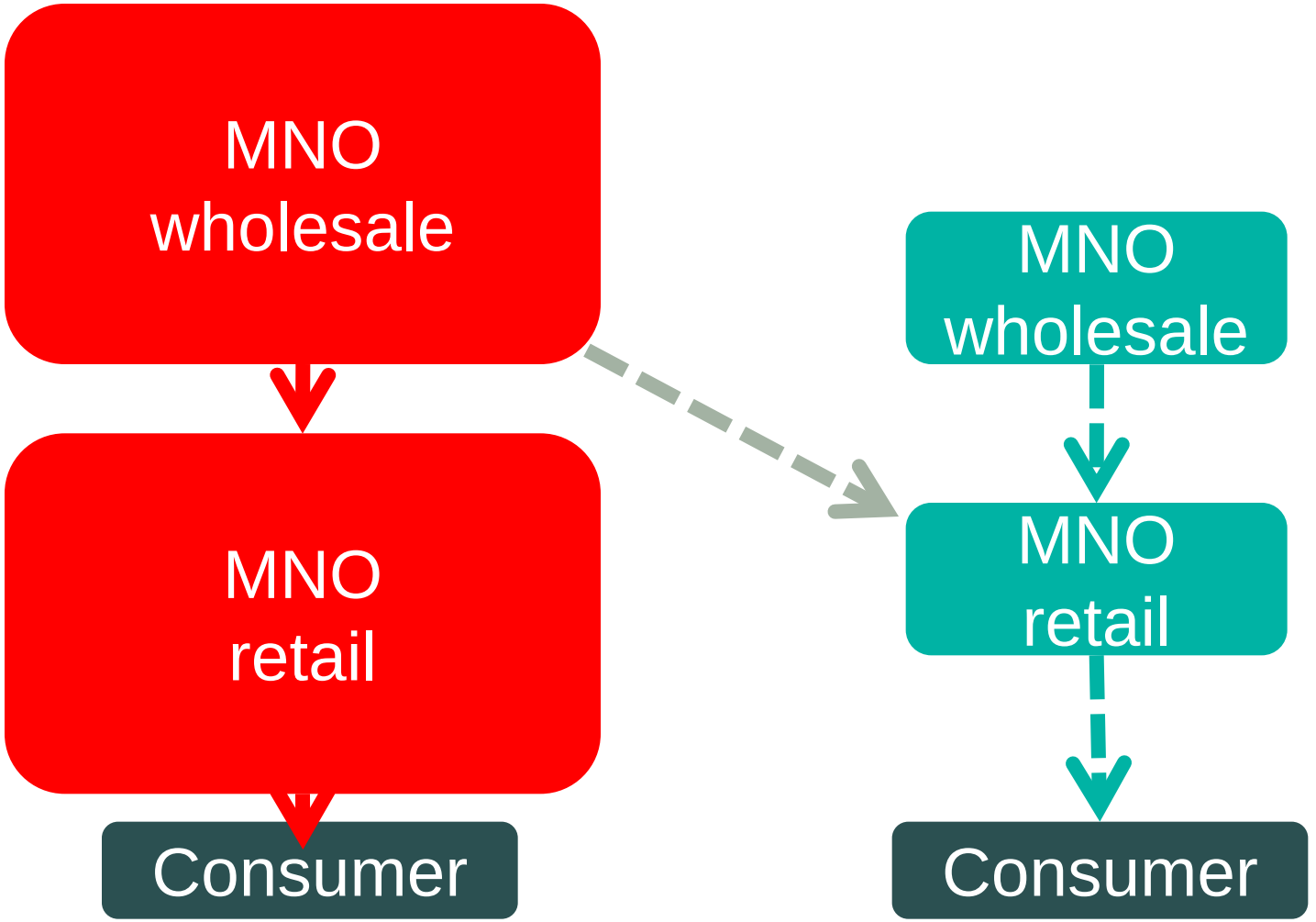
Questions.

1. Why is there a market failure in international roaming?
2. Will the proposed new roaming regulation solve this?

Problem when competitors are also customers and suppliers.



Large footprint creates big roaming market advantage.

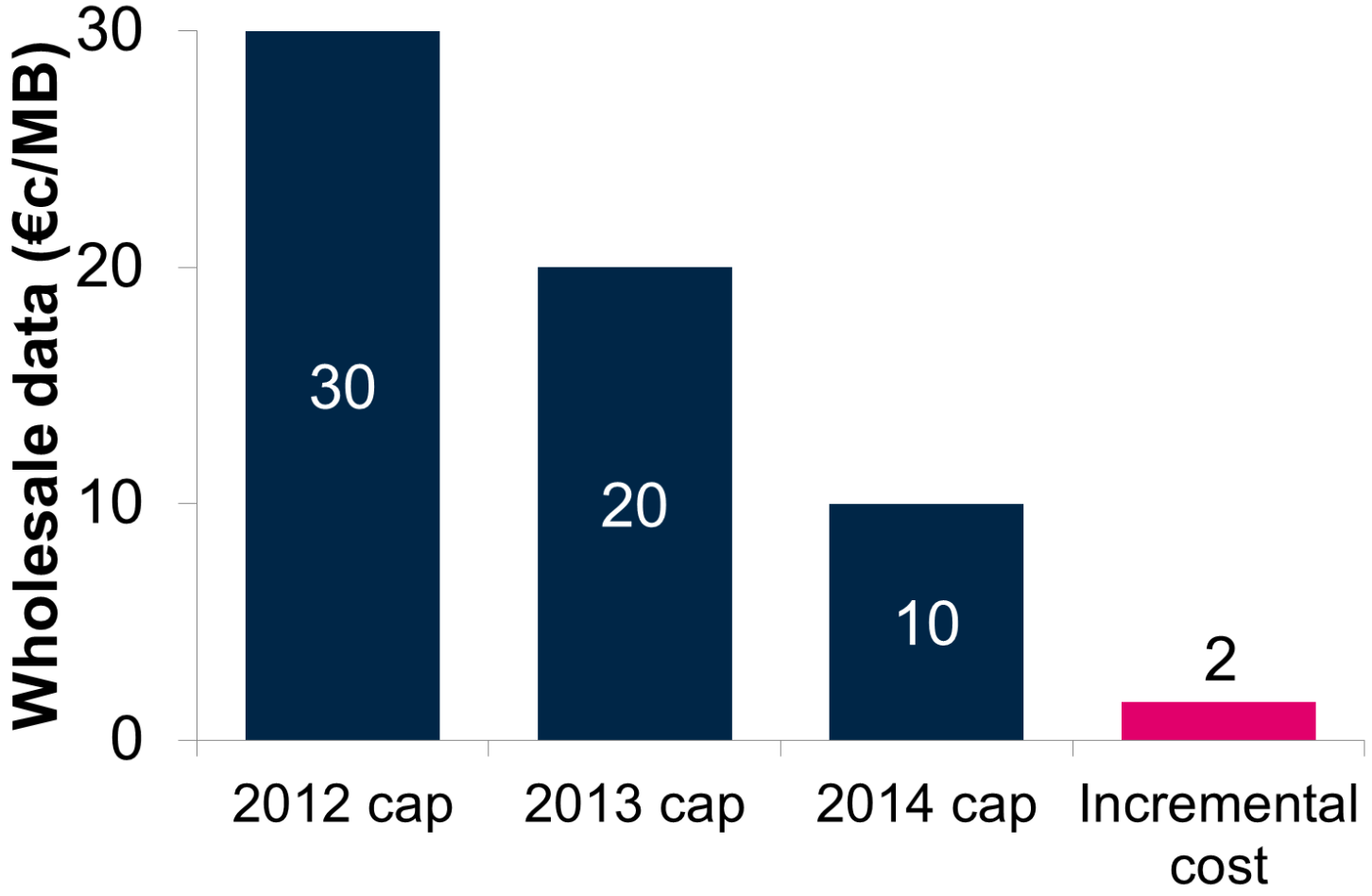


Same problem as in mobile termination market.

- *"Termination markets represent a situation of two-way access where both interconnecting operators are presumed to benefit from the arrangement but, as these operators are also in competition with each other for subscribers, termination rates can have **important strategic and competitive implications**."*
- *"The further termination rates move away from incremental cost, the greater the **competitive distortions** between […] operators with asymmetric market shares and traffic flows."*

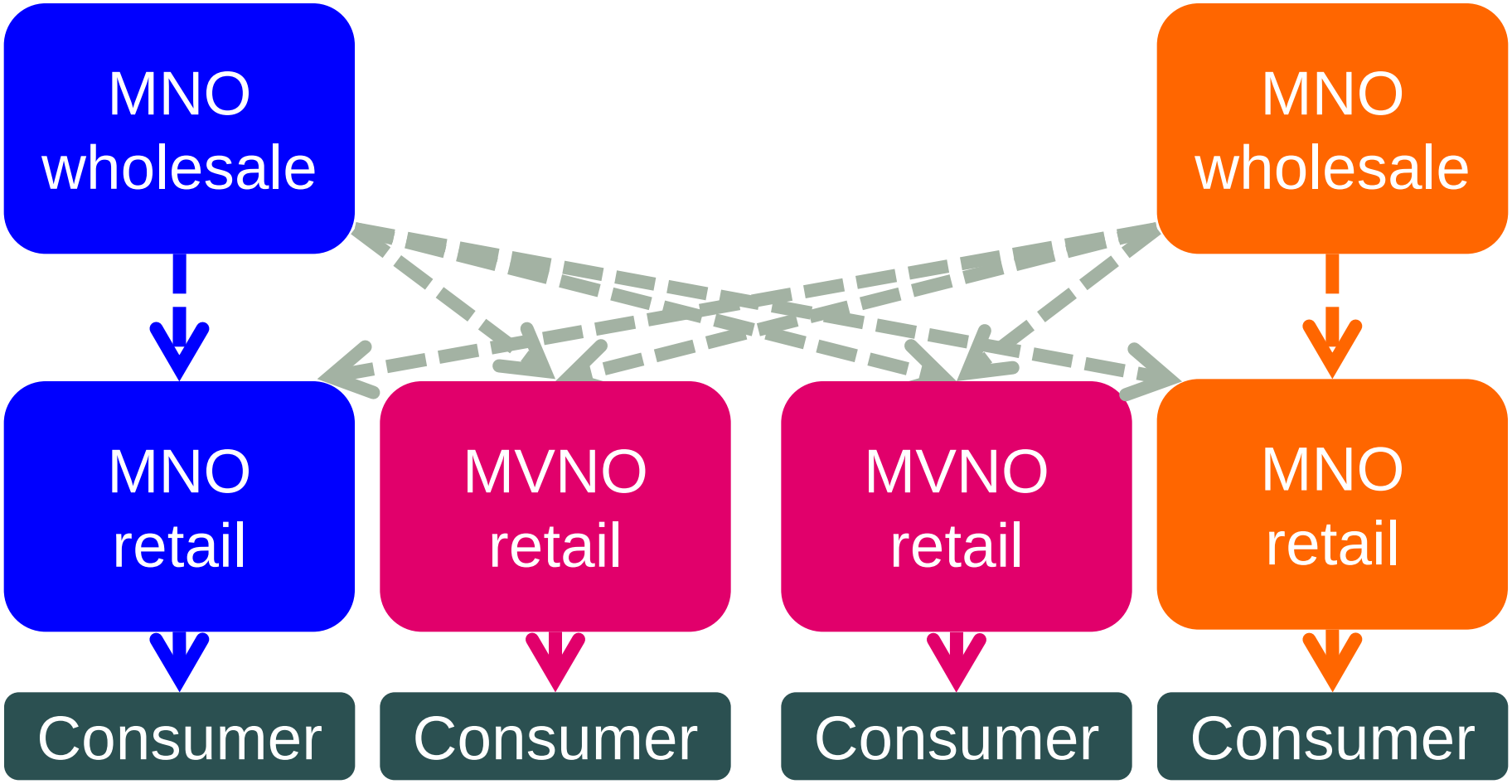
EC Termination Rate Recommendation (2009)

Wholesale data caps: must be closer to incremental cost.

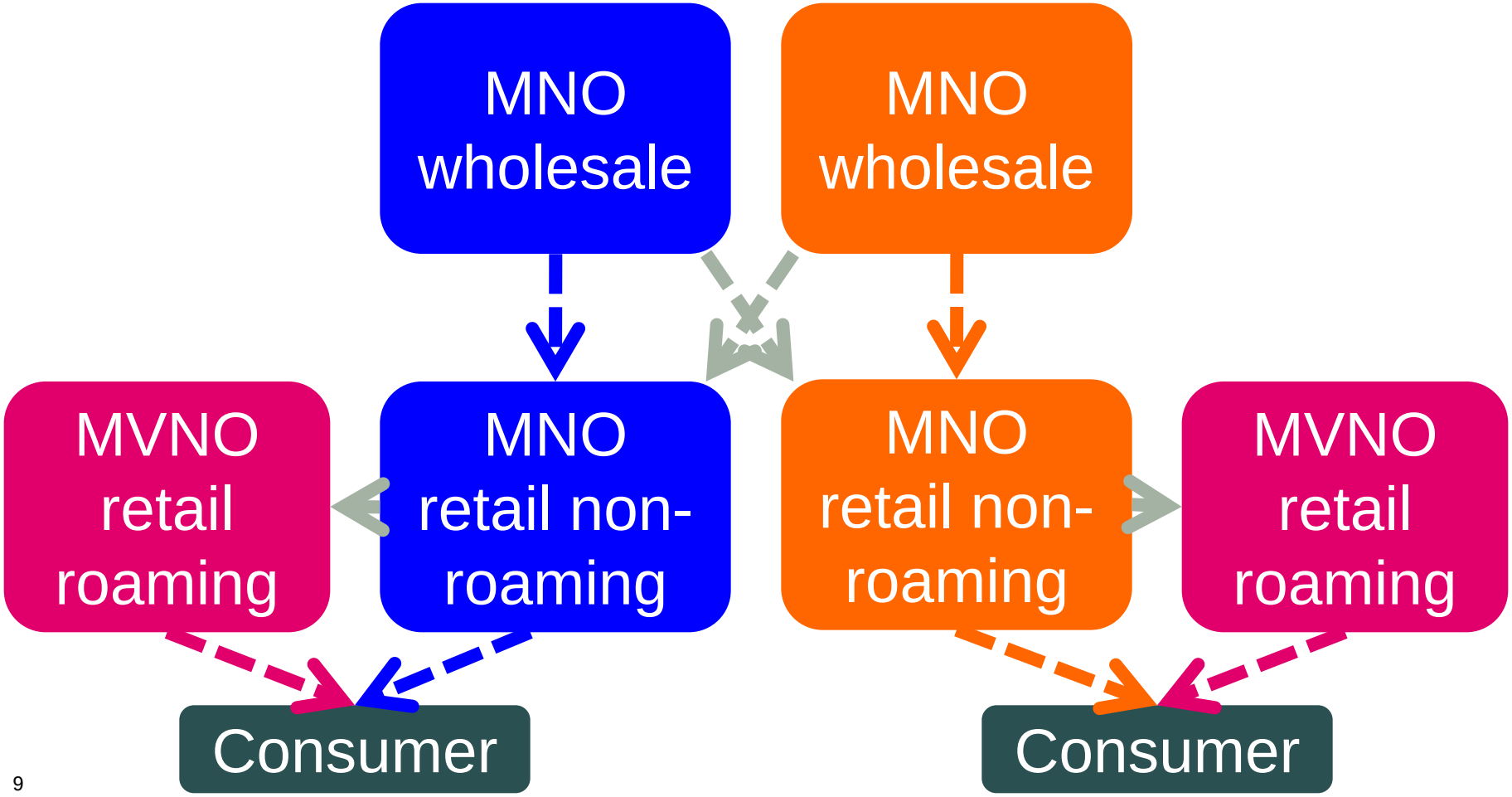


Note: Incremental cost calculated from Ofcom/Analysys Mason termination rate model. Source: Ofcom, Three.

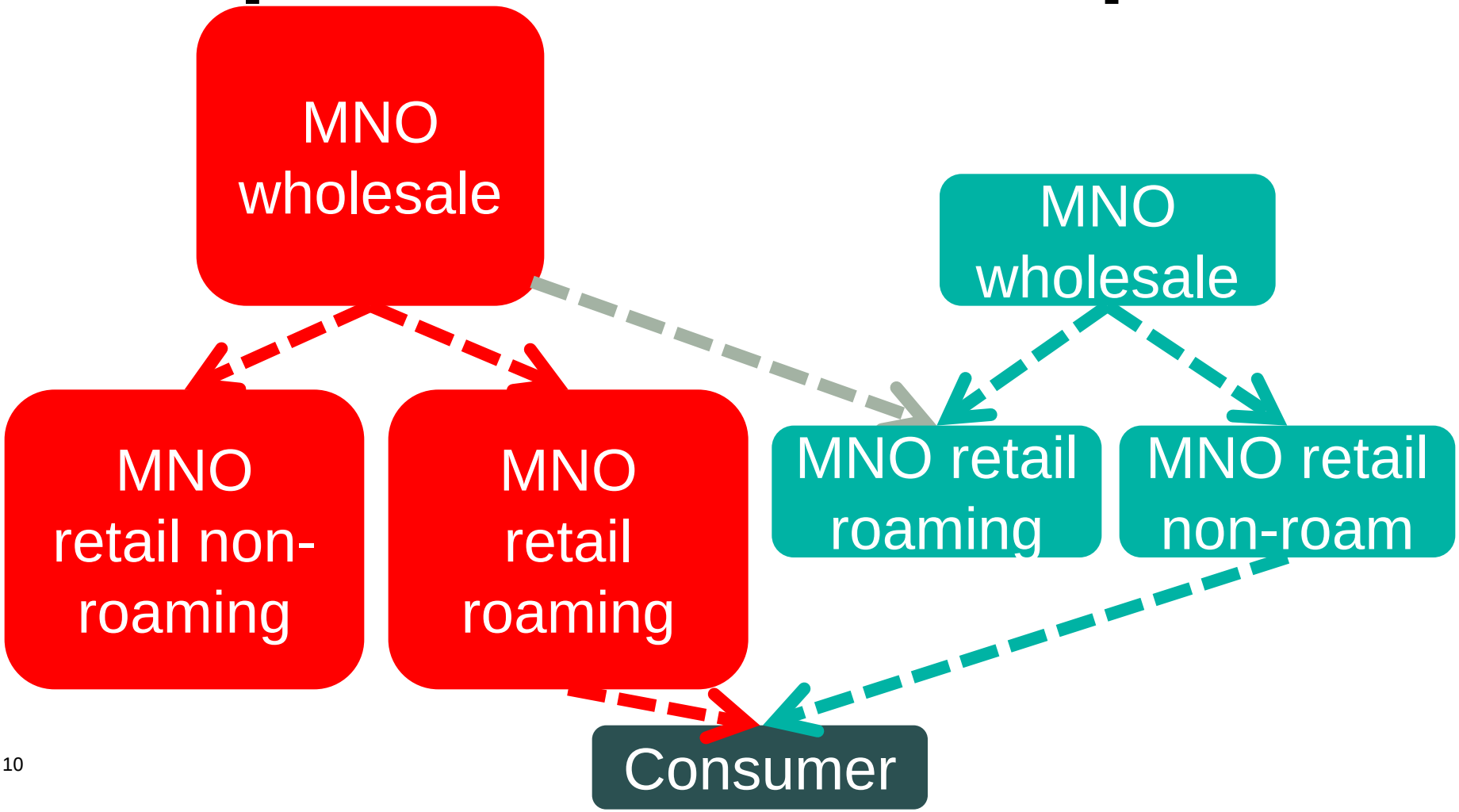
Wholesale access solution: promising, but not specified.



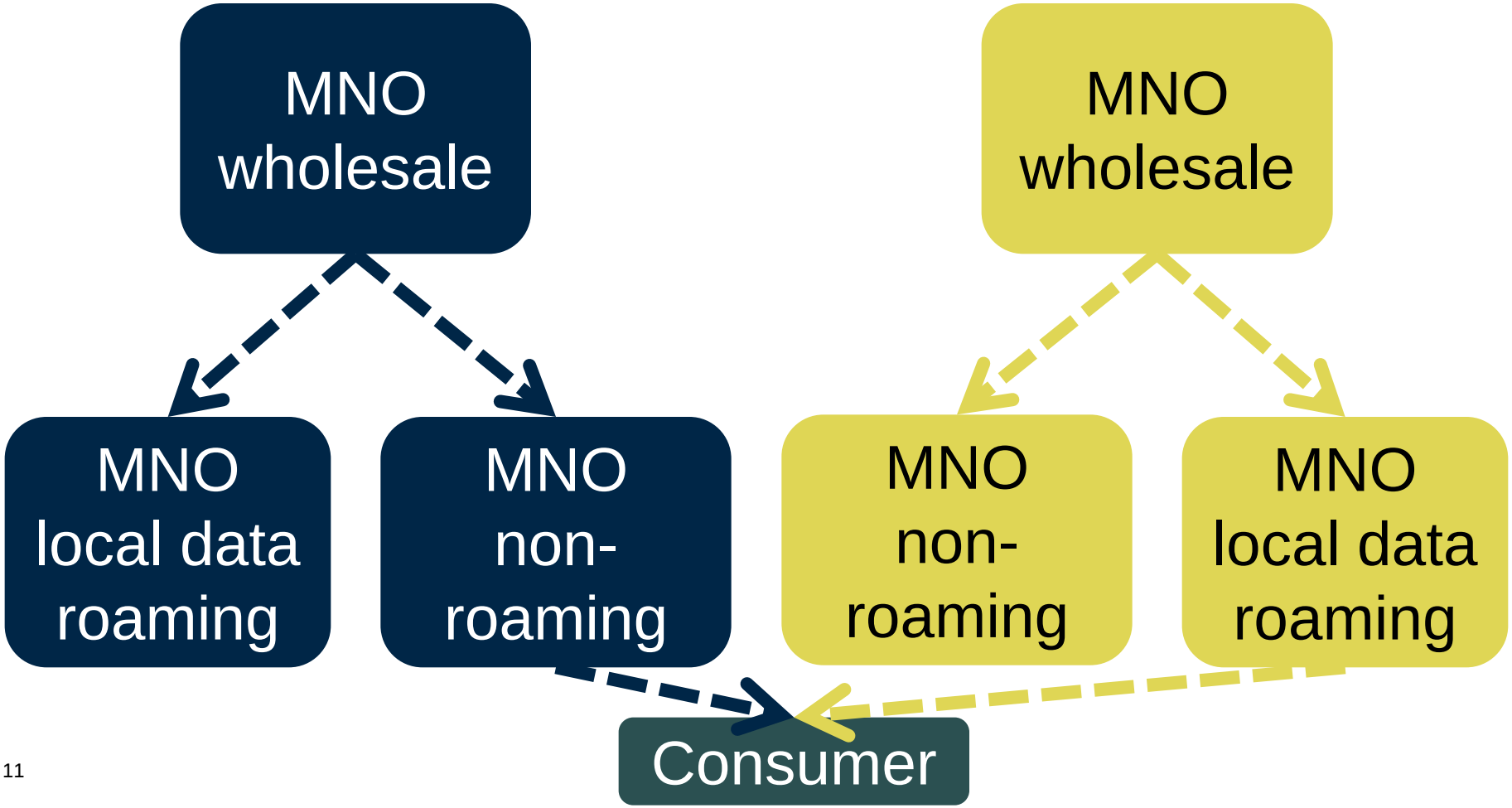
Single IMSI solution: needs wholesale cap for it to work.



Dual IMSI solution: no competition without cap.



Local data break-out solution: promising, but not feasible.



Conclusion: structural solutions not a substitute for wholesale caps.

Wholesale caps: need to set at incremental cost ~€c2/MB.

Structural solutions: single IMSI most likely to benefit consumers.

Retail caps: should not be needed with structural solution.

Thank you.

Three.co.uk

Mobile Roaming World Summit 2011, Mark Falcon, notes

1. Thank you. Hello. It's a great pleasure to be here.

2. First, as background, who is Three?

A "challenger" mobile network operator in six countries in Europe

- UK, Ireland
- Denmark, Sweden
- Austria, Italy

We acquired new 3G licences through auction and are owned Hutchison Whampoa of Hong Kong.

3. I'd like to address these questions

1. Why is there a market failure in international roaming?
2. Will the proposed new roaming regulation solve this?

4. The first reason for a market failure is that competitors in this market, i.e. MNOs are also each others' customers and suppliers

MNOs purchase roaming services from other MNOs – frequently competitors in their home markets.

For Three, much of our roaming services (outside the countries where we have our own networks) are purchased from groups that own our UK competitors.

5. The second big reason for a market failure is that having a large geographic footprint creates significant market power in roaming

For a large operator, most of its roaming traffic is "on-net". It can be almost entirely self-sufficient for roaming.

In contrast, for smaller operators, most of their traffic is "off-net". They need to rely on larger competitors for access to wholesale roaming.

This creates a market failure: as can foreclose competition in both wholesale and retail.

6. This market failure is almost exactly the same problem as in the mobile termination market

First, there is a problem when competitors are also each other customers and suppliers. MNOs buy termination services from other MNOs.

Second, there is a competitive problem of asymmetries between smaller and larger operators.

This is why the European Commission concluded in 2009 – and recommended to national regulatory authorities (NRAs) – that mobile termination rates (MTRs) should be set equal to long-run incremental cost (LRIC) by the end of 2012 in all member states.

This is to overcome a fundamental market failure of unregulated termination rates – to protect competition and protect consumers.

7. At the moment, there is still a big gap between the Commission's proposed wholesale data caps and the cost of wholesale data

The Commission's proposed wholesale data caps start at €c30 per MB in July 2012 falling only to €c10 per MB by July 2014.

In contrast, the cost of wholesale data is closer to €c2 per MB. This is based on the same Analysys Mason cost model used by 9 NRAs for calculating mobile termination rates, which can easily be adapted to calculate the cost of wholesale data across the EU.

8. Turning now to the Commission's proposed wholesale access solution

The roaming regulation states that, from July 2012, "MNOs shall meet all reasonable requests for wholesale roaming access, including those from MVNOs and resellers".

Means that an MVNO contract with one MNO for non-roaming "home" services and other MNOs for roaming services.

While in theory this should increase competition and consumer choice, it has not yet been specified technically how this solution

will work – as, from the visited-MNO's perspective, MVNO customers are currently indistinguishable from their host-MNO's customers, as they are normally all part of the same number range.

We understand that BEREC is considering how to make this work.

9. The Commission's "structural solution" goes beyond this in requiring decoupling of roaming and non-roaming services

The first variant is the "Single IMSI" solution.

The consumer can now choose roaming services from an MVNO or other MNO, but underlying roaming services are still routed via the home network.

While this solution should certainly promote competition at the retail level, the home network still needs to access wholesale roaming at a regulated access price for this to work at all.

10. Dual IMSI solution

The second variant is the "Dual IMSI" solution, in which consumers still have a choice of roaming provider, but these will be provided directly by another MNO.

Unfortunately this solution, although apparently favoured by the Commission, will actually reduce competition, as

- very few MNOs have the footprint to compete directly in EU-wide roaming services, therefore there will be very limited competition
- very limited opportunity for MVNOs or smaller MNOs to compete under this model.

This solution can only ensure competition if wholesale roaming is regulated at incremental cost to allow competition between alternative providers.

11. Local data break-out solution

The last solution is "local data break-out", where a consumer takes non-roaming and voice/text roaming services from their home

network, but data roaming from a local network in the country they are visiting.

This solution should certainly in theory promote competition, especially on a country by country basis, rather than only EU-wide.

This already reflects consumer behaviour at the moment, when consumers buy a local SIM card for data. But here they can do it without needing a new SIM.

Unfortunately the technology is not yet there to allow break-out of data roaming from voice and text, but maybe this will be possible in the future once LTE has become widespread.

12. Conclusion

The main conclusion is that the structural solutions are not a substitute for wholesale price caps.

Wholesale caps cannot just be seen as a temporary measure until structural solutions become effective.

Structural solutions can certainly increase competition, especially the Single IMSI solution. In particular, this solution should negate the need for retail price caps.

In contrast, some of the proposed structural solutions may actually make competition worse.

14. Thank you.