

Mobile termination

ACCC mobile services review public forum

11 September 2003



Just say the word *'yes'*
OPTUS

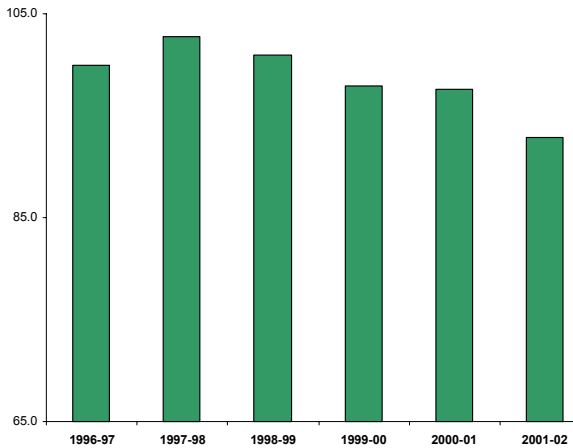
Outline

- Introduction
- What is the appropriate market definition?
- Is pricing above cost a problem?
- Why are the mobile operators holding disparate views?

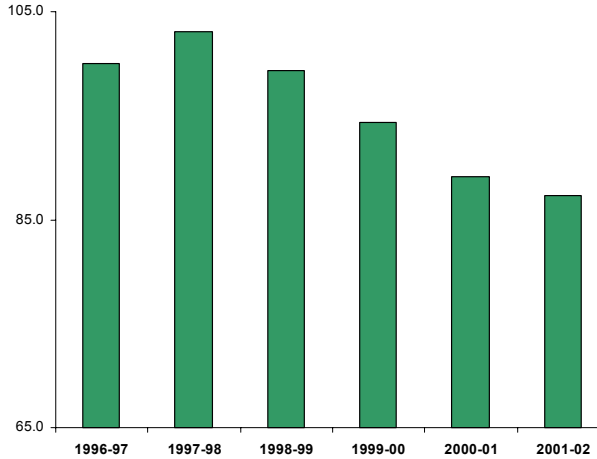


F2M and mobile termination

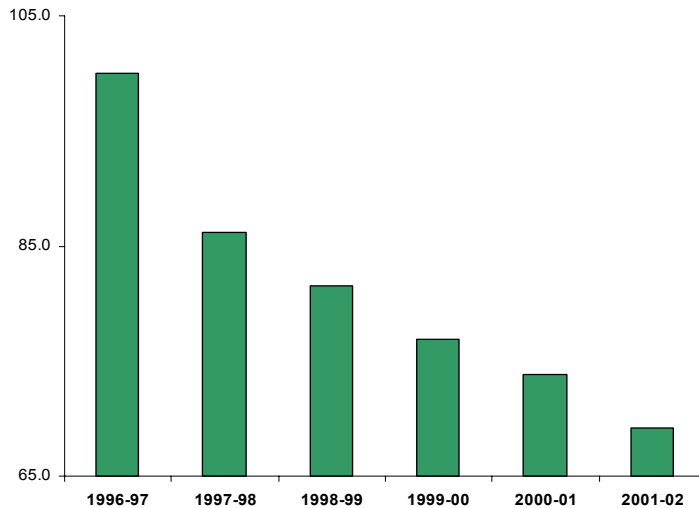
Price index
(base year 1996-97)
Fixed-to-mobile indexed retail prices - residential



Price index
(base year 1996-97)
Fixed-to-mobile indexed retail prices - business



Price index
(base year 1996-97)
Mobile intercarrier termination rates



Just say the word **'yes'**
OPTUS

Market definition

- **Single operator market definition:**
 - Finding that a firm “controls access” on its own network does not tell us anything interesting
 - Competition takes place at a wider level
 - Mobile operators sell bundles of products
 - The competitive assessment should take place at the level at which competition takes place
- **Single customer market definition:**
 - Market power may potentially exist
 - Can they exercise it?



Market definition

Exercise of market power

Market power may exist at the individual level



Joe Bloggs chooses a mobile carrier to maximise his individual welfare



Believes there are few close substitutes for calling him



Subscribes to a carrier that charges those calling him more than him calling them



Carriers compete for Joe Bloggs' business



Pricing above and below cost

- **Is the competition problem a first-order issue or a second-order issue?**
 - First-order competition issue: are the prices of the bundle of services sold by mobile operators excessive?
 - Second-order competition issue: is the structure of prices within the bundle optimal?
- **If the overall price of the bundle is not excessive, the problem is a second-order issue**
- **If only dealing with a second-order problem, regulators need to take great care before regulating: are you sure the structure of prices is seriously sub-optimal and that you can make it better?**



Pricing above and below cost

- **Socially optimal prices**

Price = marginal cost *less* externality in other side of market

- **First best prices**

Price = marginal cost *less* externality in other side of market
plus Ramsey recovery of externality and common costs

	Cost	Externality	Ramsey
Subscription	+	-	+
Termination	+		++



Regulatory/strategic positions

Optus

“monopoly margins cannot be maintained”

“two markets, mobile services market and a fixed to mobile services market”

Vodafone

“effectively competitive”

“mobile to mobile calls as an alternative to fixed to mobile calls”

Hutchison

“source of market failure is consumer ignorance”

“price of F2M should be the same as the price of M2F”

Telstra

“no evidence of economic rents” and no problem with
“distribution of cost recovery”

“carriers with both fixed and mobile networks ... have to
balance these competing interests”



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