vodafone

ACCC Mobile Services Review
Regulation of GSM & CDMA Origination and Termination Services

Vodafone Australia

Peter Stiffe

29 August 2003

vodafone

Agenda

- Let’s get real about the problem
- Getting the facts straight
- What if regulation continues to be misapplied?
- So what can we do to deliver better outcomes for customers?

What is the real issue?

- Ovum says "consumers continue to pay well over $1 billion too much in mobile termination rates".
- The Australian Consumers Association say consumers and businesses are paying "twice as much as they should be" for fixed-mobile phone calls (The Australian, 27 August 2003).
- INTUG say "This abuse has been going on for many many years" (Ewan Sutherland, ABC 7.30 Report, 25 August 2003) .
- ATUG say "A reduction of 10 cents per minute….if passed on to consumers and business users will result in a benefit to those users of at least $750 million every year" (The Australian, 27 August 2003).

What is the real issue?

- But there is either some confusion or misdirection about the prices that are being referred to. Generally the implication is that the termination or interconnect charge is the cause of the problem and that the mobile network operators are behaving badly.

- We think the ACCC describes the problem a little more clearly. It says:

  "there has been relatively little reduction ***in the final prices*** *[emphasis added] paid by consumers in recent years for fixed-to-mobile services, and this is of concern…"* (ATUG newsbrief July 2003)

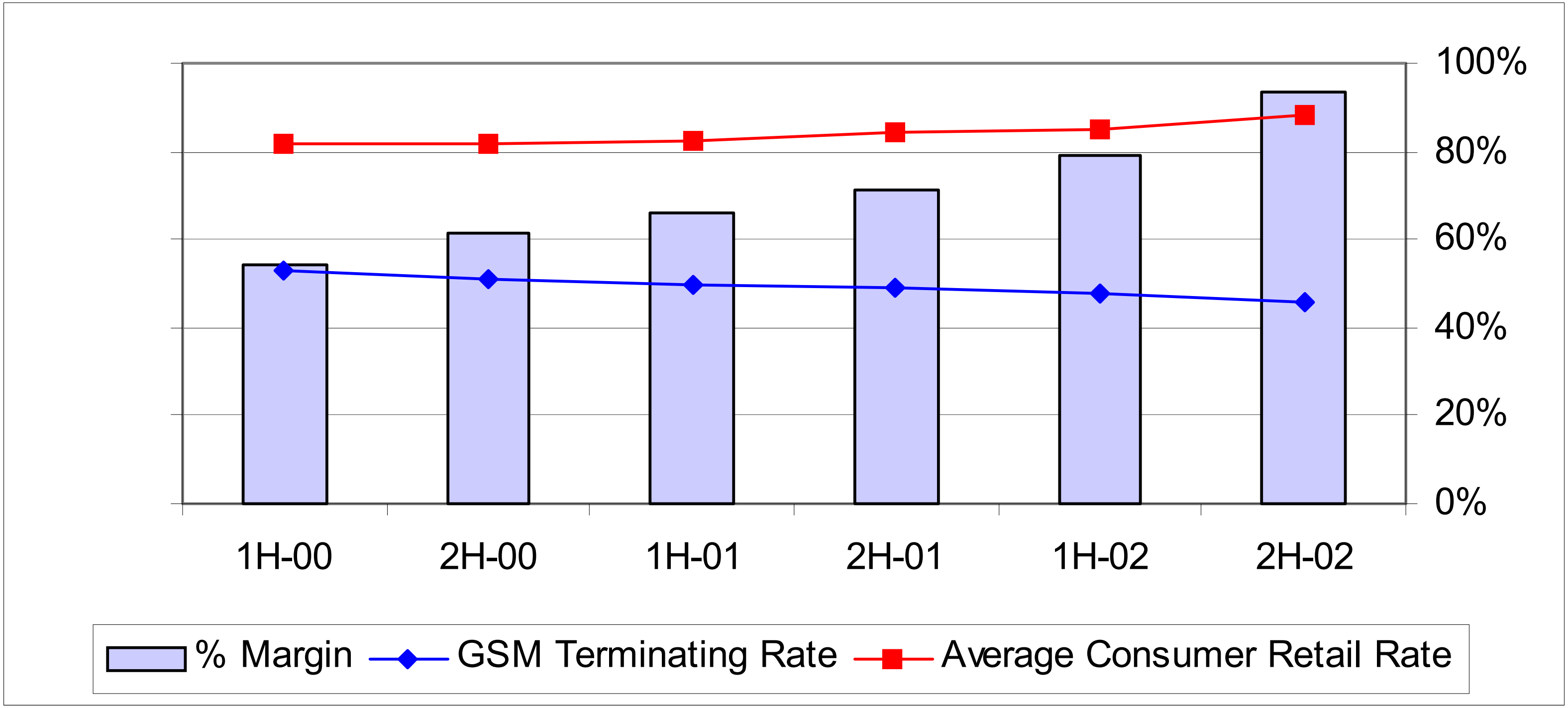
Let's look at the facts

- Mobile operators have not and do not earn super-normal profits. This is because they operate in a very competitive market.
- Our calculations indicate the total amount of money that changes hands between network operators for fixed to mobile interconnection is under $750 million.
- Vodafone's average fixed to mobile interconnection rate has dropped by 45% in real terms in less than five years.

Let’s look at the facts

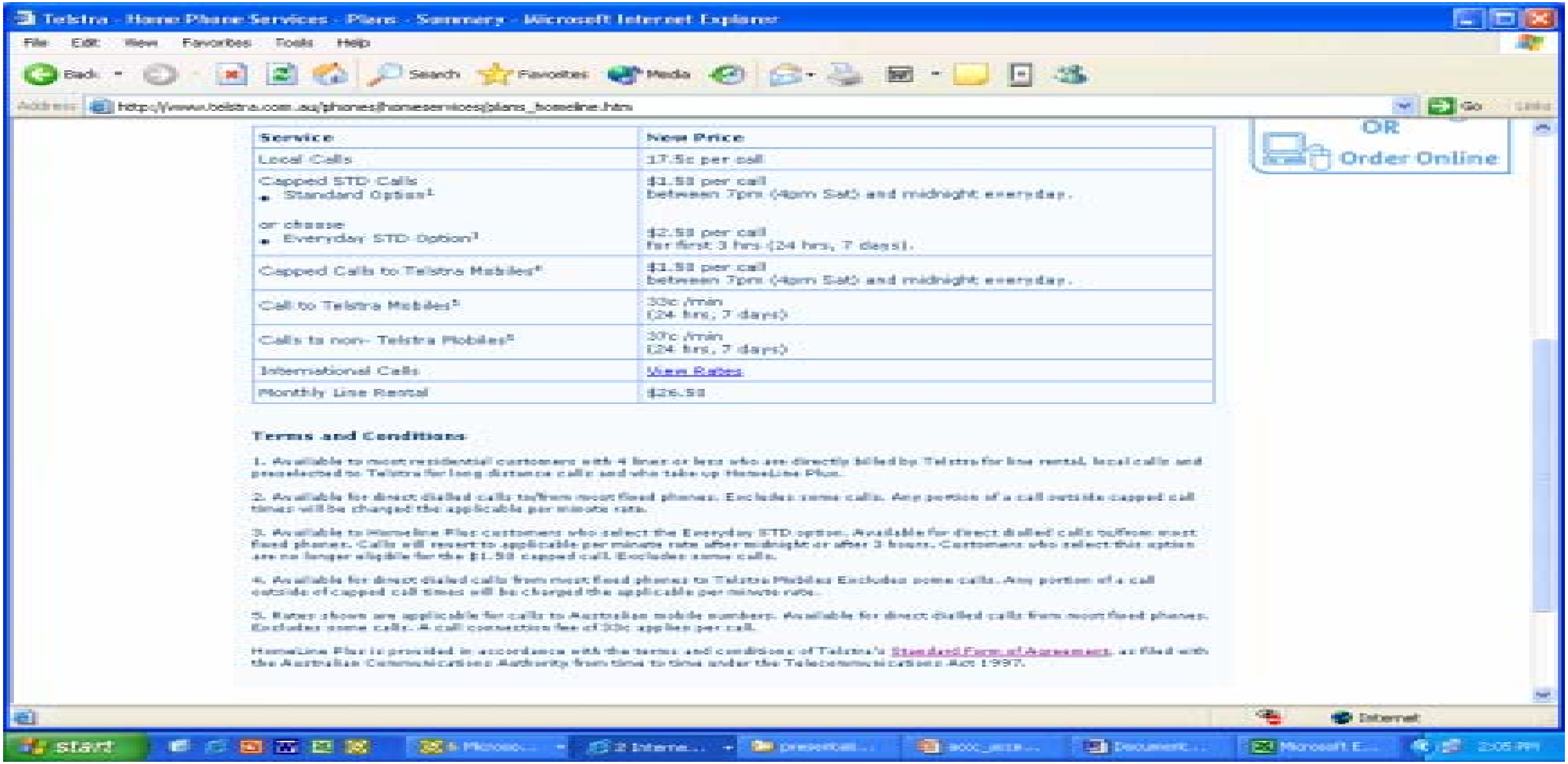
- Interconnect charges are calculated on a “per second” basis, with no flagfall. Retail charges levied by fixed networks attract a significant flagfall.
- Telstra says openly that it doesn’t pass on reductions in fixed to mobile interconnect charges but uses them to subsidise other parts of its business – “reallocation of costs between fixed and mobile costs would be neutral for us but it could harm smaller competitors” (The Australian 27 August 2003 and Telstra submission to the ACCC dated April 2003).

Let's look at the facts



Assumes call duration of 2 min. Source: data supplied by Maquarie Research Equities and used as source for analyst report, "Telstra Corporation. Mobile termination rates - the regulator's dilemma", 7 April 2003.

Let’s look at the facts



Telstra - Home Phone Services - Plans - Summary - Microsoft Internet Explorer

http://www.telstra.com.au/phones/homeservices/plans_homeline.htm

Service	New Price
Local Calls	17.5c per call
Capped STD Calls • Standard Option[1] or choose: • Everyday STD Option[3]	$1.58 per call between 7pm (4pm Sat) and midnight everyday. $2.58 per call for first 3 hrs (24 hrs, 7 days).
Capped Calls to Telstra Mobiles[4]	$1.58 per call between 7pm (4pm Sat) and midnight everyday.
Call to Telstra Mobiles[5]	30c /min (24 hrs, 7 days)
Calls to non- Telstra Mobiles[5]	37c /min (24 hrs, 7 days)
International Calls	View Rates
Monthly Line Rental	$26.58

Terms and Conditions

1. Available to most residential customers with 4 lines or less who are directly billed by Telstra for line rental, local calls and preselected to Telstra for long distance calls and who take up HomeLine Plus.

2. Available for direct dialled calls to/from most fixed phones. Excludes some calls. Any portion of a call outside capped call times will be charged the applicable per minute rate.

3. Available to HomeLine Plus customers who select the Everyday STD option. Available for direct dialled calls to/from most fixed phones. Calls will revert to applicable per minute rate after midnight or after 3 hours. Customers who select this option are no longer eligible for the $1.58 capped call. Excludes some calls.

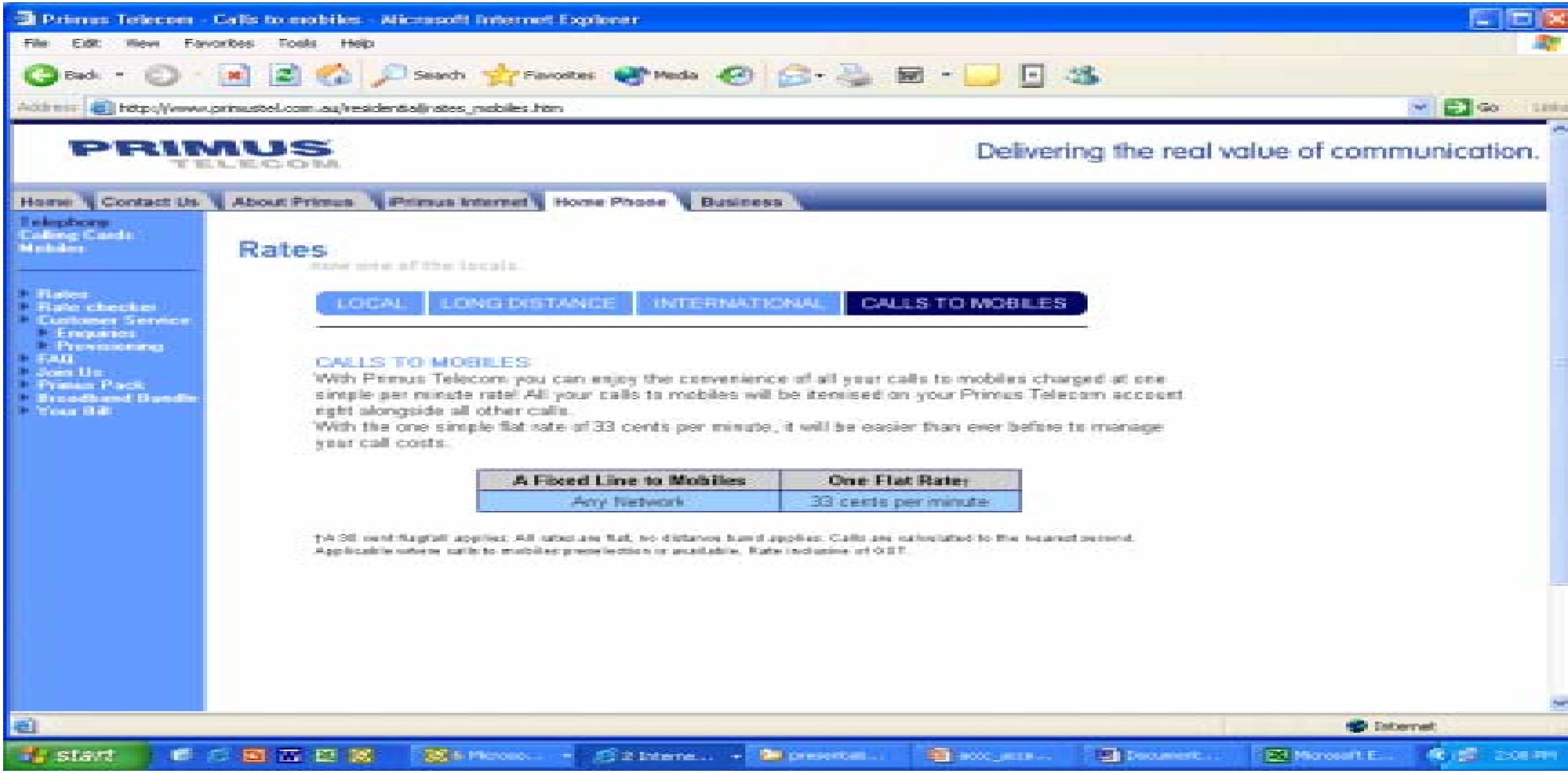
4. Available for direct dialled calls from most fixed phones to Telstra Mobiles Excludes some calls. Any portion of a call outside of capped call times will be charged the applicable per minute rate.

5. Rates shown are applicable for calls to Australian mobile numbers. Available for direct dialled calls from most fixed phones. Excludes some calls. A call connection fee of 30c applies per call.

HomeLine Plus is provided in accordance with the terms and conditions of Telstra's Standard Form of Agreement, as filed with the Australian Communications Authority from time to time under the Telecommunications Act 1997.

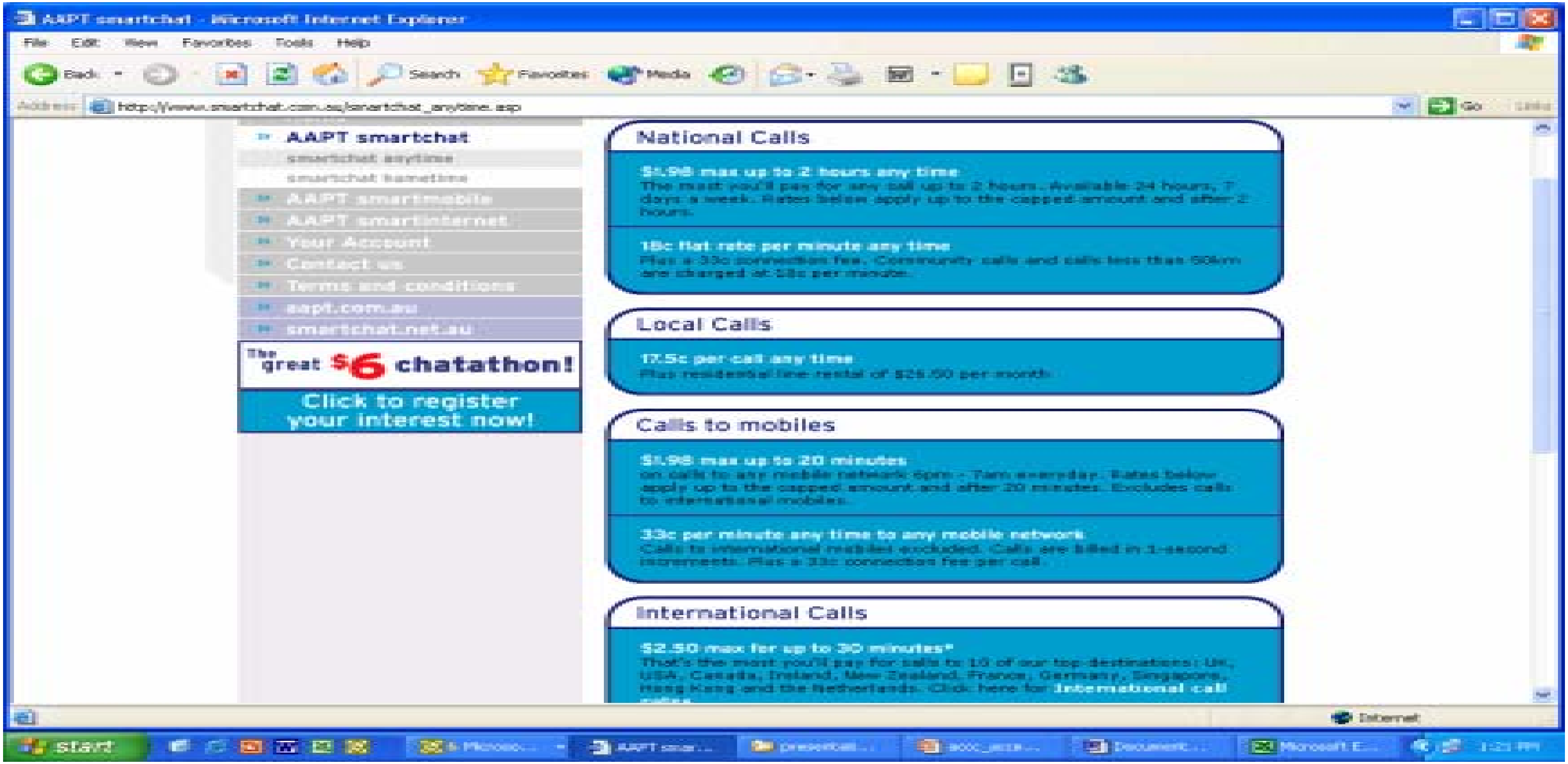
vodafone

Let's look at the facts



vodafone

Let's look at the facts



vodafone

What is the real issue?

- Some people acknowledge that there might be some issues in the retail market that arise out of Telstra’s dominance and “horizontal integration” – but still say that there is a problem with interconnect rates.
- So why not regulate both the fixed networks and the mobile networks?

What is the real issue?

- Let's look at the facts again…
  - Mobile termination is a subset of the mobile telephony services market – it is already competitive.
  - Mobile operators do not extract super-normal profits from the Australian market
  - Mobile interconnect rates have dropped by 45% in real terms in less than five years years (without regulatory intervention).
  - These drops have occurred independently from retail price reductions.
  - Rapidly changing technology and consumer behaviour have meant that substitution effects are real and growing.

What is the real issue?

- Let’s look at the facts again (cont)…
  - Market offers, including new pricing bundles and real alternatives to traditional fixed to mobile calling are being deployed more and more quickly.
  - A reduction in revenues of mobile operators will mean that they are less able to invest in and deliver new services and keep the mobile market competitive
  - The market structure is completely different in Australia compared with the UK. The regulatory outcomes in the UK were wrong, and even if they weren’t, still would not be applicable to this country.

Consequences of continued mis-regulation

CONSUMER OUTCOMES WON'T CHANGE

Consequences of continued mis-regulation

COMPETITION IN THE MOBILES MARKET WILL BE HARMED

Consequences of continued mis-regulation

TELSTRA WILL BE THE WINNER …… **AGAIN!**

So what should the ACCC do?

- The ACCC promised to review market outcomes as a result of the application of the Pricing Principles.

- What have those results been?
  - Continued decline in mobile interconnection rates (at a faster rate than recent declines in retail mobile services charges) with new pricing structures emerging
  - Sticky (rising?) fixed-to-mobile retail prices
  - Continued service and price innovation in the mobile services market
  - A good level of consumer awareness of the mobile network they call and their adoption of sensible strategies to avoid paying high prices for calls.

So what should the ACCC do?

- Acknowledge that continuing to regulate mobile interconnection rates is both unnecessary and ineffective in terms of forcing outcomes in fixed-to-mobile retail rates.
- Acknowledge that continuing to regulate mobile interconnection rates actually harms the firms that have invested in mobile infrastructure in Australia and that have been key in delivering real competition in mobile and other telecommunication services.
- Accept that extending the declaration of these services is not in the long term interests of end users.
- Acknowledge and refocus on the real issue – the retail market for fixed-to-mobile calls.

vodafone