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ACCC Mobile Services Review

Regulation of GSM & CDMA Origination and Termination Services

Vodafone Australia

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Agenda

- What should regulation be targeted at?
- Is the current regulation effective?
- What other mechanisms could be considered?
- Should we be concerned about “pass through”?
- Would disclosure of interconnect rates help?

Hitting the right target...

- There is a widely held view that retail rates for fixed to mobile calls are too high and that the high prices come as a result of excessive interconnect charges levied by mobile operators.

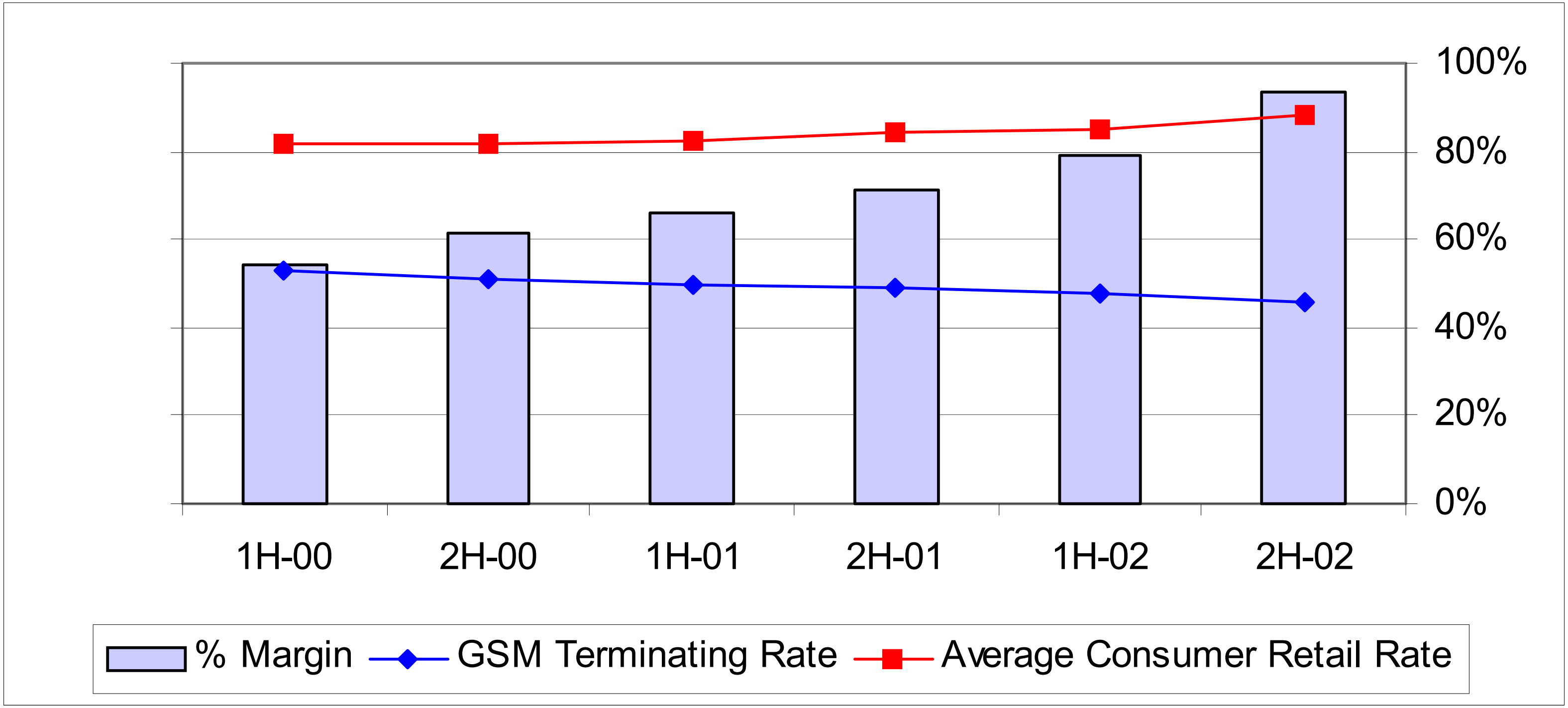
- **BUT** mobile operators have not and do not earn super-normal profits. This is because they operate in a very competitive market.

- Vodafone's average fixed to mobile interconnection rate has dropped by 45% in real terms in less than five years.

Hitting the right target...

- 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).

Hitting the right target...



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.

Hitting the right target...

- If the ACCC wishes to deliver a lower retail fixed to mobile pricing outcome for consumers, the only way to achieve that will be through regulation of the integrated fixed network players...

- But the real considerations should be economic efficiency and any potential for adverse competitive outcomes in the Fixed and Mobile markets.

Implications of the current regulation

- Interconnect rates have fallen faster than retail prices.

- This is because they are set through negotiation and are subject to complex market and commercial forces.

- It does not mean that deeper regulation is required.

- BUT pursuing the current retail benchmarking approach could cause future problems.

Some alternatives

- Continue to regulate access pricing
  - Regulatory determination of access charges
  - Regulate the minimum rate of decrease of access charges

- Regulate retail prices
  - Direct retail price control
  - Regulation of fixed operator “retention”

- Regulate fixed network wholesale services
  - Multi-basket pre-selection
  - Require wholesale fixed to mobile (end to end service) on a “retail minus” basis

Should we be concerned about "Pass Through"

"Given the high visibility of the retail prices of some services in the bundle [basic access, local calls, STD, IDD and fixed-to-mobile services] and the relative demand elasticities of these services, fixed service providers may compete by choosing to flow through reductions in the cost of mobile termination to services in the PSTN bundle other than fixed-to-mobile calls." (Telstra submission to the ACCC, April 2003)

Disclosure of interconnect rates

- Limited disclosure may be useful to help inform the market.
- Broad disclosure is likely to stifle competition and the development of innovative outcomes.

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 (and growing) 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.

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