China’s Regulation on Telecommunication Service Tariff

Teleinfo Institute, CATR of MIIT
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Introducing competition and reform on tariff regulation

Current regulation policies on tariff

Decline of service fees and increase of user’s benefits

International comparison of service tariff
Introducing effective competition

- Introducing of competition
- Establishment of China Unicom in 1994

- Separating government functions from enterprise management
- Separating post from telecommunications
- Separating China Mobile from China Telecom, restructuring of China Telecom, introduction of other 3 competitors

- Restructuring China Telecom and other two operators into China Telecom and China Netcom
- Total 6 telecom operators in the market by the end of 2002

- Restructuring 6 operators into 3, China Telecom, China Mobile and China Unicom
- Launch of three 3G licenses

Phase 1
1994-1997

Phase 2
1998-2001

Phase 3
2002-2007

Phase 4
2008--
Introducing effective competition

General Bureau of Telecom

- China Tietong 1999
- China Mobile 1999
- China Satcom 1999
- China Telecom 1999
- China Jitong 1999
- China Netcom 1999

CDMA Networks

- China Mobile 2002
- China Telecom 2002
- China Satcom 2002
- China Telecom 2002
- China Netcom 2002
- China Unicom 2002

- China Mobile 2008
- China Telecom 2008
- China Unicom 2008
Reform on tariff regulation

The direction of tariff reform

- Form a mechanism that service tariffs are decided by market competition
- Protection of consumers’ right and promote consumer welfare
- Maintenance of fair competition

Before 1995
- All the service fees were set by the government

1995-2002
- After introducing competition:
  - Government pricing
  - Government guiding prices
  - Market pricing

2002-present
- Telecommunication fees becoming more market-oriented, most service charges are decided by enterprises
- Price cap regulation on some basic telecommunication services since 2005
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## Price cap regulation

### Services under price cap regulation

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<td>Fixed Inter-LATA call</td>
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### Adjustment of price cap

- A decision in 2008 reduced the price cap of domestic mobile roaming, from 1.3-1.5 RMB/minute to 0.6-0.4 RMB/minute, telecom operators could set their own tariff standard under this price cap.
- Since 2006, provincial telecom regulators have gradually reduced the price cap of fixed inter-LATA call from 0.5 RMB/minute to 0.2-0.3 RMB/minute.
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Decline of service fees

Continuous decline in mobile communications tariff

- The integrated tariff of mobile communication was on a continuous decline since 2004
- In 2009, integrated tariff of China Mobile is 0.16 RMB/minute (about 0.023 US dollar)

Source: telecom operators’ annual reports
Decline of service fees

Decline of fixed domestic long distance rates

Decline of mobile domestic long distance rates

- Both fixed and mobile domestic long distance call rates were declined in the past 6 year, mobile domestic long distance tariff drop faster than fixed

Source: Teleinfo estimates
Increase of user’s benefits

Fixed and mobile phone penetration

- the decrease in service fees made it affordable for more people to use telecommunication services
- mobile penetration was on a rapid increase since 2004. reached 56% by the end of 2009
- fixed penetration has slightly decreased because of FMS while total telephone penetration rate reached almost 80% in 2009

Source: MIIT
Increase of user’s benefits

Increasing of usage (mobile MOU)

Decreasing of expenses (mobile ARPU)

- the decrease in tariff aroused the consumption of telecommunication services even if the new users are generally low-end

- while the usage of services increased, users spent less on telecom services

Source: estimates based on telecom operators’ annual reports
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Low price in telecommunication services in China

- The price cap of fixed local call is:
  - 0.18-0.22 RMB (0.026-0.032 US dollar) for the first 3 minutes,
  - 0.09-0.11 RMB/minute (0.013-0.016 US dollar) after that

- For example, even if in a high price level city such as Beijing, a common mobile service package could be:
  - 10 RMB (1.46 US dollar) usage fee per month include:
    - 60 minutes of local initiative calls, caller ID services and free for incoming calls
    - that is less than 0.16 RMB/minute (0.028 US dollar) on average
Tariff comparison between BRICs and developed economies in the consideration of purchasing power

- call rates per minute/GNI per capita
- Taking into account the influence of purchasing power, telecommunication service tariffs are lower in developed countries than developing countries
- China’s telecommunication tariff is lower than India and Brazil in BRICs

Source: Informa
Tariff and economic level are strongly related

- When considering purchasing power:
- Telecommunication service tariffs are lower in developed countries such as OECD countries
- China’s tariff level is lower in the countries with the same level of GNI per capita
- In the future, with China’s economic growth, telecommunication service tariff will account lower % in GNI per capita

Source: ITU
THE END