



Mobile Termination Rate (MTR) Regulation

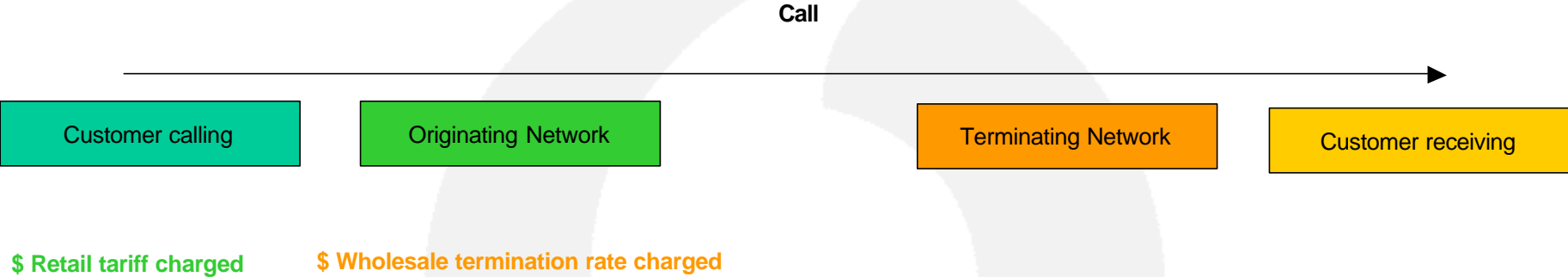
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Outline

- MTR role in Calling Party Pays (CPP) charging model
- Approach to regulating MTRs (case studies)
- Developments to keep an eye on...

MTR role in CPP

- **CPP commercial model**



- **CPP encourages penetration & usage increase – especially in low income, low fixed-line penetration countries**

MTR role in CPP (2)

- **MTR**
 - Recover costs of terminating the call
 - Mark-up: to make return on investment, to finance network investment, to keep cost of access and usage at retail level as low as possible
- **Implications of regulating MTRs too low**
 - Operators will not to recover legitimate costs
 - Reduce investment incentives
 - Reduce ability to invest in existing and future networks
 - Reduce ability to invest in customer acquisition and retention unless raise/ hold off reductions in retail tariffs
 - Reduce ability to contribute to Government ICT access and service objectives

Approach to regulating MTRs

- **General regulatory principles**

- Market competition under light touch regulatory approach is best method to meet end-user interests
- Regulatory intervention required to protect against insufficient competition/ abuse of market dominance
- Regulatory intervention must be in the long term interests of the end-user
- Regulatory intervention must be based on a market competition assessment
- Regulatory intervention must be proportionate to competition problem or it will artificially distort long-term development of a competitive market
- Do not regulate a new and emerging market, or risk distorting long-term development of a competitive market

Approach to regulating MTRs (2)

- Increasingly regulators have determined MTRs as a market where there is insufficient competition and operators have engaged in excessive pricing
- Keeping the general principles in mind, *it is essential* that national regulators carry out a thorough competition/ economic investigation in its national market before making decisions on whether to regulate and the type of regulation
- *Or risk* distorting long-term development of the market and the ability of operator to contribute fully to Government ICT access and service objectives

Approach to regulating MTRs – 3 step process

- 3 step process (EU, Malaysia, Australia, TRASA)

DEFINE RELEVANT MARKET WHERE INEFFECTIVE COMPETITION

Analysis to include: substitution test to identify relevant market, analysis of non-transitory (structural/ legal/ regulatory) barriers to entry, and of dynamic character and functioning of market



UNDERTAKE MARKET ASSESSMENT OF DEFINED MARKET

Market share and forward looking competition and economic assessment of market power over reasonable period: size of operator, control of infrastructure not easily duplicated, technological advantages or superiority, absence of or low countervailing buying power, access to capital markets/ financial resources, product/ services diversification, economies of scale, economies of scope, vertical integration, highly developed distribution and sale network, absence of potential competition



IF INEFFECTIVE COMPETITION APPLY APPROPRIATE AND PROPORTIONATE REMEDY ON OPERATOR(S)

(i.e., not one remedy fits all approach). Price controls, non-discrimination, transparency, accounting separation. Take account of existing regulation – should it be retained or withdrawn

Approach to regulating MTRs – case studies

	UK 2004	Ireland 2004 (to be adopted)	Australia 2004 (subject to appeal)
Charging Model	CPP	CPP	CPP
Market Definition	Voice call termination on single MNO	Voice call termination on single MNO	Voice call termination on single MNO
Market Review	Took 2 1/2 years All MNOs dominant	Taken 2 years All MNOs dominant	Taken 2 years All MNOs dominant
Price controls	LRIC-based price controls (incl network externality mark-up) subject to 2 year glide path (30% cumulative reduction)	Holding off price controls following commercial negotiated reductions	Price controls determined on benchmark/ cost modelling subject to 3 glide path (33% cumulative reduction)
Other remedies	Non-discrimination transparency	Non-discrimination transparency Cost allocation Accounting separation	Non-discrimination Transparency

Approach to regulating MTRs – some conclusions from experience

- **Market definition**
 - Regulators have adopted termination on single mobile network operator market definition
 - Economists and Operators continue to disagree with definition (consumer choice between competing networks, 2 sided market)
- **Market review**
 - Movement away from legal regulatory debate towards undertaking economic/ competition analysis, social welfare analysis when looking at regulating services
 - Recognition that market dynamics and network costs are different for fixed networks and mobile networks

Approach to regulating MTRs – some conclusions from experience

- **Remedies**
 - Address competition problem at wholesale level rather than retail level
 - Recognition of cost-based termination rate, rate of reasonable return, network externality mark-up
 - Recognition of difficulty of benchmarking, LRIC cost modelling preferred (although timely and complex exercise)
 - Symmetric regulation applied to all MNOs
 - Glide path reductions introduced

Developments to keep an eye on...

- **Greek NRA MTR decision expected this year**
- **US NRA inquiry on international mobile termination rates**
- **ITU-T SG3 study on international mobile termination rates**