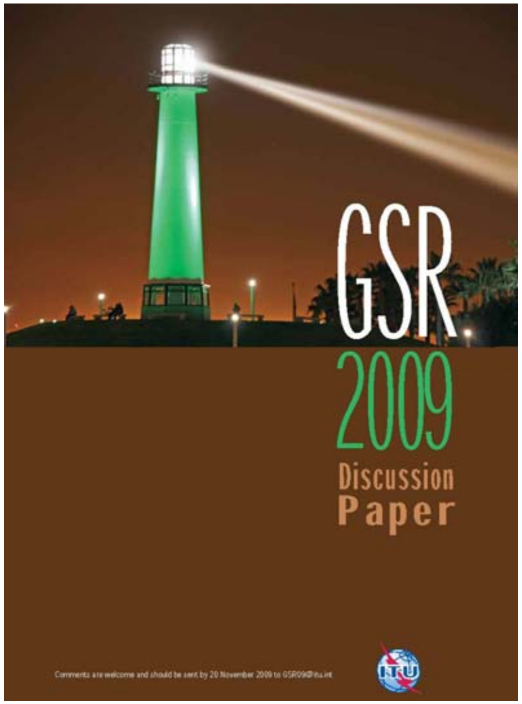


Mobile Termination Rates: to regulate or not to regulate?

GSR, Beirut, Lebanon

11 November 2009

Dr. Vaiva Lazauskaite

International Telecommunication Union

MTRs: “hands on” or “hands off”?

- 3 main reasons to regulate interconnection:
  - Promote interconnection;
  - Control market power;
  - Coordinate interoperability.

- Historically, in many countries, MTRs have been left outside regulation or subject to “lighter” regulation compared to FTRs;
- MTRs represent both revenue and an expense for operators (making MTRs contentious & disputes common);
- It is also a means of exercising market power;
- MTRs also result in an expense to end-users – the amount of MTRs partly determine the retail call price.

> - A reduction of 1% in MTR results 0.69% in average final price of mobile call and 0.26% in fixed call (OECD data);
> - 10% reduction in MTRs leads to 10% increase in mobile retail prices (operators’ data).

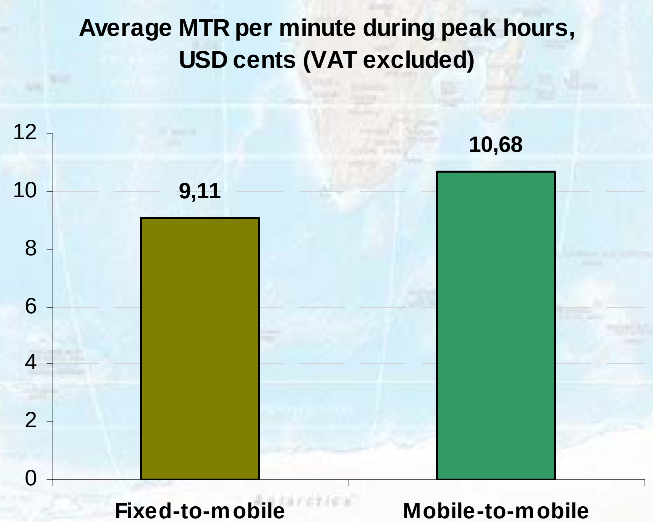
Regional perspective: Africa

Interconnection charging regime: CPNP regime dominates; Benin and Burundi have Bill & Keep regime

Regulation: More than 80% of respondents have imposed *ex ante* price control on MTRs

Approach: 70% of countries use cost-based approach (mainly LRIC); 20% use Benchmarking

Average MTRs: MTRs determined by using LRIC are on average US 8.1 cents; MTRs determined using benchmarking varies from US 6.4-27 cents



Source: ITU Survey on Tariff Policies 2009

Regional perspective: Arab States

Interconnection agreements always involve difficult and sensitive issues for the parties to resolve. This is especially true during the first stages of liberalization.

- It comes as no surprise that, in some Arab States, regulators choose to impose price controls on MTRs (e.g. Qatar and Morocco), often by using international benchmarking as an approach.
- Others leave MTRs to commercial agreements or set regulatory guidelines.
- The average MTR in this region is higher than the average MTR of other regions.

Regional perspective: Asia & Pacific

Distinctive region - many countries apply unique regulatory approaches, tailoring them to their specific country circumstances. Interesting regulatory practices include:

- Singapore – MTR set at zero, BAK regime applies.
- Hong Kong, China – unique MPNP regime, deregulation of MTRs in April 2009;
- New Zealand – instead of regulation, legally enforceable and binding commitments have been made by operators to reduce MTRs.

Source: ITU Survey on Tariff Policies 2009

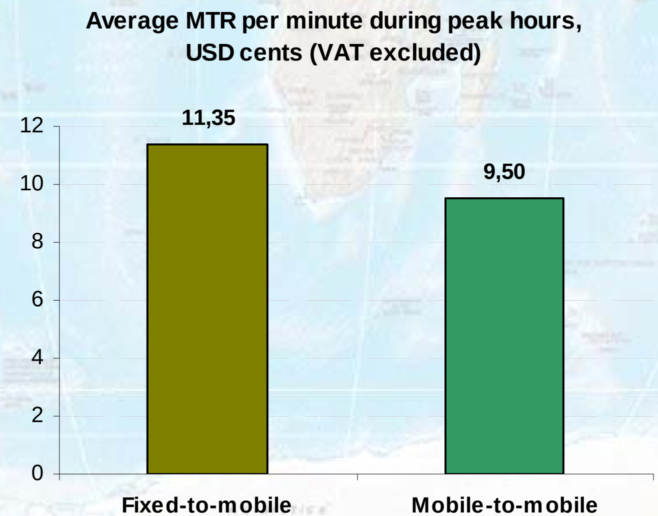
Regional perspective: the Americas

Interconnection charging regime: CPNP regime dominates; Bill and Keep regime in Costa Rica, Colombia, Mexico (for FTRs)

Regulation: In more than 50% of countries, MTRs are determined through negotiation and commercial agreements

Approach: The rest use cost-based approach to set MTRs (mainly LRIC).

Average MTRs: MTR determined using LRIC is on average US 9.96 cents; the average MTR set through negotiation is US 10.75 cents



Source: ITU Survey on Tariff Policies 2009

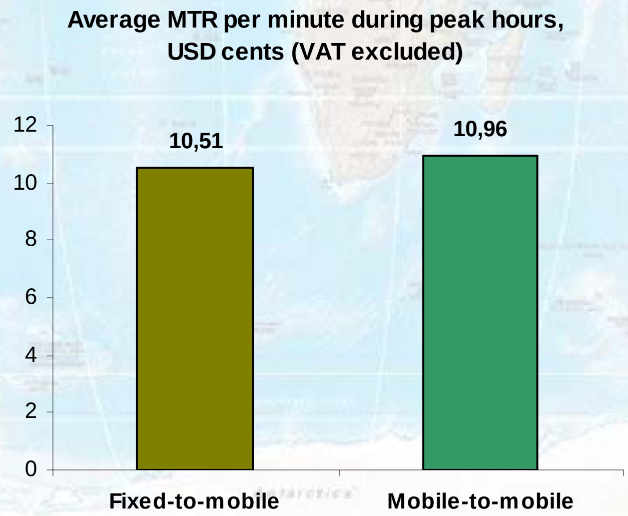
Regional perspective: Europe and CIS

Interconnection charging regime: CPNP only

Regulation: Around 90% of respondents have *ex ante* price control on MTRs - all EU countries regulate MTRs, only a few CIS countries do not.

Approach: More than 50% of countries use either benchmarking alone or combine it with cost modeling; less then 30% use just cost models to determine MTRs

Average MTRs: MTR determined by using LRIC is on average US 8.5 cents; US 20,4 cents when applying FDC, whereas using benchmarking, MTRs vary between US 6.2-20.7 cents



Source: ITU Survey on Tariff Policies 2009

Regional perspective: summary

- There are significant variations in MTRs around the world, as a result of different driving factors.
- However, none of the existing situations offers a convincing argument for or against a particular regulatory regime for MTRs:
  - MTRs are very similar in the Americas region, where there is no *ex ante* price regulation in many countries, and Europe and CIS, where *ex ante* price regulation is prevalent.
- A move towards the Bill & Keep regime with MTR set at or very close to zero is also observed:
  - In some countries – initiated by market players (some African, Asian countries)
  - In other countries – by regulators (New Zealand, EC in European countries)

At the beginning of 2005 the global MTR average was US 14.2 cents; in mid-2009, this average had fallen to US 11.8 cents.

Symmetric versus asymmetric regulation

Should all market players be subject to the same extent of i.e. symmetric regulation?

Several types of symmetry and asymmetry can be discussed in this context:

- between newcomers and incumbents and/ or between operators with different size of networks;
- between different types of networks; and
- according to call origin.

YES. In the short-term, different asymmetries might be justified, especially in the initial phase of a liberalization process and development of competition, when regulators might feel that it is necessary to support new market entrants.

NO. However, in the long-term, asymmetric regulation could result in inefficiencies, with operators lacking incentives to increase their efficiency of service provision.

Scope of regulation

Should other services such as SMS termination be subject to *ex ante* price control?

Costs of the service are very low, cost of regulation might be very high (e.g. in case of cost modeling)

Regulators may consider remedies other than *ex ante* price control:

- Entry facilitation;
- Consumer protection: SMS spam or SMS content.

How will NGNs and convergence change the regulation of MTRs?

- The range of services complicates the regulation of prices.
- The distinction between FTR and MTR is blurring e.g., if a call is delivered to a WiMAX handset, should it be considered as fixed or mobile call termination?

Regulators might seek new, flexible, multi-variable approaches for price regulation, rather than attempting to determine specific prices on the basis of limited information.

In conclusion:

- It is difficult to judge whether one particular regulatory regime is better than another:
  - MTRs applied in the Americas region and in the Europe and CIS region are very similar, although in the first there is no *ex ante* price regulation in many American countries, while in Europe, *ex ante* price regulation is prevalent.

- Factors to consider:
  - the degree of price competition in the market-place;
  - the potential delays that could be incurred by reliance upon negotiation;
  - the resources available to regulators;
  - the level of complaints concerning retail prices received from consumers and etc.

- In many cases, the maximization of consumer utility, and not always the absolute size of the MTR, may prove the best criterion on which regulators could base their decisions.

Last, but not least…

There is always a lack of information available.

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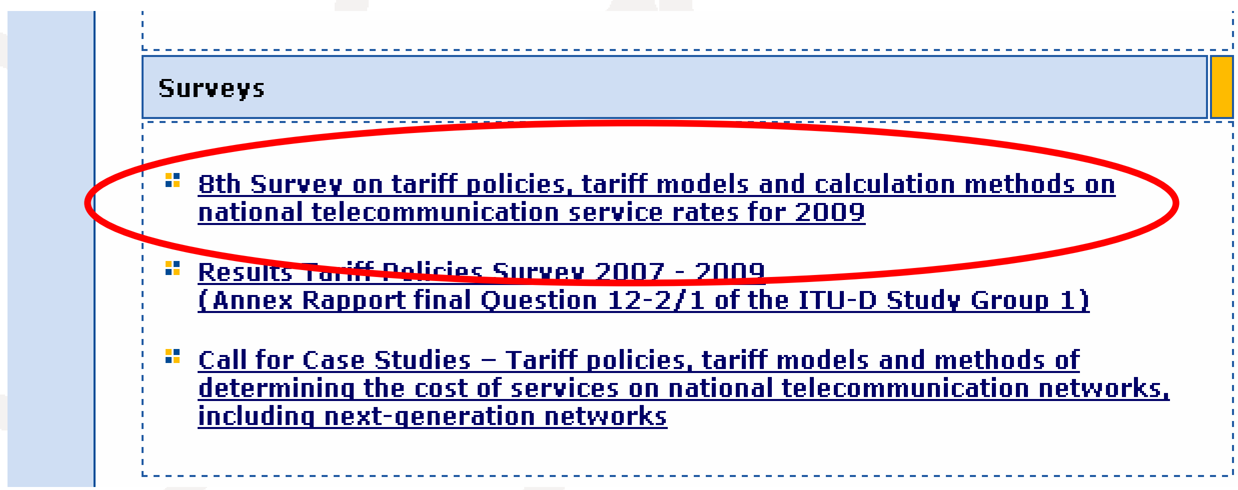

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Thank you!

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