The Role of the Regulator in Respect of Encouraging Consumer Choice, Affordable & Quality Services, Encouraging Investment etc.

Seminar on Economic and Market Analysis for CEE and Baltic States
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## Content

1. Worldwide trend for telecom liberalization and competition
2. The need for regulators in CEE and Baltic countries
3. Key regulatory tasks in the EU framework
4. Mobile Regulation
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1. Worldwide trend for telecom liberalization and competition

2. The need for regulators in CEE and Baltic countries

3. Key regulatory tasks in the EU framework

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5. Summary and conclusions
1. Global Trend for Liberalisation and Competition

There is a worldwide trend for allowing competition in telecommunications sector.

Experiences show that strong regulators are needed to ensure successful transition from monopoly to competition.

Data for national long distance market
1. **Global Trend for Liberalisation and Competition**

   Rationale behind trend for telecommunications liberalisation and establishing competition

   Experiences shows that strong regulators are needed to ensure successful transition from monopoly to competition

   Telecommunications services are important input factors for the whole of the economy

   Countries with monopolies fall further behind in international competition

   More and more countries successfully liberalize their telecommunications sectors

   WTO and EU push for further telecom liberalisation
1. Life Cycles of Regulation

The level of regulation depends on the development of the transition process.

The regulatory framework will determine the direction and shape that the market will take.
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2. The need for regulators in CEE and Baltic countries

The telecommunications markets are very dynamic in CEE and Baltic countries.

A growing majority of CEE and Baltic countries are now fully liberalizing their telecommunications sectors.
2. The need for regulators in CEE and Baltic countries
The role model of the EU framework

Learn from experiences of Regulators in Western Europe

As more and more countries will join the EU, the national regulatory models of the CEE and Baltic countries will follow the EU regulatory approach.

Telecommunications is a priority when it comes to compliance with the EU regime.

The 1987 EU regulatory framework has been a success it sets specific rules but leaves flexibility for national regulations.

The 2002 regulatory framework of the EU which needs to be implemented in accession countries consists of five main Directives:

- The Framework Directive,
- The Access and Interconnection Directive,
- The Universal Service Directive,
- The Authorisation Directive,
- Data Protection Directive.
2. The need for regulators in CEE and Baltic countries
The status of the adoption of EU regulation to date

**Regulators need to be fully aware of the implications of their policies on the market**

More than half of the countries in the region have adopted EU regulatory rules as a guideline for developing their telecommunication regulation.

Many countries have set up independent regulatory bodies.

The major difference between the countries is in the implementation of the law and in understanding the practical implications of the implementation of the regulation.
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3. Key regulatory tasks in the EU framework

Telecommunications sector policy requires active regulators

Learn from Experiences of Regulators in Western Europe

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<th>Key Regulatory Tasks to develop and implement:</th>
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<td>1. Access regime (e.g. Carrier Preselection, Carrier Selection)</td>
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<td>Competition</td>
<td>2. Interconnection policy</td>
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<td>3. Number Policy (including Number Portability)</td>
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<tr>
<td>Ensuring Affordable and Quality Services</td>
<td>1. Price Control Regime</td>
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<td>3. Universal Service Policy</td>
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<td>Encouraging Investment</td>
<td>1. Licensing/ Authorisation Policy</td>
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<td>2. Stable regulatory framework</td>
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</table>
3. Key regulatory tasks Regulators have to do: The Access Policy and Regime

The access regime is key for the speed and degree of competition

1. Access regime (e.g. Carrier Preselection, Carrier Selection)
   - Set ex-ante rules on who regulatory obligation will be triggered
   - Make Significant Market Power (SMP) or market dominance determinations
   - Set ex-ante rules what operators are obliged to provide access
   - Decide what kind of access has to be provided
   - Decide how to implement Carrier Preselection in the Market
   - Decide how to implement Carrier Selection in the Market
3. **Key regulatory tasks Regulators have to do:**

The Interconnection Policy

Interconnection regulation is main regulatory challenge for all regulators

2. **Interconnection policy**

- Set interconnection policy
- Ensure cost-orientated interconnection tariffs
- Ensure non-discriminatory interconnection
- Decide about Reference Interconnection Offer (RIO)
- Elaborate Unbundling policy and strategy
- Ensure Reference Unbundling Offers (RUO)
3. Key regulatory tasks Regulators have to do:

Number Policy

Regulators have to allocate numbers and ensure number portability

- Encouraging Consumer Choice = Enabling Competition
- Ensuring Affordable and Quality Services
- Encouraging Investment

3. Number Policy (including Number Portability)

Telephone numbers are national resources that are needed by every telephone user

Regulators have to allocate numbers

Regulator have to ensure sufficient numbers are available for new competitors

They must provide future proof numbering plans

Terms and conditions for number portability must be clear

Without number portability competition is unlikely to develop and consumer have high barrier to choose between operators
3. **Key regulatory tasks Regulators have to do:**

Dispute resolution procedures

Dispute resolution will be a continuing task for regulators

4. **Policy for solving disputes between operators**

- Efficient dispute resolution procedures need to be set up
- Disputes between operators have to be solved in specific timeframes
- Dispute resolution should be conducted in open, transparent and fair manner
- Consultation with operators for solving disputes are essential
- Disputes often concern complex competition issues
3. Key regulatory tasks Regulators have to do:

Price/ Tariff Control

Price Cap regulation should be implemented and monitored

1. Price Control Regime

   - Establish Ex-ante and Ex-post price regulations
   - Determine Price Cap regulation regimes
   - Prevent margin squeeze, predatory pricing or other unfair pricing behaviour
   - Provide stable framework for price approval
   - Not hamper competition
   - Allow tariff rebalancing
3. Key regulatory tasks Regulators have to do:

Dispute resolution procedures for consumers

The aim of the regulation should be to have knowledgeable consumers

2. Consumer complaint procedures

Consumer need information about their rights

Consumer should have inexpensive and easy accessible means for solving disputes with operators

Quality of Service Standards ensure basic consumer protection rights

Internet is key source of information for consumers today in Western Europe
3. Key regulatory tasks Regulators have to do:
Universal Service Policy regulation

- Encouraging Consumer Choice = Enabling Competition
- Ensuring Affordable and Quality Services
- Encouraging Investment
- Decide who is responsible for Universal Service Policy
- Set realistic Universal Service Policy goals
- Establish Universal Service Policy funding mechanism
- Avoid market distortions
3. **Key regulatory tasks Regulators have to do:**

**Licensing/ Authorisation Policy**

Licences have to be set and conditions to be enforced

1. **Licensing/ Authorisation Policy**

   - Establish licensing policy to encourage investment
   - Avoid increasing barriers to entry for new market players
   - Ensure efficient allocation of scarce resources (frequencies)
   - Avoid unnecessary licensing and licensing requirements
   - Monitor compliance with licence conditions
3. **Key regulatory tasks Regulators have to do:**

Stable legal and regulatory framework

A fair level playing field promotes investment and confidence in the market

2. **Stable regulatory framework**

Telecommunication specific primary and secondary legislation has to be drafted

The regulation should be technologically neutral

Regulators should avoid unnecessarily changing rules and legislation

- Encouraging Consumer Choice = Enabling Competition
- Ensuring Affordable and Quality Services
- Encouraging Investment
### 3. Summary: Key regulatory tasks Regulators have to do:

List of regulatory roles

Regulators need to develop sector specific knowledge and tasks to ensure competition

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<th>Sector Reform and Strategy</th>
<th>Regulatory Authorities, Governments</th>
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<td>Review Current Market Situation</td>
<td>Analyse Liberalisation Experience in Other Countries</td>
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<tr>
<th>Communication Legislation</th>
<th>Regulatory Authorities, Governments</th>
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<tr>
<td>Analysis of Existing Legal Situation</td>
<td>Design and Draft Legislation</td>
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<tr>
<th>Strengthening Regulatory Authority</th>
<th>Regulatory Authorities, Governments</th>
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<tr>
<td>Define Regulatory Functions</td>
<td>Review Existing Public Communications Organisations</td>
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<thead>
<tr>
<th>Regulatory Policies and Procedures</th>
<th>Regulatory Authorities, Governments</th>
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<tr>
<td>Licensing</td>
<td>Tariff Policy &amp; Tariff Regulation</td>
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<tr>
<td>Numbering</td>
<td>Access Policy</td>
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<thead>
<tr>
<th>Facing New Regulatory Challenges</th>
<th>Regulatory Authorities, Governments</th>
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<td>Regulate the Mobile Sector</td>
<td>Regulate E-Commerce &amp; E-Government</td>
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4. Mobile are overtaking fixed subscribers in countries worldwide
Regulators move attention to mobile regulation

Countries with more fixed than mobile phones
Countries with more mobile than fixed phones

Source: ITU at 12/2001
4. **Mobile Regulation**
   Issues of concern in mobile regulation for regulators in Europe

More and more issues concern regulators regarding mobile regulation in the EU

- Dominant Mobile Operators
- Mobile Termination Rates
- International Roaming
- Mobile Number Portability
- Mobile Access and Calls
- Mobile Service Provisioning
4 Mobile Market Overview United Kingdom and Germany
Subscriber Development of Mobile Network Operators in UK and Germany

In the UK mobile subscribers are almost equally distributed between Mobile Operators whereas T-Mobil and Vodafone are dominant in Germany.
4. Mobile Service Provider Regulation in the UK

Historical Development

The level of regulation has been gradually eroded over time in the UK ...

Over time OFTEL has lifted the regulatory obligations for Mobile Service Provider Regulation in the UK. Established Mobile operators have bought (independent) Mobile Service Providers and/or set up own (tied) Service Providers in the UK.

Level of regulation

2 Mobile Operators

Separation

Historically, the Mobile Market had been separated in two segments:

1) Mobile Operators as „Wholesalers“
2) Mobile Service Providers as „Retailers“

4 Mobile Operators

MI Regulation

Service Provider regulation until April 2002

No Regulation
4. Mobile Service Provider Regulation in the UK
Historical Development

… only when the market became more competitive.

Today, mobile subscriber shares are almost equally distributed between the four Mobile Operators.
4. Mobile Service Provider Regulation in Germany

**Historical Development**

The German Regulatory Authority will continue to regulate the Mobile Service Provider Market.

<table>
<thead>
<tr>
<th>Time</th>
<th>Level of Regulation</th>
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<tbody>
<tr>
<td>1989</td>
<td>2 GSM Mobile Operator Licensees - D1, D2</td>
</tr>
<tr>
<td>1994</td>
<td>Eplus enters market</td>
</tr>
<tr>
<td>1997</td>
<td>ViagInterkom enters market</td>
</tr>
<tr>
<td>2000</td>
<td>6 UMTS Licensees</td>
</tr>
</tbody>
</table>

Licensing Authority has imposed Mobile Service Provider obligations on all UMTS Licensees, which are less strict than GSM obligations.

The Licensing Authority in Germany has imposed obligations regarding the provision of services for Mobile Service Providers for GSM Licensees which will continue for the validity period of the Licences. Contrary to the UK obligations are also imposed on UMTS licensees.
4. Mobile Service Provider Regulation in the Germany

Historical Development

The level of regulation sustains despite an increase in competition.

Agreements between Mobile Service Providers and Mobile Operators are footed on regulatory obligations in Germany. Today, there are still significant differences in mobile subscriber shares of the four Mobile Operators in Germany. Market power in the retail market is more evident in Germany than in the UK which might be the reason for sustaining regulatory influence on the MSP market.
4. Comparison of regulation for Mobile Service Providers (MSPs)

In light of dominant operators regulation appears to be necessary in Germany whereas the UK regulatory authority has abolished the regulation.

<table>
<thead>
<tr>
<th>Country</th>
<th>Level of competition</th>
<th>Level of MSP regulation</th>
<th>Market Start</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>Duopoly</td>
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<tr>
<td></td>
<td>- BT Cellnet</td>
<td></td>
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<tr>
<td></td>
<td>- Vodafone</td>
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<td></td>
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<tr>
<td>Germany</td>
<td>Duopoly</td>
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<td></td>
<td>- D1</td>
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<td></td>
<td>- D2</td>
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**Decision Matrix:**

<table>
<thead>
<tr>
<th>Separation</th>
<th>Regulation</th>
<th>No Regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td></td>
<td></td>
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<tr>
<td>Germany</td>
<td></td>
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</tr>
</tbody>
</table>

**Level of competition:**

- Duopoly
- Competitive:
  - Almost equally distributed market shares
  - BT Cellnet 27%
  - Vodafone 25%
  - One2One 24%
  - Orange 24%

**Dominance:**

- D1 43%
- D2 36%
- E1 13%
- E2 8%

**Regulation includes MNO obligation:**

- To provide services to MSPs
- Not to unduly discriminate MSPs
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Regulators are not means by themselves or simply EU requirements

Regulators are needed to ensure development and competition in the market

CEE and Baltic states will continue to focus on the adoption of the EU framework

Key regulatory roles encompass: access policy, interconnection, pricing, licensing, authorisation, numbering, dispute resolution, universal service policy and consumer protection

Regulation should have strong economic focus
Your Contact

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