

EU Roaming Regulation - towards structural solutions

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EU Roaming market

Retail EU roaming market revenues:

4,777 billion EUR

= ~ **4%** of total mobile revenues

Breakdown by type of services

- Voice - 71%
(around $\frac{3}{4}$ are calls made, the rest calls received)
- Data - 17%
- SMS - 11%



Roaming I and II (2007-2012)

- Regulation of wholesale and retail prices
- Transparency measures

Retail cap in EUR (excl. VAT)	7/2011	7/2012	7/2013	7/2014
Voice calls made (/min)	0.35	0.32	0.28	0.24
Voice calls received (/min)	0.11	0.11	0.10	0.10
SMS (/ SMS)	0.11	0.10	0.10	0.10
Data (/MB)	-	0.90	0.70	0.50
Wholesale cap in EUR (excl. VAT)	7/2011	7/2012	7/2013	7/2014
Voice (/min)	0.18	0.14	0.10	0.06
SMS (/min)	0.04	0.03	0.03	0.02
Data (/MB)	0.50	0.30	0.20	0.10

Table: retail and wholesale caps in 2011 (2012-2014 as proposed in review)



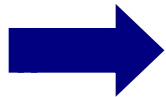
Review process

- Amended Roaming Regulation 544/2009 expiring on **30 June 2012**;
- The Commission to review and report on the functioning of the Roaming Regulation to the European Parliament and Council:
 - **Public consultation**
 - **Impact Assessment**
 - **Commission report and new proposal (6 July 2011)**



Main conclusions of the report

- Good compliance with price caps
- Prices down but clustered around the regulated caps
- Competition is not yet effective and structural problems of roaming market remain

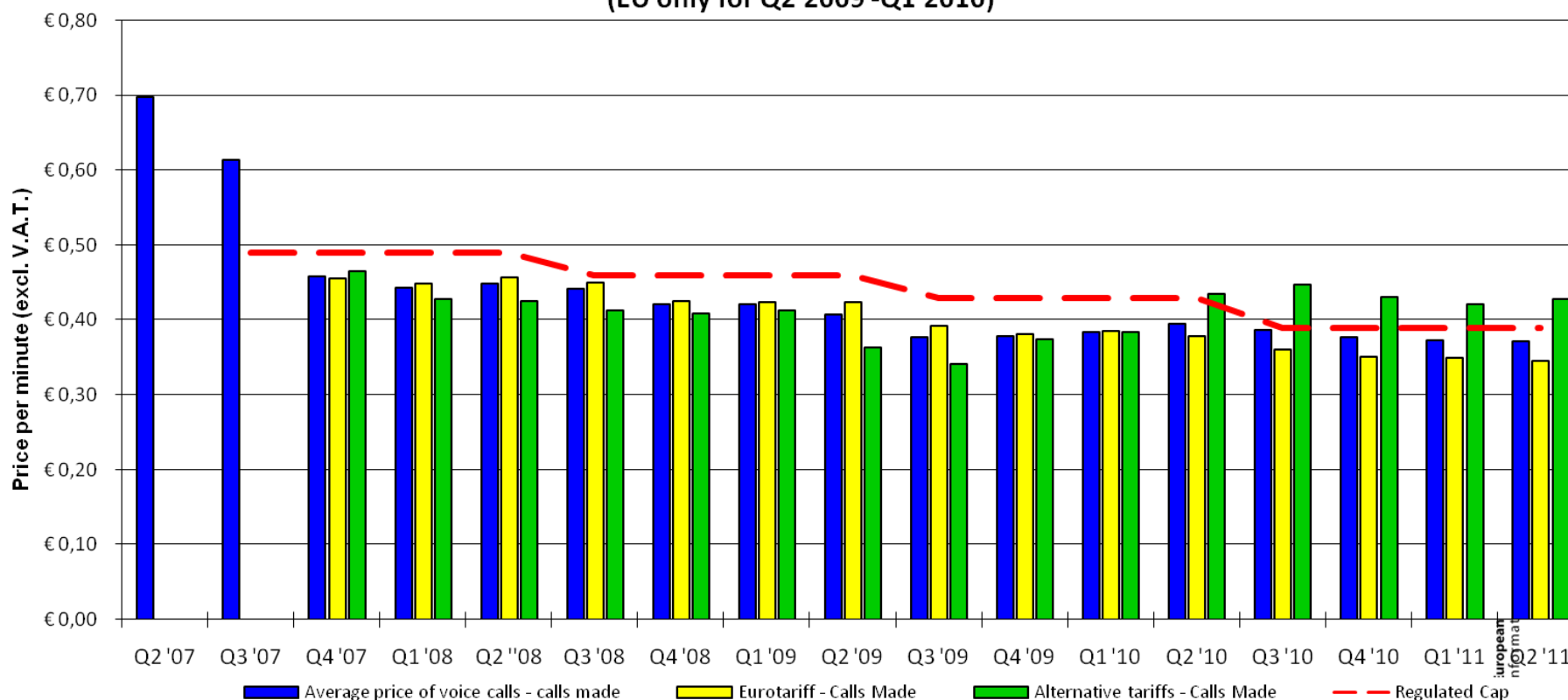


Current Regulation = benefits for consumers but problem not solved



Roaming prices still very close to the caps

Figure 3: EU/EEA EFTA average prices per minute for retail voice calls made
(based on billed minutes) (excluding special corporate)
(EU only for Q2 2009 -Q1 2010)*

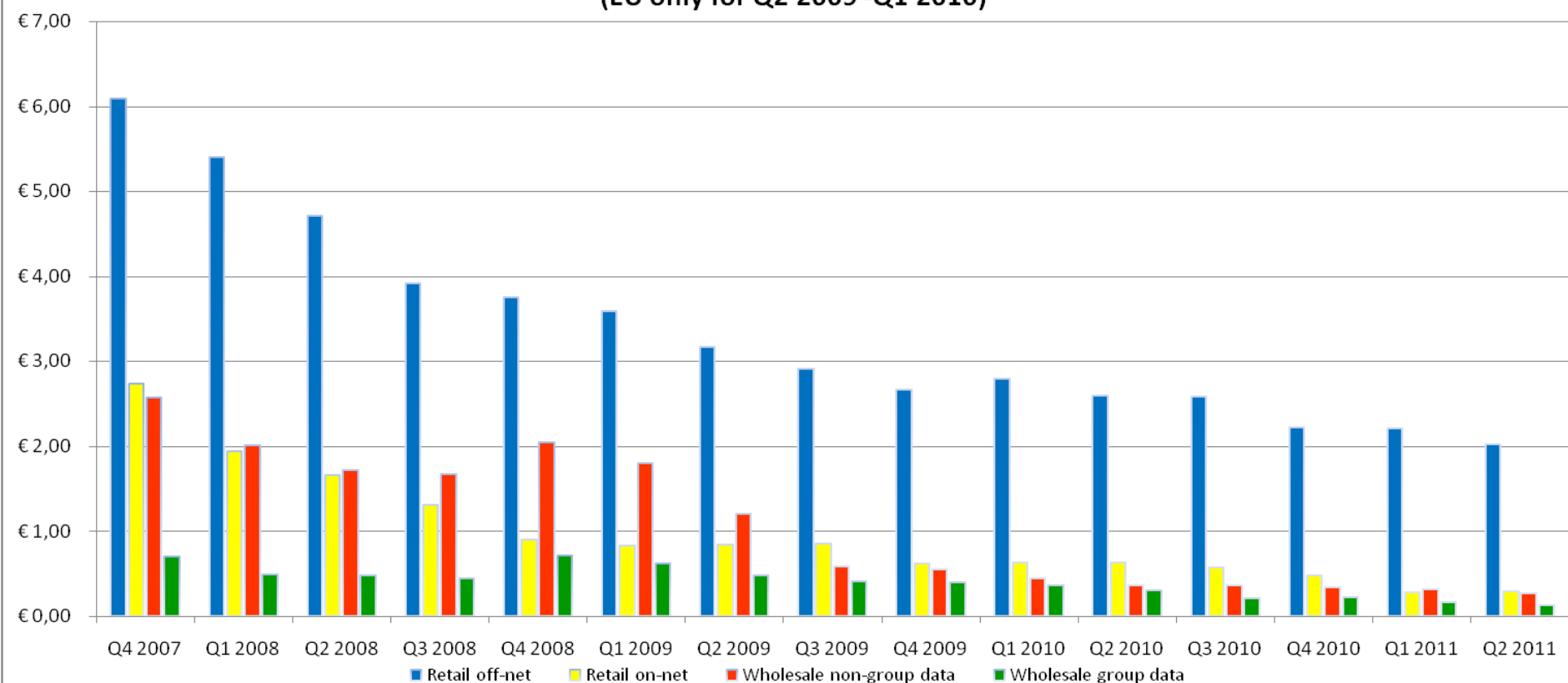


Source: BEREC



Data prices: reduction of wholesale prices not reflected at retail level

Figure 21: EU/EEA EFTA average price per Mb for retail and wholesale data
(EU only for Q2 2009 -Q1 2010)*



Source: BEREC



Prices still have no correlation to costs

- Current retail roaming prices are on average **118%** higher than estimated underlying costs (conservative estimations)
- Forward-looking approach developed by BEREC for assessing costs:

	Wholesale costs	Wholesale + retail costs
Calls made	< 5 c€/min	< 8 c€/min
SMS	< 1 c€	< 1.6 c€
Data	< 5 c€/MB	< 9 c€/MB



Main barriers to competition

- Strategic:
 - » **bundling of roaming with domestic services**
(low consumer awareness and transparency)
- Regulatory:
 - » **important barriers to entry**
- Structural:
 - » **lack of good substitute**



The new proposal: a pro-competitive approach

- An extension in scope and duration (till 2022) both for legal and investment certainty
- A new hybrid approach:
 - **Structural elements** that enhance the range of consumer choice for roaming services and which should be stable over time.
 - **Safeguard price caps** until the structural solutions become effective, including data.



The new proposal- Structural measures

- The objective - to tackle the **root of the problem**, the lack of competition and consumer choice by:
 - ensuring that the market is **open** to different types of providers
- AND**
- increasing consumers' choice and awareness by allowing them to **purchase roaming also as a separate service** in a user-friendly way.



The new proposal - A safety net for consumers

- Structural measures will take time to be implemented
- Need to ensure stability and predictability for operators and continued consumer protection.
- Wholesale caps to be kept until the market exhibits sufficient competition and safeguard retail caps until 2016
- Full review in 2015, including assessment of structural measures effectiveness



The new proposal - End-user data roaming prices capped

- Unreasonably **high margins** between wholesale and end-user prices

Current average price above 1 EUR/MB

- **Extension of transitory retail prices caps to data** roaming services until the structural solution becomes effective.

Max end-user price in 2014: 0.50 EUR/MB



Options considered in public consultation

- 1. No regulation** after June 2012;
- 2. Maintaining the current approach** of applying both wholesale and retail price cap regulation. Three variations considered:
 - 2a) *Continuation à l'identique* with the same price caps (baseline scenario);
 - 2b) *Extension of the current methodology* with adjusted annual price caps plus retail data roaming price caps;
 - 2c) Roam-Like-Home/Roam like a Local with fixed mark-up.
- 3. Structural solutions** - introduction of new elements at the wholesale and retail levels:
 - 3a) decoupling (home and visited);
 - 3b) granting access to mobile virtual network operators (MVNOs);
 - 3c) the above (3a+3b) combined with safeguard price caps.
 - 3d) Spot market

Short-listed options

- Option 1: No regulation
 - consumers will not benefit from competitive offers and no longer be protected
- Option 2a: Current price caps (Baseline Scenario)
 - no transfer of reductions in wholesale charges to retail level
 - remaining differences between wholesale rates (MNOs/MVNOs)
- Option 2b: Adjusted price caps
 - Same as 2a, but better roaming prices for all users (DAE target)
 - Temporary effect, as it would not improve competition in the roaming market
 - Questionable if would comply with ECJ ruling on roaming
- Option 3c: Unbundling + access + safeguard caps

Significant impact on competition in the roaming market

Wholesale access obligation

- More **choice** and more **competitive offers** by alternative providers:
 - Based on wholesale agreements with foreign MNOs (visited networks)
 - Or on resale agreements with host MNOs (for light MVNOs)
- Enables the emergence of **pan-European** roaming operators



Unbundling- why?

- Retail structural measures (i.e. unbundling) are an essential part of the overall solution
 - Wholesale access alone would make market entry difficult
- Possibility for users to **select an alternative operator** for roaming services only;
- Increased consumer **awareness and transparency**;
- Evidence of **higher elasticity** of demand for data
- **Pressure on operators to bring prices down** to retain existing customers or gain new ones;



Unbundling- how?

- **User-friendliness** is key:
 - One alternative provider for EU-wide roaming services
 - Same phone number (same SIM, same terminal)
 - No disincentives/penalties: same conditions for domestic tariffs
 - Possibility to switch at any moment (delay 5 days or 3 months in special cases)
- Draft Regulation technically neutral regarding implementation method, but certain requirements laid down



Transitory safeguard caps

- Only envisaged as a **safety-net**
- Downward **pressure on prices should come from increased competition**
- Retail safeguard caps to follow a glidepath until structural solution is in place (i.e. by June 2014) and remain flat for up to 2016
- Proposed levels of the retail caps based on 50% of the additional decrease for bringing down the caps at cost based levels
- Level of caps should allow margin for competition



Assessment of implementation cost of unbundling

- Practical implementation costs estimated by the industry to be around **EUR 300 million** at the industry level

= less than **10%** of annual roaming revenues and **0.2%** of the total annual revenue
- These costs will be **one-off**
- Additional administrative and compliance costs for all actors, expected to decrease once the structural solution is in place
- Long term solution that would bring **benefits over a longer time horizon**



Overall Assessment

- Structural measure offers the possibility of enhanced competition for roaming services (while keeping safeguard price caps for a certain period)
- More choice to mobile users
- Long-lasting effects and a more stable regulatory environment
- Additional consumer welfare to be expected through retail price reductions based by more competition
- Additional social welfare to be expected by higher roaming consumption (higher elasticity of data roaming services)



- More information:
www.ec.europa.eu/roaming

