



Current regulatory best practices and implications

Mobile termination best practices

2nd Black Sea and Caspian Regulatory Conference

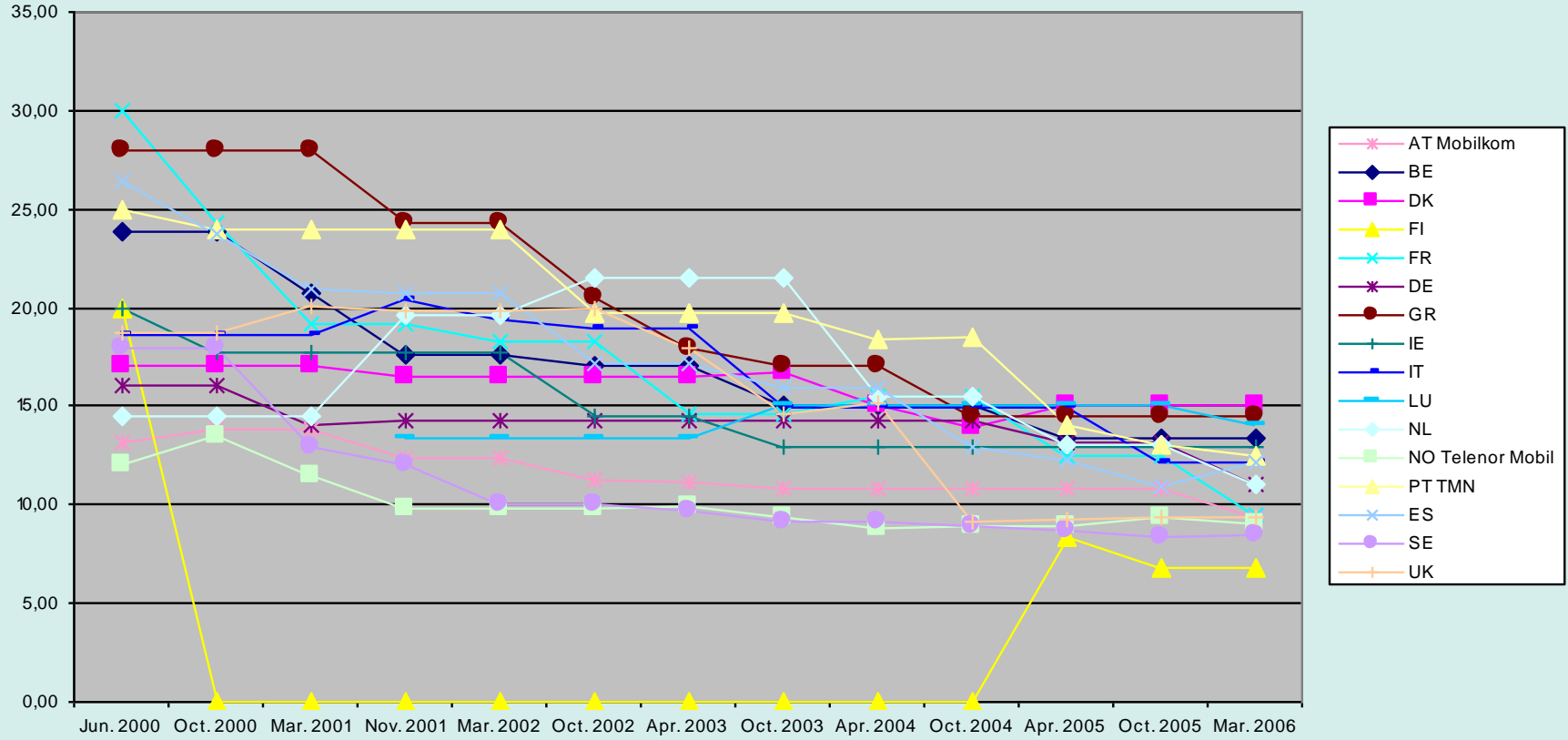
Istanbul, 22 – 23 June 2007

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MTRs: 2000 - 2006



Market definition and SMP designation

- Market definition
 - Voice call termination on individual mobile networks
 - SMS termination

- SMP designation
 - All mobile operators

“Remedies”

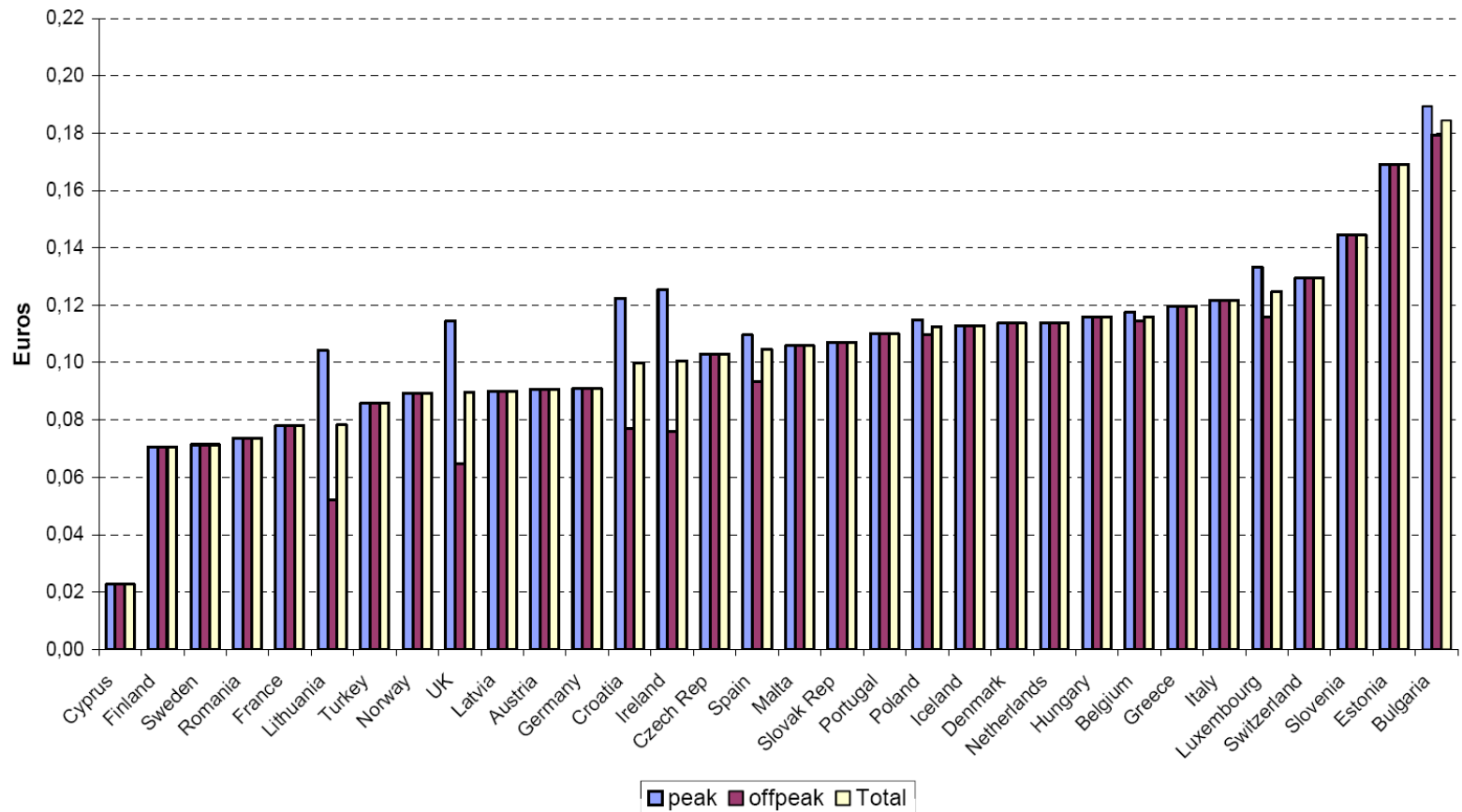
- Obligations imposed on mobile operators
- Access Directive provides a “menu” of 5 possible obligations:
 - Transparency
 - Non-discrimination
 - Accounting separation
 - Access to and use of specific network facilities
 - Price control and cost accounting obligations

Focus on price control

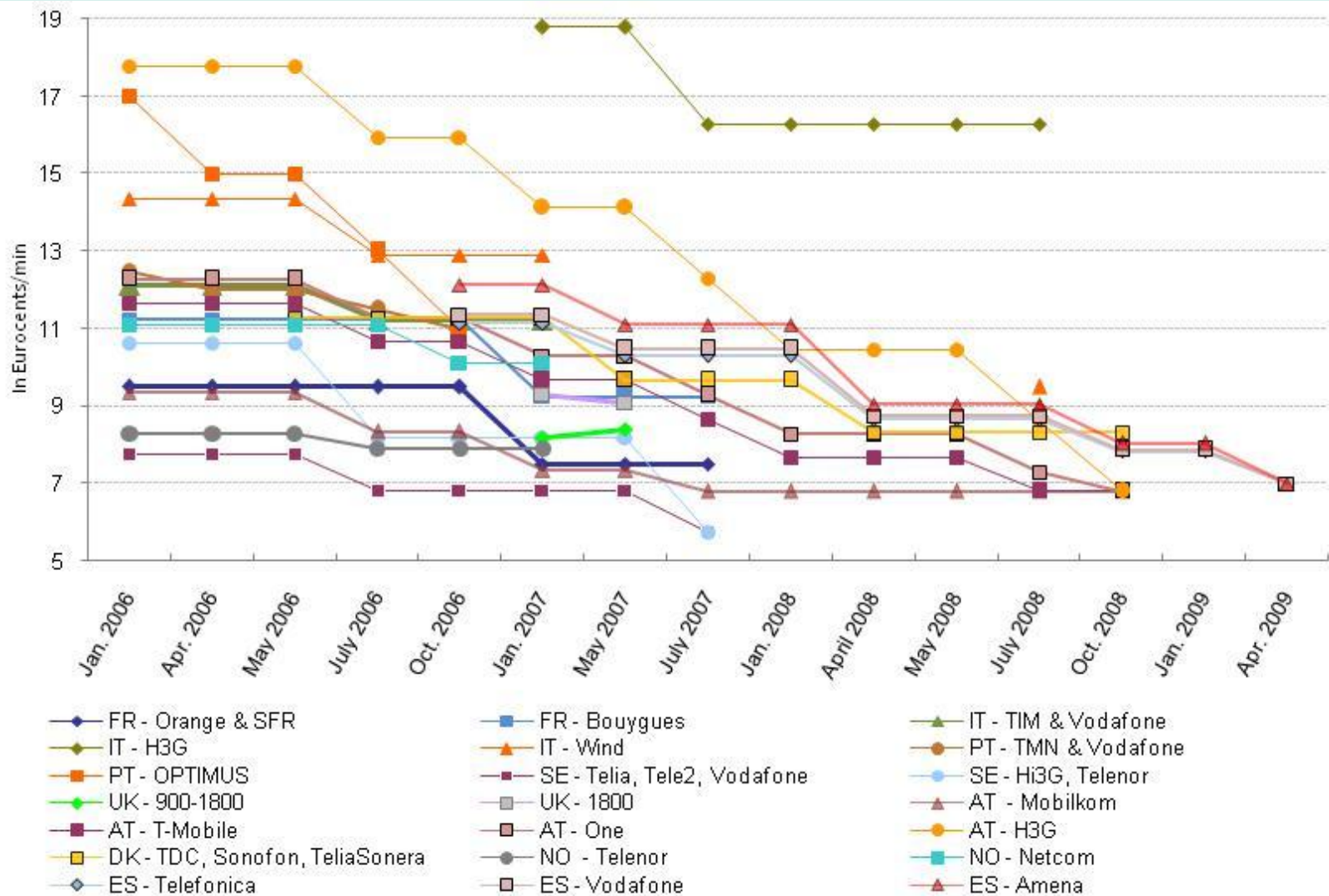
- Glide path
- FDC vs LRIC
- Symmetry vs asymmetry

ERG snapshot – January 2007

Average MT Tariff per country January 2007



MTRs: Outcome of M16 analyses



Mark ups for network externalities

→ Who is in favour?

→ Belgium

→ Greece

→ Italy

→ Sweden

→ UK

→ Who is against?

→ Austria

→ France

→ Netherlands

→ Norway

→ Portugal

Differential between MNOs' MTRs

- First entrants vs. late entrants / 900 vs. 1800
- Among 2G/3G operators (pure 3G not considered)
 - Today: asymmetry in 13 of the EU-15 Member States
(12 when considering Sweden where PTS decision was appealed)
 - By end of glide path period: asymmetry in 9 out of 15
- 3G vs 2G

MTRs and 3G auction (1)

- UK 3G auctions (2000): £22bn (€36bn)
 - €6bn - €9bn per operator
- Ofcom decision on MTRs (March 27, 2007)
- Contribution to 3G frequency fee
(based on draft decision notified to Commission (Art. 7) in Sept 2006)
 - around 1.1ppm (1.7 eurocents) in 2010/11 for the 2G/3G operators: mark up of 26%
 - around 1.9ppm (2.9 eurocents) in 2010/11 for the 3G-only operator: mark up of 46%

NB. Ofcom used 5 different scenarios to estimate the value of 3G spectrum. Following Commission comments, in its final decision, Ofcom reduced the contribution to 3G frequency fees (precise value not published).

MTRs and 3G auction (2)

- French 3G licence fee:
 - €619m per operator + 1% of turnover

- Without a licence fee, the cost of mobile termination for a generic mobile operator would be 5% lower

(ARCEP bottom up model - 2007)

Arcep bottom up analysis – findings (1)

- Impact of market share
 - Operator A has 33% market share
 - Operator B has 20% market share
 - So B has 39% less market share than A
 - But only 22% less cost!

Arcep bottom up analysis – findings (2)

- Impact of cost of capital
 - If cost of capital went up by 10%
 - Cost of mobile termination would go up by 2%

Arcep bottom up analysis – findings (3)

- Impact of user consumption growth

- Scenario 1: high growth
 - If user consumption increased by 5% per year
 - cost of termination would fall by 9% by 2010

- Scenario 2: no growth
 - If user consumption increased by 0% per year
 - cost of termination would go up by 2% by 2010

IP and interconnection

- Which economic model?
 - Calling Party Pays (PSTN model)
 - Bill and Keep (BAK) 'The Internet model'

- Calling Party Pays means no prospects of regulatory forbearance

- Pressure from regulators to move to BAK

- Most operators are opposing it

IP and interconnection

- ➔ Fear amongst operators that cost recovery would not be possible as end-users would not accept Receiving Party Pays regime

- ➔ Deterrent to investment: incentive for originating operators to handover traffic for termination as close as possible to origination ('hot potato' issue)

- ➔ CPP is, in some cases necessary, to ensure QoS

- ➔ I/C should be based on perceived value of message
 - ➔ Sending an email of high importance vs
 - ➔ Downloading data of high importance



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