EU Roaming Regulation Review
- Impact Assessment

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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 ¾ are calls made, the rest calls received)  
- Data - 17%  
- SMS - 11%
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

EU/EEA average prices per minute for retail voice calls made
(based on billed minutes; EU only from Q2 2009 onward)

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

<table>
<thead>
<tr>
<th></th>
<th>Wholesale costs</th>
<th>Wholesale + retail costs</th>
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</thead>
<tbody>
<tr>
<td>Calls made</td>
<td>5.42 c€/min</td>
<td>5.69-8.13 c€/min</td>
</tr>
<tr>
<td>SMS</td>
<td>0.81 c€</td>
<td>1.41-2.01 c€</td>
</tr>
<tr>
<td>Data</td>
<td>8.08 c€/MB</td>
<td>8.49-12.12 c€/MB</td>
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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 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**
Impact Assessment

- Short-listed options
- Qualitative assessment
- Economic impact
- Implementation costs
- Overall assessment
Impact Assessment - Short-listed options

Three sets of scenario considered:

- **Keep current price caps**
- **Adjusted (lower) price caps**
- **Structural measures (retail unbundling + wholesale access obligation) + safeguard price caps**
Qualitative assessment: unbundling as the most promising approach

- **Current price caps**
  - no transfer of reductions in wholesale charges to retail level
  - remaining differences between wholesale rates (MNOs/MVNOs)

- **Adjusted (lower) price caps**
  - Same as current price caps, but better roaming prices for all users
  - Temporary effect, as it would not improve competition in the roaming market
  - Questionable if would comply with ECJ ruling on roaming

- **Structural measures + safeguard price caps**
  - Significant impact on competition in the roaming market
  - Sustainable competitive solution without the need for long terms price regulation
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 (double IMSI or other)
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
Estimation of economic impact - methodology

- Detailed economic model for the assessment of the economic impact (with underlying roaming market model)

- Determination (aggregate and for each country) the effect on roaming quantities and revenues, consumer and producer surplus, and total social welfare

- Variation of producer and consumer surplus against the baseline scenario

- Assessed against total sector turnover and gross operating surplus of the sector
### Estimation of economic impact - results

**Baseline Scenario** (Current price caps) | Adjusted price caps incl. retail data | Access + Unbundling + safeguard caps
--- | --- | ---
**Consumer surplus (m €)** | -- | 6.323,50 | 3.656,73
**Total profits (m €)** | -- | -4.901,99 | -2.373,19
**Welfare (m €)** | -- | 1.421,51 | 1.283,54

- Option B and C: positive and comparable gains of social welfare
- Option C: consumer welfare calculation is based only on the safeguard caps foreseen under this option and does not take into account the downward pricing effect arising from competition enhancing structural measures
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