

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%
- Data - 17%
- SMS - 11%



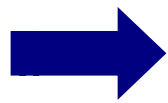
Review process

- 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

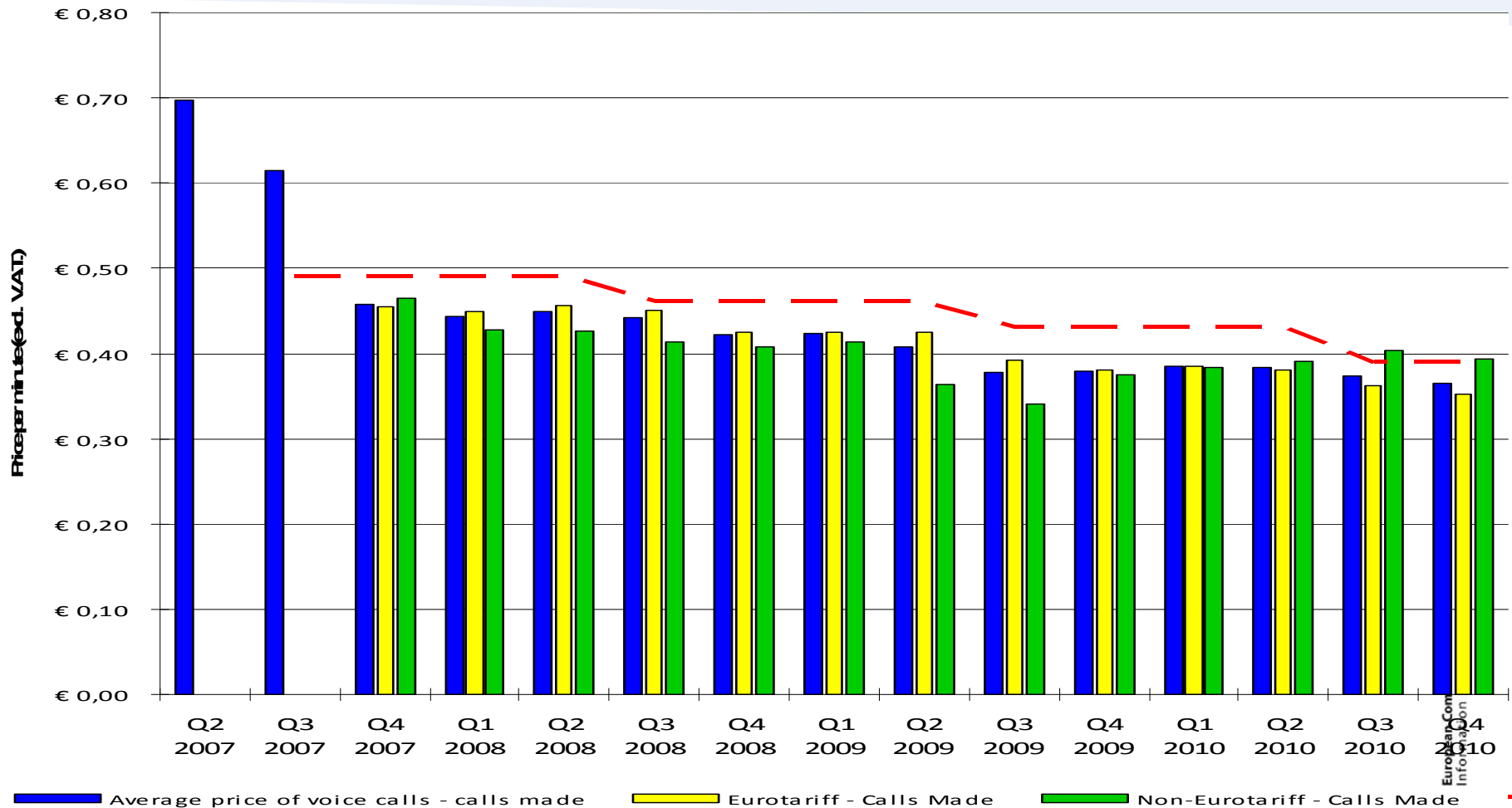


Current Regulation = benefits for consumers but problem not solved



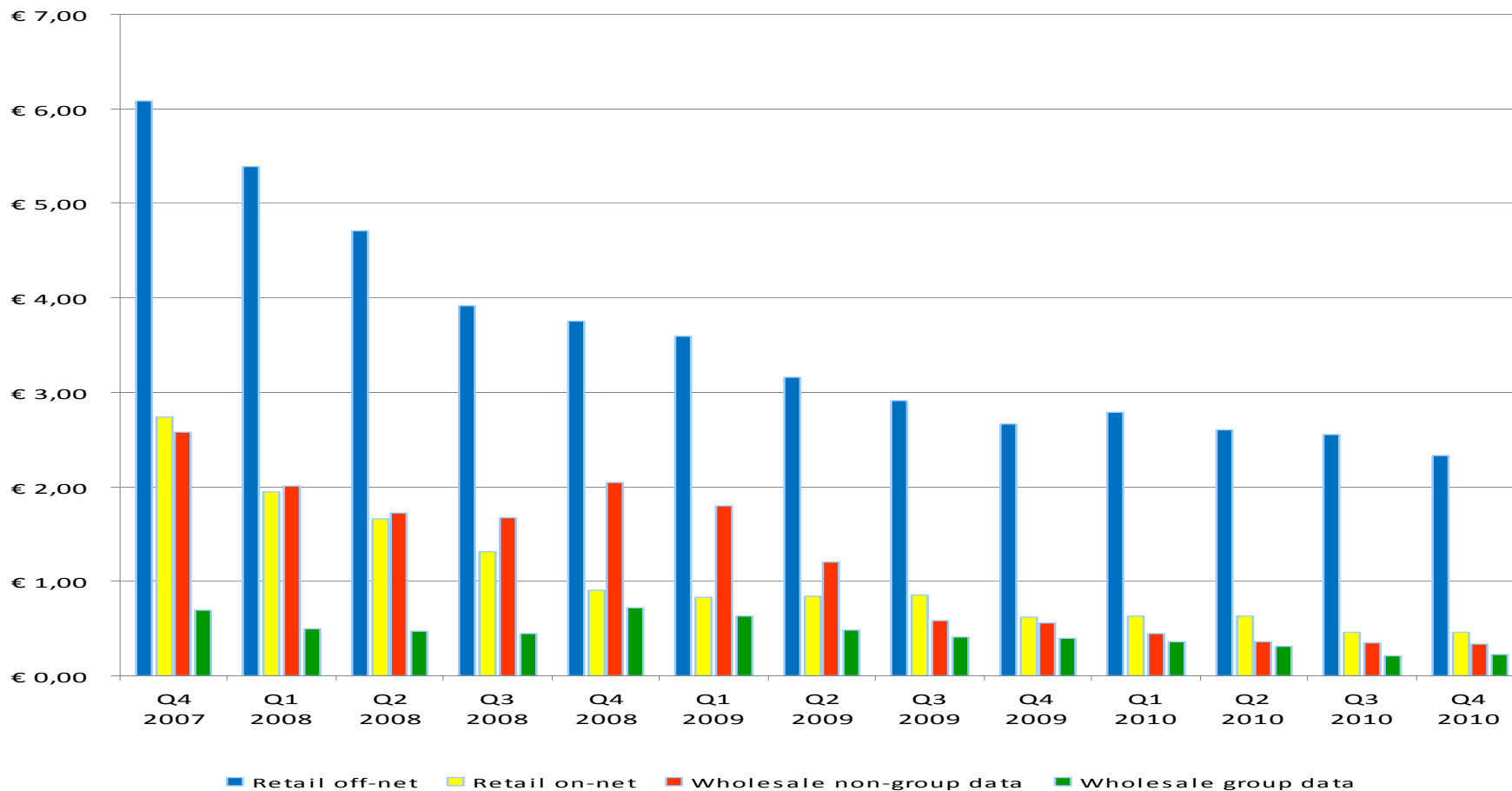
Roaming prices still very close to the caps

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



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

EU/EEA average price per Mb for retail and wholesale data
(EU only for Q2 2009 onward)

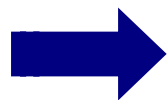


Source: BEREC

Prices still have no correlation to costs

Forward-looking approach developed by BEREC for assessing costs:

	Wholesale costs	Wholesale + retail costs
Calls made	5.42 c€/min	5.69-8.13 c€/min
SMS	0.81 c€	1.41-2.01 c€
Data	8.08 c€/MB	8.49-12.12 c€/MB



Unreasonably high margins between costs and end users prices

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 dual 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.
- Full review in 2015, including assessment of structural measures effectiveness



Structural measures

- The objective - to tackle the **root of the problem**, the lack of competition and consumer choice by:

1) ensuring that the market is **open** to different types of providers (wholesale access)

AND

2) increasing consumers' choice and awareness by allowing them to **purchase roaming also as a separate service** in a user-friendly way (unbundling)



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?

- Unbundling as an **essential part** of the overall solution
 - Wholesale access alone would make market entry difficult
- Evidence of **higher elasticity** of demand for data (consumers are more sensitive to prices)
- **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)



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 retained until the market exhibits sufficient competition
- Safeguard **retail** caps until **2016**, including on **data** roaming
- Only envisaged as a **safety-net**. Downward **pressure on prices should come from increased competition**



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



Estimation of economic impact - methodology

- Detailed economic model (with underlying roaming market model)
- 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
	(A)	(B)	(C)
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

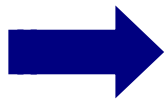
- Practical implementation costs estimated by the industry to be around **EUR 300 million** at the industry level

= 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 measures” vs. “Price caps only”
 - More competition
 - More choice
 - Long lasting effects and stable regulatory environment



Prices durably down to level of competitive market environment



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

