

# ITU/ ITC Regional Seminar on Network Evolution to Next Generation Networks and Fixed Mobile Convergence

**Moscow 27-30 April 2004**



Think forward

New perspectives in a networked world.

## **Fixed-Mobile Convergence – Regulators' Response**

**Ursula Lochmann, Detecon International**



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- 1. Introduction: Regulators Response When Mobile Overtakes Fixed**
- 2. Implications For Developed Western and Central/ Eastern European Countries**
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## 1.

### **Introduction: Regulators Response When Mobile Overtakes Fixed**

- 1.1 Introduction Detecon
- 1.2 Where mobile overtakes fixed

# 1. Facts & Figures – Overview of Detecon


<b>Founding:</b>	1954 Diebold 1977 DETECON
<b>Post-Merger:</b>	2002 Detecon International GmbH
<b>Turnover 2002:</b>	160 Million Euros 600 Consultants
<b>Subsidiary of:</b>	T-Systems International GmbH



**Projects in 120 countries in the last 36 months**

# 1. Mobile are overtaking fixed subscribers in countries worldwide

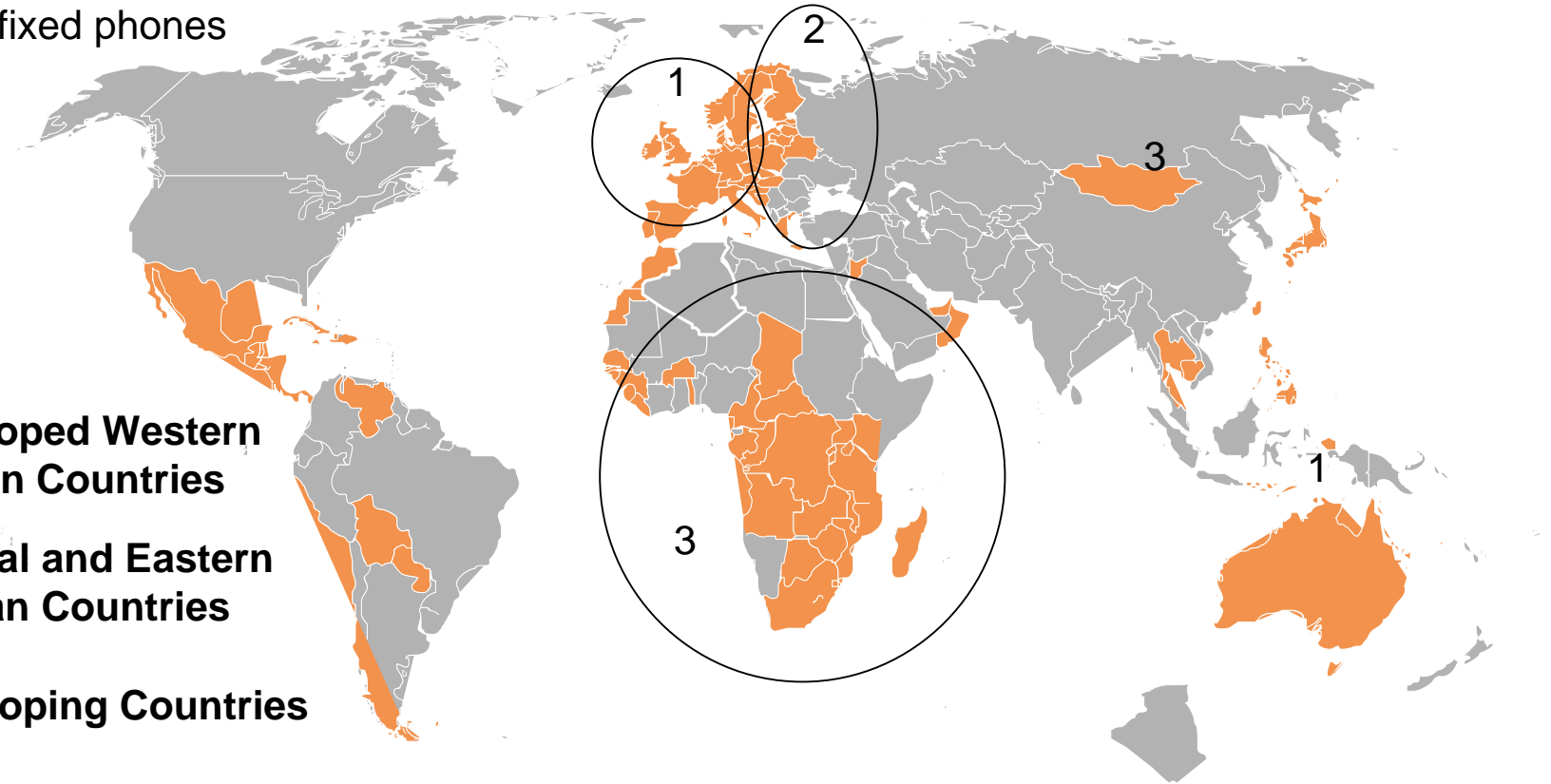
Unprecedented growth in mobile communications has significantly changed the communications environment in recent years

 Countries with more mobile than fixed phones

**1: Developed Western European Countries**

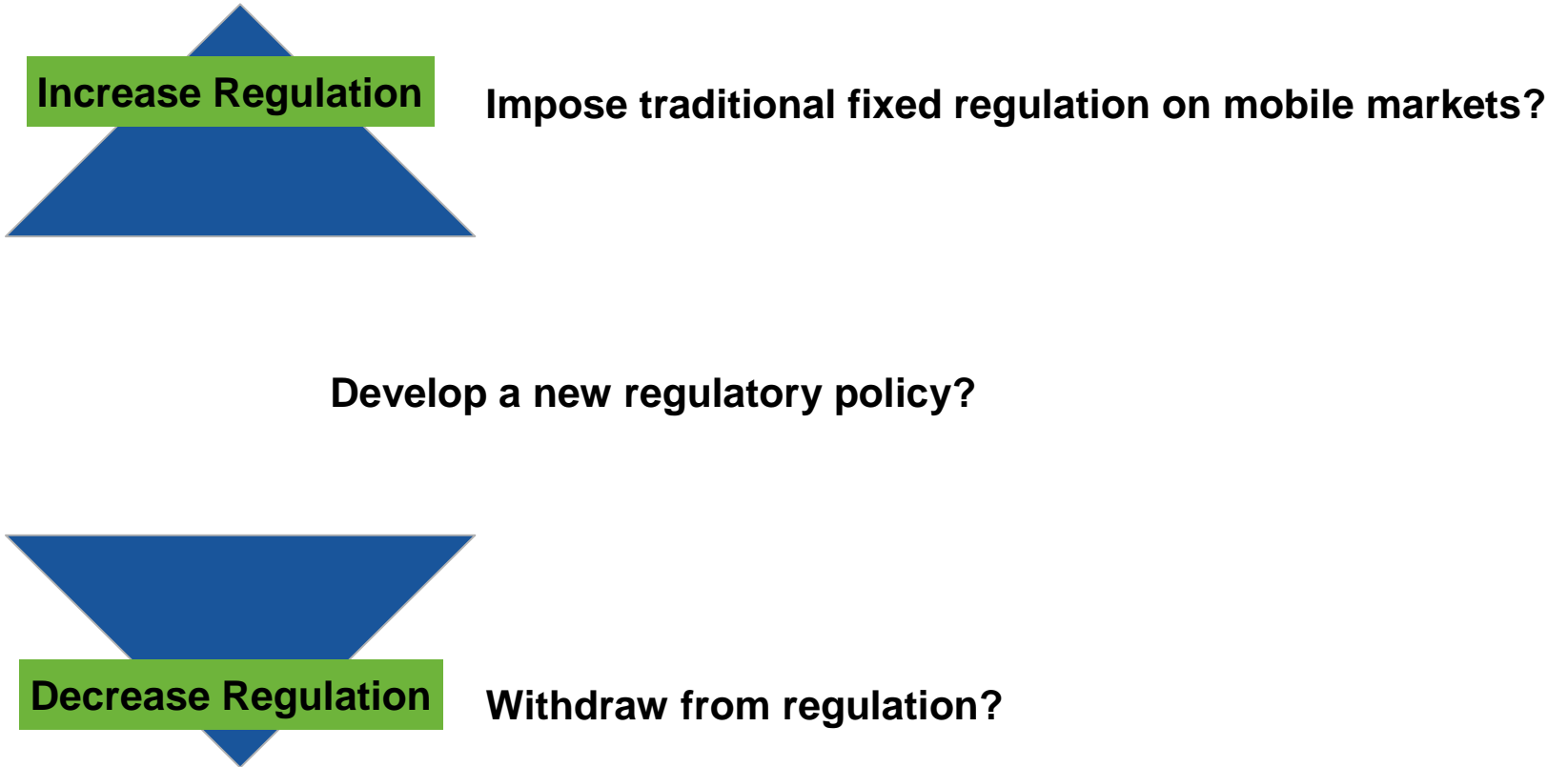
**2: Central and Eastern European Countries**

**3: Developing Countries**



Source: ITU  
World Telecommunication Database  
(12/2003)

# 1. How Will Regulators Respond to the Phenomena of Mobile Growth?





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**2.**

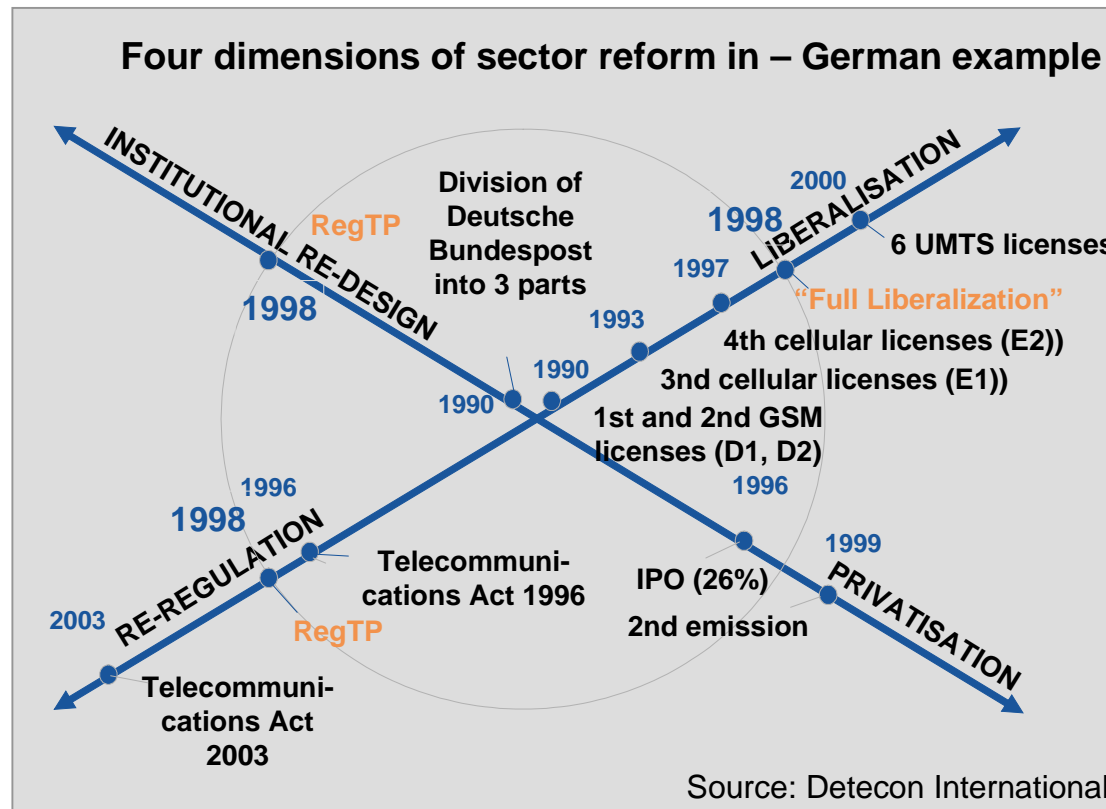
## **Implications For Developed Western and Central/ Eastern European Countries**

- 2.1 The EU Regulatory Approach
- 2.2 Development in CEE countries
- 2.3 Regulatory Effects

## 2. The EU Approach Towards Liberalization And Re-regulation

### 2.1 The EU regulatory development

The EU telecommunications markets were liberalized in 1998 with a “Big Bang”: All markets were opened and competition was supported by the creation of an independent Regulatory Authority in each country.



- Since 1998 basically unrestricted market entry (restrictions only if due to scarcity of resources)
- Liberalization was flanked by a new regulatory approach and the establishment of an independent Regulatory Authority
- The Mobile market was opened to competition earlier
- Liberalization and Re-Regulation were strongly driven by European Commission.



## 2. The EU Approach Towards Liberalization And Re-regulation

### 2.1 Traditional regulatory functions and related obligations

**Key EU regulations encompass the Market Dominance/ SMP concept, Market Abuse investigations and other technical regulation**

#### Market Dominance/ Significant Market Power (SMP) concept

**An SMP determination triggers specific obligations on operators (ex-ante regulation)**

- Reference Interconnection Offer (RIO)
- Reference Unbundling Offer (RUO)
- Cost based, non-discriminatory interconnection tariffs
- Pricing Regulation
- Billing requirements (itemized billing free of charge etc.)

#### Ex-post regulation

**Investigations into potential abuse of market power**

- Margin Squeeze
- Discrimination
- Excessive pricing etc.

#### Other regulations

**Dispute Resolution procedures**

- ...between operators and consumers
- ...between operators

**Technical Regulation**

- Frequency allocation,
- Standards, numbering

## 2. The Approach Towards Regulation in CEE and Baltic Countries

A growing number of CEE and Baltic countries have fully liberalized their telecommunications sectors and implemented the EU regulatory framework

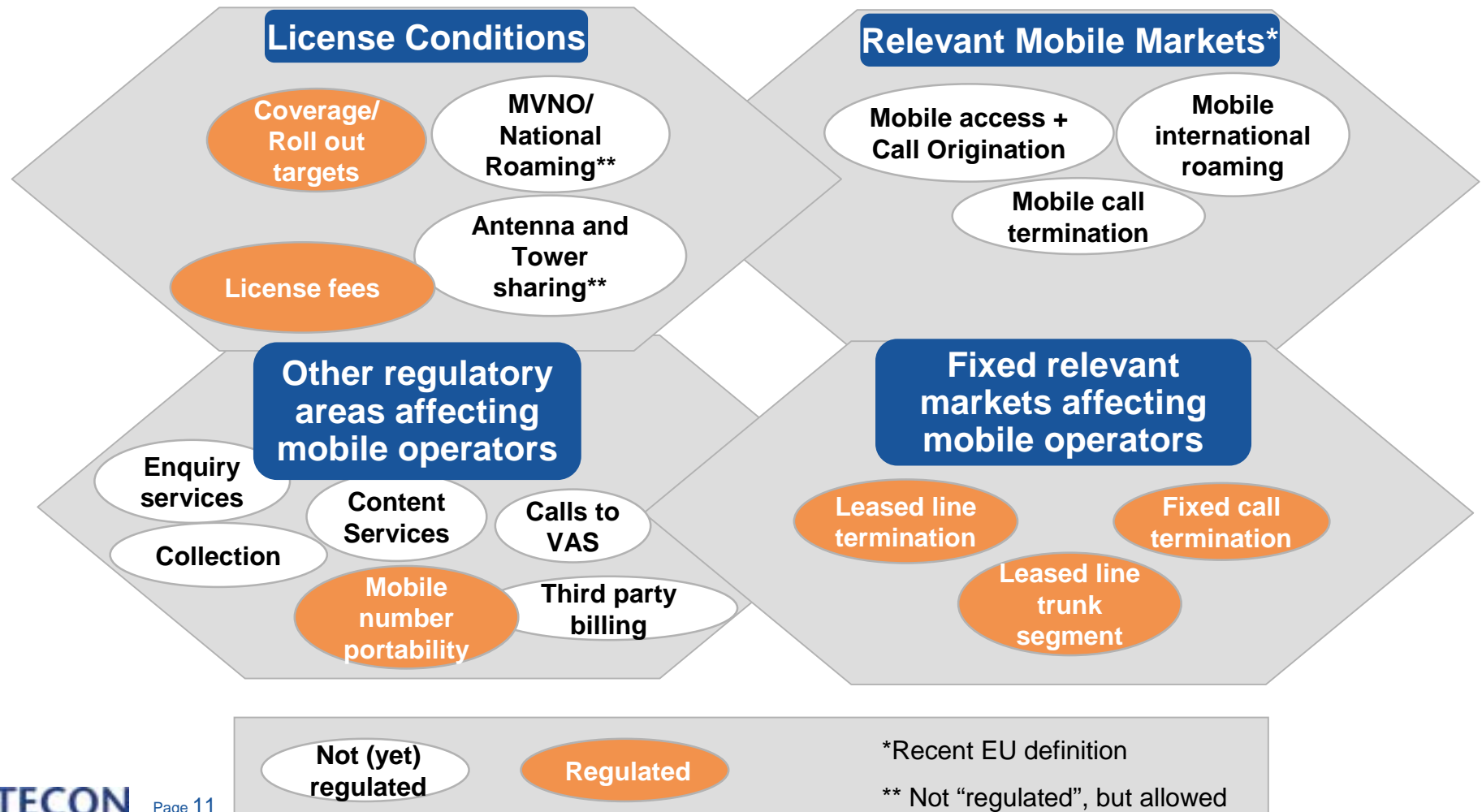


- Liberalized West European countries/ CEE Liberalized prior to 2003
- CEE Liberalized on 1 January 2003
- Planned to Liberalize in 2004/05/06
- No Liberalization Date set yet

## 2. The EU Approach of Neutral Regulating in Converged Markets

2.3 Overview of regulatory obligations affecting fixed and mobile operators

A major EU regulatory principle is the one of “technology neutrality”

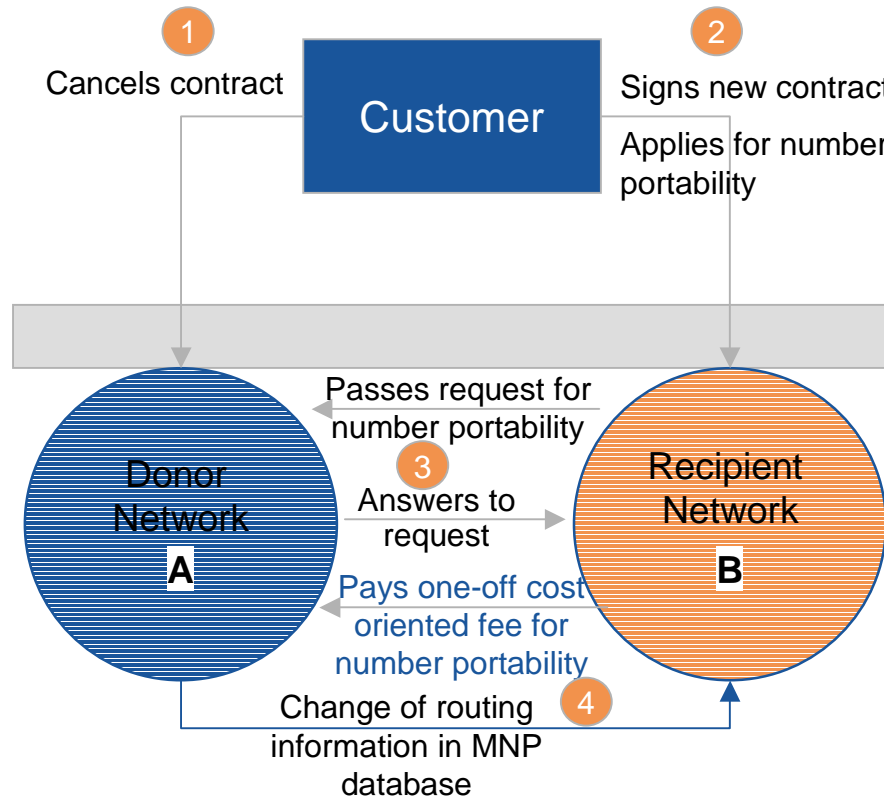


## 2. Number Portability

2.3 Fixed and Mobile Number Portability have been introduced in all (current) EU Countries

**Fixed and Mobile Operator Number Portability are key elements of the EU regulatory framework. Mobile Number Portability is not available in most “new” EUM member States**

### How number portability works in mobiles



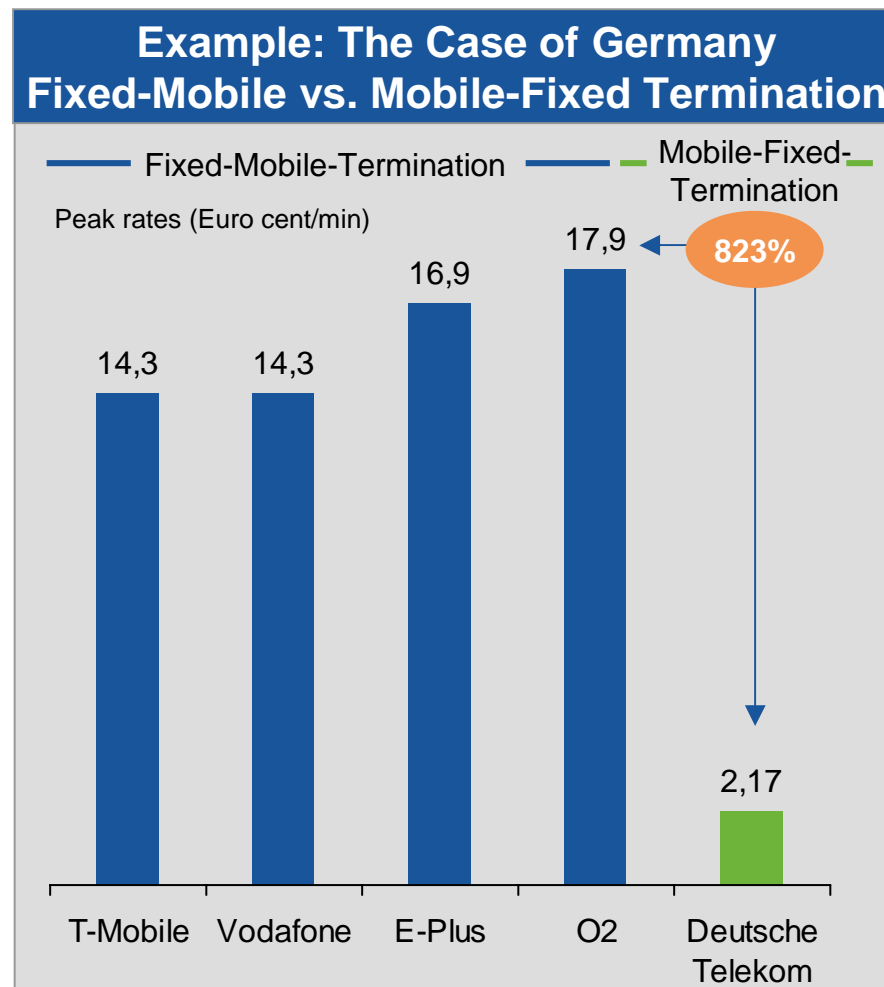
### Rationale for Mobile Number Portability

- Consumers may change their provider easier: avoiding cost associated with a new number
- Removal of barriers to competition → stronger competition
- Required by EU regulations
- Barriers: complex technical issues, operator costs for introducing MNP

## 2. More Regulation Has to be Anticipated

### 2.3 Fixed-to-Mobile Interconnection

In the EU - but also in many other countries in the world - regulators regard the highly asymmetric interconnection rates as „market failure“.



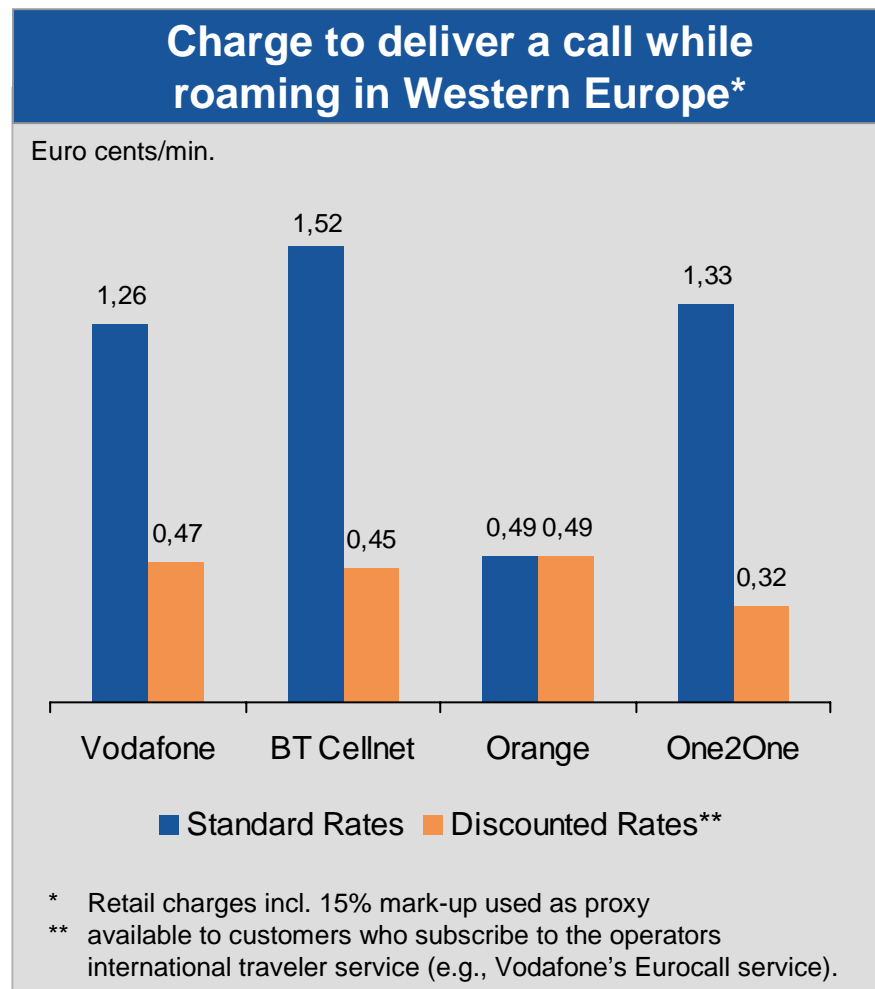
- Interconnect prices are a major determinant of retail prices
- Interconnect prices are variable but generally very high, especially in Europe
- Calling party does not have a choice of operator to terminate the call
- Fixed-to-mobile and mobile-to-fixed interconnect rates are highly asymmetric (see example left)
- Regulators around the world see evidence of market failure

**Regulators may obligate MNOs to lower fixed-mobile-interconnection rates**

## 2. More Regulation Has to be Anticipated

### 2.3 Roaming Rates

**Absence of competition as well as high price differences in the area of international roaming let the probability of regulatory intervention appear high.**



- Roaming rates are essentially commercial deals struck between operators
- Thus absence of competition and very high price variations
- There is a significant differential between standard and discounted rates
- Regulators accuse MNOs of ripping off each others customers

**Prospects of regulatory intervention appear high**

## 2. More Regulation Has to be Anticipated

2.3 Cost orientation of Rates is only one regulatory measure that might be applied in the mobile market

**Increasing regular intervention of mobile operators will have a dramatic impact on revenue, cost and customer retention.**

Potential Threats (Examples)	Revenue	Cost	Customer Retention
Intl. Roaming	↓		
Number portability	↓		↓
Service Obligations	↓	↑	
Interconnection	↓		
3rd party billing	↓	↑	↓
Call-by-call	↓		↓



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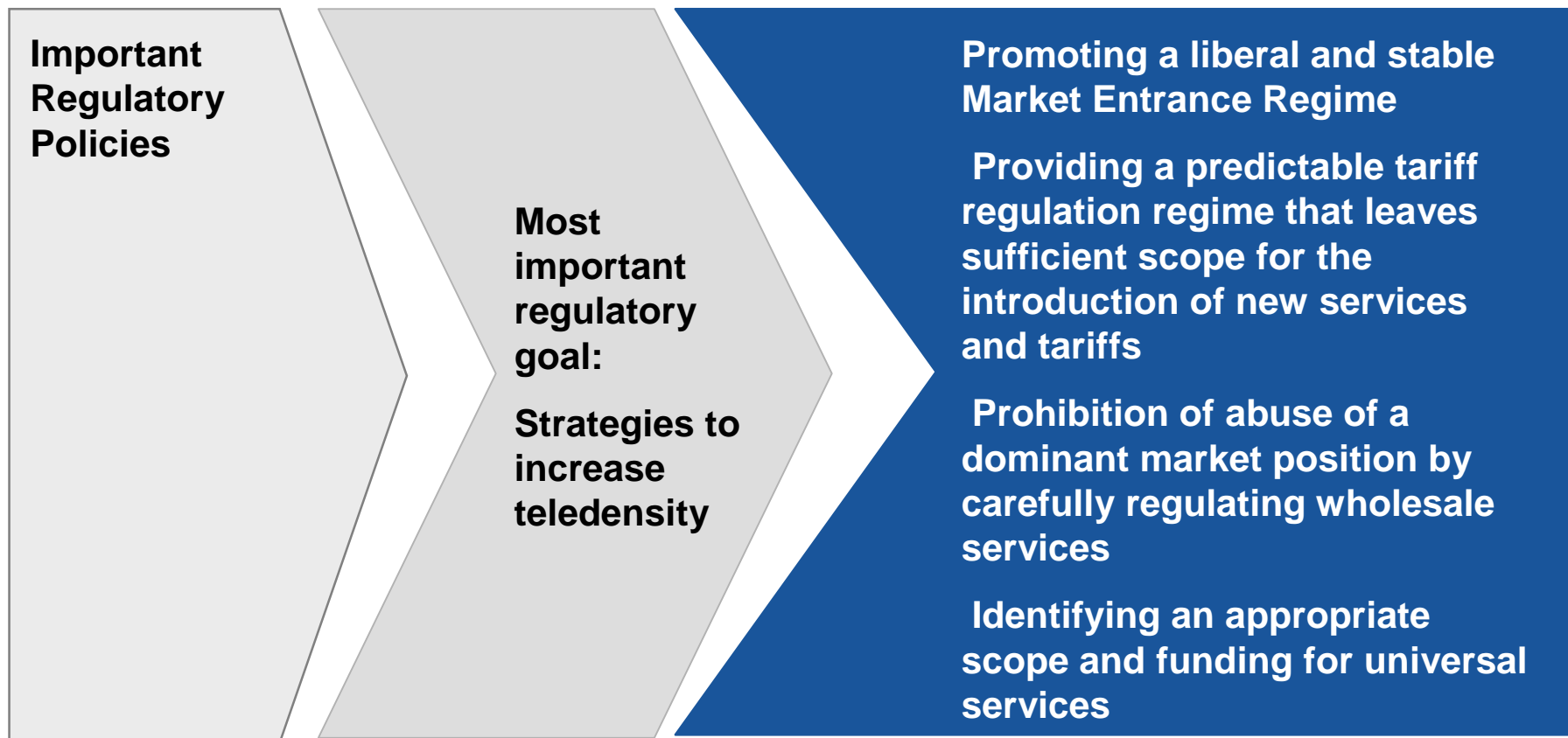
## 3. Implications For Developing Countries



### 3. Regulatory Implications in Developing Countries

In developing countries mobile communication has increased access to telecommunications services

**The focus of regulatory intervention in developing countries differs from those of in developed markets due to low teledensity**





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## 4. Summary and Conclusions

## 4. Summary And Conclusions

It depends on the status of the countries what regulatory authorities should and should not do

Western European Countries	Central/ Eastern European Countries	Developing Countries
<ul style="list-style-type: none"><li>■ More regulation can be expected for mobile operators</li><li>■ Regulatory focus on: Mobile Termination Rates, Roaming Rates, Mobile Number Portability</li><li>■ Regulation to continue to improve operators' efficiency</li><li>■ Regulation to focus on the longterm interest of consumers</li></ul>	<ul style="list-style-type: none"><li>■ Regulation follows (successful) EU approach</li><li>■ Regulation to check costs and benefits of intervention</li><li>■ Regulatory focus on: Prohibition of abuse of market power</li></ul>	<ul style="list-style-type: none"><li>■ Regulation plays an important role in enabling competition</li><li>■ Regulatory focus on: Promotion of a liberal and stable market entrance regime, Tariff Regime policies, Prohibition of abuse of a dominant market position, Universal Service Obligation policies, Licence Requirements, Pricing</li></ul>



**Thank You  
For Your Attention**

## Your Contact

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