

EXPLANATORY NOTE FOR PROPOSED APPROACH TO SETTING ROAMING PRICES IN THE ECTEL MEMBER STATES

Background

After the liberalisation of the sector and the signing of the ECTEL Treaty, a policy decision was taken not to regulate mobile retail services as it was deemed that these services were subject to sufficient competition¹. This policy was also extended to roaming rates with the Member States. A recent analysis conducted by ECTEL on voice and data roaming within the ECTEL Member States has concluded that in some cases, large premiums were being paid by customers to access roaming² services while traveling throughout the ECTEL Member States. In particular, the study noted that the premium charged ranged from 32% to over 200% of the cost of an in-country mobile-to-mobile (MTM) on-net call.

The presence of the premium on roaming services in the Member States fails to promote fair pricing and competition in the ECTEL Member States. In order to foster competition, market integration and to ensure affordable roaming prices for customers, ECTEL has embarked on a process of developing a framework for the regulation of mobile roaming services. This framework includes a model Roaming Bill and Regulations for enactment in ECTEL Member States. One of the major objectives of the legislation is to set the terms for the provision of voice, short messaging service (SMS), multimedia messaging service (MMS) and data services while roaming within the Member States. Among other things, it is envisaged that once passed, the roaming legislation will address the prohibitive costs of roaming and provide the framework for regulating the mobile electronic communications network for roaming.

As part of the foregoing exercise, ECTEL conducted research to explore and develop a pricing regime for roaming within the Member States. This note presents ECTEL's recommendation for a regime to regulate roaming rates within the Member States. In developing the regime for roaming in the Member States,

¹ ECTEL Board Paper: An Assessment of the rates for mobile services in the ECTEL Member States. Presented at the 64th Board Meeting.

² ECTEL Board Paper: An Assessment of Voice and Data Roaming within the ECTEL Member States.

ECTEL drew extensively on work done by the European Commission, the Gulf Cooperation Council and the South African Development Community in regulating high roaming rates within their territories. The recommendation for roaming rates focuses on the approaches adopted by the European Commission and the Communications Regulators' Association of South Africa.

Roaming Pricing Strategies

In the quest to develop appropriate prices for mobile roaming, ECTEL explored the option of implementing regulation at the wholesale and retail levels. Cantero³ (2011) argues that regulation at both levels is necessary where each level is characterized by the absence of (sufficient) competition. Cantero (2011) further notes that reductions in wholesale prices are likely to foster retail price reductions since high wholesale prices usually serve as an obstacle to competition at the retail level. In effect, the simultaneous regulation of wholesale and retail prices is necessary in an environment of limited competition where operators may have little incentive to pass savings from lower wholesale prices to retail prices⁴.

(a) Regulating Roaming Prices at the Wholesale Level

According to Cantero (2011), operators will charge retail customers a price which reflects wholesale roaming costs and a mark-up for retail costs. It is therefore imperative that wholesale roaming prices are regulated to ensure that they are cost based, to encourage competition and to keep retail prices down. Such regulation may involve setting wholesale price caps or cost-orientation obligations. Price cap regulations typically entails adjusting the prices of an operator against a price cap index which represents the overall inflation rate, the production efficiencies of the operator relative to the average operator and the relative inflation on the operator's input prices. In practice, mobile wholesale price caps are normally set at a level which is a percentage of national mobile termination rates as these rates directly affect

³ Based on a presentation by David Bernal Cantero: International Mobile Roaming setting price: achievements and experiences, at Regional Seminar on Costs and Tariffs for Member Countries of the Regional Group for Asia and Oceania (SG3RG-AO) March 2011.

⁴ See GSR 2012 Discussion Paper: International Mobile Roaming Services: A Review of Best Practice Policies.

the retail prices charged⁵. In the case of the ECTEL Member States, it is proposed that the wholesale roaming prices be set using a price cap which reflects a multiplier of the national mobile termination rates of the ECTEL Member States.

(b) Regulating Roaming Prices at the Retail Level

To be effective, a roaming price regulatory regime must ensure the pass through of wholesale savings to retail prices. As the evidence from the European Union shows, a wholesale price cap may not be totally effective in attaining reductions in retail roaming prices, as operators may opt to adjust prices to meet the requirements of the cap but not reduce prices below the cap⁶. It would therefore be necessary to constantly monitor retail prices to ensure that wholesale prices are being passed through to retail prices. Alternatively, the regulatory regime may include retail price regulation in addition to the wholesale price regulation.

To avoid the market distortions that may result from the introduction of only wholesale roaming price regulation ECTEL also proposes the introduction of retail price regulation for roaming services. Of the options available, the Home Pricing or Roam Like You Are Home option is proposed for regulating roaming prices at the retail level. Under that approach, when travelling within the ECTEL Member States, roaming prices are pegged to a customer's home prices for comparable mobile services.

For example, a Saint Lucian customer who is roaming in St Kitts and Nevis and making a call within that country would be charged a price that does not exceed the price of making a similar call if the customer was back home in Saint Lucia. There would be no charge for incoming calls. ECTEL notes that a similar approach is currently being used by at least one mobile operator in the ECTEL Member States.

⁵ GSR 2012 Discussion Paper: International Mobile Roaming Services: A Review of Best Practice Policies.

⁶ GSR 2012 Discussion Paper: International Mobile Roaming Services: A Review of Best Practice Policies.

Conclusions

To ensure competition and affordable retail roaming prices, ECTEL is proposing regulation of wholesale and retail roaming prices through the introduction of a price cap mechanism at the wholesale level (using the multiplier of national mobile termination rates) and through the adoption of a Home Pricing or Roam Like You Are Home option at the retail level.

This price regulation regime for roaming is expected to have the following benefits:

- promote competition and fair pricing of mobile roaming services;
- promote transparency and comprehensibility of roaming rates for customers;
- facilitate the monitoring of wholesale and retail roaming prices; and
- increase consumer surplus more than the regulation at the wholesale only or retail only level.