Mobile Roaming: No one is a loser, but will regulators be happy?

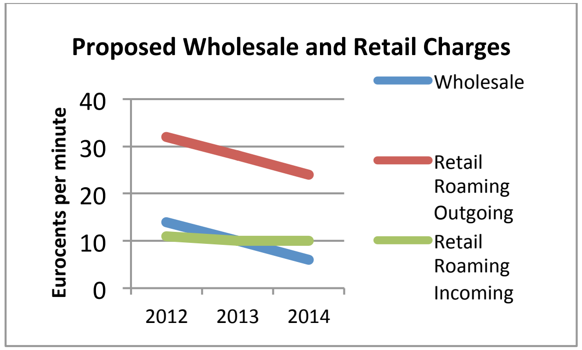
- **Proposed EU regulation will introduce competition to mobile roaming.**
- **Active consumers are likely to gain from competition whilst passive consumers will not lose.**
- **Will the EU and national regulators be content if some consumers benefit more than others? Or will they be tempted to intervene further?**

The European Union's proposed regulation on prices for mobile roaming within the EU offers benefits for all consumers: some will be better off and none will be worse off. But, the proposed regulation is likely to end up with some consumers paying more for a roaming call than others, so will regulators be happy? This article summarises a key feature of the proposed regulation and then discusses likely firm and possible regulator responses.

Structural Solution

The proposed regulation[i] envisages a structural solution to what the EU sees as the problem of high roaming charges. Rather than the Commission being involved in setting retail prices, the regulation will allow consumers to select a roaming provider separately from the main network provider. A consumer may, for example, choose to have Vodafone as her main network provider and a new entrant (say Mobile Roaming Ltd) as her roaming provider. In this way the roaming part of her monthly usage is open to competition. The proposal is broadly similar to carrier pre-selection.

The proposed regulation further envisages a glidepath of wholesale prices that the host network can charge the roaming provider and a retail cap for both incoming and outgoing roaming calls.



One of the reasons that the EU is considering this structural solution is that roaming prices

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today are clustered around the existing retail price cap and none of the networks has broken ranks to reduce prices further. This structural solution is designed to bring the benefits of competition to mobile roaming.

Possible Operator Responses

What is likely to be the response of the incumbent mobile operators? This will depend largely on the response of consumers and the proportion that switch from the incumbent to the entrant, which will in turn depend on the price discount offered by the entrant and the perceived risk of switching.

Some consumers are likely to be very active and will switch for a fairly low discount. Others are likely to be passive (perhaps because the roam very rarely or are simply ignorant of the availability of competing operators) or to have a strong loyalty to their incumbent or to perceive a high risk in switching to a relatively unknown supplier. Consumers are only likely to switch if the utility less the switching cost of the entrant's service is greater then the utility of the incumbent's service. DeBijl and Peitz[ii] say that switching costs will differ by consumer and is a measure of the "stickiness" of the market. This stickiness accounts for why 100% of the market does not switch when a new entrant offers a lower price than the incumbent.

Active consumers are likely to gain from entrants' pricing policy whilst passive consumers remain with the incumbent who may charge a premium

If the proportion of switchers is low, or rather if the proportion of minutes switched is low, then incumbents may lose more profit by reducing their own prices than they would by holding prices and losing some market share. However, if active consumers take a high proportion of minutes with them, then incumbents will have to respond or lose profits. In economics terms, it will be the location of the marginal consumer, i.e. the consumer for whom the utility of the entrant's service less switching costs is *equal* to the utility of the incumbent's service that will determine the profits available to each firm.

What we can confidently predict is that, at least in the short term, two roaming prices will exist in the market: the entrant's lower price aimed at active consumers and the incumbents higher price aimed at passive consumers and consumers with a high switching cost. As there is a cap on retail charges in the market, we know that active consumers will win and passive consumers won't lose.

Will Regulators be Happy?

Under this proposed regulation, an active consumer could be making substantial savings compared with a passive one. Will regulators

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be happy with this state of affairs, or will they think it's not fair that those who don't switch are "ripped off"?

An imperfect comparison can be found in the UK electricity markets. The UK is divided into some 14 regional markets each with an incumbent supplier and several entrants. As is typically the case, the incumbent charges a higher price than the entrant. Active consumers tend to switch supplier and passive ones remain with the incumbent. Switchers could gain an average discount of around 10% on their bill, yet only about 50% of consumers switched[iii]. Unlike how we might expect the roaming market to develop, incumbents in one electricity market are entrants in another and so charge different prices in different markets. To stop what it saw as price discrimination, the energy regulator proposed a non-discrimination clause that would prevent energy companies charging different mark-ups in different regions and so stop the perceived price disadvantage of some consumers.

The UK energy regulator has a particular duty to protect "vulnerable" consumer and was concerned that these customers in particular are least likely to switch and so least likely to gain from competitive markets.

Whilst energy is therefore an imperfect parallel to mobile roaming for several reasons, the experience leads us to wonder whether telecoms regulators, in this case the European Commission directly, will be happy if active considers are seen to gain, whilst passive consumers do not enjoy and gains from competition, even if they do not actually lose. If this situation does arise, will the EU find it necessary to intervene again to spread lower prices to all consumers, or will it be content to see some consumers benefit from their active involvement in the market, whilst passive consumers do not?

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SPC Network is an economics and public policy consultancy specialising in network industries. Established in 2003, SPC Network has worked for over 25 clients amongst operators, regulators and governments on all continents.

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[i] *Proposal for a Regulation of the European Parliament and Council on roaming on public mobile communications networks within the Union* COM(2011) 402 6th July 2011

[ii] *Regulation and Entry into Telecommunications Markets* Cambridge University Press, 2002

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[iii] Hviid and Wadams Price *Non-discrimination clauses in the energy sector* CCP Working Paper 10-18 www.competitionpolicy.ac.uk

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