

Roaming without borders

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Following the latest European Commission proposal on wholesale roaming surcharges across the EEA, on 5 and 6 April, MEPs will debate on and vote for amending Regulation (EU) No 531/2012 as regards rules for wholesale roaming markets.

With wholesale roaming charges set to be reduced to zero, it is now of vital importance for policymakers to focus on the potential for unintended consequences from RLAH, such as the possibility of mobile providers raising charges for domestic phone users in order to compensate for lost revenue from roaming.

In order to facilitate the integration of European telecoms markets, it is essential to bring down domestic barriers to competition.

Introduction

On 5 and 6 April, Members of the European Parliament will be discussing and voting on the adoption of the latest Commission proposal to end roaming charges in the EEA by 15 June 2017 (EC, 2016a).

If adopted, the legislation will enable all European travellers to call, send messages and browse the internet on their mobile devices while abroad in the EU without any charge above and beyond the price they already pay at home. This mechanism, called Roam-Like-at-Home (RLAH), will be supported by so-called fair use policies, which will prevent consumers from abusing the system by mass purchasing and reselling of SIM cards for permanent use outside the country of the operator. Operators will be prevented from placing surcharges on domestic consumers.

The EC proposal's aim – to ease cross-border communication – is laudable, but it is possible that the legislation will have negative unintended consequences on domestic telecoms markets.

Towards a single market in telecommunications

As the free movement of people and services is one of the EU's fundamental freedoms, the decision to introduce the RLAH principle is touted as the final step towards a single telecommunications market which will be more consumer-friendly. The cost of sending text messages and making phone calls abroad has been reduced by more than 90% since the EU began capping roaming charges in 2007 (EC, 2016b).

Whilst being primarily a political objective, the general economic idea of reducing roaming tariffs across the EEA traces back to the seminal works by Armstrong (1998) and by Laffont, Rey and Tirole (1998a and 1998b). These important papers, which provide the basis of network effects in telecommunications, were written a few years after the introduction of second-generation 2G cellular telecom networks. These were also the years in which the European Commission opened a sector inquiry into mobile international roaming after receiving numerous complaints about price fixing. In fact, between 1997 and 2000 wholesale prices between EEA networks witnessed absolute increases (126% for calling internationally and 166% for calling nationally), with relative increases converging towards a higher overall price (Alkatheeri, 2013).

Since 2007, the EU has achieved retail price reductions across calls and SMS of 92%. Data roaming is now 96% cheaper compared to 2012 when the first EU retail price cap became applicable on data roaming. Moreover, between 2008 and 2015, the volume of the data roaming has been multiplied by more than 100 (EC, 2016b).

Since then, the Commission has moved fast in introducing new regulations to cap both wholesale and retail prices and over the last decade these regulations have steadily lowered the maximum roaming charges allowable across the whole EEA (Van Der Wee et al, 2016). Moreover, following the OECD Council on International Mobile Roaming recommendations (OECD, 2012) the European Union's wide ranging initiatives on mobile roaming prices have gone significantly further than in all the other OECD countries (Bourassa et al. 2016) and soon RLAH plans will become a reality.

If implemented, RLAH advocates suggest that the latest EC proposal will reduce costs for European travellers; will lead to greater economies of scale; and will expose national operators to other players within Europe. This view, currently promoted by EU policymakers, highlights the fragmentation of the European mobile communications industry as a barrier to more competitive prices

and services. However, this interpretation does not properly take into account any potential economic and regulatory distortions from RLAH (Marcus and Petropoulos, 2016).

Roam-Like-At-Home as a starting point for a wider telecom market reform

Since the introduction of RLAH-type offers, at least 25% of mobile operators have noted a clear increase in roaming voice (around 20-23%) and SMS usage (10-20%), and an increase in roaming data usage of between 90 and 200% (BEREC, 2016).

If the benefits of RLAH are to be obtained by consumers and businesses, policymakers should not view the adoption of this proposal as a closing point. As things stand, a single telecommunications market is not yet in place and despite almost three decades of telecom market reforms, regulatory differences persist across EU member states (Van Der Wee et al, 2016).

This is in part due to the historical monopolistic nature of the industry – sponsored by states – and the historically strong link between telecom markets and national ‘strategic,’ especially military, interests (Faccio and Zingales, 2017). For this reason, national telecom markets have always been subject to strong political pressures and connections. Moreover, due to heavy national regulation, the industry has remained very much segmented by country (Faccio and Zingales, 2017). Consequently, on 14 September 2016, the Commission launched a comprehensive review and overhaul of telecoms rules (EC, 2016c). Yet, despite previous efforts in this regard, progress has been uneven and slow in some jurisdictions, as evidenced by the IBL Index of Liberalisations (2016).

If RLAH is to succeed, the effective deregulation of telecoms markets should become an immediate priority. In fact, as Tangeras and Tag (2016) explain, national regulatory authorities currently still have incentives to set termination rates above marginal costs to extract rents from international termination. EU-wide network consolidation and deregulation are effective alternatives to combat these market distortions. However, after a series of important trans-national mergers, the EU Competition Directorate has recently taken a less welcoming stance towards sector consolidation, especially with regard to mergers between domestic competitors (Reuters, 2017a).

The potential costs and difficulties of Roam-Like-At-Home

The latest European Parliament proposal for amending regulation (EU) No. 531/2012 goes in the right direction (European Parliament, 2017). However, despite the positive rhetoric of the latest amendments, it is crucial for European policymakers to consider not only the potential direct gains from RLAH, but also its associated costs, such as the possibility of mobile providers raising charges for domestic phone users in order to compensate for lost revenue from roaming. Increased domestic prices are a potential unintended outcome and they would adversely affect consumer welfare in a significant way (Maille and Tuffin, 2017).

The gradual reduction in the roaming cap between 2012 and 2014 had a positive societal welfare effect of €13.6 billion. However, given already low charges, the welfare gain to be had from RLAH compared to existing regulated rates is estimated at less than €1 per year per inhabitant (Marcus and Petropoulos, 2016).

In recent years, the impact of successive price decreases on operators’ revenue has already become visible. For example, KPN, the Netherlands’ second largest landline and mobile telecommunications company, reported that regulated roaming tariffs already accounted for a total of around €150 million of lost revenue between 2011 and 2013 only (Deloitte, 2014).

Finally, a key source of concern relates to the significant reduction of the wholesale cap for data, voice and SMS for Mobile Virtual Network Operators (MVNOs). On 1 February 2017, European lawmakers reached an agreement to cap wholesale roaming charges for data at €7.70 per gigabyte from June 2017, going down to €2.50 per gigabyte in 2022. Caps for making calls will decrease from €0.05 per minute to €0.032, whilst those for sending SMS will halve from €0.02 to €0.01, as of June (European Commission, 2017). In light of this, mobile virtual network operators have already warned that, under current terms, European citizens risk losing competitive tariffs and innovative offers (Reuters, 2017b).

Conclusion

As the EU moves towards an internet-based economy and the digital single market strategy gathers momentum, it is key that simpler regulation aimed at both eliminating barriers to communication and reducing costs carries on. However, whilst roaming charges will now be reduced to zero, it is essential that policymakers consider the unintended consequences of RLAH, most saliently the possibility that domestic charges will rise. Otherwise we may find ourselves in a situation where Roam-Like-At-Home becomes Roam-Like-Abroad.

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