

Implementation of the AREGNET Recommendation on the International Roaming Rates applied among Arab Countries

Proposals of the AREGNET Working Group on
International Roaming



هيئة تنظيم الاتصالات
Telecommunications Regulatory Authority

Background

- What action has been taken so far?



Why roaming issue needs to be solved?

<p>Increasing importance of closer regional cohesion</p>	<p>Arab Region – single language, culture, social values, history and roots</p> <p>Intensive intra-regional tourism</p> <p>Cross-border regional business</p> <p>High prices - clear obstacle to the process of closer cohesion of the Region</p>
<p>High prices for roaming</p>	<p>Roamers pay many times more than local users (per minute):</p> <ul style="list-style-type: none">– Up to 6 times more for calls to their home country– Up to 14 times more for local calls in visited country– Up to 4 times more for calls received (compared to users calling from home country to the visited one)
<p>Increasing pressure to increase roaming prices</p>	<p>Arab operators report that European operators are increasing wholesale prices (IOTs) to them</p> <ul style="list-style-type: none">– In order to recoup losses in revenues caused by the European regulation <p>Reports that the process above is followed by increasing wholesale prices (IOTs) within the Arab region</p> <p>Move to introduce additional charges for calls received</p>



Arab World – Development of Policy

Industry's proposals on self-regulation rejected by AREGNET and the final recommendation approved

Resolution No. 187 of the Arab Telecommunications and Information Council of Ministers

- Roaming rate regulation
- Transparency of roaming tariffs via SMS

AREGNET's Plenary / Meeting between the Heads of the Regulatory Authorities and the CEOs of Arab GSM Companies (presided by TRA Bahrain)

AREGNET WG meeting – text of MoU prepared

Arab Telecommunications and Information Council of Ministers supported the recommendation



Arab Telecommunications and Information Council of Ministers asked AREGNET to look into the possibilities to regulate international mobile roaming

AREGNET work on roaming commenced (led by NTRA Egypt)

AREGNET working group agreed on the last version of the recommendation

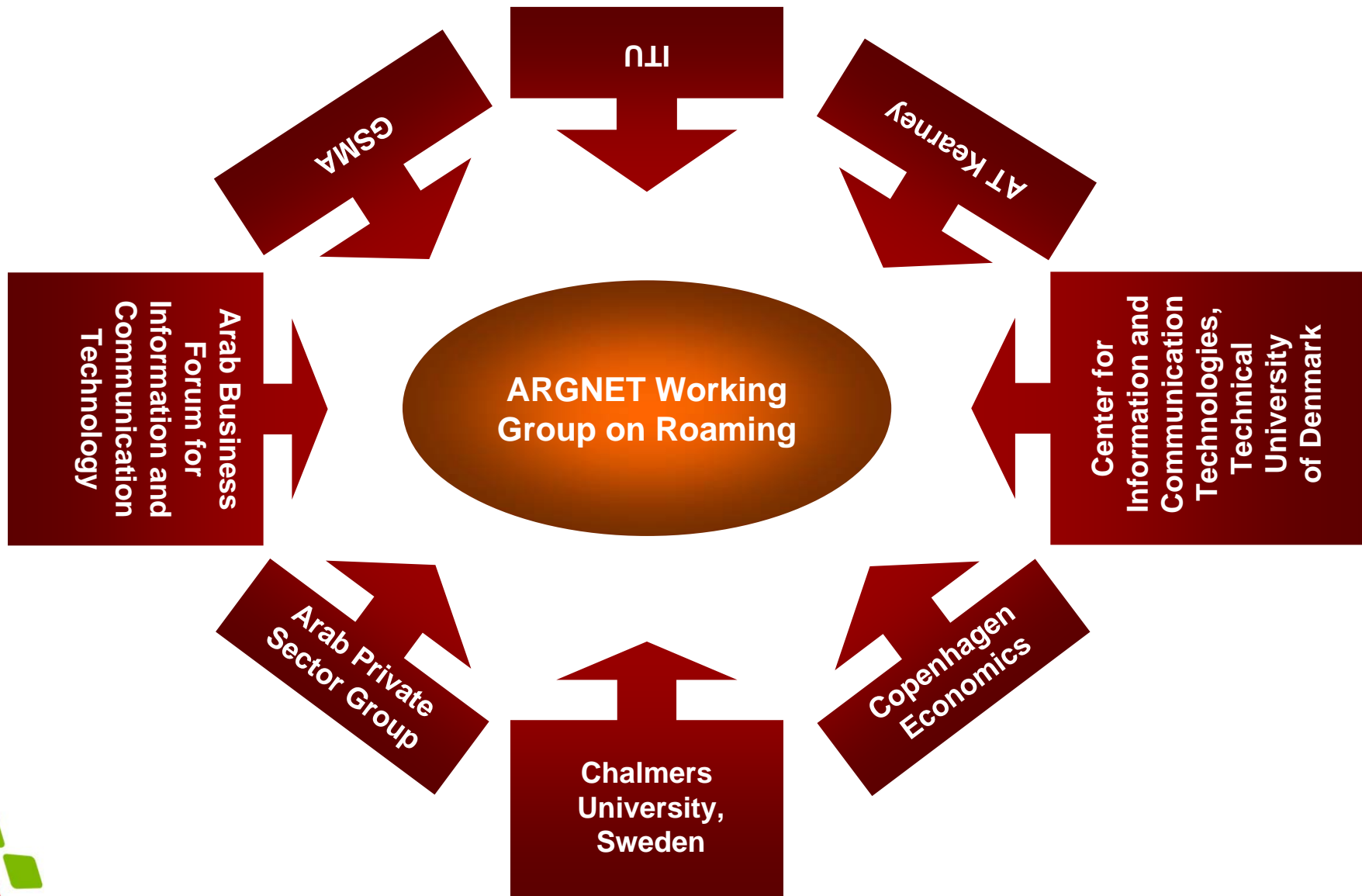
AREGNET plenary decides on further implementation

Operations and Tariffs Working Group / Arab Permanent Committee for Telecommunications and Information

Agreed text of the recommendation, however decided to work with the industry on self-regulation



Input from experts and industry



Alternatives to regulation

Traffic Direction Techniques

Limited evidence of downward pressure on rates until 100% reliability achieved

Groups and Alliances

Zain, Etisalat, Batelco, Orange, Saudi Telecom
Small operators could be excluded
Limited effect

Self Regulation

No tangible achievements / commitments during 3 years of discussions (except the website)

Voice over IP

Not available in a number of countries
Little evidence of substitution reported by operators

Marketing Activities

Promotional activities - not real price reductions
e.g. raffles

Local number on visitor SIM

Limited impact
Focus on frequent roamers

Global SIM cards

No evidence of impact in the Arab World

**The only real substitute to roaming –
SIM swapping (buying SIMs of a visited country)**

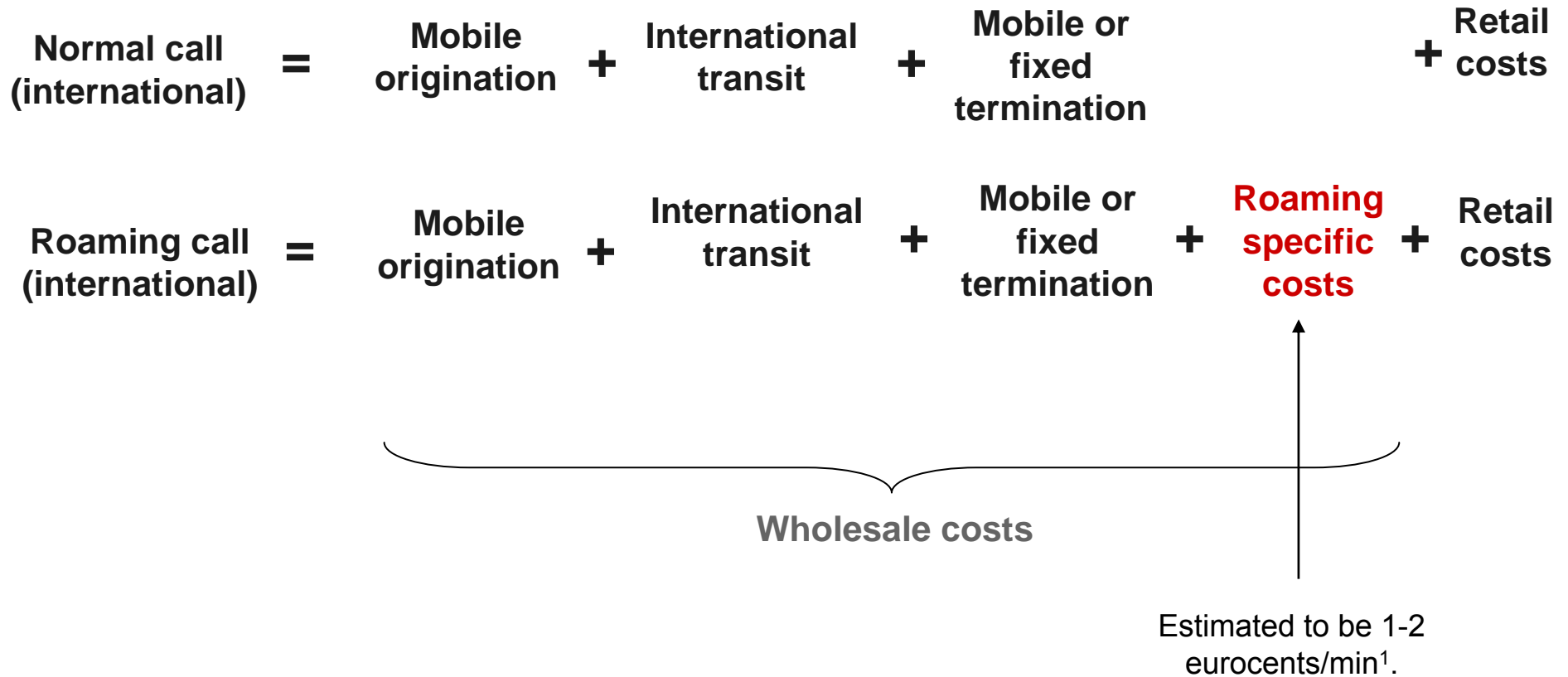


AREGNET Regulatory Model

Principles	Considerations
Price regulation	Takes into account differences in the level of liberalisation Does not restrict self-regulation, but acts as a safeguard Flexible and self-improving <ul style="list-style-type: none">– Linked to the international call rates and not expressed in absolute numbers
Transparency	Arabic language website on prices (to some extent implemented by GSMA) All operators should be included Timely update is essential Information via SMS
Reciprocity	Ensures that no country is disadvantaged because of having lower national tariffs
Liberalisation of international gateways	Encouragement of liberalisation
Fair and reasonable taxation	Encouragement of review

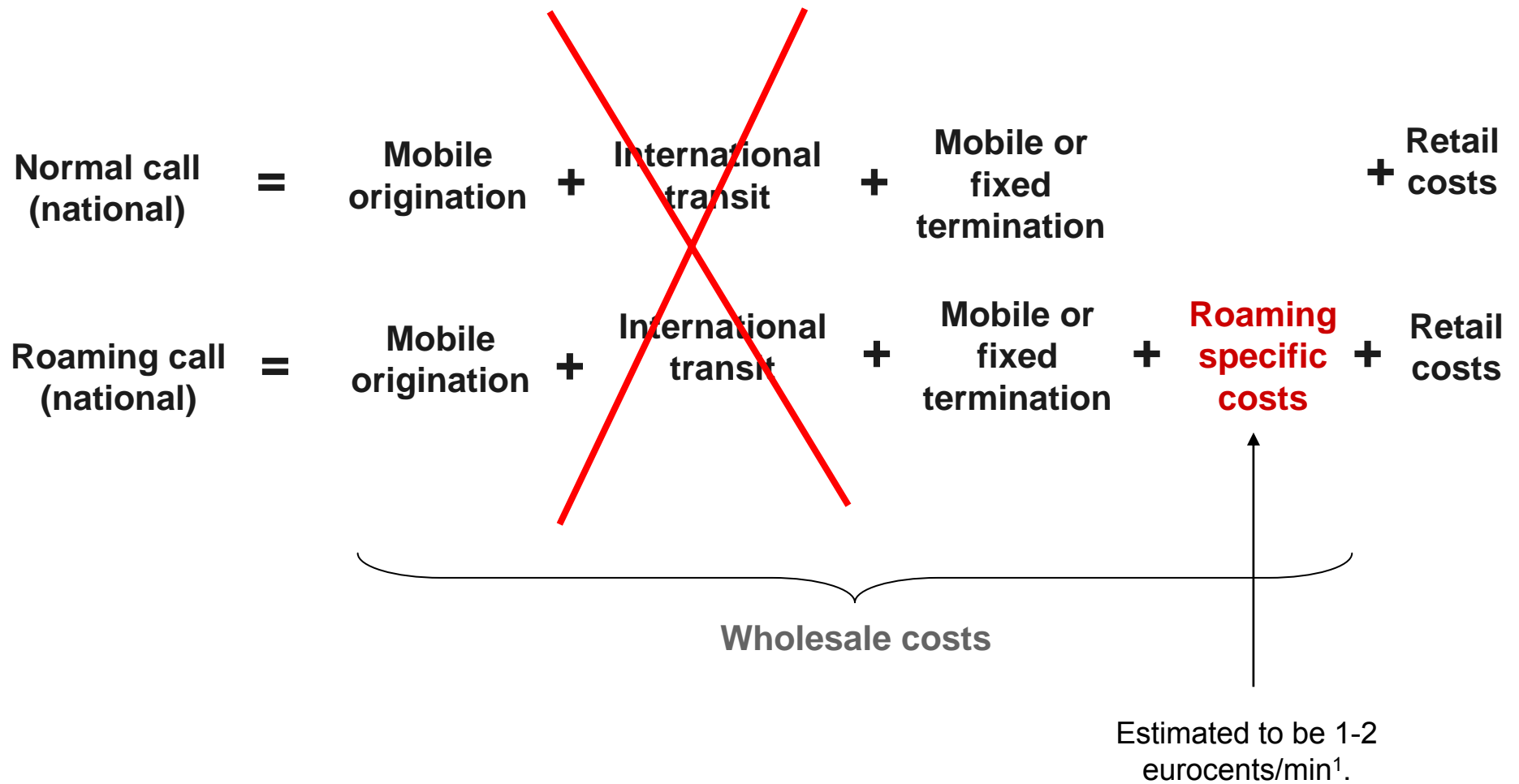


Basis for Price Regulation – outgoing calls



Note 1: Source - Jervelund Ch., Karlsen S., Olesen H. B. (2007) An Assessment of the Commission Proposal on Roaming. http://www.europarl.europa.eu/comparl/imco/studies/0702_roaming_en.pdf

Basis for Price Regulation – outgoing calls



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AREGNET Regulatory Model

Call type	Wholesale rate (Collected by a visited operator)	Retail rate (Collected by a home operator)
Originated call to a home country or a third country	Visited operator's retail charge for international calls to a respective country (IDD) x [1.5; 1.4; 1.3] ¹	Wholesale rate x 1.3
Originated call within a visited country	Visited operator's retail charge for local calls x [1.5; 1.4; 1.3] ¹	
Incoming call	Not higher than a normal rate for international call termination (normal commercial practice – at least until recently)	Home operator's retail charge for international calls to a visited operator

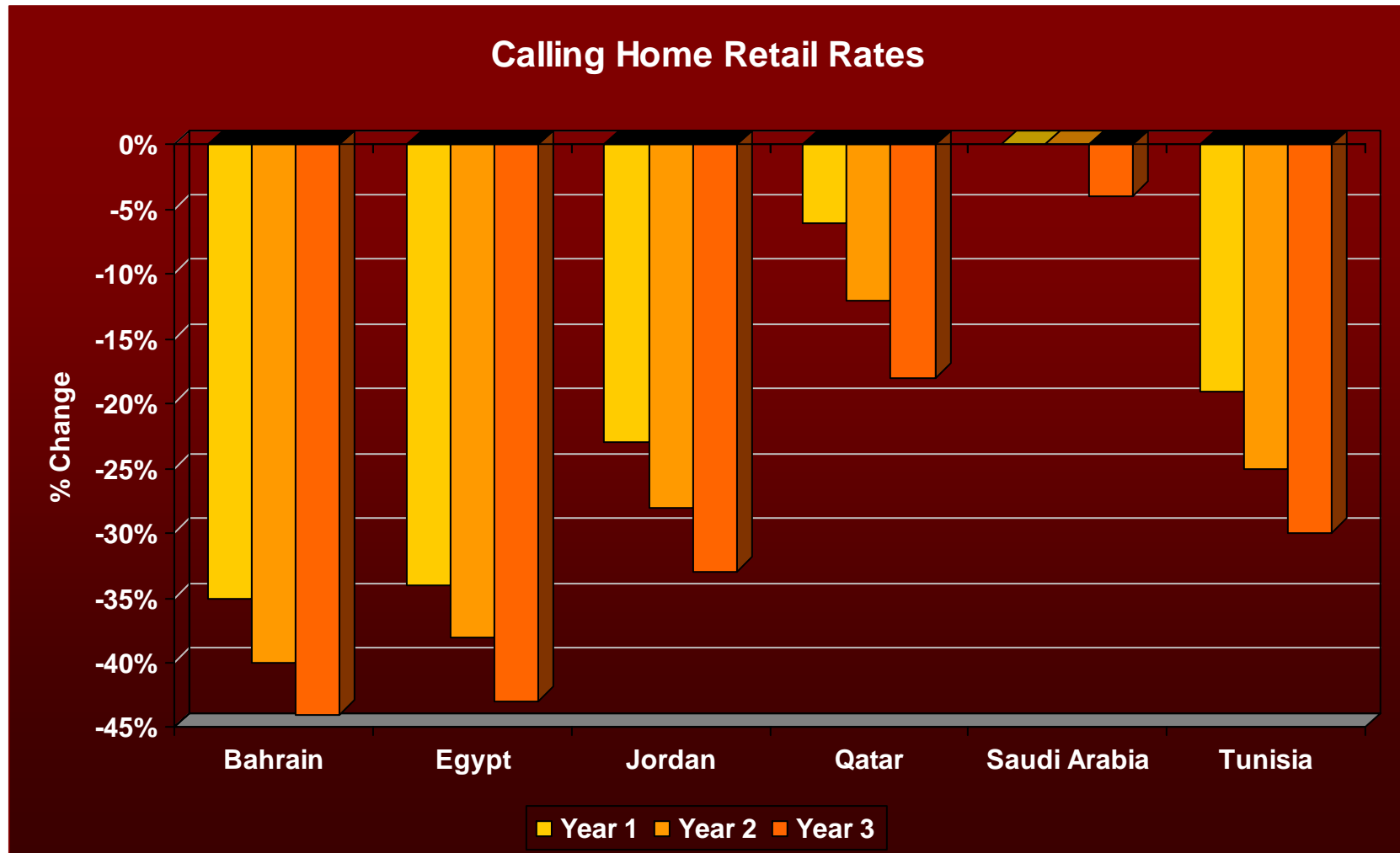


Why not European model?

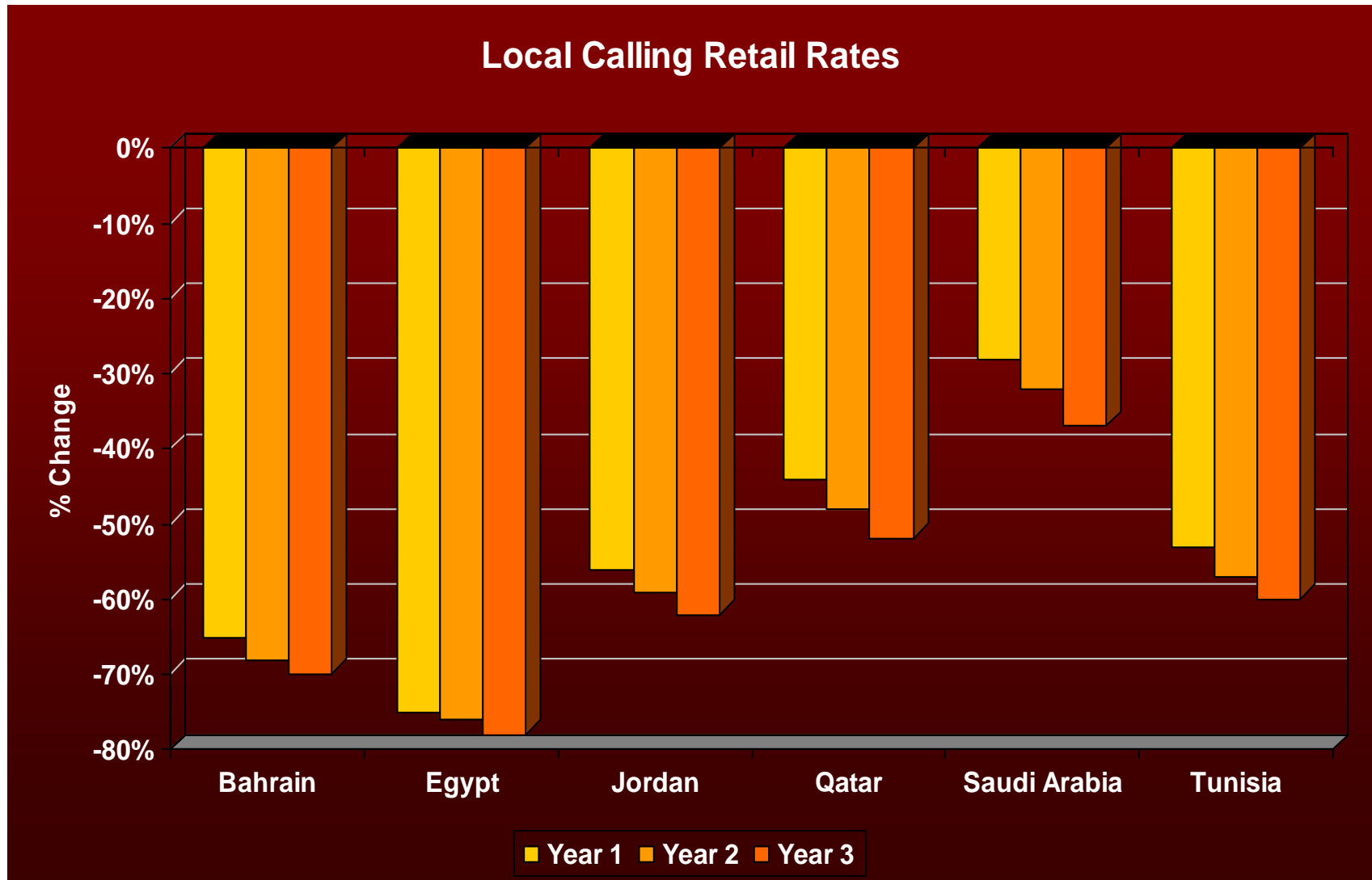
Intra-regional differences in national regulatory frameworks	No established base regulation <ul style="list-style-type: none">– No single basis for MTR regulation Different stages of liberalisation of international gateways
Vast intra-regional differences in levels of development	E.g. mobile penetration varies from 18% in Sudan to 153% in UAE (2007) Booz Allen Hamilton, 2008
No regulation for intra-regional traffic	Intra-European interconnection is (at least in theory) regulated on a cost-basis
Different market situation	Stage of development of Arab markets is different from the European ones Accordingly – regulatory and policy priorities are different Costs may also be different
Undesirability to “cut-and-paste” political solutions	European model is an outcome of a political compromise of the EU institutions



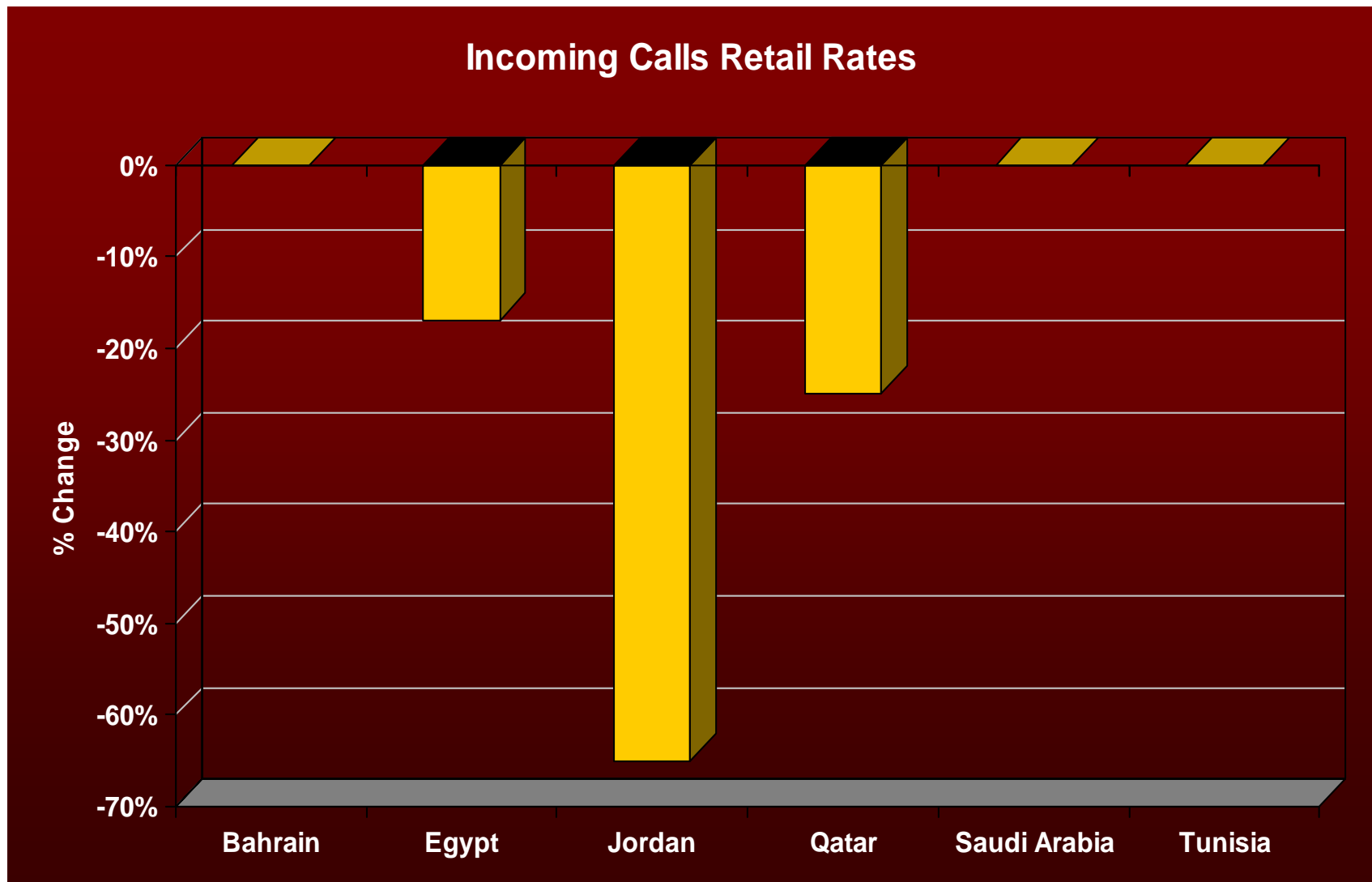
User savings



User savings



User savings



Regulation should result in.....

Impact	Assessment
Reduced roaming charges	More than 36% decrease in roaming rates – GSMA estimate for the 2nd year of regulation
Savings for Arab consumers	More than US\$ 115 mn. per annum – US\$ 6.5 mn. Bahraini consumers alone
Traffic growth	14% increase – GSMA estimate for the 2nd year of regulation taking into account pessimistic assumptions Potential traffic growth significant considering only limited pre-paid roaming available today



Addressing the industry concerns

Concern	Response
Competition and innovation would suffer	<p>Competition and innovation have not brought rates to reasonable level so far</p> <p>Regulation would only impose a maximum limit for tariffs</p> <ul style="list-style-type: none">– Operators will be free to innovate and compete below such a limit <p>Studies show that regulation, preventing “overpricing”, increase competition</p>
Serious impact on investments	<p>GSMA’s pre-regulation studies in Europe</p> <ul style="list-style-type: none">– estimated reduction by 2.8 % <p>No evidence of real impact</p>
More serious impact on less developed countries	<p>Only up to 5% points difference in impact on revenues between “growth” and “mature” markets</p> <ul style="list-style-type: none">– Only up to 3% points difference in impact on margins <p>Nascent markets face even lower impact</p> <p>Absolute impact – negligible</p>



Addressing the industry concerns

Concern	Response
Serious impact on revenues of operators	<p>0.3-0.84% reduction in revenues at most</p> <ul style="list-style-type: none">– Intra-region roaming revenues - 2-3 % of total revenues– GSMA estimated maximum reduction is 15-28 % <p>Operators will still earn retail contribution margin of circa 36-42%</p> <ul style="list-style-type: none">– Pre-regulation retail contribution margin – min. 45 %
Increase in other prices for consumers	<p>No evidence of intra-market rebalancing in Europe</p> <p>Regulation does not mandate prices below costs</p>



Basis for Implementation - Arab League

Resolution of the Arab Telecommunications and Information Council of Ministers (June 2008):

- Acknowledged the efforts of AREGNET
- Confirmed the requirement to implement Resolution No. 187 of the Arab Ministerial Council regarding transparency
- Approved the recommendation of AREGNET on establishing a website
- Stressed the need to work on reducing international roaming prices between the Arab countries and supported the AREGNET recommendation regarding calculation (regulation) of the roaming prices between the Arab countries
 - Welcomed the suggested application of the price ceiling accepted by some of the Arab countries and invited others to work in order to be able to apply the regulation recommended



Basis for Implementation - AREGNET

Following the Resolution of the Council of Ministers, the Plenary of the AREGNET in Tunisia agreed (June 2008):

- SMS transparency should be implemented by the end of 2008
- Recommendation on website should be implemented by the end of 2008
- Encouraged the implementation of price regulation according to the formulas agreed
 - For the moment this might not be enforced in all the Arab countries, but will be encouraged and followed-up by AREGNET
- Coordination of implementation of the measures will be done by the Permanent Secretary of AREGNET and the AREGNET Working Group (coordinated by Bahrain)



Arabian Gulf Cooperation Council (GCC)

Resolution of the Ministerial Committee for Post, Telecommunications and Information Technology of the GCC requested the Members of the GCC (May 2008):

- Comply with the Recommendation of AREGNET referred to before
- Apply the special regulation for intra-GCC roaming, whereby intra-GCC roaming charges should not exceed international call rates by more than 15 percent



Implementation so far...

SMS Transparency	Implemented or in the process of: <ul style="list-style-type: none">- Algeria- Bahrain- Egypt- Oman- Tunisia- UAE- Qatar- Saudi Arabia- Syria- Sudan- ???
Price Regulation	Reciprocity is needed – see further



Proposal for Implementation

- How might we move forward?

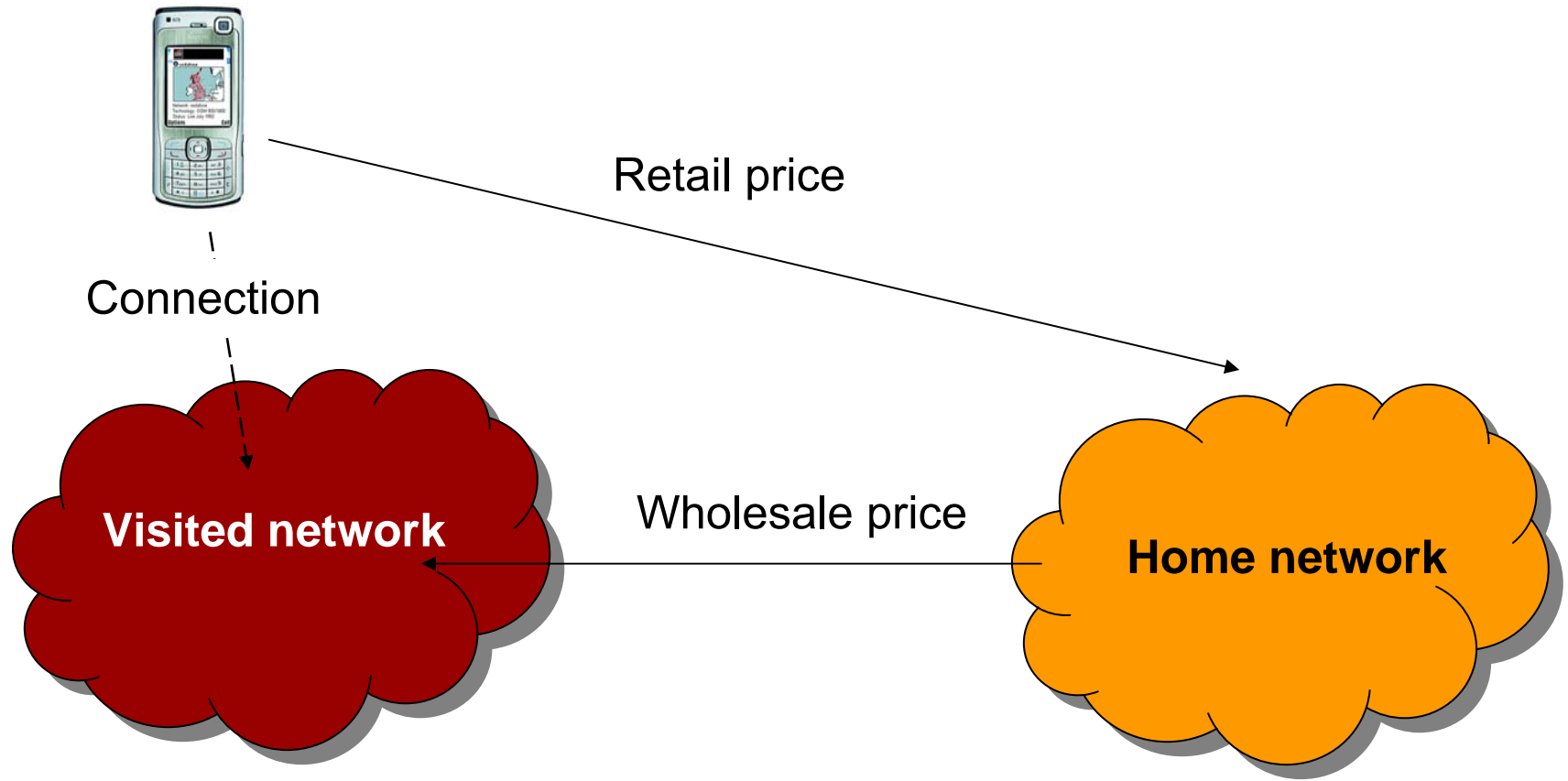


Why do anything?

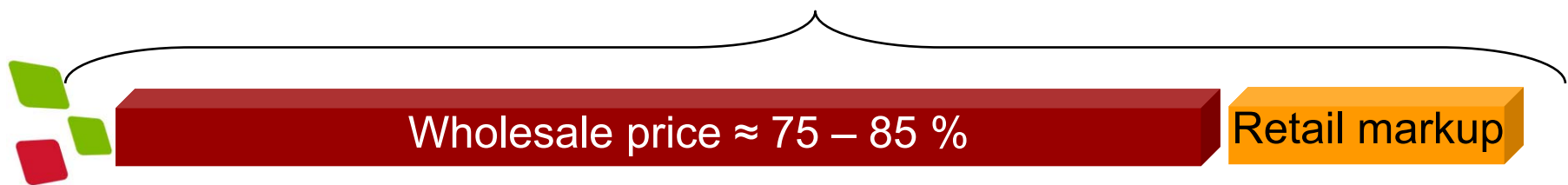
SMS Transparency	Need for stronger push in implementation Harmonization of approaches could be very useful: <ul style="list-style-type: none">– More clarity and legal certainty to operators– Faster and more effective implementation
Price Regulation	Not possible without guarantees for reciprocity: <ul style="list-style-type: none">– Experience so far in the Arab region– European experience– Necessarily limited scope of individual actions
Coordination	Increased importance and exposure Single voice is needed in: <ul style="list-style-type: none">– Achieving better engagement with the industry (usually represented by the GSMA)– Talking to other regions – e.g., Europe – and solving inter-regional issues



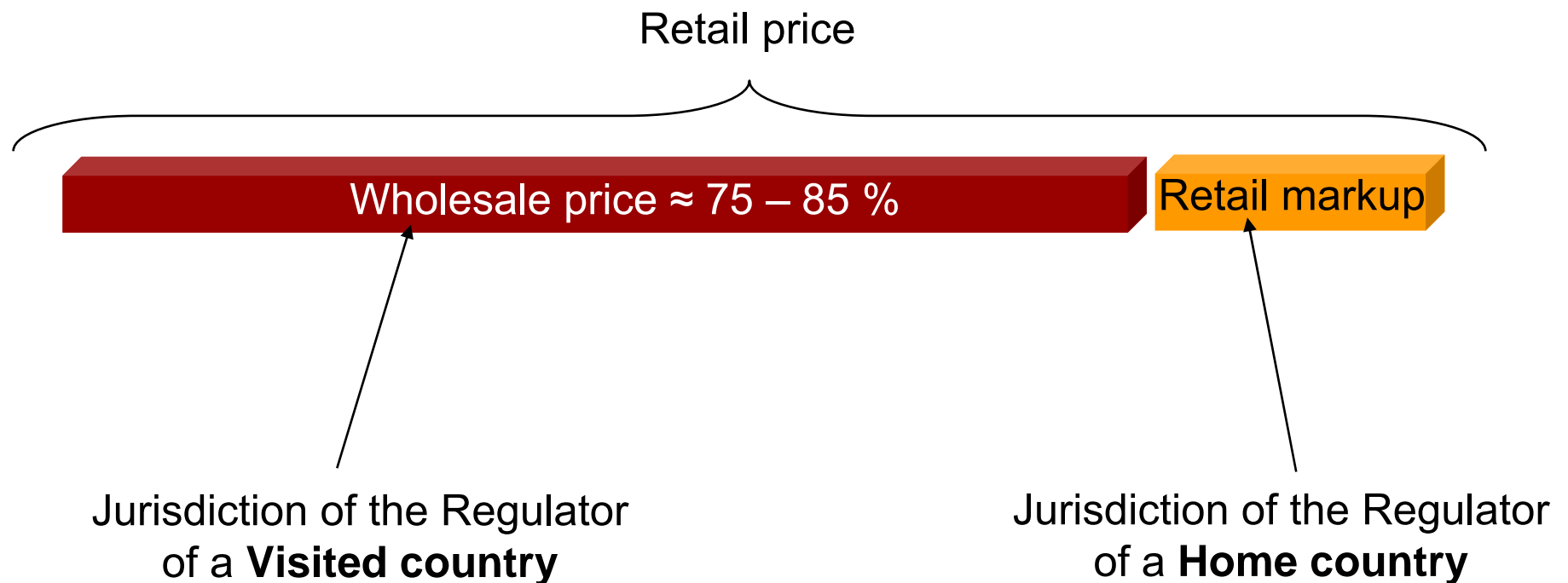
Why price regulation needs reciprocity?



Retail price



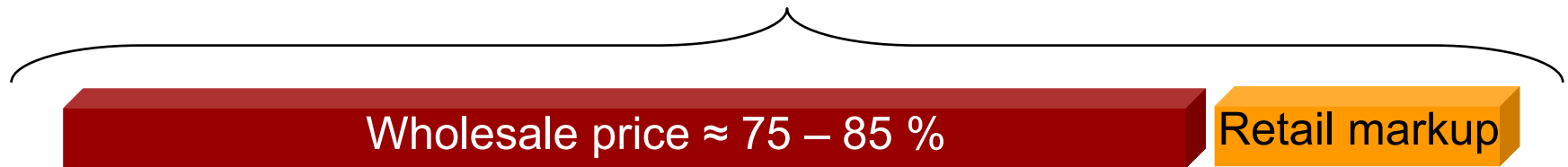
Why price regulation needs reciprocity?



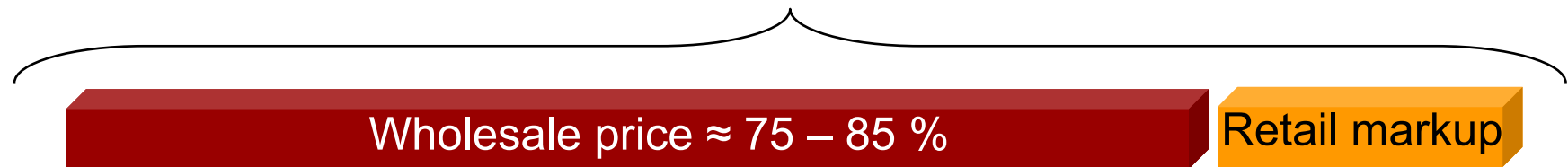
Why price regulation needs reciprocity?

What happens if prices are regulated?

Pre-regulation retail price paid by
Home users of Country A while in Country B



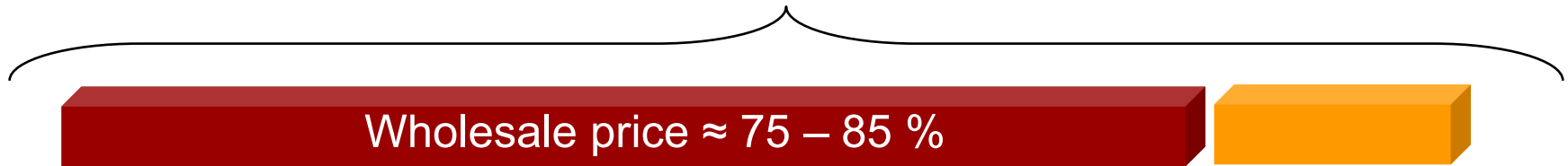
Pre-regulation retail price paid by
Visiting users from Country B in Country A



Why price regulation needs reciprocity?

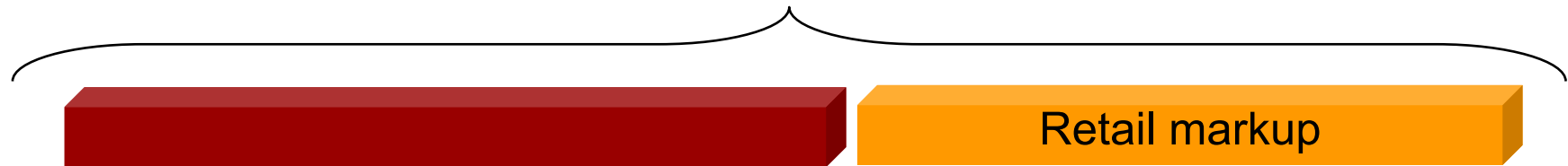
What happens if an individual Regulator (A) decides to regulate prices?

Post-regulation retail price paid by **Home users** of Country A while in Country B



Barely noticeable reduction in retail price, if any

Post-regulation retail price paid by **Visiting users** from Country B in Country A



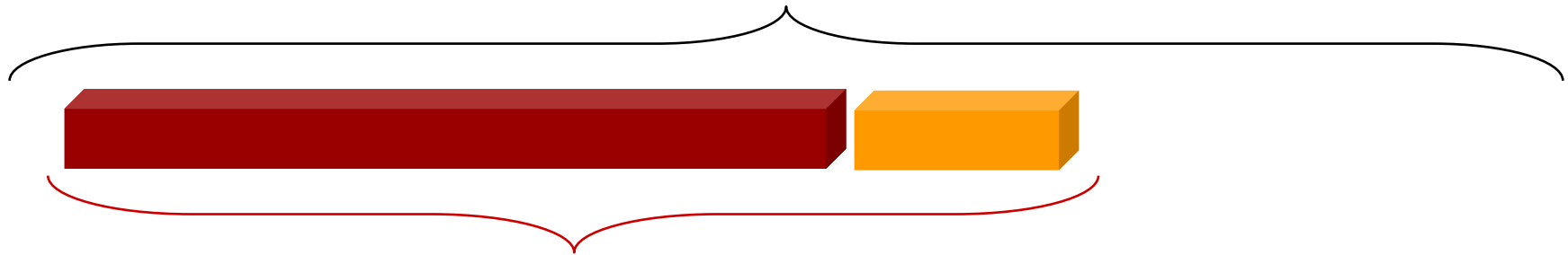
Simple reduction of revenue of local operators



Why price regulation needs reciprocity?

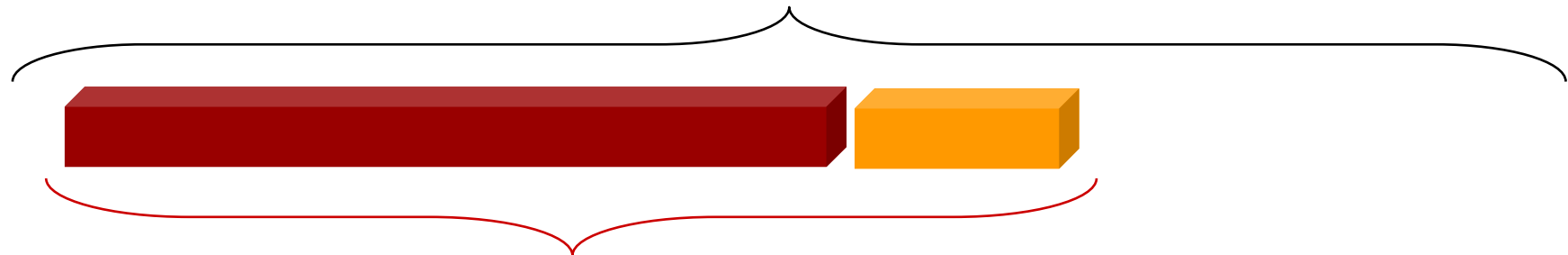
What happens if prices are regulated reciprocally?

Pre-regulation retail price paid by
Home users of Country A while in Country B



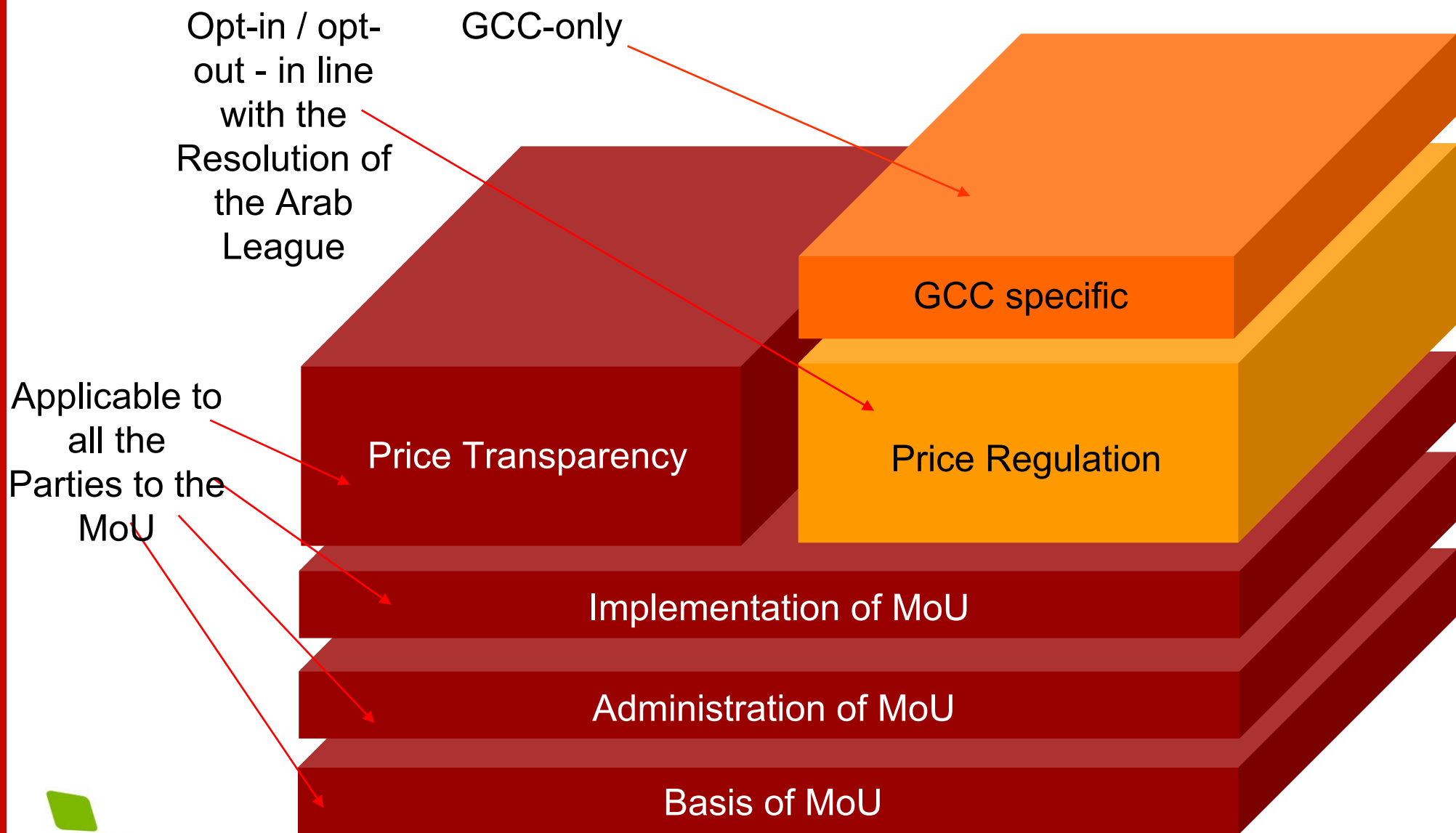
Local users benefit from lower prices

Pre-regulation retail price paid by
Visiting users from Country B in Country A



Foreign users also obtain reciprocal benefit and local operators are able to benefit from higher usage caused by lower prices

Proposed Memorandum of Understanding (MoU)

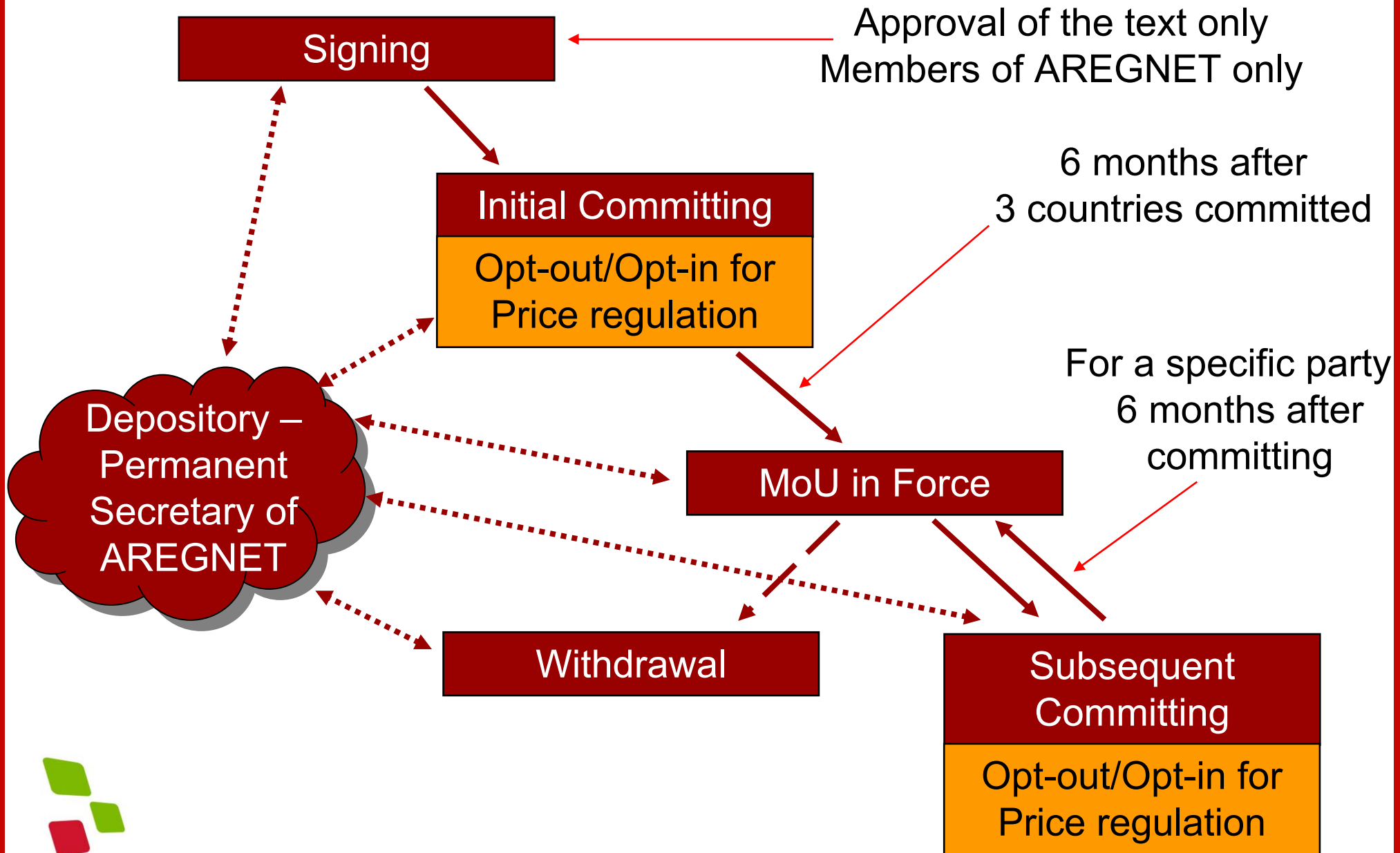


Basis of MoU

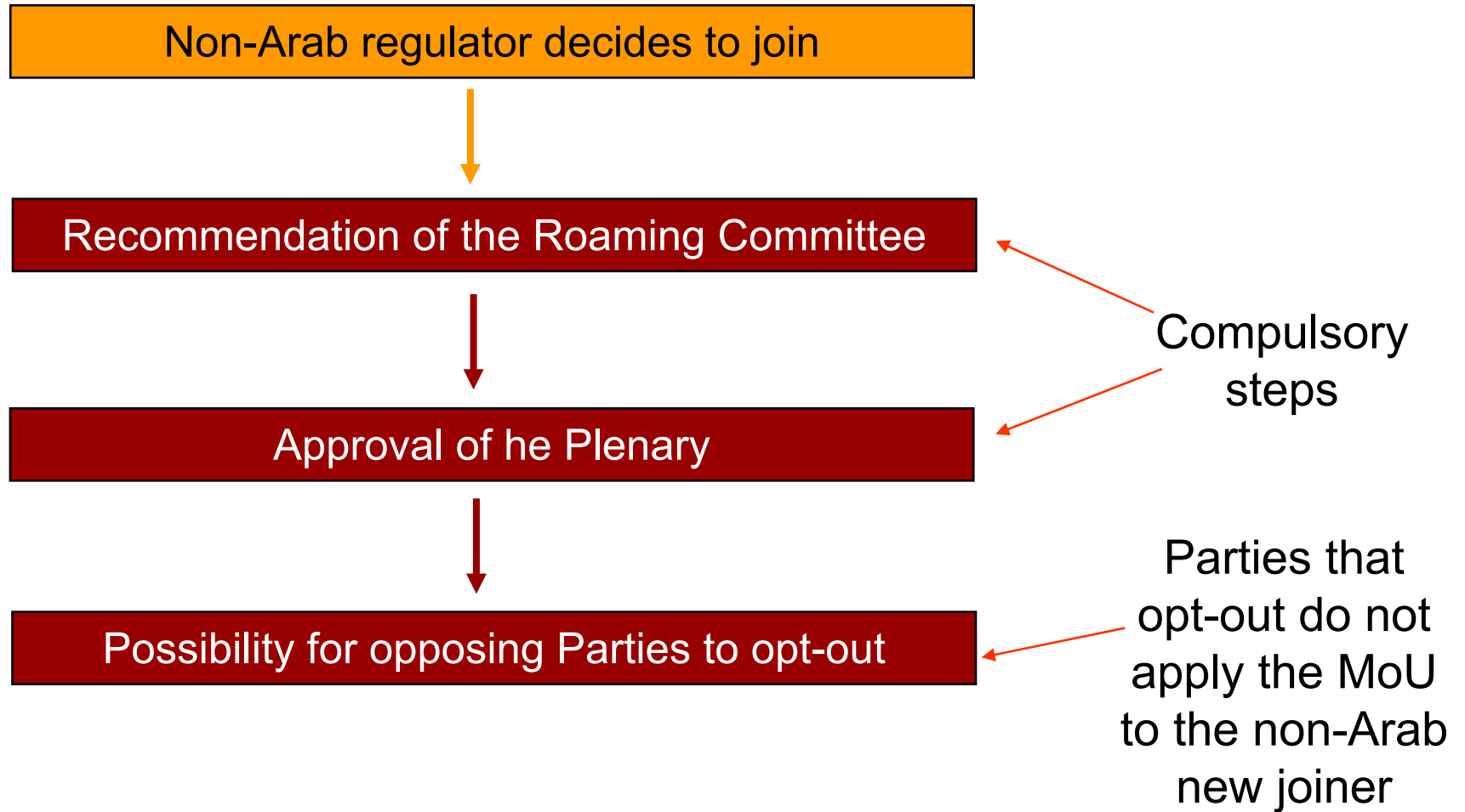
Premises	<p>Potential of lower roaming prices to enhance regional cohesion</p> <p>Need to protect from unduly high prices</p> <p>Necessity to take into account differences existing among the countries</p> <p>Need for operators to earn reasonable ROI</p> <p>Importance of extra-regional roaming</p>
Legal basis	<p>Recommendations and decisions of:</p> <ul style="list-style-type: none">– AREGNET– Arab League– GCC
Objectives	<p>Increase transparency</p> <p>Establish “Roaming Area”</p> <ul style="list-style-type: none">– Where roaming prices are regulated <p>Implement decisions of the Arab League and GCC</p> <p>Coordinated implementation</p>



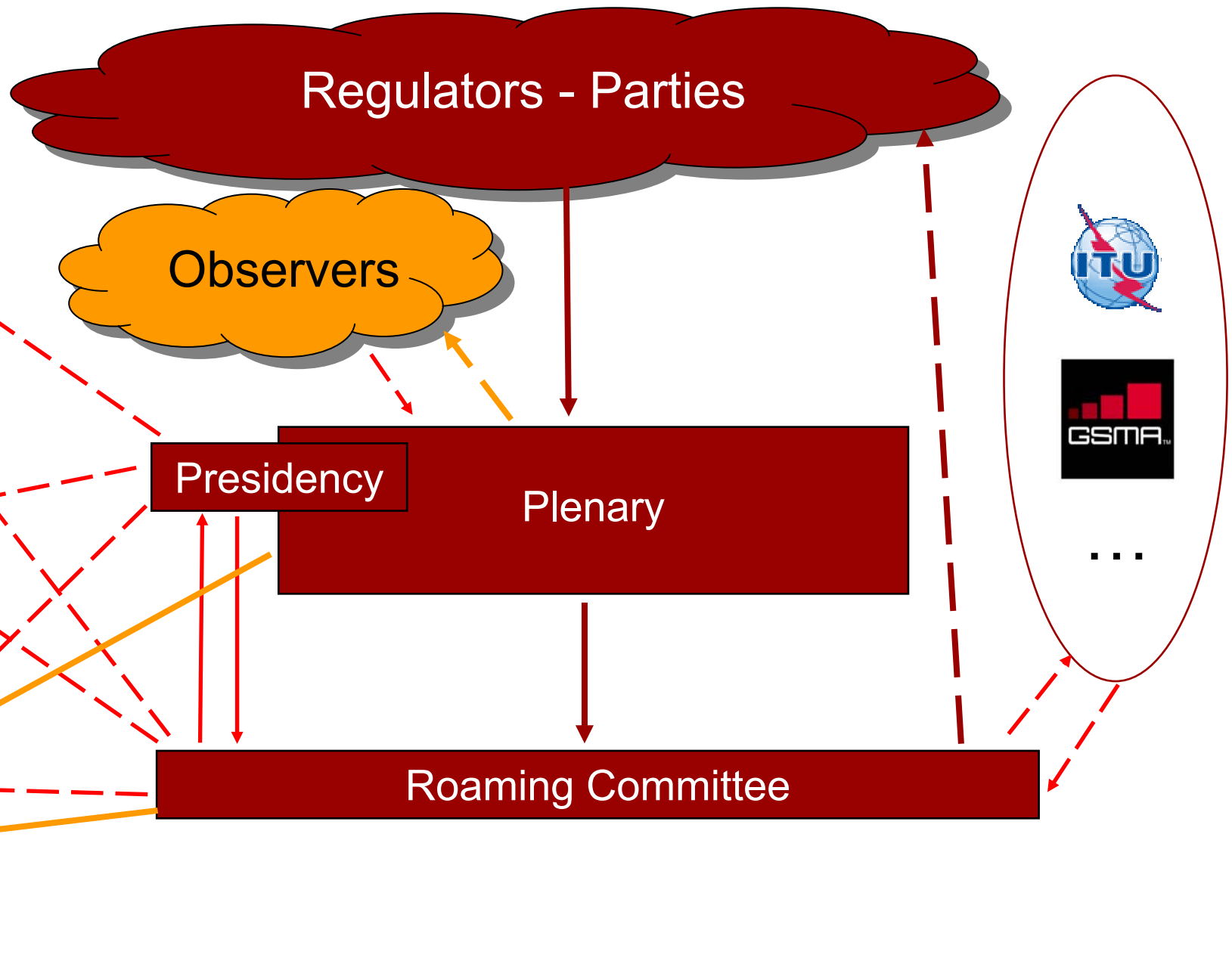
Administration of MoU



Joining of non-Arab regulators



Implementation of MoU

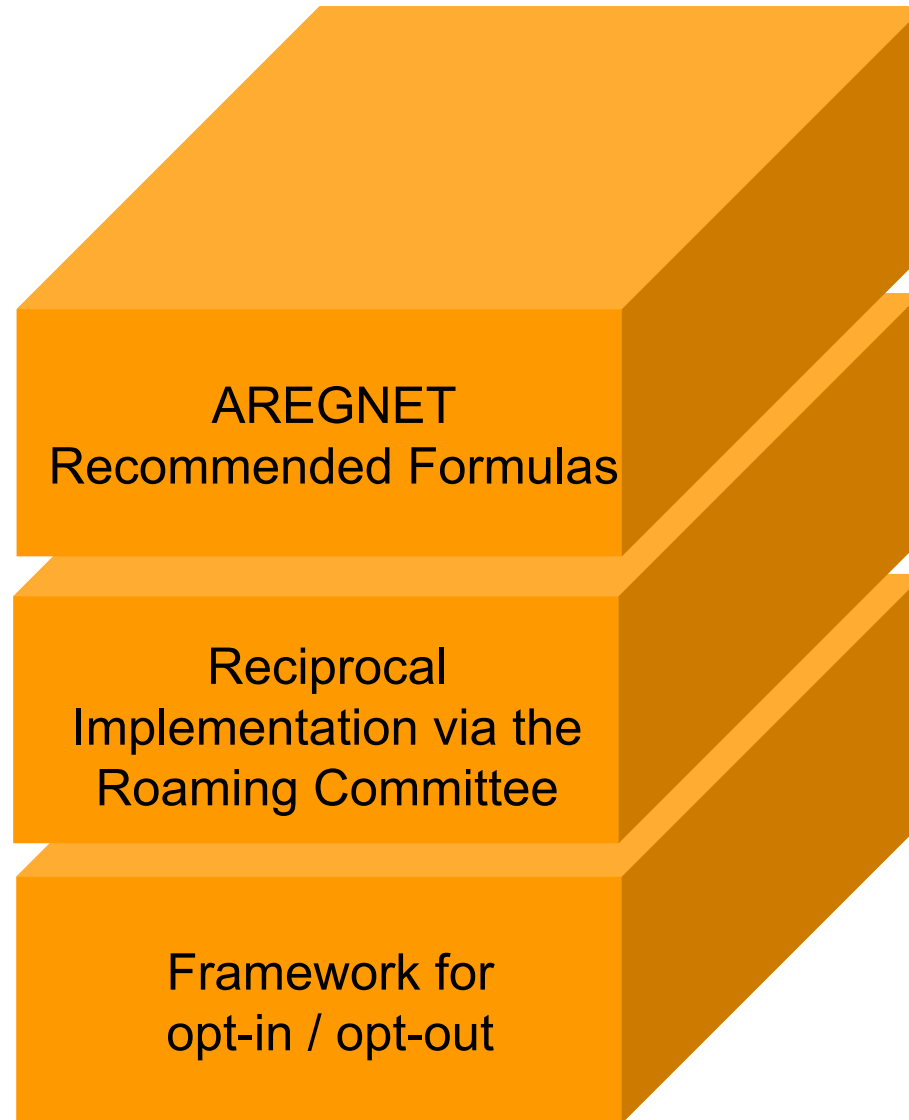


Price Transparency

Website	Arabic and English Coordination by the Roaming Committee Possible implementation via a third-party website – E.g. www.gsmaw.org
SMS	Scope of information and rules for provision – for each regulator to define Roaming Committee is empowered to guide the implementation



Price Regulation



GCC-specific price regulation

$$\begin{array}{c}
 \text{Retail International Roaming Call (AREGNET)} \\
 = \\
 \underbrace{\text{Retail International Non-Roaming Call} \times [1.5; 1.4; 1.3] \times 1.3}_{\text{Retail Price}} \\
 \text{Wholesale Price}
 \end{array}$$

Requirement of the GCC Ministerial Committee

Further lowering may be unfeasible

$$\begin{array}{c}
 \text{Retail International Roaming Call (GCC)} \\
 = \\
 \underbrace{\text{Retail International Non-Roaming Call} + 15\%}_{\text{Retail Price}} \\
 = \\
 \underbrace{\text{Retail International Non-Roaming Call} \times ??? \times 1.3}_{\text{Retail Price}} \\
 \text{Wholesale Price}
 \end{array}$$



GCC-specific price regulation

$$\begin{array}{c}
 \text{Retail International Roaming Call (AREGNET)} \\
 = \\
 \underbrace{\text{Retail International Non-Roaming Call}}_{\text{Wholesale Price}} \times [1.5; 1.4; 1.3] \times 1.3 \\
 \underbrace{\hspace{10em}}_{\text{Retail Price}}
 \end{array}$$

Requirement of the GCC Ministerial Committee

Retail International Roaming Call (GCC)

$$= \text{Retail International Non-Roaming Call} + 15\% =$$

$$\begin{array}{c}
 \text{Retail International Non-Roaming Call} \times 0.885 \times 1.3 \\
 \underbrace{\hspace{10em}}_{\text{Retail Price}}
 \end{array}$$

Further lowering may be unfeasible



Further actions

- National discussions / consultations on the text of the MoU, prepared by the AREGNET WG on Roaming
- Another meeting of the AREGNET WG on Roaming before the AREGNET Plenary
- Final decision on the MoU by the AREGNET Plenary



Thank you...

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