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

Proposals of the AREGNET Working Group on International Roaming
Background

• What action has been taken so far?
### Why roaming issue needs to be solved?

| Increasing importance of closer regional cohesion | Arab Region – single language, culture, social values, history and roots  
Intensive intra-regional tourism  
Cross-border regional business  
High prices - clear obstacle to the process of closer cohesion of the Region |
| High prices for roaming | Roamers pay many times more than local users (per minute):  
– 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) |
| Increasing pressure to increase roaming prices | Arab operators report that European operators are increasing wholesale prices (IOTs) to them  
– In order to recoup losses in revenues caused by the European regulation  
Reports that the process above is followed by increasing wholesale prices (IOTs) within the Arab region  
Move to introduce additional charges for calls received |
The Arab World – Development of Policy

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

- Roaming rate regulation
- Transparency of roaming tariffs via SMS

AREGNET work on roaming commenced (led by NTRA Egypt)

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

Operations and Tariffs Working Group – text of MoU prepared

AREGNET plenary decides on further implementation

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

Arab Telecommunications and Information Council of Ministers supported the recommendation

AREGNET working group agreed on the last version of the recommendation

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

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

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

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

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

<table>
<thead>
<tr>
<th>Principles</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price regulation</td>
<td>Takes into account differences in the level of liberalisation</td>
</tr>
<tr>
<td></td>
<td>Does not restrict self-regulation, but acts as a safeguard</td>
</tr>
<tr>
<td></td>
<td>Flexible and self-improving</td>
</tr>
<tr>
<td></td>
<td>– Linked to the international call rates and not expressed in absolute numbers</td>
</tr>
<tr>
<td>Transparency</td>
<td>Arabic language website on prices (to some extent implemented by GSMA)</td>
</tr>
<tr>
<td></td>
<td>All operators should be included</td>
</tr>
<tr>
<td></td>
<td>Timely update is essential</td>
</tr>
<tr>
<td></td>
<td>Information via SMS</td>
</tr>
<tr>
<td>Reciprocity</td>
<td>Ensures that no country is disadvantaged because of having lower national tariffs</td>
</tr>
<tr>
<td>Liberalisation of international gateways</td>
<td>Encouragement of liberalisation</td>
</tr>
<tr>
<td>Fair and reasonable taxation</td>
<td>Encouragement of review</td>
</tr>
</tbody>
</table>
Basis for Price Regulation – outgoing calls

Normal call (international) = Mobile origination + International transit + Mobile or fixed termination + Retail costs

Roaming call (international) = Mobile origination + International transit + Mobile or fixed termination + Roaming specific costs + Retail costs

Wholesale costs

Estimated to be 1-2 eurocents/min\(^1\).

## AREGNET Regulatory Model

<table>
<thead>
<tr>
<th>Call type</th>
<th>Wholesale rate (Collected by a visited operator)</th>
<th>Retail rate (Collected by a home operator)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Originated call to a home country or a third country</td>
<td>Visited operator’s retail charge for international calls to a respective country (IDD) x [1.5; 1.4; 1.3] (^1)</td>
<td>Wholesale rate x 1.3</td>
</tr>
<tr>
<td>Originated call within a visited country</td>
<td>Visited operator’s retail charge for local calls x [1.5; 1.4; 1.3] (^1)</td>
<td></td>
</tr>
<tr>
<td>Incoming call</td>
<td>Not higher than a normal rate for international call termination (normal commercial practice – at least until recently)</td>
<td>Home operator’s retail charge for international calls to a visited operator</td>
</tr>
</tbody>
</table>
### Why not European model?

| Intra-regional differences in national regulatory frameworks | No established base regulation  
|------------------------------------------------------------|--------------------------------|
|                                                             | – 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

Calling Home Retail Rates

% Change

-45% -40% -35% -30% -25% -20% -15% -10% -5% 0%

Year 1 Year 2 Year 3

Bahrain Egypt Jordan Qatar Saudi Arabia Tunisia
User savings

Local Calling Retail Rates

% Change

Bahrain  Egypt  Jordan  Qatar  Saudi Arabia  Tunisia

Year 1  Year 2  Year 3

% Change

0%  -10%  -20%  -30%  -40%  -50%  -60%  -70%  -80%
User savings

Incoming Calls Retail Rates

% Change

Bahrain, Egypt, Jordan, Qatar, Saudi Arabia, Tunisia

-70% -60% -50% -40% -30% -20% -10% 0%
Regulation should result in......

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

<table>
<thead>
<tr>
<th>Concern</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition and innovation would suffer</td>
<td>Competition and innovation have not brought rates to reasonable level so far</td>
</tr>
<tr>
<td></td>
<td>Regulation would only impose a maximum limit for tariffs</td>
</tr>
<tr>
<td></td>
<td>- Operators will be free to innovate and compete below such a limit</td>
</tr>
<tr>
<td></td>
<td>Studies show that regulation, preventing “overpricing”, increase competition</td>
</tr>
<tr>
<td>Serious impact on investments</td>
<td>GSMA’s pre-regulation studies in Europe</td>
</tr>
<tr>
<td></td>
<td>- estimated reduction by 2.8 %</td>
</tr>
<tr>
<td></td>
<td>No evidence of real impact</td>
</tr>
<tr>
<td>More serious impact on less developed countries</td>
<td>Only up to 5% points difference in impact on revenues between “growth” and “mature” markets</td>
</tr>
<tr>
<td></td>
<td>- Only up to 3% points difference in impact on margins</td>
</tr>
<tr>
<td></td>
<td>Nascent markets face even lower impact</td>
</tr>
<tr>
<td></td>
<td>Absolute impact – negligible</td>
</tr>
</tbody>
</table>
Addressing the industry concerns

<table>
<thead>
<tr>
<th>Concern</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serious impact on revenues of operators</td>
<td>0.3-0.84% reduction in revenues at most</td>
</tr>
<tr>
<td></td>
<td>– Intra-region roaming revenues - 2-3 % of total revenues</td>
</tr>
<tr>
<td></td>
<td>– GSMA estimated maximum reduction is 15-28 %</td>
</tr>
<tr>
<td></td>
<td>Operators will still earn retail contribution margin of circa 36-42%</td>
</tr>
<tr>
<td></td>
<td>– Pre-regulation retail contribution margin – min. 45 %</td>
</tr>
<tr>
<td>Increase in other prices for consumers</td>
<td>No evidence of intra-market rebalancing in Europe</td>
</tr>
<tr>
<td></td>
<td>Regulation does not mandate prices below costs</td>
</tr>
</tbody>
</table>
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
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...

<table>
<thead>
<tr>
<th>SMS Transparency</th>
<th>Implemented or in the process of:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Algeria</td>
</tr>
<tr>
<td></td>
<td>- Bahrain</td>
</tr>
<tr>
<td></td>
<td>- Egypt</td>
</tr>
<tr>
<td></td>
<td>- Oman</td>
</tr>
<tr>
<td></td>
<td>- Tunisia</td>
</tr>
<tr>
<td></td>
<td>- UAE</td>
</tr>
<tr>
<td></td>
<td>- Qatar</td>
</tr>
<tr>
<td></td>
<td>- Saudi Arabia</td>
</tr>
<tr>
<td></td>
<td>- Syria</td>
</tr>
<tr>
<td></td>
<td>- Sudan</td>
</tr>
<tr>
<td></td>
<td>- ???</td>
</tr>
</tbody>
</table>

| 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:  
|                          |   – More clarity and legal certainty to operators  
|                          |   – Faster and more effective implementation  
| Price Regulation         | Not possible without guarantees for reciprocity:  
|                          |   – 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:  
|                          |   – 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?

Visited network → Connection → Retail price → Wholesale price ≈ 75 – 85%

Retail price → Retail markup

Home network
Why price regulation needs reciprocity?

Retail price

Wholesale price ≈ 75 – 85 %

Jurisdiction of the Regulator of a Visited country

Jurisdiction of the Regulator of a Home country
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:
  - Wholesale price ≈ 75 – 85 %
  - Retail markup

- Pre-regulation retail price paid by **Visiting users** from Country B in Country A:
  - Wholesale price ≈ 75 – 85 %
  - Retail markup
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

Wholesale price ≈ 75 – 85 %

Barely noticeable reduction in retail price, if any

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

Retail markup

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**
- Opt-in / opt-out - in line with the Resolution of the Arab League
- Applicable to all the Parties to the MoU

**Administration of MoU**

**Implementation of MoU**

**Price Transparency**

**Price Regulation**

**GCC specific**

**GCC-only**

**Opt-in / opt-out - in line with the Resolution of the Arab League**
### Basis of MoU

| Premises | Potential of lower roaming prices to enhance regional cohesion  
|          | Need to protect from unduly high prices  
|          | Necessity to take into account differences existing among the countries  
|          | Need for operators to earn reasonable ROI  
|          | Importance of extra-regional roaming  |

| Legal basis | Recommendations and decisions of:  
|             | – AREGNET  
|             | – Arab League  
|             | – GCC  |

| Objectives | Increase transparency  
|           | Establish “Roaming Area”  
|           | – Where roaming prices are regulated  
|           | Implement decisions of the Arab League and GCC  
|           | Coordinated implementation |
Administration of MoU

- Signing
- Approval of the text only
  Members of AREGNET only
- Initial Committing
  Opt-out/Opt-in for Price regulation
- 6 months after
  3 countries committed
- Depository –
  Permanent Secretary of AREGNET
- MoU in Force
- For a specific party -
  6 months after committing
- Withdrawal
- Subsequent Committing
  Opt-out/Opt-in for Price regulation
Joining of non-Arab regulators

- Non-Arab regulator decides to join
- Recommendation of the Roaming Committee
- Approval of the Plenary
- Possibility for opposing Parties to opt-out

Compulsory steps:
- Parties that opt-out do not apply the MoU to the non-Arab new joiner
Implementation of MoU

Regulators - Parties

Observers

Presidency

Plenary

Roaming Committee
## 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

Framework for opt-in / opt-out

Reciprocal Implementation via the Roaming Committee

AREGNET Recommended Formulas

Framework for opt-in / opt-out
GCC-specific price regulation

Wholesale Price

Retail International Roaming Call (AREGNET) = Retail International Non-Roaming Call \times [1.5; 1.4; 1.3] \times 1.3

Wholesale Price

Requirement of the GCC Ministerial Committee

Retail International Non-Roaming Call (GCC) = Retail International Non-Roaming Call + 15\% = Retail International Non-Roaming Call \times ??? \times 1.3

Retail Price

Further lowering may be unfeasible
GCC-specific price regulation

Retail International Roaming Call (AREGNET) = \[ \times [1.5; 1.4; 1.3] \times 1.3 \]

Retail International Non-Roaming Call

Retail Price

Wholesale Price

Further lowering may be unfeasible

Requirement of the GCC Ministerial Committee

Retail International Roaming Call (GCC) + 15% = \[ \times 0.885 \times 1.3 \]

Retail International Non-Roaming Call

Retail Price

Wholesale Price
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…

Telecommunications Regulatory Authority
Kingdom of Bahrain
Tel.: +973 1752 0000; Fax: +973 1753 2125
Web: www.tra.org.bh; E-mail: contact@tra.org.bh