Mobile Termination: Experience from Jamaica

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Fixed to Mobile Termination is one of the most contentious issues in telecommunications today:-

1. Office of Utilities Regulation Vs. Digicel
   - OUR determination of May 2002.
2. Oftel proposed caps on mobile termination of RPI-12% over four years.
   - Four major mobile companies (Vodafone, One2One, T-Mobile, and Orange) rejected proposal.
   - matter was referred (January 2002) to the UK Competition Commission (CC).

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- CC required MNOs to make a one-off cut of 15% followed by 3 years of:-

  (i) RPI-15% for Vodafone and One2One, and

  (ii) RPI-14% for Orange and T-Mobile.
- Judicial Review sought by T-Mobile, Orange, and Vodafone.
- Court upheld the decision of the CC/DG of Oftel.

3. The Austrian Case - Telekom-Control-Kommission (TCK) determined that the mobile sector is competitive (interconnect & retail) but nevertheless opted to set mobile termination charges for each mobile operator. Operators went to Court to overturn TCK's decision.

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4. The current practice in many jurisdictions is towards regulating mobile termination, e.g. UK, Netherlands, South Korea, France, Belgium, Spain, Switzerland, Austria, Italy, Australia, Peru.
5. “Mobile termination rates are simply no longer a cash cow for mobile operators to milk, in order to subsidise handset prices and call charges”(independent consultancy - Ovum).
6. Additionally, “Telecoms regulators are increasingly becoming involved in setting mobile termination rates”. Moreover, “In a sample of 22 countries tracked by Ovum, the average reduction over the past two years has been 20 percent and over three years 30 percent”.

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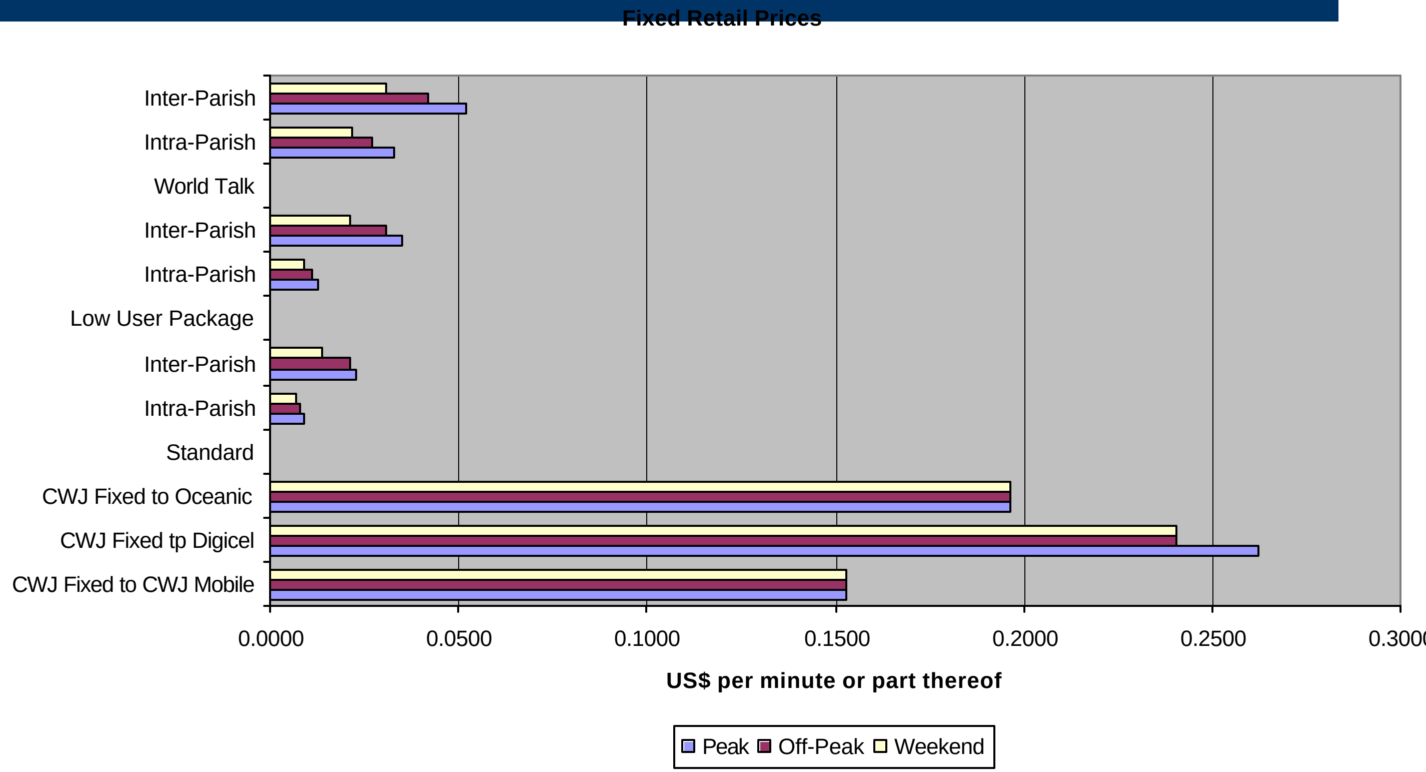
7. Common among these countries is the charging regime known as CPP-
   - prepaid mobile
   - rapid growth in mobile subscribership
8. Under this regime a caller to a mobile network has no choice but to pay the fee charge by the mobile operator for reaching its customers.
9. The theoretical justification for regulating these charges is rooted in the “essential facilities” doctrine. As noted by the CC:

   “… there is currently no practical technological means of terminating a call other than on the network of the MNO to which the called party subscribes and none that seems likely to become commercially viable in the near future.”

Jamaica’s Experience

1. FTM termination (Table 6) plus fixed retention (Table 7) = maximum CPP (Table 8). Both components of the CPP were set by the OUR using UK benchmark.
2. Liberalization was accompanied by large increases in FTM charges (Table 9 of paper).
3. FTM imposes significant financial burden on fixed line subscribers.
4. FTM calls are the most expensive domestic calls made by fixed line subscribers.

Appendix 1 and Table 9 of Paper



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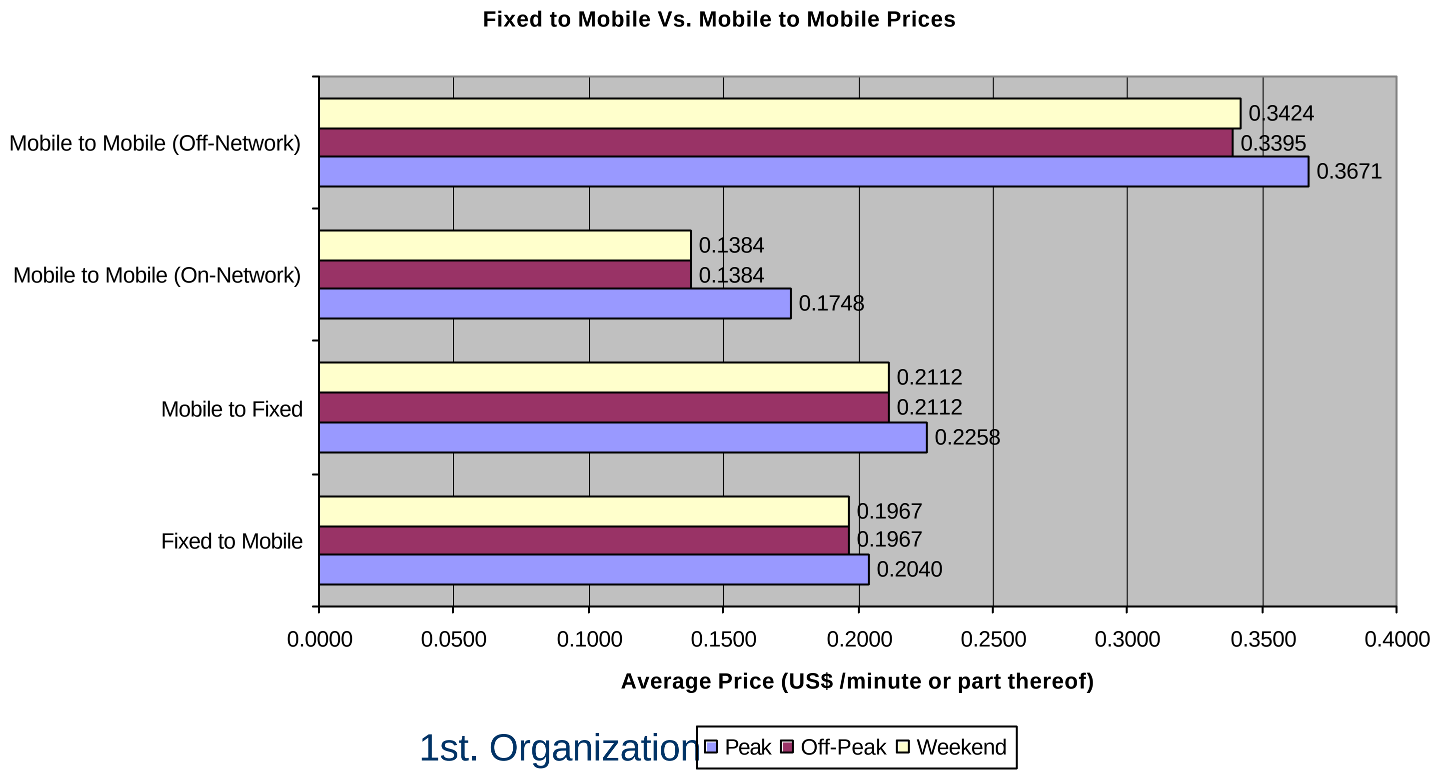
5. Mobile termination constitutes a large share (more than 60%) of FTM charges (Table 11 of paper). The primary driving force behind high CPP is high termination.
6. High FTM termination did not in any way impact adversely on mobile subscribership (Figure 2 of paper) with Digicel and CWJ accounting for most of the growth (Figure 3). High termination can be sustained even in a competitive market for retail subscribers.

FTM Vs. Mobile to Fixed/Mobile (off/on-net)- Tables 9, 12 &14 of Paper



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7. Fixed termination only account for 10% of Mobile to Fixed Prices.
8. Mobile to Mobile (on-network) charges are the cheapest. Strategy is to attract and maintain mobile subscribers to network.
9. Mobile to Mobile (off-network) charges are extremely expensive.
10. Study shows that benchmark rates are exorbitant – cost based per minute FTM termination charges: US$0.1494 (peak), US$0.1176 (off-peak) and US$0.0914 (weekend). Rates include spectrum surcharge of US$0.0135 per minute.

Conclusion

(i) Benchmarking – quick method for establishing mobile interconnection but charges should be reviewed in light of new information and sector development.

(ii) Pricing regime is highly distortionary.

(iii) Transfer of welfare from one group of users to another.

(iv) Regulators should seek to protect of fixed line subscribers from high termination charges.