

EXECUTIVE OFFICE



**Australian
Competition &
Consumer
Commission**

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Ms Belinda Neal MP
Chair
Standing Committee on Communications
House of Representatives
PO Box 6021
Parliament House
CANBERRA ACT 2600

via email: coms.reps@aph.gov.au

Dear Ms Neal

Inquiry into international mobile roaming

I refer to the House Standing Committee on Communications inquiry into international mobile roaming (Inquiry).

As you are aware ACCC staff appeared at the public hearing held on 26 November 2008. The ACCC has now had an opportunity to consider the questions taken on notice at that hearing and I attach our response at Attachment 1.

For the Committee's assistance, I also attach a table of aggregated data on international mobile roaming (Attachment 2). The aggregated data is based on a voluntary request for information which we have previously adverted to. The data is subject to some limitations which are outlined in the attached document.

Yours sincerely

A handwritten signature in black ink, appearing to be 'B. Cassidy'.

Brian Cassidy
Chief Executive Officer

ACCC RESPONSE TO QUESTIONS ON NOTICE

Topic: Proposal to extend the regulatory accounting framework record-keeping rules to include international mobile roaming services.

Mrs HULL—It would be interesting to note, because much of the issue that we have is getting the voice message transferred to your voice mail, then the retrieving of that and the cost of the call. It would be interesting to see what that volume is as well.

Mr Wright—I think that would be well beyond the current intentions of the record-keeping rule.

Mr Cosgrave—And possibly beyond the scope of what that instrument can achieve legislatively because it relates back to our access regime and there would be doubts as to whether that is a rule recovering a regulated service.

Mrs HULL—So, whilst you are getting charged for a call, it cannot be determined as a call.

Mr Cosgrave—What I am saying is the instrument we are seeking to use here relates to a statutory scheme around access at a wholesale level. In other words, we are seeking to use an instrument available to us to understand better these markets, but that instrument has some limitations. I will certainly take on notice whether we could do what you have requested us to do but, using this instrument, I am not entirely sure we could.

Answer: On 26 September 2008 the ACCC released a discussion paper on proposed amendments to the regulatory accounting framework (RAF).¹ Among other proposals, the ACCC is consulting with industry on a proposal to introduce reporting requirements for international mobile roaming services. In particular, the ACCC is proposing new cost allocation and service usage requirements which would require a reporting mobile network operator (MNO) to report on cost, revenue and service usage information for international mobile roaming. For example the ACCC is consulting on a new reporting requirement for MNOs to report on the aggregate ‘number of inbound minutes of roamed calls (received from home)’.²

In response to its discussion paper the ACCC received submissions from Hutchison, Vodafone, Optus and Telstra. The key points from the submissions include:

- All four MNOs submitted that capturing all of the data proposed may not be possible.
- Telstra, Optus and Hutchison submitted that the proposed changes will impose significant compliance costs.
- Telstra and Hutchison submitted that extending the RKR to international roaming is beyond the RKRs’ purpose and the ACCC’s power.
- The MNOs submitted that they would need at least a 12 month lead in for changes to the RAF.

The ACCC is currently considering the submissions from the MNOs and may conduct further consultation with industry before finalising any changes to the RAF.

¹ ACCC, *Discussion paper on proposed changes to the regulatory accounting framework record-keeping rules*, September 2008, (ACCC Discussion Paper) p. 7.

² For a full list of the service usage proposals see the ACCC Discussion Paper, p.7.

Background to the RAF

The RAF was introduced in 2001 and is a vertical and horizontal accounting separation model that requires revenue, cost and service usage information for wholesale and retail telecommunications services to be reported to the ACCC.³

The RAF also requires that service usage information, such as the number of local calls and the number of national long distance minutes, be reported.

The RAF requires notified carriers and carriage service providers to generate and report to the ACCC on the retail and wholesale components of the business. Under the existing RAF regime the notified mobile network operators (MNOs) provide half yearly and annual reports to the ACCC on relevant mobile services within their retail, internal wholesale and external wholesale business segments.

³ The RAF only applies to carriers who have been notified to report by the ACCC.

Topic: An explanation of the different costs estimates contained in: (i) the KPMG report for the Department of Broadband, Communications and the Digital Economy, *Report of findings on: international mobile roaming charges*, June 2008 (KPMG 2008 Report); and (ii) the ACCC's *Mobile Services Review: a final report on the provision of international inter-carrier roaming services*, September 2005 (ACCC 2005 Report).

CHAIR—I have a further question in relation to the comparison of your 2005 and the KPMG report. There seems to be a contrast in the conclusions drawn by the two reports about the causes of higher running costs. Your report seems to suggest that it comes from wholesale charges and the KPMG report seems to say, to the contrary, that it comes from retail charges. Do you have any comment to make about that apparent contradiction?

Mr Cosgrave—We did note that difference. I am not sure that I have any particular comment on it because I am not presently aware of the basis upon which they have made that representation. We have noted that difference.

Mr Wright—The notation that we have made is that KPMG was relying mainly on European data rather than Australian data. When we looked at what we made that conclusion on in 2005, the positions, the mark-ups, that were advised publicly are still the same.

Mrs HULL—So you are standing by your report?

Mr Cosgrave—It is not a question of standing by it. I would like to take that on notice. That is an issue that, in preparation for this, I noted myself. I have not had the opportunity to follow that up. In fairness to the committee, we would like to follow that up and explain as clearly as we can whether that is a difference in point of view, whether it is a difference in data or whether it is because they are taking European material and we are taking Australian material. It may well be that both are right. If they are using European data there is a big retail market, but we are right in saying that in Australia it is around the wholesale mark-up because our carriers are predominantly price takers for this. They are not necessarily in a highly advantageous position in the international negotiations and they take what they can get. It is possible—and I am merely surmising here—that both are right. But I do not know. I will take it on notice.

Answer: In 2003 the ACCC initiated a widespread review of mobile services in Australia. As a part of this review, the ACCC inquired into and reported on international roaming services in the ACCC 2005 Report. In the report the ACCC identified that retail prices for international roaming services lie significantly above the retail prices charged for their non-roamed equivalents.

The ACCC took a top-down approach to considering the pricing for roamed calls and found that, in general, the MNOs applied a retail mark up of around 30% to the total wholesale charge levied by foreign MNOs. The ACCC concluded that high retail prices for roamed calls were the result of high charges at the wholesale level.

In contrast, the KPMG 2008 Report appears to adopt a bottom-up approach which uses European cost estimates to identify the actual costs to an overseas MNO of carrying a roamed call. This estimate of actual costs appears to be based on the basic components used in providing a roaming service, i.e. origination, termination, international transit and roaming specific costs (such as inter-carrier billing systems or service testing costs).

The ACCC notes that the wholesale roaming charges payable by Australian carriers are a negotiated market rate between the Australian MNO and the overseas MNO. It is this high *wholesale charge* that the ACCC identified in its ACCC 2005 Report whereas in the

KPMG 2008 Report the consultants sought to estimate the *wholesale cost* to a foreign MNO of facilitating a roamed call on its network.

In addition the ACCC notes that European costs may underestimate the component costs of international operators providing roaming services in an Australian context. This is particularly so for the international transit cost component of a roamed call. For example, international transit in Europe involves distances similar to that between Sydney and Canberra via terrestrial transmission, rather than distances traversed by undersea cables between Australia and Europe.

In conclusion, the KPMG 2008 Report appears to correctly identify the actual component costs of providing a roamed call (origination, termination, transit and roaming specific costs) as being quite small compared to the charges faced by the end-user. However, no account appears to have been made of the wholesale charges levied by the providers of international roaming services (i.e. the foreign MNOs).

It is this wholesale mark-up that lies between the estimated cost of provision of a mobile roaming service and the retail margin.

AGGREGATED DATA FROM THE AUSTRALIAN MNOs

Points to note about the aggregated data:

- In response to a voluntary request for information by the ACCC, the four Australian mobile network operators (MNOs) provided roaming volume and revenue information.
- The disaggregated data was provided to the ACCC on a commercial-in-confidence basis.
- The aggregated data contained in the tables below should be treated as commercial-in-confidence.
- The data includes voice minute and revenue totals from the MNOs top-ten countries, ranked by voice minutes.
- The data does not include all the MNOs roaming data, as each MNO's data pertains to only 10 countries.
- The roaming data was not provided for the full 12 months in some instances.

Australians travelling overseas (Outbound)

ALL MNOs (Jul 07 - June 08)

Visitors to...	Minutes	Revenue	\$/min	\$/call	time ⁽¹⁾
United States	20,213,088	\$48,080,504	\$2.38	\$5.25	132
New Zealand	19,720,645	\$46,208,132	\$2.34	\$5.23	134
United Kingdom	14,353,929	\$31,503,335	\$2.19	\$4.44	121
Singapore	9,715,563	\$9,343,070	\$0.96	\$2.07	129
Thailand	8,928,486	\$14,435,349	\$1.62	\$4.46	166
China	6,723,610	\$25,630,624	\$3.81	\$9.26	146
Hong Kong	6,713,886	\$13,476,121	\$2.01	\$4.70	141
France	5,999,122	\$14,986,134	\$2.50	\$7.28	175
Italy	4,417,946	\$16,643,007	\$3.77	\$6.49	103
Malaysia	1,697,053	\$2,342,499	\$1.38	\$3.96	172
South Africa	849,181	\$1,872,444	\$2.20	\$4.41	120
Germany	545,410	\$2,290,722	\$4.20	\$8.40	120
Canada	242,915	\$541,700	\$2.23	\$8.75	235
TOTAL/AVERAGE	100,120,833	\$227,353,640	\$2.43	\$5.75	146

Top four countries

Visitors to...	Minutes	Revenue	\$/min	\$/call	time ⁽¹⁾
United States	20,213,088	\$48,080,504	\$2.38	\$5.25	132
New Zealand	19,720,645	\$46,208,132	\$2.34	\$5.23	134
United Kingdom	14,353,929	\$31,503,335	\$2.19	\$4.44	121
Singapore	9,715,563	\$9,343,070	\$0.96	\$2.07	129
TOTAL/AVERAGE	64,003,225	\$135,135,040	\$1.97	\$4.25	129

- (1) The figure for time (in seconds) is an estimate only and is derived by dividing the \$/call by \$/min & multiplying by 60. Some carriers only provided estimates of call duration.
- (2) Roaming data not provided for full 12 months in some instances-aggregate only.

Visitors from overseas in Australia (Inbound)

ALL MNOs (Jul 07 - June 08)

Visitors from...	Minutes	Revenue	\$/min	\$/call	time ⁽¹⁾
United Kingdom	22,279,686	\$41,870,789	\$1.88	\$2.68	86
United States	12,422,557	\$16,589,505	\$1.34	\$3.68	165
Singapore	10,104,295	\$10,983,114	\$1.09	\$3.21	177
New Zealand	8,432,756	\$12,446,363	\$1.48	\$3.75	152
China	4,928,554	\$7,454,154	\$1.51	\$2.66	106
Hong Kong	4,340,193	\$6,865,760	\$1.58	\$2.53	96
Japan	4,370,494	\$4,733,796	\$1.08	\$4.41	244
Germany	3,328,927	\$4,879,360	\$1.47	\$3.43	140
Italy	2,269,592	\$1,204,947	\$0.53	\$3.77	426
Malaysia	2,461,992	\$4,147,664	\$1.68	\$2.51	89
Switzerland	1,669,782	\$1,276,827	\$0.76	\$2.62	206
Indonesia	1,249,159	\$2,003,020	\$1.60	\$5.23	196
Thailand	1,158,157	\$1,844,306	\$1.59	\$4.40	166
India	954,511	\$1,433,055	\$1.50	\$3.47	139
France	750,029	\$2,750,572	\$3.67	\$4.22	69
Ireland	366,775	\$1,587,644	\$4.33	\$1.89	26
Korea	84,934	\$82,910	\$0.98	\$4.04	248
UAE	49,838	\$60,383	\$1.21	\$6.73	333
Taiwan	38,755	\$39,158	\$1.01	\$3.62	215
TOTAL/AVERAGE	81,260,986	\$122,253,329	\$1.59	\$3.62	173

Top four countries

Visitors from...	Minutes	Revenue	\$/min	\$/call	time ⁽¹⁾
United Kingdom	22,279,686	\$41,870,789	\$1.88	\$2.68	86
United States	12,422,557	\$16,589,505	\$1.34	\$3.68	165
Singapore	10,104,295	\$10,983,114	\$1.09	\$3.21	177
New Zealand	8,432,756	\$12,446,363	\$1.48	\$3.75	152
TOTAL/AVERAGE	53,239,294	\$81,889,772	\$1.44	\$3.33	145

- (1) The figure for time (in seconds) is an estimate only and is derived by dividing the \$/call by \$/min & multiplying by 60. Some carriers only provided estimates of call duration.
 (2) Roaming data not provided for full 12 months in some instances-aggregate only.