

Responses to issues list for MTAS Investigation Conference – Day 2

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Agenda Item 7: Assessment of benefits and detriments of FTM termination regulation

Effects of MTAS regulation on competition in FTM market

- MTAS regulation will allow
 - (1) fixed-only carriers to efficiently compete on the basis of actual costs in the provision of FTM calling;
 - (2) fixed-only carriers to compete better with mobile calling, facilitating intermodal competition
 - FTM and MTM calls are substitutes to at least some extent (MTM likely to be more of a substitute for FTM)
 - Blurring of boundaries between fixed and mobile – eg, use of Femtocells, HomeZone, broadband over wireless
 - (3) fixed carriers to pass-through more to fixed callers, including through investment in broadband.

FTM pass-through

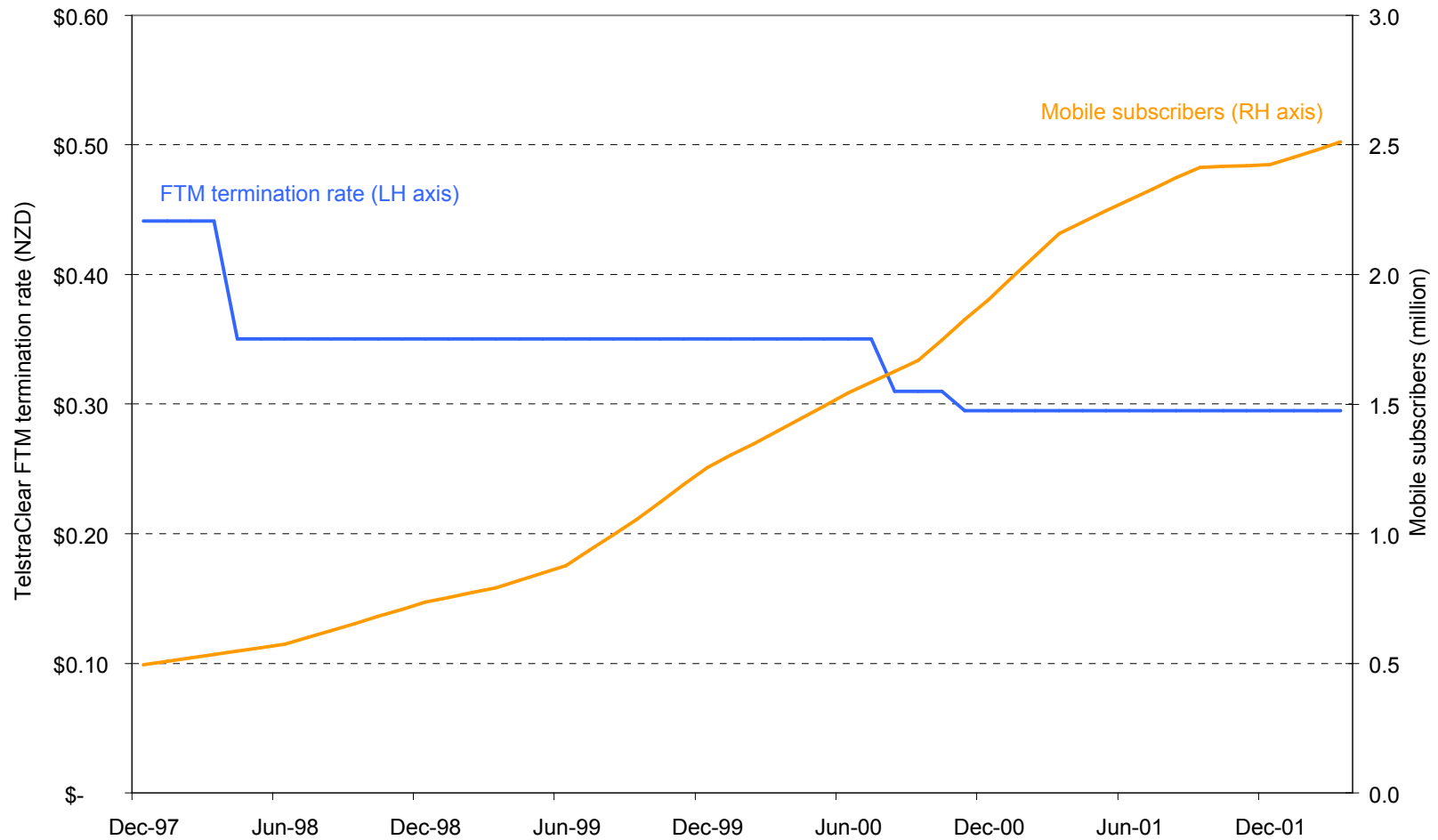
- (1) the extent of pass-through depends on the competitiveness of the fixed service market. In the NZ market, there are a number of players in the market, the regulatory regime has been implemented so as to facilitate competition
- (2) pass-through occurs through means other than the FTM price – eg, through reductions on other fixed service charges, or through investment in improved fixed services (eg, broadband)

Other FTM assumptions

- FTM demand elasticity: If MTR reductions passed through on services other than F2M then likely than those services have higher demand elasticity – ie, demand expansion is larger than under assumption than the pass-through estimated under the Commission's methodology
- Large FTM termination reductions would result in FTM becoming part of monthly fixed fee bundles. This means that:
 - Pass-through would be higher than estimated by the Commission
 - The marginal price of FTM minutes will be zero, therefore the demand response will be higher than estimate by the Commission

FTM termination in NZ

- MTR reduced by 33% over 3 years, with no obvious harm (eg, no adverse impact on subscriber growth)



Relevant factors for waterbed

- Waterbed effect, to the extent that it would reduce mobile subscriptions, is a 2nd order effect relative to increased subscriptions due to competition from a new effective entrant
- To the extent that there is a waterbed effect, the reduction in subscriber numbers would be less than what is derived using a standard elasticity because of the “experience good” characteristic of mobile services
 - use of double-handsets/double-SIM may reduce but that does not reduce efficiency or consumer benefits

Use of a glide-path to minimise waterbed effects

- No obvious benefits to economic interest of end-users – ie, it's all about easing pain to the incumbents. They will say there will be harm, ie, will destroy incentive to invest etc.
- 2 degrees willingness to invest shows that there is surplus in the market.... So long as the investment exceeds costs, then efficient investment will occur.
- Have had time to implement glide path themselves.
- Glidepaths in EU were largely implemented to phase out asymmetry not because of waterbed consideration

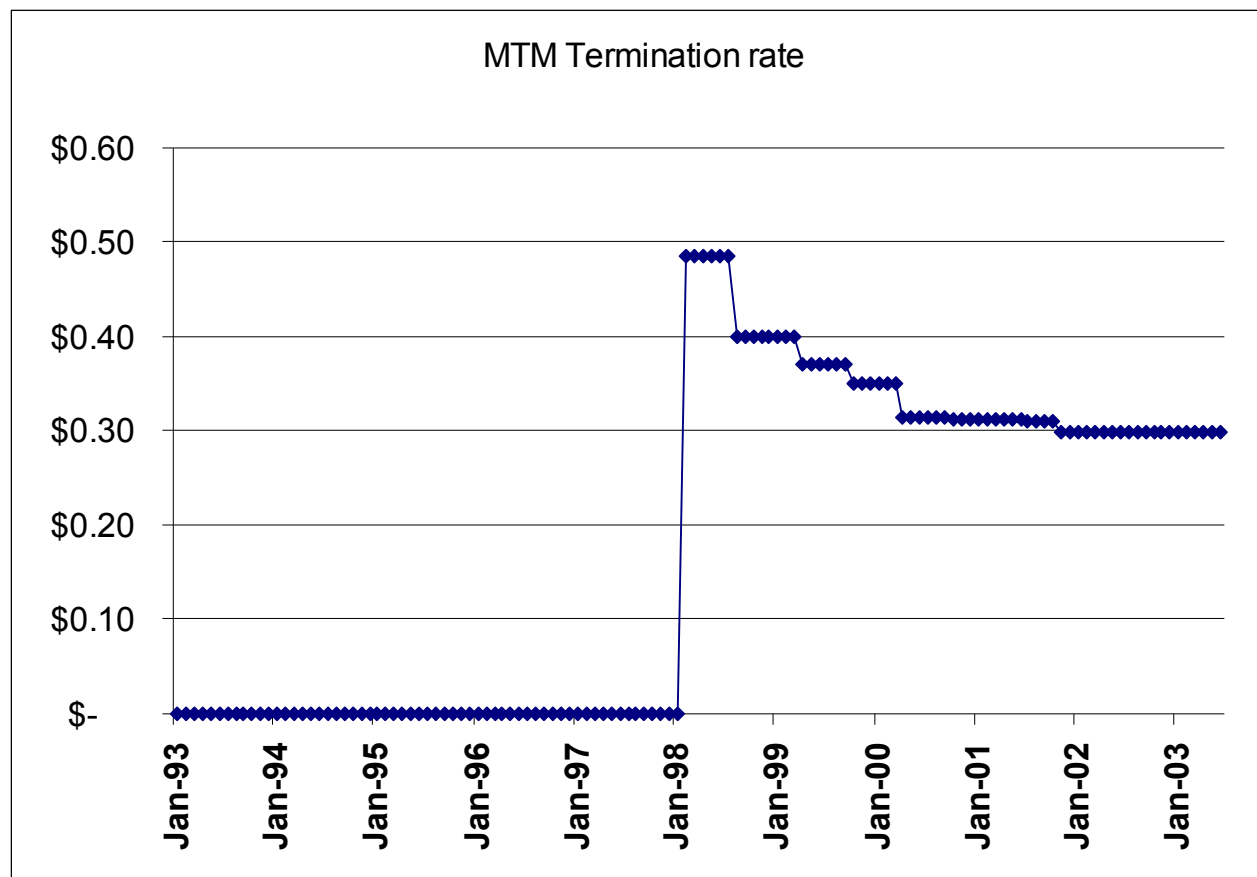
**Agenda Item 8: Assessment of
benefits and detriments of
MTM termination regulation**

Assessment of Benefits and Costs of MTM rate regulation

- MTR regulation removes barriers to entry
- This increases competition
- This in turn should drive prices down
- Off-net prices should also reduce
- On-net prices would also adjust, but while some rates may rise, average on-net rates may fall

MTM termination in NZ

- Bill & Keep from 1993 to Feb 1998, but no RPP
- Large reductions from 1998 to 2002, but no apparent waterbed effect



OECD international price comparisons

Bundle	Minutes (calls)/year
Low demand	529 (360)
Middle demand	1,368 (780)
High demand	2,952 (1,680)

- But US usage, the highest of all OECD nations, averages 5,316 outbound

minutes/year almost 4 times middle demand

- Possibly T-mobile's cheapest post-paid US plan (\$30/mo.) grants 300 anytime minutes & free weekends
 - If a caller only made 150 outbound calls/mo. = 1,800/year
- Thus, according to the OECD, the country with the highest usage is the country with the highest prices

Elasticity & productivity estimates

- Dewenter & Haucap (2007) short vs long-run elasticity
 - Short-run elasticity was monthly changes—does not reflect, inter alia, contract lengths
 - Long-run elasticity allows for customer response as contracts end, which for many customers occurs over the course of 1 year
- Tishler et al (2001)
 - The -0.8 was a cross-price elasticity capturing the responsiveness of penetration to usage prices. We regret this error. John Watters advises usage elasticity was -0.45 to -0.60
- Dassler et al's TFP estimates, which NERA cites, are for fixed, not mobile telecommunications
 - That said, our CBA is based on price falls, not productivity increases. However, the evidence suggests that mobile entry substantially increases productivity, which would substantially increase the estimated benefits of entry

**Agenda Item 9: Assessment of
benefits and detriments of
SMS termination regulation**

SMS

- Important barrier to entry to prepaid customers:
 - entrant must at least match incumbent's SMS packages to attract customers that value SMS packages
- SMS are imbalanced now because entrant's off-net SMS price is below the off-net price of incumbent
- If entrant matched incumbent pricing (eg, 2000 SMS for \$10) then imbalance would increase
- Therefore SMS payments, which greatly exceed cost, transfer revenues from the entrant to the incumbents
- No arbitrage implications of BAK – brings in line with international pricing