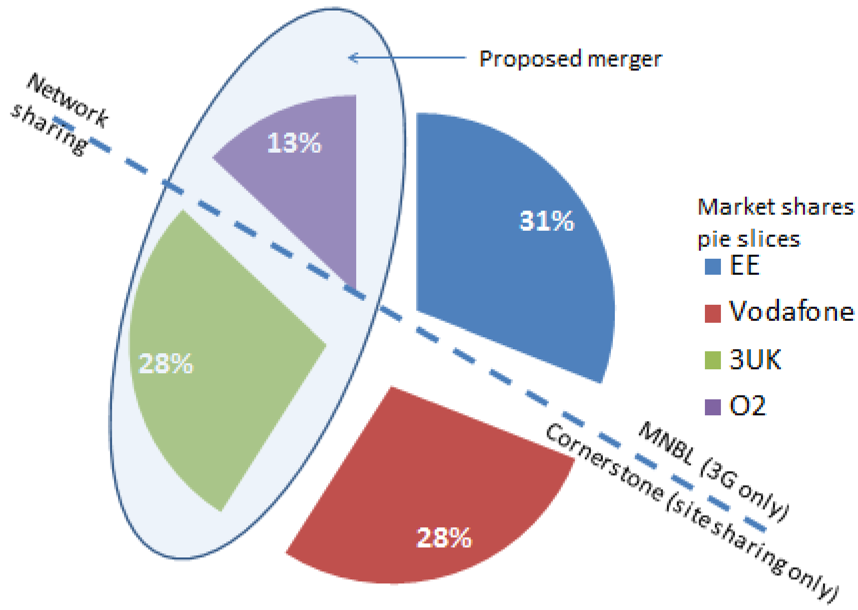
ECONOMUSE

Australia – few players and no mavericks

Ofcom: with four mobile operators and a maverick, prices would be 20% less!

Four mobile operators provide competition; three do not. This is partly why [Ofcom](#) is blocking 3UK's £10.25 billion takeover bid for O2. Another important reason is that 3UK is the challenger brand that introduced 'all you can eat' data tariffs, use of Skype voice over IP (VoIP) services, and scrapped roaming charges fora number of countries. If the takeover proceeds, Ofcom believes that competition will suffer. A final decision on the proposed takeover will be made by European Commission before the end of this month.



Source: Ofcom Strategic Review of Digital Communications, July 2015

O2 is owned by Telefónica which is seeking to offload the business to pay down burdensome debts.

EE (Everything Everywhere) was bought by BT from Orange and T-Mobile. The UK Competition and Market Authority cleared this 'unconditionally without remedies' in January 2016 but rejects 3UK's bid for O2.

The chart shows the two network sharing ventures that would be profoundly affected by a merger of 3UK and O2. Ofcom notes that the four companies are still effective retail competitors, who compete independently on coverage and quality. It suggests that the scale economies of sharing networks are already being enjoyed; any merger would threaten that arrangement.

Mergers between mobile operators cleared in Austria, Germany and Ireland have seen the number of operators reduce from four to three and all use MVNO access obligations to compensate for the contraction in end-to-end competition. But the UK already has 21 full MVNOs (with own SIM cards and own mobile network codes and less than 50% owned by one of the four MNOs).

In March this year, Ofcom has published a study which compared mobile prices across twenty-five countries between 2010 and 2015. Unlike previous studies, it looked at the impact of disruptive firms which are "*much more than just price discounters. For example, they may be the first MNO in a market to offer unlimited data allowances, they may abolish roaming charges, they may bundle* *new services with their tariffs or they may be leaders in rolling out new infrastructure. The key feature though of disruptors is that other incumbent firms are likely to need to respond to the disruptive activity with non-trivial changes in strategy or business model, else they risk losing their position in the market"*.

In our part of the world, Ofcom considers " *2degrees to be a disruptive player in the New Zealand mobile market as there is evidence that it has been acting aggressively to acquire new customers and has begun to innovate by offering more flexible tariffs which allow for more regular phone upgrades"*. It does not consider Vodafone to be a disruptive player in Australia (its temporary 'roam-like-at-home' tariff into New Zealand is not a market shaker).

As collecting comprehensive data on mobile pricing plans and handsets from a single data source proved difficult, Ofcom used two sources: Tarifica (post-paid plans) and Teligen (for handsets available by plan).

The Ofcom econometric study concludes that "*prices could be between 17.2% and 20.5% lower on average in countries where there are four or more mobile operators AND a disruptive firm is in the market…….By implication, this may suggest that removing a disruptive player from a four player market (as is proposed in the H3G/O2 merger in the UK) could increase prices by between 17.2% and 20.5% on average, all else being equal."* Of course, another corollary is that prices in Australia are around 20% higher than they could be as we have only three mobile operators and none is a maverick.

Australia tried to use spectrum policy to develop a fourth mobile operator but it fell over (OneTel). And, with the huge investments now required for 4G and 5G networks, the chances of seeing another mobile operator in what is a relatively small market are nil.

Similar analysis and comments could be applied to the fixed broadband market. Unlike the mobile market where scale is needed due to large scale investment being required, the fixed broadband market could be made more contestable. The NBN was supposed to make that possible but CVC pricing and 121 points of interconnect create entry barriers –as I have discussed many times in this column.

Also, TPG might have been considered a disruptive firm but it now has such a large market share after its take-over of iinet (which I argued would kill competition) that it is likely to follow a more conservative strategy – although it still has a few disruptive tricks up its sleeve (in particular, we look forward to seeing what it plans to do with fixed wireless in the near future).

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