

26 August 2008

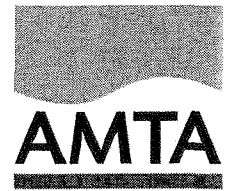
House of Representatives  
Standing Committee on Communications  
Parliament House  
Canberra ACT 2600

By email: [coms.reps@aph.gov.au](mailto:coms.reps@aph.gov.au)



BY:.....

Dear Sir/Madam



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**Re: Inquiry into international mobile roaming**

The Australian Mobile Telecommunications Association (AMTA) recently provided a detailed submission to you in response to the House of Representatives' Standing Committee on Communication's inquiry into international mobile roaming. When we lodged the submission we advised that AMTA would be providing supplementary information to the Committee to respond directly to the recently-released KPMG Report.

The Report, commissioned by the Department of Broadband, Communications and the Digital Economy, is based on limited data collection and analysis and contains numerous factual errors. It presents a very biased, *inaccurate and misleading impression of the actual situation in Australia in relation to international mobile roaming.*

AMTA is concerned that the Government's assessment of the situation should be based on facts and trusts that the House of Representatives' Committee will gain a more accurate understanding of roaming through its processes than that presented by the Report.

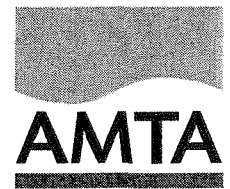
AMTA has written to the Department to detail its concerns about the KPMG Report and highlight its many inaccuracies. Please find attached a copy of that letter to assist you on the matter.

Please do not hesitate to contact me, or AMTA's Policy Manager, Peppi Wilson, for further information, or with any questions.

Yours sincerely

A handwritten signature in black ink, appearing to read "Chris Althaus". The signature is fluid and cursive, written in a professional style.

Chris Althaus  
Chief Executive



26 August 2008

Jason Ashurst  
Director, ITU and Treaties Section  
International Branch  
Department of Broadband, Communications and the Digital  
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Dear Mr Ashurst

BY: .....

### **Re: KPMG Report on International Mobile Roaming Charges**

I am writing to express AMTA's concern and disappointment about the recent report by KPMG commissioned by the Department of Broadband, Communications and the Digital Economy. The Report is based on limited data collection and analysis and contains numerous factual errors. In particular, it uses biased samples of roaming rates in selected countries; it ignores special roaming rates provided by Australian carriers; it inaccurately understates the level of inter-operator tariffs levied by overseas carriers; it makes an incorrect and misleading headline call charge comparison; and it fails to recognise that reductions in wholesale charges would need to be reciprocal in order to benefit Australian consumers. The result is a very biased, inaccurate and totally misleading impression of the actual situation.

AMTA is concerned that Government's assessment of the situation should be based on facts and trusts that the House of Representatives Committee will gain a more accurate understanding of the market than that presented by the Report. AMTA has provided a detailed submission to that Committee to help inform their Inquiry (copy attached). A number of AMTA's members have also provided their own submissions. Importantly, all of the carriers will also be providing international mobile roaming cost information to the ACCC. This should enable the ACCC to provide a more complete perspective on the size, scale and costs of international mobile roaming, based on fact.

The KPMG Report has already elicited a round of calls to the government 'to do something'. AMTA trusts that the government will avoid any ill-advised 'knee-jerk' response to such calls. In particular, there will be no benefit to Australian customers from unilateral regulatory action on either wholesale roaming charges or retail prices.

AMTA makes the following comments about the KPMG Report.

#### **Consultation**

KPMG did not work with any of AMTA's members to check information or verify its analysis. Indeed, the Report's disclaimers acknowledge that KPMG

has 'not sought to independently verify' sources. AMTA questions why an officially-commissioned 'analysis' would not attempt to ascertain the facts and can only conclude that the terms of the engagement contract were seriously flawed.

This lack of consultation is particularly concerning in light of the fact that KPMG's conclusions contradict publicly available Australian data such as that reported by the ACCC in its 2005 report on international mobile roaming. This is discussed further below.

### **Conjecture presented as fact**

AMTA is very concerned that a very limited analysis of this kind must be read with a full understanding and clear disclosure of the constraints of its information sources and the conclusions heavily qualified to avoid a totally misleading impression of the actual situation. KPMG acknowledges some of the limitations, but has made no attempt to qualify its conclusions.

### **Inaccuracies and misrepresentations**

**Wholesale costs.** KPMG states that the average retail price per minute for an Australian SIM cardholder roaming overseas is \$2.75. It calculates the wholesale costs - including inter-operator tariffs (IOTs) - to be 46 cents or ~17 per cent of the retail price. This equates to a retail mark-up of almost 400 per cent.

AMTA disputes these figures and is concerned that KPMG does not appear to have questioned the validity of its conclusions when the figures are so markedly at odds with publicly available figures on retail mark-ups. For example, the 2005 ACCC Review *international inter-carrier roaming* concluded that wholesale costs were as much as 75 per cent of the retail price. Telstra's retail mark-up was quoted in the same report at 30 per cent and KPMG explicitly refers to that mark-up in its own report, when it states that it is in line with figures from Europe. No attempt has been made to reconcile this publicly available information with KPMG's own calculations and simply ignoring such a discrepancy is analytically flawed.

Further, KPMG does not fully consider the impact of closed intra-regional 'clubs' such as the EU operators and Arab states that have reduced charges internally and claw back the revenue by raising rates charged to international operators. KPMG refers to the fact that EU operators have raised their wholesale charges to non-EU carriers, but does not attempt to expand or analyse the impact upon Australian carriers. The fact that the Australian carriers have little choice but to pass on such increases to their end customers is simply ignored.

AMTA further notes that any move to force Australian operators to make price cuts without first addressing the imbalance in bargaining power and the ability of overseas operators to raise wholesale IOTs would be harmful to Australian industry and ultimately to Australian consumers.

**Pricing.** Mobile charges quoted in the report do not represent an accurate picture of the actual charges paid by customers who use roaming while

travelling overseas because they neglect special roaming rates offered for calls made and received on networks in major destinations. Furthermore, the report fails to take into account the most recent range of international roaming packages from carriers that offer significant price reductions to customers.

The report then uses its limited, inaccurate and outdated information to draw conclusions – stated as fact, without qualification – that are misleading or simply wrong.

For example:

a) KPMG's headline call charge comparison is incorrect and misleading. The report compares average charges paid by consumers for roamed and non-roamed calls and uses this comparison to make headline statements about the state of Australian international roaming charges. AMTA is concerned by this comparison because the methodology applied is incorrect and it therefore presents a misleading picture to Government and consumers.

The report compares the average cost of calling an international destination with the average cost of calling from that destination back to Australia.

Comparing outgoing call costs with incoming call costs is like comparing apples with oranges. Accurate comparisons dictate that calls in one direction only must be considered. The direction of the call is important because of how charges are derived (with different components of the call controlled by the Australian and overseas operator). The key point is that the Australian MNO is less able to control the cost of a call originating overseas (from a roamed number) than the cost of a call originating in Australia.

b) Mobile roaming charges quoted do not include the special roaming rates for calls received and made by Optus customers on selected networks in major destinations. These savings are worth up to 20 per cent.

c) The report also quotes (outdated) figures from the Vodafone Group and concludes that, "*The increase in usage was not reflected in the roaming revenue increase of 1.2% as it was offset by the EU pricing regulations.*"<sup>1</sup>

This is incorrect. It overlooks the fact that the Vodafone Group had invested heavily in its EU "Vodafone Passport" offering over the previous 5 years and offered lower rates than the Eurotariff (the default tariff set at, or near, regulated caps) **prior** to the EU regulation coming into effect. Customers have since enjoyed further price cuts – less than the linear regulated Eurotariff 'solution'.

This points to the fact that the market was already offering competitive roaming solutions before the EU market was regulated and contradicts the apparently widely-held assumption that regulation will provide a better outcome for consumers than a competitive market. It is far from clear that the EU regulation has done anything to facilitate the reduction in roaming prices in the EU. This issue is explored in more detail in the AMTA submission.

**The EU roaming regulation.** Crucially, the KPMG Report overlooks the fact that the EU roaming regulation covers **both** wholesale **and** retail prices. The inference that could be taken from the KPMG report is that the regulation of retail prices is a potential solution to perceived high international mobile roaming prices – such a conclusion would be erroneous as it would likely result in squeezing operators' margins, which would ultimately be detrimental to Australian consumers.

**Inconsistencies and confusion.** There is apparent confusion around the wholesale costs faced by carriers. For example, KPMG comments that factors influencing international mobile roaming prices include a, "*limited number of mobile roaming carriers which combined with their concentration of market share has lessened price competition and reduced downward pressure on wholesale roaming charges.*"<sup>ii</sup> The report does not appear to recognise that wholesale prices are set by overseas carriers, or that Australian carriers could be price-takers in the international roaming market. It also fails to recognise that reductions in wholesale charges would need to be reciprocal in order to benefit Australian consumers. Worryingly, KPMG does not recognise the folly of contemplating single-ended regulation on bi-lateral and multi-lateral international services.

As a further illustration of KPMG's lack of understanding of the issues and inconsistencies in their conclusions, the Report appears to be arguing that reductions in wholesale costs would benefit Australian consumers. Yet their own figures state that the wholesale costs comprise only 17 per cent of the retail price. How much benefit would there be in reducing wholesale costs if they comprise only 17 per cent of the total price?

**Sampling.** The sampling in the report relies on biased and selective samples of roaming rates in selected countries and fails to give a realistic picture of rates in a range of countries. For example, the report includes rates for all carriers in Portugal, however, only three carriers in the United Kingdom and one in Thailand and Spain are included. This is a sampling error and misrepresents the available rates.

Moreover, the report does not take into account the numerous extraneous competitive forces working to constrain prices within Australia. These include the availability of a large – and ever-increasing – number of substitutes for international mobile roaming, including local pre-paid SIMs, Skype-phones, calling cards and multi-country SIM cards, to name just a few.

### **Ovum comments**

AMTA urges the Department to consider the recent comments responding to the Report, by Craig Skinner, Senior Consultant at global advisory and consulting firm Ovum:

*"A premature regulatory response by the Government on mobile roaming charges could hamstring their options to deliver benefits to Australian customers.*

*"We should be clear what the ACCC and the Government is and is not able to do to solve this problem. The first question that should be examined, is how important is this issue to customers? Mobile carriers with networks in multiple countries and international carrier alliances have already provided the availability of cheaper roaming options. Roaming price differentials can vary by 100% and Australian mobile carriers provide relatively clear roaming price information, yet few customers are willing to take advantage of these price savings. If roaming price differentials are not sufficiently important for customer demand to be elastic, should the Government step in and regulate?"*

Skinner goes on to point out that:


*"there will be no benefit to Australian customers from unilateral regulatory action on wholesale roaming charges.*

*"the only feasibly effective method of lowering mobile roaming charges [is] internally co-ordinated regulatory action."*

AMTA reiterates that Government regulation is absolutely not required in this sector, which is highly competitive (with four competing mobile carriers in Australia and numerous alternatives such as pre-pay SIMs, Skype-phones and multi-country SIMs available to consumers) and plentiful rate information available on carriers' websites.

I hope you find these comments useful and I look forward to discussing the issues further with you in due course. In the interim, please do not hesitate to contact me, or AMTA's Policy Manager, Peppi Wilson, for further information, or with any questions.

Yours sincerely



Chris Althaus  
**Chief Executive**

Encl. AMTA submission to the House of Representatives Standing Committee on Communications, *Inquiry into International Mobile Roaming*, August 2008.

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<sup>i</sup> Table 2, p5, KPMG Report *International Mobile Roaming Charges*

<sup>ii</sup> P4, KPMG Report *International Mobile Roaming Charges*