Federation of Small Businesses
The UK's Leading Business Organisation

Wholesale Mobile Voice Call Termination – FSB Consultation Response

Overview

- **Ofcom is right to focus on how termination rates affect end-users:**

  It is very welcome that Ofcom has put end-users at the heart of its assessment of how mobile termination rates (MTRs) should be regulated in future.

  The consultation says that "the most important issue is how each approach affects consumers". This is exactly as it should be. But any outcome that delivers less than a significant reduction in the price consumers pay for making a call to a mobile phone will be a failure to deliver on that central issue.

- **MTRs involve large sums which end up being paid by end-users, who therefore need protection:**

  Last year, the mobile operators charged customers who phoned a mobile from a landline, over £750 million. That's over £60 million per month or £2 million per day. The size of these charges makes it all the more important that Ofcom gets the regulation right and protects consumers from any risk of overpaying. The current approach leads to high MTRs which are passed through to consumers in higher fixed to mobile retail rates and which place an artificial price floor on retail mobile to mobile rates. A significant reduction in these wholesale rates will bring down retail prices for both mobile and fixed consumers. We are active members of Terminate the Rate campaign and ask you to consider the interests of the businesses that play such a crucial role in the UK's economy in your consultation on the future of wholesale mobile voice call termination.

  The Federation of Small Businesses is supporting the campaign because lower termination rates are good for business, good for consumers and good for the economy. If termination rates came down to their real cost then the UK's 4.7 million small businesses would all save on the costs of calls to mobiles making them more competitive. Consumers would also have more money in their pockets because their phone bills will be lower. This extra disposable income would invariably be made available to the hard pressed high street. All in all lower termination rates will boost the economy at this crucial time.

We support a move to reduce the rates to around a penny or less, as we want to see an end to the unfair charges levied to call mobile phones.

- **Mobile rates are much higher than fixed termination rates for no reason:**

  Mobile termination rates are more than ten times the equivalent rate for terminating calls on fixed networks. There is no justification for a differential of this magnitude: fixed rates have been set to cover just the cost of actually carrying calls across the network and the mobile rate should work in the same way. Mobile networks should not be allowed to recover the additional network costs that push the rates up to these high levels, which can be recovered from other services provided in competitive markets.

- **High mobile rates constrict the whole market by preventing other operators from offering cheaper deals, and even stop some people from calling a mobile phone.**

  Mobile networks may be more costly to run than fixed networks but we have seen figures that suggest the termination rates ought to fall to 1p per minute or less if they were set like fixed rates to cover just the cost of carrying the calls. Such lower rates would, we understand, enable all operators to break the artificial 'price floor' caused by excessive mobile termination rates and offer all consumers better deals. And for those customers who don’t use their phones (both fixed and mobile) because of the high cost of calling a mobile, lower termination rates will help give them the comfort to pick up their phones again, and help stimulate more calling generally.

  The current high rates make it impossible for fixed and mobile operators to offer fixed “all you can eat” bundles at realistic prices for large numbers of consumers. If MTRs are significantly reduced such tariffs would become more wide-spread, providing better value for money (removing the “money go round” of mobile operators passing large amounts of wholesale revenues between themselves which contribute nothing to the funding of new networks but simply prop up retail prices). Small businesses, already active users of all you can eat fixed-line packages, are naturally interested in the same approach to calling mobiles. Without a significant cut in MTRs this is never going to happen.

  With our members increasingly reliant on calling mobiles to stay in contact the financial impact on small business is significant. Businesses have no choice but call mobiles and it adds greatly to costs.

- **The first priority is to get rates down, and quickly - Ofcom ought to be able to rely on the market to ensure the big mobile operators don't simply shift the costs elsewhere.**

  We fully understand that Ofcom will need to ensure its proposals won't result in the mobile operators raising other charges to compensate for lower termination revenues. However, if the mobile sector is as competitive as most in the industry claim and Ofcom itself has previously found, competition will prevent this from happening. Mobile termination is a wholesale charge which is not subject to competition. Other mobile related charges are subject to the forces of open competition. And getting lower termination rates would, we expect, stimulate fixed operators and the smaller mobile operators to offer better deals and gain customers from the big mobile companies. Competition between both mobile operators and between mobile and other forms of communication would therefore all ensure prices were driven down.

  As Ofcom notes in its Consultation it has already significantly reduced MTRs over the years. Competition has been effective to date in the retail markets and retail mobile prices have fallen not risen. Ofcom should therefore treat claims from the incumbent mobile operators that other prices will rise with great scepticism. It has not happened in the past and there would seem to be no reason why it should happen this time around.

Ofcom's Questions

We are unable to respond to each of Ofcom's 12 questions individually, but instead have set out in this response some broad policy objectives we would like to see Ofcom take on board. Our main interest lies in ensuring that end-users get a better deal out of regulation than they get today. That means we support Ofcom's continued regulation of termination rates, but we would like to see that process accelerated, so that lower rates translate into lower prices as soon as possible. We think this is in the best interests of our members and so would support any option which brings about lower termination rates. We understand there may be a risk that prices may rise for certain customer groups but consider that competition can be relied upon to ensure that customers would benefit from more competitive pricing and / or more extensive calling packages. We understand that at least one operator has committed that they will not increase prices for low users. In this case we would expect this position to become the base for competition and that any pricing / usage benefits would be relative to this point. To the extent that a concern remains that prices may rise for very specific groups we would urge Ofcom to consider alternative more effective forms of regulation (such as the idea of a social tariff) to protect such customers, at least in the short-term during the period of market adjustment. Increasing prices across the board is not an effective way to protect low usage customers. If anything – as with the current regime -- it is more likely to encourage low users to keep their usage down.

We think it is for Ofcom and the industry to work together to decide how best to deliver a better deal for consumers than the high charges we see today. On the face of it, a tighter price control seems to be the best way to achieve this until such time as market conditions allow a different approach.

What the European Commission has done for roaming rates – and is now recommending for mobile termination rates -- needs to be done here in the UK now.