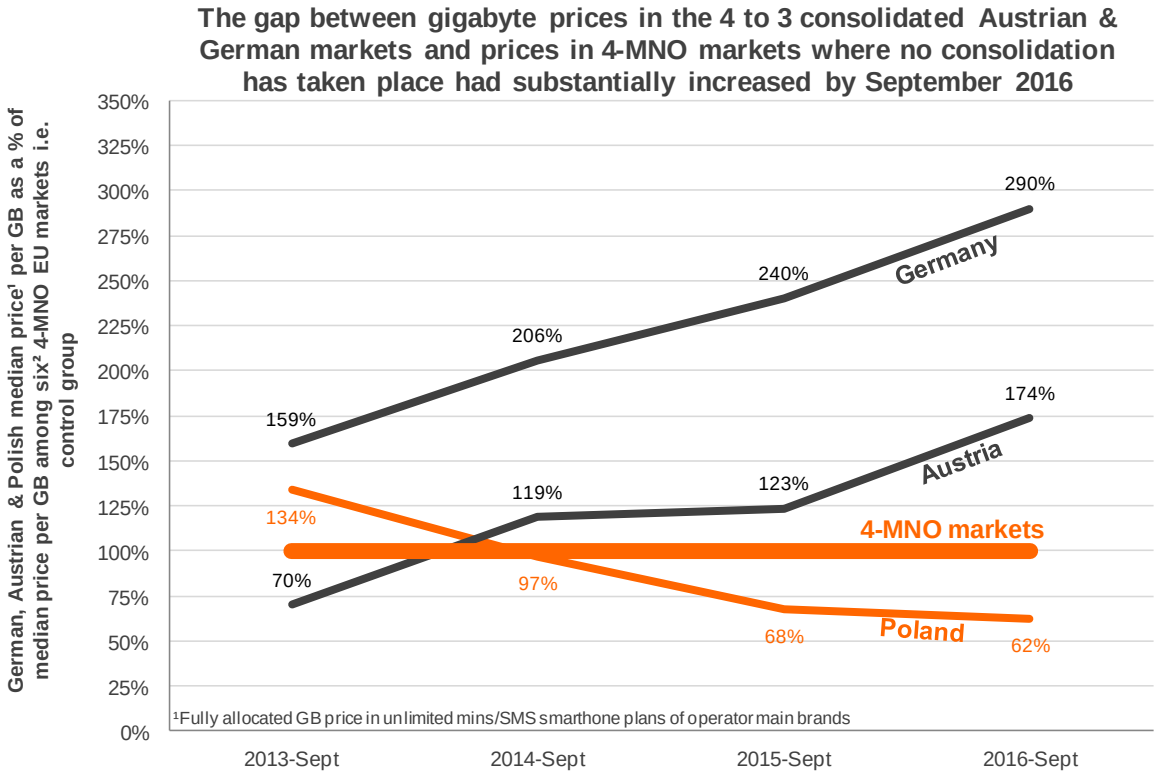
Rewheel
PRO-COMPETITIVE TELECOM STRATEGY

DIGITAL FUEL MONITOR
MONITORING MOBILE CONNECTIVITY COMPETITIVENESS
By Rewheel

Four year comparative study of unit prices in 4-MNO and in the 4 to 3 consolidated German & Austrian markets

- The gap between gigabyte prices in the 4 to 3 consolidated Austrian & German markets and prices in 4-MNO markets where no consolidation has taken place had substantially increased by September 2016
- While in 4-MNO markets gigabyte prices converged to the lowest (Danish) level in the German and Austrian consolidated markets prices diverged from the lowest level

Rewheel / Digital Fuel Monitor-PRO research study, 31st January 2017



[2]Control group non-consolidated 4-MNO markets: Denmark, France, Italy, Poland, Sweden, UK

Source: www.dfmonitor.eu

Key findings

- **Germany, Austria:** The gap between gigabyte prices (i.e. unit prices) in the 4 to 3 consolidated Austrian & German markets and prices in 4-MNO markets where no consolidation has taken place had substantially increased by September 2016
- **Denmark, UK, France, Italy:** Gigabyte prices stopped falling as sharply, flattened out or even briefly rose after 4 to 3 mergers were announced. After the mergers were objected/remedied prices started falling sharply again
- **Poland:** No 4 to 3 consolidation has so far been attempted in Poland. The presence of Play, a mobile-centric MNO, has pushed Polish prices to lowest among the group of nine countries
- **Sweden:** Swedish gigabyte prices have not fallen as fast as French and Polish prices. Was Hutchison group's consolidation strategy the reason? Is 4 to 3 consolidation in Sweden still on Hutchison's agenda?
- **Netherlands:** Tele2's anaemic launch has so far failed to shake up the Dutch mobile data market. After an initial fall gigabyte prices were almost flat in 2016. Is 4 to 3 consolidation in the Netherlands still on Tele2's agenda?

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Context of comparative study

The wave of 4 to 3 mobile mergers that swept Europe in the last four years has come to an abrupt halt. The European Commission under the helm of Joaquin Almunia approved the 4 to 3 mergers in Austria in 2012 and Germany and Ireland in 2014. The Commission unlawfully approved the Austrian, Irish and German 4 to 3 mergers by erroneously claiming that the upfront behavioural (MVNO wholesale access) remedies it dictated could remove the competition concerns entirely. The European Commission made a U-turn under the helm of Margrethe Vestager and demanded upfront structural (i.e. the entry of a new fourth mobile network operator) remedies in the Danish, British and Italian 4 to 3 mergers that followed. Reverting to a long held Commission position in dictating upfront structural remedies in mergers that reduce the number of infrastructure competitors in network industries led to the prohibition of the Danish and UK mergers and the approval of the Italian merger on the basis of Iliad becoming the new fourth mobile network operator.

The approved mergers in Austria, Germany and Ireland were opposed by many national competition authorities, sector regulators and few independent expert third parties such as Rewheel which asserted that 4 to 3 consolidation would lead to a significant impediment of effective competition and price rises.

The Austrian sector regulator and competition authority, other sector regulators such as Ofcom, the European Commission, the CERRE institute and other expert independent third parties such as Rewheel have during the last three years carried out various comparative ex-post studies with the aim of determining if prices rose after mobile mergers and if prices in markets with more versus less mobile network operators are generally lower. The studies concluded that consolidation in mobile markets in general and the 4 to 3 mergers in Austria and Germany in particular led to significant price increases. Rewheel has shown in a number of research notes that the price of some key unlimited minute & SMS smartphone plans (e.g. 2, 5 or 10 GB) almost doubled in Austria and increased by as much as 65% in Germany a year after the merger approvals.

But could a 4 to 3 mobile merger lead to a significant impediment of effective competition even though unit prices continue to fall post-merger or start falling again after an initial increase that is typically observed right after the merger approval?

Yes, in industries where unit prices are in a falling trajectory due to structural reasons, a 4 to 3 mobile merger could lead to a significant impediment of effective competition despite falling post-merger unit prices if the rate of decrease is significantly lower that the projected rate of decrease absent of the merger (i.e. assuming a 4-MNO market).

The mobile network operator business is a predominantly fixed-cost business with nearly zero-marginal cost of adding new customers or adding more data traffic per customer. In competitive markets unit prices (i.e. €/gigabyte) fell off a cliff the last four years and will continue to fall driven by cost-efficient technological advancements (e.g. LTE-A) and the inexhaustible consumer appetite for affordable mobile internet video.

Paraphrasing a point[1] we made regarding the Austrian mobile merger back in June 2015 the right question to ask is not whether unit prices will increase or fall after a 4 to 3 mobile merger but rather how much lower unit prices (i.e. €/gigabyte) would have been if there were four rather than three mobile network operators left in the market?

In this study, using a four year (2013 – 2016) comparative analysis of country median fully allocated gigabyte prices of unlimited (>1,000) minute & SMS smartphone plans (i.e. unit prices) we show that the gap between prices in the German and Austrian 4 to 3 consolidated markets and prices in 4-MNO markets where no consolidation has taken place (i.e. control group Denmark, France, Italy, Poland, Sweden and UK) had substantially increased by 2016. Moreover, while in 4-MNO markets gigabyte prices converged to the lowest (Danish) level in the German and Austrian consolidated markets prices diverged from the lowest level.

[1] http://www.reuters.com/article/us-mobile-europe-m-a-idUSKBN0OP11Q20150609

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