

Operator Multiplay and Mobile Media Intelligence Services

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Roaming costs across the EU and EFTA set to tumble as EU 'roam like at home' regulations launch

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- New wholesale caps and 'Roam Like at Home' regulations come into force on 15 June 2017
- The wholesale roaming data price cap will apply directly to prepaid users and set the limits for postpaid users Fair Use Policy
- However caps on 'Roam Like at Home' are set generously and moderately priced and unlimited data tariffs will leave operators exposed to data costs twice the total bundle tariff
- Volume limitations do not apply to voice and SMS as risks of abuse are seen to be lower
- Rules will be reviewed every two years and an interim report into the impact of the regulations is due by December 2018

New regulatory structure caps roaming costs for consumers

The EU launched 'Roam Like at Home' on 15th June with the implementation of 'Regulation No. 2015 / 2120', which introduced elements of the 'Digital Single Market' to the statute book. Approved in November 2015 this aimed to ban international roaming charges within the 28 countries of the EU plus the three markets of the EEA by 15 June 2017, impacting on some 672 million mobile subscriptions (IHS Markit). Wholesale rates for mobile data will also be reduced from €0.05 per MB to €0.077 per MB as the start of an annual reduction in wholesale roaming charges. The surcharge that had been effectively allowing operators to charge up to the wholesale rate for roaming data will be removed on data within existing caps, or to a limit that leaves operators with liabilities up to twice the value of the users' bundle tariff. Where the price of data domestically paid by prepay users who are charged per unit used is less than the wholesale rate, then the cost while roaming is capped at the wholesale domestic rate.

Territories covered

Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovenia, Slovakia, Spain, Sweden, UK, Iceland, Liechtenstein, Norway

Company	Symbol
AT&T	NYSE:T
BT (EE)	LON:BT
DNA	HEL:DNA
Elisa	HEL:ELISA
Sprint	NYSE:S
Three	HKG:0013
Verizon	NYSE:VZ
Viettel	Vietnamese state owned

Wholesale Roaming Rates

Year	Wholesale € / GB (1000 MB)	Voice € / min	€ / SMS
2016-17			
- surcharge	50	0.05	0.02
2017-2018 (Roam Like at Home)	7.7	0.032	0.01
2018	6	0.032	0.01
2019	4.5	0.032	0.01
2021	3	0.032	0.01
2022	2.5	0.032	0.01

Source: IHS Markit

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In addition, a global cap on data charges - 'bill shock protection' - has been set at €50. Applicable worldwide the cap will stop data downloads once that cost has been reached, unless specifically opted out of by the user.

Fair use policies limit operator exposure to liabilities - which can exceed tariff revenues

Safeguards were put in place already in December 2016 to limit the benefit of arbitrage between markets. The geographical component of those policies require only that customers use the service for the majority of the time in their home country, as measured over a four month period. These also allow operators to apply surcharges (based on wholesale cap rates) to customers breaking fair use policies.

Fair use limitations to 'Roam Like at Home' may be applied when users subscribe to an unlimited data tariff, with the calculation set at a volume equivalent to twice the price of the mobile bundle (excluding VAT), but it is noteworthy that the value of data in the bundle is taken as the value of the complete tariff divided by the wholesale cap - €7.70 per GB in 2017. Even without accounting for the cost of providing voice and SMS services, costs may therefore significantly exceed the revenue generated by the customer. For example a contract worth €25 (excluding VAT) with a 10GB limit could cost the operator up to €50 to pay for 6.5GB of data at the wholesale capped rate before they can apply surcharges. The EU justifies this by noting that "The application of a multiplier of two adequately reflects the fact that operators often negotiate wholesale data roaming prices below the applicable caps, and that customers often do not consume the entire data allowance provided under their tariff plan". However, as noted in Table 1, wholesale rate caps are set to be cut significantly over the next five years.

Example Bundles and Roaming Costs to Operators

	Bundle value €	Wholesale cap price €	Data in bundle GB	€ Cost per GB (home)	Roam like home cap GB	Max cost to operator €
Very low cost data	19	Not applied	5	3.80	NA	NA
Low cost data	19.25	7.7	5	3.85	5.00	38.5
Low cost data	25	7.7	10	2.5	6.49	50
Normal	25	7.7	3	8.33	3.00	23.1
Normal	25	7.7	5	5.00	5.00	38.5
Unlimited	25	7.7	Unlimited		6.49	50
Unlimited	35	7.7	Unlimited		9.09	70
Unlimited	45	7.7	Unlimited		11.69	90
Low cost data	15	6	5	3	5.00	30
Low cost data	25	6	10	2.5	8.33	50
Normal	25	6	3	8.33	3.00	18
Unlimited	25	6	Unlimited		8.33	50
Unlimited	35	6	Unlimited		11.67	70
Unlimited	45	6	Unlimited		15.00	90

Exceptions can be sought

The ban on roaming charges is not however a blanket one with the EU allowing for exceptional cases where “very generous, low-price domestic offers” are in effect. That is defined as tariffs set at half the wholesale roaming rate - under €3.85 / GB in 2017 and there are a number of tariffs that would meet that definition. EU research found 4 GB / 1800 mins per month tariffs in Estonia, Italy, Latvia, France and Luxembourg which would fall under the threshold, while more recent tariff offers in markets including the UK would also do so. In those cases operators will be allowed to limit the amount of data that is covered by ‘Roam Like at Home’, as long as ‘most travellers’ needs are covered’. Data caps before surcharges apply may therefore be lower than at home.

The regulations also allow for operators to apply for exemption on the basis that the regulations generate a risk of “appreciable effect on domestic price developments”. Such a risk would be deemed as relevant if negative roaming retail net margin is an appreciable proportion of EBITDA later defined as “Where the absolute value of the roaming retail net margin is equivalent to 3% or more of the mobile services margin” - though that is subject to exceptions, for example low levels of competition indicating that there is room for margins to be impacted.

Impact analysis

Various analyses by the EU show that the impact will be limited - for example they state that only 30% of EU residents made an overnight trip and “the average number of days abroad within the EEA per year (including one-day trips) is 5.7 days”. This therefore provides a significant advantage for a small group of highly travelled and relatively high end users and subscribers to mid cost and unlimited bundles. While a relatively small group, the potentially high cost to operators (for the size of this group) will ultimately be defrayed among other users.

Looking at the UK, which fell in the mid to lower range on the EU analysis of tariffs despite the UK generating ARPU in the lower end of the upper quartile, EE followed on from Three UK’s market leading 2013 launch of ‘Feel At Home’ tariffs and launched ‘Roam like home’ in August 2016. However, that was reserved it as a premium additional benefit to services on the top of the three tier pricing structure ‘4GEE Max’ plans. EE announced in May 2017 that all pay as you go and contract customers would now be able to take advantage of inclusive roaming to 47 European destinations across the EU and EEA, as well as Switzerland, Monaco, the Isle of Man and Guernsey. Max plans are still on sale, but now only offer the additional benefit of ‘Roam Like at Home’ in Australia, Canada, Mexico, New Zealand and USA.

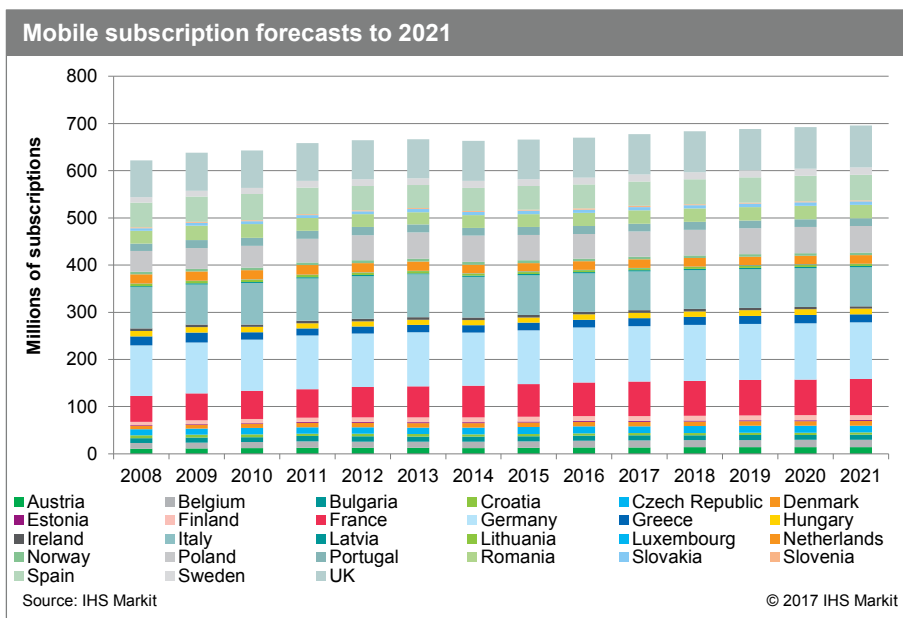
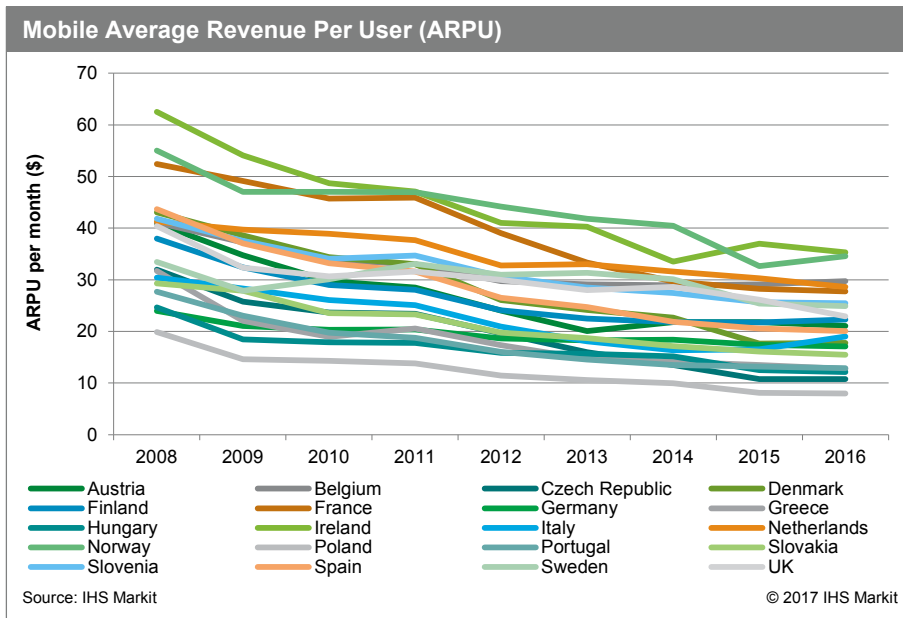
BT estimated the impact on EE at the ‘mid tens of millions of pounds roaming drag’ in the 2017/2018 financial year. Given that BT’s Financial year 2016 Q4 revenues amounted to £1.26 billion earning EBITDA of £316 million, the overall impact is limited. Across Vodafone Group the impact is estimated at €150 million in FY2016/17, rising to €300 million in 2017/18, which will have a negative impact on EBITDA of 0.3%.

The impact is likely to be more significant on smaller, local operators. They will lack the international scale which delivers roaming on their own networks, supports cheaper roaming agreements for their customers, and for deals to be struck for visitors to default to roaming on their network. However, they may conversely benefit from the wholesale rate caps which could, at some points in the process, level the playing field when negotiating roaming rates.

Unlimited deals have become an increasingly common feature in the market but now come with potential liabilities to the operator. Such deals are likely to appeal to the highly mobile international user. There is the possibility that some of these unlimited deals will be taken off the market if they prove to be used disproportionately by regular travellers and operators will be unable to reduce data costs to levels significantly below the wholesale price cap. However some operators have noted they will not implement tariff changes. For example, in Finland where such unlimited subscriptions have gained popularity rapidly, both DNA and Elisa have stated that they will continue to offer unlimited data bundles.

Yet conversely, there are some indications that prices may rise as a result, with Taenk, the Danish Consumer Council noting in May that three out of four mobile operators in the country had raised their prices, in moves that Taelnk linked to the roaming directive.

Given the heterogeneity of the EU and the variety of mobile tariffs, the impact of the directive will vary considerably between countries, and will also change as the wholesale caps develop. While higher cost countries may see an impact on unlimited and high capacity tariffs, low cost countries will find that, at least initially, they do not need to apply 'Roam Like at Home' to some tariffs. The EU analysis found that the cheapest 4 GB / 1800 mins per month tariffs in Estonia, Italy, Latvia, France and Luxembourg fell under the threshold and data costs continue to fall. Overall, ARPU in European markets has been under pressure for many years, with IHS Markit tracking a fall in the average across 21 European markets from €56.74 (\$37.66) in 2008 to €23.17 (\$20.93) in 2016. While lowering the risk of bill shock to consumers, this latest regulatory intervention will put further pressure on ARPU. With limited room for core subscriber growth, forecast by IHS Markit at 4.0% in total over the next five years, operators will need to build on uptake of non-core services to generate additional revenues. In the consumer segment, the falling cost of data has itself created the conditions for potential new services with home broadband replacement and subscriber video on demand services now tenable over mobile networks.



Additional Points

Regular cross border workers are winners - at operators' (and therefore local users) expense unless operators actually get data at well below the cap cost - domestic prices may be effectively priced at the EU roaming level.

Operators will be incentivised to maximise their coverage at border areas to ensure that subscribers do not log into the network of a neighbouring country, or potentially to harvest roaming revenues from neighbouring countries. That may increase interference in those areas.

Many multinational operators have already pre-empted the move and enabled roam like home functionality for their users. Europe is also not the only driver or example of 'free' roaming appearing recently. In the United States AT&T and Verizon offer free (in bundle) roaming across Canada and Mexico on unlimited plans while Sprint has 160 country 'Global Roaming' option offering free texts, \$0.20 calls and free 2G speed data. That is a usage management technique also employed by T-Mobile in 120 countries, though several T-Mobile plans also allow for high speed data in Mexico and Canada. Viettel has also taken advantage of its' growing international operations to offer roam like at home across Vietnam, Laos and Cambodia.

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