

## What Telefonica does not want EU competition and regulatory authorities to know

Rewheel / Digital Fuel Monitor research note, 28<sup>th</sup> April 2015

Yesterday, Telefonica published<sup>1</sup> on their public policy blog a review of the Digital Fuel Monitor methodology. Telefonica's critical review of the Digital Fuel Monitor methodology is based on a review<sup>2</sup> conducted by a consulting firm called Solchaga Recio & Associates (SR).

Telefonica's main claim regarding the alleged flaw in DFMonitor methodology is that one could not compare the gigabyte prices calculated by fitting linear regression lines to the price-volume points because the base price (price for zero gigabytes i.e. where the calculated linear regression line intersects the Y-axis) must be taken into account. But DFMonitor does calculate and show the base, gigabyte and prices for a variety of baskets (0.5, 1, 2, 3, 4, 5, 10, 20, 100 GB). Have Telefonica and their consultants intentionally ignored all those charts shown in the public version of DFMonitor site that depict the base, gigabyte and basket price comparisons?

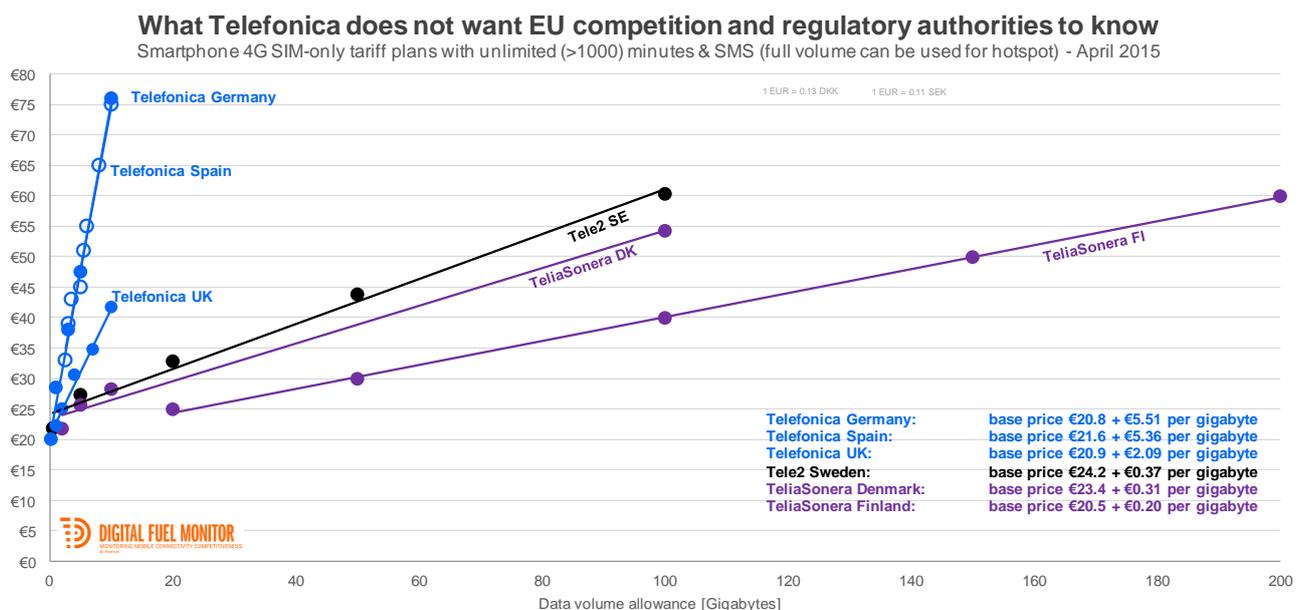
Telefonica's motivation is clear. Telefonica hates the DFMonitor methodology because:

- it exposes the huge price difference (100x) of gigabytes in EU28 among competitive and protected/consolidated markets
- it exposes telcos' potentially anti-competitive own zero-rated services (open mobile internet gigabytes sold at €5 while telco's own zero-rated gigabytes sold at €0)
- it exposes the price hikes in recently 4 to 3 consolidated markets

We understand that Telefonica is under a lot of pressure at the moment. It is probably being questioned by competition authorities regarding its so called 'upfront capacity MVNO' remedy in Germany which is neither capacity based nor effective and as well for the DFMonitor reported<sup>3</sup> post-merger price hikes in Germany. Rewheel has recently elaborated<sup>4</sup> its findings on the ineffectiveness of Telefonica's so called 'upfront capacity MVNO' remedy in Germany. We suspect that our findings made Telefonica nervous regarding the approval prospects of its merger with Hutchison Three in the UK.

So what is it that Telefonica does not want EU competition and regulatory authorities to know?

A picture is worth a thousand words!



<sup>1</sup> <http://www.publicpolicy.telefonica.com/blogs/blog/2015/04/27/mobile-internet-price-comparisons-a-review-of-the-digital-fuel-monitor-methodology/>

<sup>2</sup> <http://www.publicpolicy.telefonica.com/blogs/wp-content/uploads/2015/04/Rebuttal-of-the-mobile-internet-prices-analysis.pdf>

<sup>3</sup> [http://www.dfmonitor.eu/insights/2015\\_feb\\_premium\\_drillisch/](http://www.dfmonitor.eu/insights/2015_feb_premium_drillisch/)

<sup>4</sup> [http://www.dfmonitor.eu/downloads/Effectives\\_remedies\\_telecom\\_consolidation\\_PUBLIC.pdf](http://www.dfmonitor.eu/downloads/Effectives_remedies_telecom_consolidation_PUBLIC.pdf)

Telefonica made many incorrect and misleading statements in their blog entry about DFMonitor methodology and DFMonitor reports. Yesterday evening we posted a response on Telefonica's blog. We copy it below:

Some quick reactions:

- 1) Contrary to the claim of the blog post and the SR report, the title of the Digital Fuel Monitor report referred not to mobile internet "prices" in general but to "gigabyte prices" – Please kindly correct this in both the blog post and the report
  - 2) DFMonitor tracks and analyses not only price per incremental gigabyte (and base prices) but also basket prices (separately for smartphone and dedicated data-only plans). Check for example <http://dfmonitor.eu/Telefonica>
  - 3) In our analyses we directly compare gigabyte prices when the base price is equal or higher otherwise we compare basket prices. For example operator A base price is €30 and operator B base price is €20. Operator A gigabyte price is €5 and operator B gigabyte price is €0.5 then we draw the conclusion that the gigabyte price of operator B is ten times less than the gigabyte price of operator A.
  - 4) While the price per incremental gigabyte alone clearly cannot fully characterise price level differences between markets and operators, it is becoming increasingly relevant in the context of mobile video and cloud service zero-rating practices (one hour of SD video consumes about 1GB, one hour of HD video consumes about 3GB, that is the highest post-merger allowance for Yourfone under Drillisch, pre-merger, under E-Plus they sold up to 10GB)
  - 5) Before the Telefonica Germany – E-Plus merger the lowest price for the 10GB smartphone plan basket was €45. Post-merger the price rose to €73 (+59%). Before the Telefonica Germany – E-Plus merger the lowest price for 5GB smartphone plan basket was €36. Post-merger price rose to €43 (+19%).
  - 6) To put the German prices and gigabyte allowances into perspective: TeliaSonera sells in Finland a 50 (fifty) 4G (150Mbps) gigabyte smartphone plan with unlimited minutes and SMS for €30 <https://kauppa.sonera.fi/yksityisille/tarjooma/liittymat.aspx?PlanTable=open&ScrollTop=850> Additional gigabytes cost €0.2. That is 25 times less than the gigabyte price of Telefonica, T-Mobile and Vodafone in Germany! The competition effect – In Sweden, a 4 operator market, 4G smartphone volume caps doubled (for same prices) [http://www.dfmonitor.eu/insights/2015\\_apr\\_premium\\_sweden/](http://www.dfmonitor.eu/insights/2015_apr_premium_sweden/)
  - 7) According to DFM public data (1Q2014) <http://www.dfmonitor.eu/> the German weighted average gigabyte price was €5.09 (base price was €33.46), the UK gigabyte price €1.95 (base price was €21.11), the Danish gigabyte price was €1.08 (base price was €35.39) and the Finnish gigabyte price was €0.17 (base price was €18.29). So the German gigabyte prices were 2.5 times higher than the UK, almost five times higher than the Danish and 30 times higher than the Finnish gigabyte prices.
- +1) We are not aware that either Vodafone/Communications Chambers or GSMA/Frontier Economics has challenged the Digital Fuel Monitor methodology

As a final note we would like to remind Telefonica that none of the mobile operator groups that subscribe to DFMonitor have ever questioned either the soundness of the methodology or the reported price increases even though some were actually made by their own operator subsidiaries.