

Effective structural remedies for Hutchison-WIND 4 to 3 Italian mobile merger

The creation of an effective new fourth MNO in Italy requires substantial radio network and spectrum divestments

- What is the minimum required size of radio network (macro sites) that must be divested?
- What is the minimum required spectrum that must be divested per frequency band?
- Will the type (mobile-only versus fixed-mobile converged) of the new fourth MNO significantly affect effective competition in the Italian mobile market?
- MVNO wholesale access remedies – Very low rate per gigabyte required!

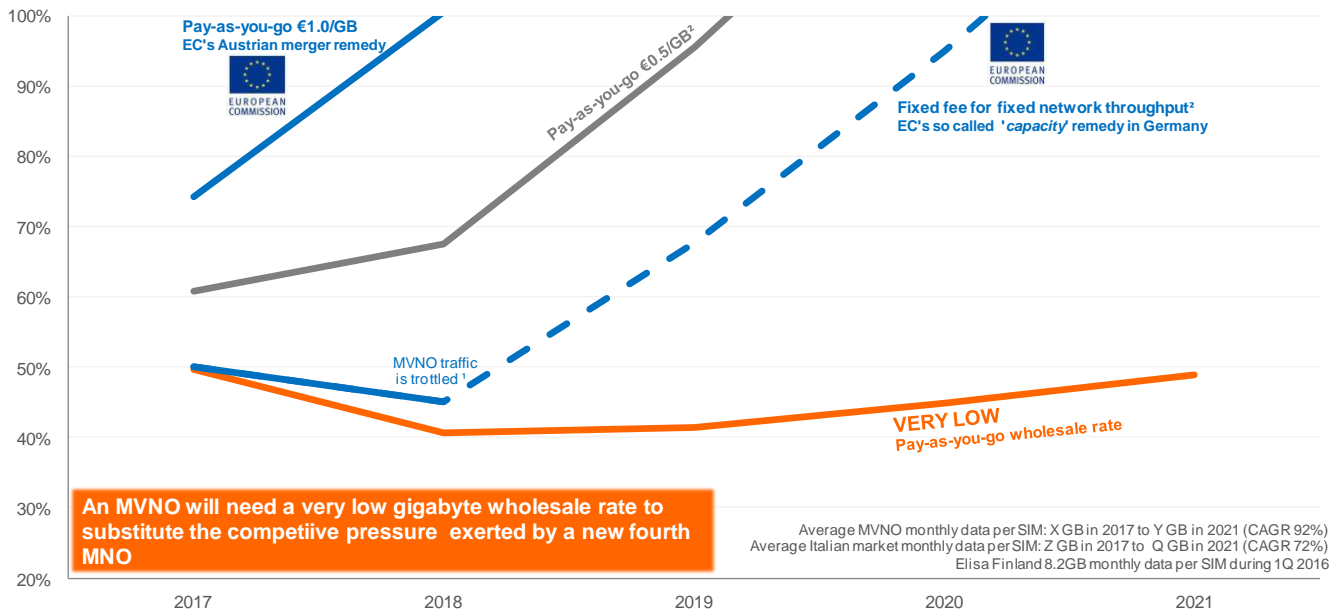
Rewheel study, 30th May 2016

Traffic forecast market monthly average gigabyte per SIM in 2021	Sites divested to 4th MNO	Spectrum divested to 4th MNO	4th MNO total small cells required in 2021	4th MNO small cells required per top 5% macro site in 2021	Hutchison-WIND total small cells required in 2021	Hutchison-WIND small cells required per top 5% macro site in 2021
Conservative CAGR 60%	Low	Low	✘	✘	✓	✓
Conservative CAGR 60%	Low	Substantial	⚠	✘	✓	✓
Conservative CAGR 60%	Substantial	Low	⚠	⚠	✓	✓
Conservative CAGR 60%	Substantial	Substantial	✓	✓	✓	✓
Baseline CAGR 72%	Low	Low	✘	✘	✓	✓
Baseline CAGR 72%	Low	Substantial	✘	✘	✓	✓
Baseline CAGR 72%	Substantial	Low	✘	✘	✓	✓
Baseline CAGR 72%	Substantial	Substantial	⚠	⚠	✓	✓

✘ Unrealistic ⚠ challenging ✓ feasible

Italian merger mandated MVNO wholesale cost as a % of service revenue

An MVNO on Hutchison-WIND Italian network grows its subscriber share to 15% by 2021. The chart depicts the MVNO's wholesale cost as a % of revenue (1.5 billion EUR in 2021)



¹MVNO hits the maximum (30%) network throughput cap after just one year and its traffic is throttled
²MVNO wholesale cost assuming no network throughput cap

³Lowest (non-zero) weighted average GB retail price in EU28 (Denmark April 2016)
 Average MVNO monthly data per SIM: X GB in 2017 to Y GB in 2021 (CAGR 92%)
 Average Italian market monthly data per SIM: Z GB in 2017 to Q GB in 2021 (CAGR 72%)
 Elisa Finland 8.2GB monthly data per SIM during 1Q 2016
www.dfmonitor.eu

Preamble

On the 11th of May 2016 the European Commission blocked Hutchison's proposed acquisition of Telefónica UK. We had asserted¹ back in September 2015 right after Telenor and TeliaSonera had withdrawn from their proposed 4 to 3 mobile merger in Denmark² the Commission would no longer approve 4 to 3 mobile mergers with behavioural MVNO based remedies. Commissioner Vestager stressed that the significant competition concerns of the proposed 4 to 3 mobile mergers in Denmark³ and the UK⁴ required an equally significant structural remedy: the creation of a fourth mobile network operator.

In this study we set out to frame, analyze and quantify the critical parameters (radio network & spectrum divestments) of the significant structural remedy - the upfront creation of an effective viable fourth mobile network operator - that has the potential to remove all the short and long term serious competition concerns from the proposed 4 to 3 mobile merger of Hutchison (H3G or Three) and VimpelCom (WIND) in Italy.

Herein we quantify the minimum size of the radio network and the minimum spectrum per band required to be divested in order to create a new fourth mobile network operator in Italy that can compete effectively in the short term and remain viable in the long term i.e. effective structural remedy. In addition we present and discuss other factors such as fixed-line broadband interest and price discrimination (zero-rating) practices that as shown in our '*Tight oligopolies mobile markets*' study⁵ affect the intensity of effective competition.

We have previously shown⁶ that under no circumstances an MVNO wholesale access remedy can remove the competition concerns entirely – as EU merger regulation requires⁷ – in 4 to 3 mobile consolidations. All MVNO wholesale access remedies, irrespective of the specific market conditions (e.g. Germany, UK or Italy) or contractual/implementation terms (e.g. fractional shared network ownership), have material limitations and are intrinsically ineffective.

In the final step of this study we, once again, demonstrate the intrinsic inadequacy of wholesale access remedies in mobile data by reverse calculating the very low wholesale rate per gigabyte that is required if an MVNO were to exert in a sustainable manner, in the short term, similar competition pressure in the Italian market as the pressure that a new fourth mobile network operator would be expected to exert.

¹ <http://www.reuters.com/article/teliasonera-telenor-denmark-idUSL5N11H0IU20150911>

² <https://www.telenor.com/media/press-releases/2015/telenor-and-teliasonera-withdraw-from-merger-in-denmark/>

³ http://europa.eu/rapid/press-release_STATEMENT-15-5627_en.htm

⁴ http://europa.eu/rapid/press-release_IP-16-1704_en.htm

⁵ http://www.dfmonitor.eu/insights/2016_jan_premium_tightoligopoly_eu28/

⁶ http://www.dfmonitor.eu/insights/2016_jan_premium_mvno_remedies/

⁷ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32004R0139&from=EN>

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