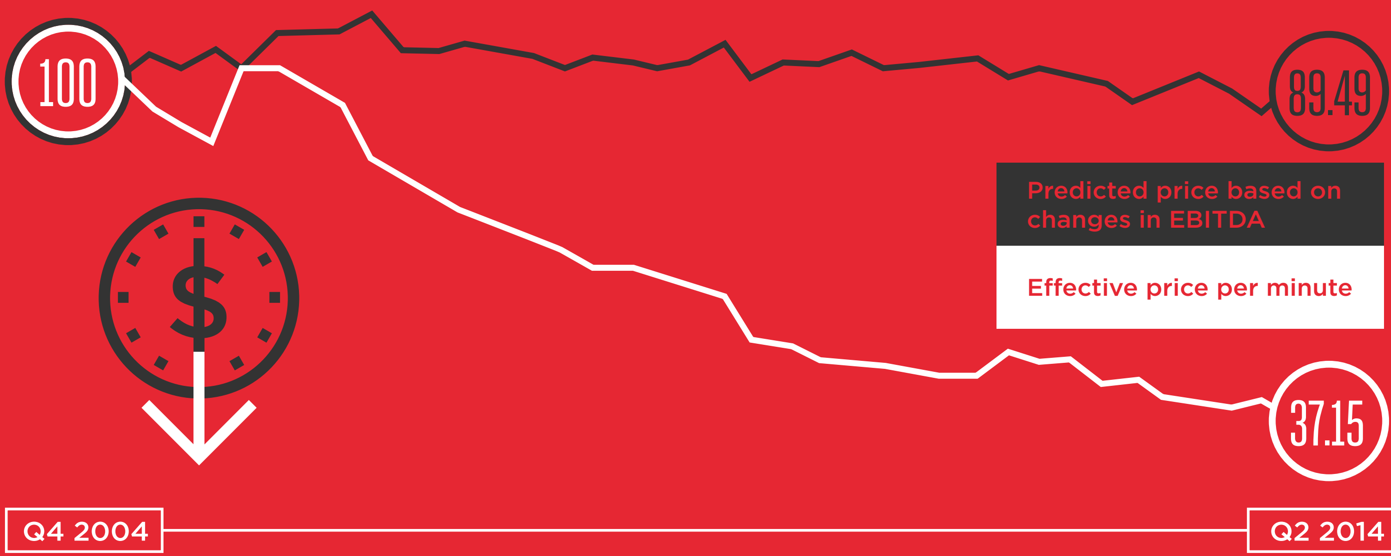
INDUSTRY CONSOLIDATION IN EMERGING MARKETS

The right market structures can incentivise operator investment in mobile broadband technologies that deliver lower unit prices and improved quality

- In 2009, there were 128 operators with less than 5% market share across 59 emerging markets
- Today, a quarter of these operators have left the market
- The remaining operators with low market share will find it hard to justify investing in new technologies unless they pursue a merger to obtain greater scale

The main driver of unit price reductions in emerging markets over the last 10 years has been investment. This greatly outweighs predicted price change as a result of market competition (i.e. lower EBITDA margins).

Unit price declines: Effect of competition and investment



Based on an analysis of 80 emerging markets over the past 15 years, no clear link is found between market concentration and prices; authorities should not assume that a merger will lead to higher prices.

The Herfindahl-Hirschman Index (HHI) does not measure levels of competition in sufficient detail and takes no account of the merger's potential to increase investment.

To assess a merger's impact, authorities can look at switching rates as part of their analysis to better gauge the nature of competition and take into account qualitative market characteristics.

Authorities can put greater emphasis on a merger's ability to increase investment, which is responsible for driving down prices and improving quality.

Spectrum divestment as a remedy can undermine the investment benefits of a merger.

- Consumers in emerging markets could benefit from investments in both existing and new technologies to improve access and coverage
- Many consumers in emerging markets do not have access to fixed lines or fixed broadband. Expanding and upgrading mobile networks will have a particularly strong impact on consumer benefits
- Ensuring that the industry structure supports investment in mobile markets is an important aim for policymakers

Summary of approved mergers

	Argentina 4 to 3 in 2005 **Movistar (29%) & Bell South (14%)**	**Chile** 4 to 3 in 2005 **Movistar (29%) & Bell South (14%)**	**Indonesia** 5 to 4 in 2013 **XL Axiata (19%) & Axis (6%)**	**Uganda** 4 to 3 in 2013 **Airtel (20%) & Warid (16%)**
COMPETITION ASSESSMENT	Market definition: voice, SMS, data Assessed unilateral effects based on market share, HHI concluding no strong incentive to raise prices Assessed coordinated effects but found no reason for the merger to impair competition or raise prices	Market definition: single market including different technologies Concern regarding the merged entity holding 100% of the 50MHz of spectrum in the 800MHz band with other operators only using 1900MHz, giving it an unfair advantage in propagation	Market definition: mobile services and tower rental Change in HHI 150+ triggers investigation No anti-competitive effect due to high number of operators with only two being profitable and Axis might go bankrupt	The Ugandan Communications Commission considered the merger may have a positive impact on competition by creating a stronger rival to the market leader who had 44% market share
EFFICIENCY GAINS	No arguments made with regard to efficiency gains	The benefits of economies of scale and lower overheads might be passed on to consumers	Better quality and lower prices might result from spectrum efficiency, lower network costs and overheads	Increase service quality
REMEDIES	Divestment of 35MHz due to merged entity exceeding the 50MHz cap	Divestment of 25MHz in the 800MHz band within 18 months	Quarterly reports on market development, products and tariffs for three years	n/a

This is an extract from Assessing the case for in-country mobile consolidation in emerging markets
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