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APPENDIX:

**THE PPI FOR TELECOMMUNICATIONS
IN THE NETHERLANDS**

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Producer Price Index for Telecommunications in The Netherlands

A. Business model

Statistics Netherlands uses the Classification of Products by Activity (CPA) in its Services PPI program. Telecommunications, including among others wired and mobile (wireless) telephony, are classified in CPA 64.2.

The market of telecommunications is broad and not very transparent and includes complex products. Therefore the Telecommunications PPI is limited to fixed and mobile telephony.

The market of **fixed lines** is dominated by one company. There are several small companies that use the local loop of the incumbent for their wired services. This type of service is called carrier (pre)select.

There are five main operators in the market for **mobile telephony**. The initial growth after the market liberalisation seems to have ended and the market seems more stable. Yet, competition is very strong and the market might be too small for five operators. Two companies dominate the market for the business customers.

Telecommunication services can be purchased by business customers, households and other telecommunication companies. The Dutch PPI of telecommunications is based on business customers only.

B. Government regulation

The industry is regulated by an organisation whose mission is to stimulate fair competition. This regulator can fine companies on competition matters and can define rules whenever there are disagreements between telecommunication companies. The regulator also gathers information that is sometimes similar to the information surveyed for the PPI.

Telecommunications companies are obligated to provide the information to the regulator. Since 2 January 2004, there is a legal obligation for companies to provide data on among others prices to Statistics Netherlands.

C. Pricing methodology

Classification and sample design

Because a limited number of telecommunication companies realize almost all turnover, a limited number of companies are surveyed for fixed and mobile telephony; a form of cut-off sampling. Each company is weighted by the turnover of business clients. Mobile and fixed telephony are weighted by the total turnover of business clients in the Netherlands. This total turnover is based on National Accounts' estimates.

Surveyed price information

Presently, the bill method is used. These model bills are repriced by filling in standard rates that are either surveyed or found on web pages. Additionally, one company provides an integral repricing of the total bill, providing Statistics Netherlands only with the total monthly fee. Respondents provide discount adjusted rates. In the cases of web based surveying, standard (volume) discounts are included. The composition of the bill is based on an estimation or calculation of the average number of connections and call minutes in different categories. Bills of small, middle and large business customers are repriced separately. Every quarter (in the middle of the second month in a quarter) the survey is sent to the respondents. The survey started in may 2002.

D. Limitations/concerns about the data and future plans

1. In the short term Statistics Netherlands will revise the PPI for telecommunication, switching to unit values. There are a number of reasons for this:
 - The PPI for mobile telephony shows no significant price change while it is expected that there is price movement. This is probably due to the current practice of measuring rates and the absence of new contracts in the PPI.
 - The PPI is limited to business customers. At revision, household consumption will be included as a separate group.
 - Telecommunication companies do not know their turnover/marketshare for business clients vis-à-vis household consumers. Some are possibly just unwilling to provide these data, or even estimates. The weights are therefore not very accurate. In the unit value method it is to some extent possible to avoid this weighting problem by using the turnover derived from the measurement itself.
 - New services are often not easy to locate in the bill or rate method.
2. Telecommunication companies are not very willing to give price information to any agency because the information is very sensitive for competition matters. It takes a lot of time before Statistics Netherlands gets the necessary information (if acquired at all). It is recommendable to search for other information sources than telecommunication companies.
3. Some less visible telecommunication companies are not included in the sample, notably providers for extremely large, often multinational clients. Their products probably defy regular survey methods anyway.

E. Analysis of published data

The indices cannot be published for confidentiality reasons; a limited number of telecommunication companies dominate the market, so price development of individual companies might be extracted from the indices.