



State of Israel  
Ministry of Communications

02/09/2010

## **PRESS RELEASE**

**Minister of Communications Moshe Kahalon's decides:  
From January 1<sup>st</sup>, 2011, mobile call termination  
(interconnection) tariff down from 25 agorot (0.25  
shekels) to 6.87 agorot (0.0687 shekels); further reduction  
to 5.55 agorot by 2014; SMS termination tariff down  
from 2.84 agorot to 0.16 agorot in January 2011, further  
down to 0.13 agorot by 2014**

**Minister Kahalon: "The reduction of mobile interconnection tariff will save the public about a billion NIS every year, will considerably reduce the price for calling from a fixed to mobile phone, and will boost competition by enabling the entry of new mobile market players already in the next few months"**

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### Background:

Ministry of Communications has, in September 2009, contracted the services of the international analyst company NERA, to review the pricing and cost model of Israeli mobile network components, including a reexamination of the interconnection tariff – the payment collected from mobile subscribers for any call or SMS they receive and which originate from another network. NERA's report included a recommendation to reduce interconnection rates in one step, from the present tariff of 25 agorot (not including VAT) to 4.14 agorot (not including VAT); and to 2.57 agorot by 2014. It was further recommended that SMS tariffs be reduced from 2.8 agorot to 0.19 agorot, and to 0.13 agorot by 2014.

### The hearing process and the background for the Minister's decision:

Minister Kahalon informed the 4 mobile operators in early May 2010 that he was going to adopt the recommendations, and invited them to comment as part of a hearing process.

In the last few years, the mobile operators started to collect fixed usage fees and to vigorously market uniform price packages for all destinations. The operators' profitability,



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despite the gradual reduction of tariffs during 2005-2008, not only has remained unharmed but it even grew by about 2 billion NIS in operational profitability, while the overall net profit of all 4 mobile companies together was doubled.

In 2004, then Minister of Communications Ehud Olmert decided to reduce interconnection rates from 45 agorot to 22 agorot over the course of 3 years. The first reduction was by 30% to 32 agorot, to be followed by a series of smaller reductions over 3 years. Despite the significant reduction that occurred in the call termination tariff since 2004, from 45 agorot to 25 agorot per minute, still because of the reduction in the costs of telephone calls alongside with the increase in the scopes of usage of mobile services in Israel, there continues to be a big gap between the actual cost of call termination and the tariff charged by the mobile companies for the termination of calls in their networks.

This gap leads to many distortions in the markets, such as: significant gap between the tariffs offered to the private customers and those offered to the business customers; and the existence of a significant entry barrier, preventing the entry of new mobile operators as well as MVNO's to the mobile market as competitors. This gap also leads to a situation where customers calling from a fixed to a mobile network, have to pay far more than what they should have been required to pay.

### The Minister's decision:

After having analysed the comments and the data put forward by the mobile operators in the course of the hearing process, NERA updated the data of interconnectivity costs representing a reasonable profit rate.

These new data are:

January 2011: 6.87 agorot (before VAT); January 2012: 6.34 agorot; January 2013: 5.91 agorot; and January 2014: 5.55 agorot.

Minister Kahalon decided to reduce interconnection tariffs to cost level already in January 2011.

**Therefore, the Minister decided that the first reduction would be implemented in January 2011, to a tariff of 6.87 agorot.**

The reduction will lead to the immediate saving of hundreds of millions of shekels a year in the spendings of households and businesses, mainly due to the calls made from fixed to mobile networks. Additinally, the reduction of interconnection rates may lead to attractive offers for customers of fixed operators, where the tariffs for calling any destination, fixed or mobile, would be identical.

Moreover, the tariff of calling abroad from a mobile phone will now become much cheaper.