

CHEAPER CALLS ABROAD

The state-owned Icelandic phone company Síminn has recently made a big deal of the fact that their rates for telephone calls abroad have dropped dramatically over the past ten years. It is true that, at 19.90 ISK per minute, calling Britain (for example) is more than 70% cheaper than it was in 1993. But 19.90 ISK is still too expensive. Icelandic consumers should know that they can make phone calls abroad for much less. Here are three good strategies:

Buy a phone card.

Three companies, Atlassimi (www.atlassimi.is), Heimselfrelsi (www.heimselfrelsi.is), and Digital Frelsi (www.phone.is) sell pre-paid calling cards. The per-minute rate to Britain is about 5-7 ISK, including tax and the cost of the local call to the company. Remember to use up the card before the expiration date.

Use an American "callback" service.

Here, a phone call from Iceland to Britain is technically two calls, one from America to Iceland, and the

other from Iceland to Britain, which the callback service connects. There are many callback companies. One with good rates to Iceland is www.callbackworld.com. Their per-minute rate from Iceland to Britain is 11.5 American cents, or 7.1 ISK. The charges are billed monthly to your credit card.

Use Skype. Those who already have a fast Internet connection can make telephone calls through their computer by downloading the Skype program from www.skype.com

and signing up for the "SkypeOut" service. For a call to Britain you pay Skype 1.7 Euro cents per minute, or 1.4 ISK. If you're over your Internet provider's bandwidth limit, add about 0.6 to 1.0 ISK. per minute. Your computer needs a microphone to use Skype -- mine cost 1200 kr. at Elko.

Calls through Síminn are slightly quicker and clearer than through these three services, but not enough to make paying 19.90 ISK. worthwhile. Síminn does offer a

discount service (14.90 ISK per minute to Britain) with lower sound quality. But customers have to sign up for this and then use a special prefix for each call, and 14.90 ISK is still too high.

Og Vodafone charges 19.90 ISK per minute too, matching Síminn's price exactly. Both Síminn and Og Vodafone seem to be behaving like the major telephone companies in the United States during the 1990s. They reacted as slowly as possible to lower-priced competition from start-up companies. They kept their "regular prices" high, meanwhile offering only slightly cheaper "discount services" which one had to sign up for specially. The discount services gave customers the illusion of saving money, as long as they remained unaware of the competition's prices. The people who wound up paying the highest rates were those least adept at understanding and reacting to information about new telephone service providers, plans, and prices -- senior citizens in particular. If confronted on the issue, the company could defend itself by saying that it provided higher quality and service. Although partly true, this was not true enough to justify the degree of the price difference.

It is important to understand that the price of a telephone call does not directly reflect the telephone company's cost of connecting it. The marginal cost to Síminn of connecting a domestic call within its own system is virtually zero. The marginal cost of connecting an international call is little more than the settlement rate which Síminn pays to the foreign phone company (Síminn likely pays British companies less than 2 ISK per minute). In fact, per-minute charges are more like a sort of tax or toll, as for expressways and tunnels. These telephone "tolls" help pay for the maintenance of the system, and they discourage overuse, since the system would break down if everyone tried to call at the same time. Unfortunately, when competition is weak and regulation ineffective, tolls tend to rise to unfair levels. Since every Icelander has to choose either Og Vodafone or Síminn as their default telephone provider,

neither company has an incentive to price their calls competitively as long as they can make enough money off the many consumers who do not know how to save. With only two companies in the market, it does not require deliberate collusion to create a price cartel.

Síminn's and Og Vodafone's rate sheets immediately betray that their prices are not competitive. The amounts are "fashion prices" which end with "9.90": 19.90, 29.90, 39.90, 59.90, and so on. It is more important for the price to look good than for it to be as low as possible. Every company rounds their prices off, but Síminn and Og Vodafone round theirs to the nearest 10 or even 20 ISK. More competitively oriented telephone companies round their prices off to the nearest 1 ISK or more often 0.1 ISK. It seems that Síminn and Og Vodafone are hoping their customers will see it as a minor fashion detail that their prices might be rounded up by as much as 10 ISK. But many telephone calls are longer than a minute. A twenty-minute call multiplies a profit margin that feels trivial at the one-minute level into a sizeable extra cost to callers. And if companies and government offices are not yet taking advantage of the cost-saving strategies above, these extra expenses are being passed on to consumers too.

Phone calls abroad through Síminn and Og Vodafone can and should cost much less than they do. Icelanders should be able to call at competitive rates from their home phone without the bother of pre-paid cards or a callback service. This could come about through a change in the companies' pricing policy, action by the competition authorities, or the entry of a truly competitive company into the consumer telephone subscription market. Privatizing Síminn may be a step in the right direction, but privatization is not by itself a guarantee of fairer prices. However it happens, Icelandic consumers deserve a better deal.



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