

**Regional seminar on costs and tariffs for member countries
of the TAL Group
Buenos Aires, Argentina, 14-15 June 2005**

FINAL REPORT

1 Introduction

In close collaboration with ITU-T Study Group 3 and the Secretariat for Communications of Argentina, the Seminar on costs and tariffs took place in Buenos Aires, and was attended by 52 delegates from 12 countries. The main purpose of the seminar was to provide Member States with information on general trends in telecommunication development and tariff aspects of the regulatory frameworks in the region.

The seminar was held within the framework of the activities planned under Programme 4 of the BDT Operational Plan: Economics and finance, including costs and tariffs. It was followed by the meeting of the Regional Tariff Group for Latin America and the Caribbean. (TAL Group).

2 Opening

The two events were opened in the presence of the President of the National Communications Commission of Argentina, Mr Ceferino Namuncura, who warmly welcomed all delegates to the seminar and to Buenos Aires; the representative of the ITU Regional Office for the Americas, Mr Juan Zavattiero; and the Chairman of the TAL Group, Mr Carlos Cancelli, who expressed his gratitude to the organizers of the two important events and urged participants to work together in order to improve the situation of the countries in the region.

3 Outcomes

Global trends in telecommunication development and new challenges for the developing countries

Under this item, global telecommunication market trends were presented and compared with those of the region, covering the different types of telecommunication services, including Voice over IP, Internet and broadband.

During the discussion, emphasis was placed on the high termination rates that developed countries are applying for both fixed and mobile services to developing countries. This issue was under discussion within ITU-T Study Group 3, with a view to finding a solution at the regional level. In addition, the theoretical aspects of network externalities were discussed in general terms.

Results from studies on economics and finance implemented by BDT

Under this item, a general overview of BDT's mandate was presented, along with the action plan being implemented for the current period, before moving on to focus on activities on economics and finance, including costs and tariffs, highlighting the studies and research being conducted both globally and at the regional level for Latin America and the Caribbean. During the discussion, reference was made to the assistance provided by BDT through COSITU and regional experts. Cuba expressed an interest in receiving such assistance, including market studies and demand forecasts.

Tariff aspects of regulatory frameworks in the region

In this part of the seminar, six countries gave presentations on how their regulatory bodies are regulating tariffs for the various telecommunication services. The full presentations are available on the web site: <http://www.itu.int/ITU-D/finance/work-cost-tariffs/events./index-resu7lts-04-05.hjml>.

Argentina

- A historical account of the status of telecommunications in Argentina was given, along with details of how the Secretariat for Communications is developing the cost calculation model for fixed telephony in Argentina.
- All components of the model were presented.
- The various operators and the regulator are collaborating closely in designing the model.
- The model is in its final development phase, but has not yet been put into pilot use with the operators.

Bolivia

- In Bolivia, tariffs are regulated by price cap based on a productivity factor.
- Since 1999, operators have been asked to rebalance tariffs, on the basis of the price cap.
- Previously, regulation was by service and not by operator, whereas under the new system, operators are given a price cap for each service.
- As far as cost models is concerned, a model has been put to operators based on LRIC, and is currently being reviewed by the operators.
- For the provision of universal service, operators working in rural areas are granted lower interconnection rates.

Trinidad and Tobago

- Given the situation in terms of telecommunication liberalization in the Caribbean, Cable and Wireless has enjoyed a monopoly for many years. Currently, Trinidad and Tobago is in transition towards liberalization: the first phase begins with the mobile service, the second phase addresses the international service and the third phase covers fixed and value-added services.
- International termination rates are very high in the region in relation to the United States, which is where most traffic terminates.
- The regulator is currently analysing the possibility of instituting a cost-based price cap.

Ecuador

- In Ecuador, fixed and mobile telephony is regulated with tariff ceilings within a competitive regime. However, carrier services, trunk services and value-added services are regulated by concession contracts.
- There are no current agreements to regulate the setting of interconnection charges. For the time being, benchmarking is being used for fixed telephone services (local, regional and national), although no provision is made for this in the legal framework.
- The National Telecommunications Secretariat is in the process of developing a model for setting termination charges.

Cuba

- Cuba has two categories of national currency, and telecommunication tariffs are made available to users at different prices, using the national peso for residential users and the convertible peso for the business sector.
- The tariffs for the different services are regulated by the regulatory body, which is in the process of implementing tariff rebalancing.
- Price caps exist only for the international service.
- Interconnection rates are negotiated by the incumbent operator and overseen by the regulatory body.

Chile

- Under the tariff calculation model applied by the Chilean regulatory body, tariffs levied for users must reflect costs.
- The model is based on an efficient company, with incentives for the acquisition of technology in order to motivate the incumbent operator to update its equipment with new technologies.

VoIP in the TAL Group – Technical, economic and competition issues

- Interconnection contracts should stipulate the type of technology and the procedure for calculating rates, especially in the case of IP.
- Most interconnection contracts are international, and there should be regional coordination.
- Chile suggested regulating services independently rather than altogether, and also that laws should be flexible, it having been established that excessive regulation of each service and technology ultimately proves extremely complicated to manage, especially in a fast-moving industry like telecommunications.

Mobile termination rate – Situation in the Caribbean

- Among the conclusions reached in this regard, it was observed that it is important for the region to remain united, especially in the case of regional negotiations, as demonstrated by the situation in relation to mobile termination rates, which are very high in the developed countries. Reference was made to the case of Jamaica, which tried to negotiate lower termination rates, with the United States, a process which led to blockage of international service (incoming and outgoing) that significantly affected the tourism industry which is of great importance on the island.
- All the TAL Group member countries were different in terms of liberalization, policies and regulatory frameworks, but it would be advisable despite such differences to develop a common regional position, especially for negotiations which may affect several countries such as for mobile termination rates.
- The points raised under this item were injected into the discussions in the TAL Group.

Regulation for infrastructure – Economic, cost and tariff issues

In summary, under this item discussions focused on issues relating to infrastructure-based telecommunication development. With the onset of privatization and liberalization of telecommunication markets, the thrust of this theory is that foreign investors may, when acquiring licences for telecommunication services, for example, also invest in the national telecommunication infrastructure, thereby helping, *inter alia*, to secure universal service/access and socio-economic development in the country.

Examination and application of cost models in the region

This item of the TAL Group discussion programme addressed examination and application of cost models in the region, in which each country gave a brief explanation of the cost models used by its administration:

Guatemala. Guatemala does not regulate interconnection charges and tariffs (both fixed and mobile) are set by the operators. The regulator only intervenes in the event of a dispute.

Chile. In Chile, much is dictated by the regulatory authority, in particular tariff ranges. The tariff control structure must reflect technological change. From the regulator's point of view, tariff control aspects should be geared more to monitoring tariffs. The COSITU model enables operators and regulators to speak the same language and to organize and refine the necessary information and data for calculating cost-based/oriented tariffs. The context in each country is different and it is difficult for a single model to be applicable to all countries.

Brazil. Termination and interconnection rates in Brazil were set in 1998. The tariffs were revised by the regulatory body. A tariff calculation model (based on LRIC) will be available for 2006-2008 which may be applied to both fixed and mobile telephony, and it is expected that the model will also help in calculating interconnection rates.

Dominican Republic. The law in the Dominican Republic lays down that tariffs may be freely set for telecommunication services and interconnection charges. In the case of interconnection, such freedom is mandatory; access charges are discussed freely at the outset by the operator, and the regulators may intervene in the event of a dispute. For tariffs, regulations have been developed to apply in cases where there is no competition or fair competitive practices. This regulation entails a prior consultation process. Interconnection charges have to be revised every two years by law.

Trinidad and Tobago. The regulator in Trinidad and Tobago is new and is in the process of developing and implementing cost models as a basis for regulating and monitoring cost-based tariffs. As the country is in the process of opening up to liberalization, there will be new operators for mobile as well as international competitors, to which end the interconnection laws have already been defined.

4 Future work and closure of the seminar

The models introduced in connection with the TAL methodology were developed in the context of the market prevailing at the time. It was concluded that it was important for the region to draw up a document to serve as a guide. This does not mean setting aside everything that has been accomplished and starting from scratch. It was concluded that it is important for a study to be conducted on "examination and application of cost models in the region, and the regulatory and legal frameworks governing them". To this end, terms of reference were drawn up to guide the work in question. These terms of reference were discussed and approved and are set out in Annex 1. BDT will contribute to execution of the study, which is of great importance for the region.

The Chairman of the TAL Group expressed his gratitude to BDT for its major contribution through the Seminar on costs and tariffs, and requested that such a seminar be held every year, constituting an "anteroom" for discussions in the TAL Group. He also expressed gratitude for the support provided by the ITU Regional Office for the Americas in what were very important discussions.

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