

# **Regional Seminar on Costs and Tariffs for the Tariff Group for Asia and Oceania (TAS)**

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## **FINAL REPORT ON THE SEMINAR**

### **1. Purpose of the Seminar**

The purpose of the seminar on costs and tariffs was to provide Member States and Sector Members with information regarding the impact on economies in general, as well as on individual organizations, of technological progress and the global telecommunication/ICT services trade environment. 52 delegates from 19 countries participated. 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). The seminar was followed by the meeting of the Regional Tariff Group for Asia and the Pacific (TAS Group). Both events were organized in collaboration with ITU-T Study Group 3 and the Malaysian Communication and Multimedia Commission.

### **2. Opening**

The General Manager of the Industry Development Division of the Malaysian Communication and Multimedia Commission, Mr Bisttamam Siru Abdul Rahman, participated in the seminar's formal inauguration, cordially welcoming all delegates to the seminar and to Cyberjaya. Ms C. Prado-Wagner, as the representative of ITU/BDT, laid out the objectives of the seminar, and the actual context of telecommunications in the region. The Chairman of the TAS Group, Mr. Sahib Dayal Saxena, thanked MCMC for the outstanding organization of the two events and urged participants to work together to improve the situation of the countries in the region. Finally, Mr. Dato' V. Danapala, Chairman, MCMC, spoke of the importance of these events and his trust that this regional seminar would assist industry players, especially domestic carriers, to understand and share experiences in telecommunication services, specifically with regard to tariffs, as well as other issues such as numbering, costing and setting tariffs in Asia and Oceania countries.

### **3. Outcomes**

#### ***Global trends in telecom development and new challenges for developing countries***

An overview of different telecommunication services worldwide and in the region was presented. New telecommunication services such as Internet and VoIP were discussed, along with their general price trends. With regard to the challenges facing developing countries, new Internet services were identified, as were tariffs and technical issues such as alternative calling procedures and public switched networks to IP network. Considerable importance was given to the high mobile termination rates (MTR) between developing countries and developed countries.

After the presentation, discussions centred on the fact that if revenue streams decreased from traditional services, new services could increase revenue, for example, mobile, Internet services, information services, SMS. It was concluded that all these new value-added services make good business sense for operators.

Discussion then moved to the concept of network externality. As explained by the speaker, if it is accepted at the national level, it should be applied nationally, and it would then be easier to apply it on an international basis. If two countries think that the concept can be applied, then the user in country A can pay an additional fee so that the network can be extended.

The question about the situation in the region where the incumbent operator has price control, and new entrants have no such control was raised. The speaker explained that the regulator should give incentives to new entrants. If the price is below cost, the incumbent suffers. There should be open dialogue between regulators and operators. It is not in the country's economic interest to damage the incumbent. They are the core telecommunications provider and should be supported to become competitive.

The delegate from Maxis Malaysia, a mobile operator, expressed the concern of Asia and Pacific countries regarding the high termination rates that are established in Europe and other developed countries, that are not fair with respect to regional interconnection rates.

### ***Policy and economic impact of the misuse of numbering***

This subject was based on problems regarding fraud. Major telecommunication operators cannot afford this, as losses due to fraud can be huge. The barring of a country code is not the best solution as Pacific Island economies are heavily dependent on telecommunication for tourism (roaming) and this would have a significant economic effect on small Pacific Island countries. ITU-T SG 2 is looking into this issue as it also affects other countries.

### ***Initiatives on interconnection and access by Malaysia***

The objective of this presentation was to show how Malaysia is implementing the convergence of different telecommunication services/applications from the regulatory and financial point of view. Discussions were based on:

- technology neutrality should be applied to fixed and mobile services. New technology should not change the rules, the regulatory frameworks should be flexible in order to support the incumbent operator and new entrants.
- The price of different services could be different, but access and interconnection between incumbent and new operators should not be denied. The objective in Malaysia is to promote competition by facilitating access. In this process the incumbent's role is significant.
- If access is facilitated, it should allow connectivity between national operators by encouraging infrastructure and competition.

### ***Korean government-driven ICT policy: IT839 strategy***

The evolution of the IT industry in Korea and how they are implementing the IT839 Strategy was explained by the representative of Electronics and Telecommunications Research Institute of Korea (ETRI). This consists of adopting new ICT services ahead of competitors, commercializing them globally, and trying to become the leader in the ICT service industry in the region. After the presentation, discussions focussed on the application of broadband. For example, Korean telecommunication companies are using broadband on access network and there is 100% coverage in the country.

### ***Is IP-telephony a risk for international calls?***

This presentation focussed on the advantages and disadvantages of using VoIP. One of the most important risks specified is the return of Callback by using IP technology, as customers can use the service from PSTN or mobile, which does not require Internet connection. The debate concentrated on two points - the investment cost for a new system for national operators and the risk of callback.

It was considered that investment in this new technology should be made, and that it is advisable to invest in something that is gaining worldwide support.

Regarding provision of services, if one operator is providing highly-priced services, another could provide cheaper services. Customers can use Skype, for example, as it is very cheap. But Skype is based on IP telephony, which can be controlled. The problem with Callback is that it operates with bypass, which cannot be controlled or blocked. A price-sensitive customer is not concerned with quality. IP telephony hub is about managed quality.

### ***Broadcasting and Telecom convergence in Korea: Some economic and regulatory issues and problems to be solved***

The situation of broadband in Korea was explained by ETRI, showing how the country is becoming the leader in this field. The growth rate in mobile from 1997 to 2004 was 18%. The debate concentrated on convergence technology innovation from telecommunication to broadcasting. Clients require speedy, interactive connection and informative exchange. Convergence is also an opportunity for carriers/operators to create new services and profitability.

Different levels of convergence were demonstrated - service, terminal (platform/network integration), and content on one hand, and for other service characteristics - competition, and regulatory characteristics. The situation in Korea was also presented from the point of view of policy and regulation implemented by the Regulatory Agency, especially in convergence between telecommunication and broadcasting. In Korea, different commissions are dealing with different parts of the convergence process. Discussions centred on the regulatory aspects of convergence. The new regulatory framework proposed in the US and Japan is also proposed for Korea. In this new framework, rather than regulate by sector/industry, regulation would be across sector/industry. In the long term, regulation, technology development and customer need should be harmonized.

	Communications	Broadcasting	Content	Manufacturing	Etc
Technical policy					
Entrant policy					
Tariff policy					
User protection policy					
Etc					

### ***COSITU, the ITU model for the calculation of costs, tariffs and rates for telephone services***

The origins of the model and how it was developed by BDT based on the ITU-T methodologies (TAF, TAL, TAS) was presented. The different types of traffic calculation and cost calculation of services including interconnection charges were briefly explained.

A question was raised regarding pricing, specifically of cost-based tariffs. It was explained that COSITU calculates endogenous costs of telecommunication services (fixed, mobile and internet). Other aspects discussed were on access deficit, traffic calculation and the COSITU training programme in the region.

### ***Panel Discussion: Experiences in costing and setting tariffs in Asia and Oceania countries***

#### ***Bahrain***

Bahrain gave a short presentation of their experience, the development, at very high cost by an external consultancy, of a LRIC model based on TAS. This model requires the development of assumptions regarding traffic. In order to have real, accurate results the following are prerequisites:

- Data cleanliness - (specific cost data and assets), determination of cost of capital, price weighted average.
- Agreement and coordination with the Regulator.
- Check the access register to scrutinize the data and verify interconnection prices.

Their results are similar to FDC model results. The benchmark figures are higher than their figures, and they are concerned that they are losing money. Comment: It could be that there are not so many network/cost elements and that they are not using or calculating them efficiently.

#### ***Korea***

Korea is using a Bottom Up LRIC model for the calculation of their tariffs and interconnection charges. In 2004 LRIC was adopted. They are comparing their actual tariffs with the new LRIC model results. FDC is also used for benchmarking to reflect the operator's real cost and with this information the Regulatory authority can choose the best result.

ETRI is sponsored by the 8 operators and Government. Their studies also cover Internet interconnection and 3G costing. 2 LRIC models – top down and bottom up. Top down is similar to FDC. Bottom up is higher for fixed network (old network). Where the network is recalculated, it is higher. It is good to evaluate the dominant operator response. They gave reasonable feedback.

#### ***India***

India presented the evolution of their tariffs with the use of the satellite system. The cost of mobile was reduced which has permitted significant growth in the use of mobile although the ARPU has decreased. India is one of the countries in the world with the lowest tariffs.

Leased line revenue decreased by 1/10 last year. There is pressure on the incumbent from new operators, which provide service at low cost and with greater efficiency, whereas their costs are based on legacy equipment. New operators put in much less investment, as they supply the metropolitan area. The incumbent is still providing the network.

The cellular tariff dropped from \$3 to 1 cent. When competition increases, the market price should be maintained. Though only part of the cost would be recovered, they would still be in business. A decrease in the tariff could result in a higher amount of traffic. Though it sounds financially unfeasible (high CAPEX ),

it is still a feasible business proposition. For example, when the mobile tariff dropped, there was an explosion in the customer base. The biggest growth area is mobile. When the tariff is reduced thereby making it affordable to the population, the growth is very marked and there is no sign of slowing. Giving cheaper calls creates large volumes even though the margin is small. However, to make a profit, it is necessary to reach critical mass.

#### **4. Closing and follow-up actions**

The Chairman of the TAS Group concluded the seminar by expressing his gratitude to BDT for organizing this seminar in the region for the first time, and requested ITU to continue as it constitutes the best introduction for the debates of the TAS Group. He also expressed the view that this seminar had provided the opportunity for regulators and operators to exchange views on and jointly make recommendations on the subjects discussed.

- BDT was requested to discuss the subjects to be treated during the seminar for the next period with the TAS Group Management Team and in coordination with Asia-Pacific Telecommunity (APT).
- Regarding the COSITU model training programme, BDT was requested to extend an invitation to the next COSITU training workshop which will be held in Jakarta this year (date to be confirmed), to all the participants at the TAS seminar and also by means of the TAS Reflector Group. BDT was urged to continue with the training programme and to select experts for the region.

The participants also expressed their gratitude to ITU, the Government and the people of Malaysia, and in particular to the MCMC, for their hospitality and the exceptional organization of the seminar on costs and tariffs, and the TAS Group meeting.

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