

Activities of Study Group 3

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**Regional Seminar on
cost and tariffs**



Bamako, Mali
7-9 April 2003





Agenda

- **Is SG3 different from other SGs?**
 - ⇒ **What is SG3 doing**
 - ⇒ **SG3 is unique**
 - ⇒ **But not different**
- **What are the hot issues studied in SG3?**
 - ⇒ **For Int'l Telephone services**
 - ⇒ **For INTERNET**
 - ⇒ **For Mobile Termination Service**
- **What are the concerns of administrations and how they react?**



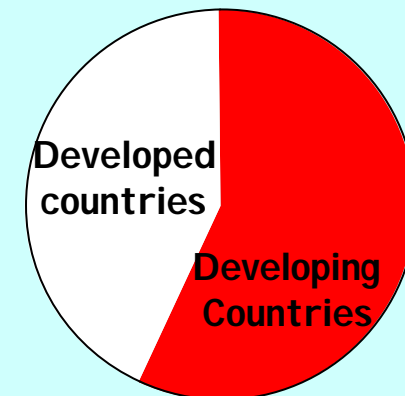
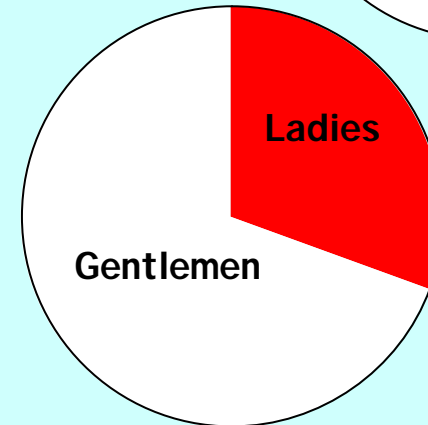
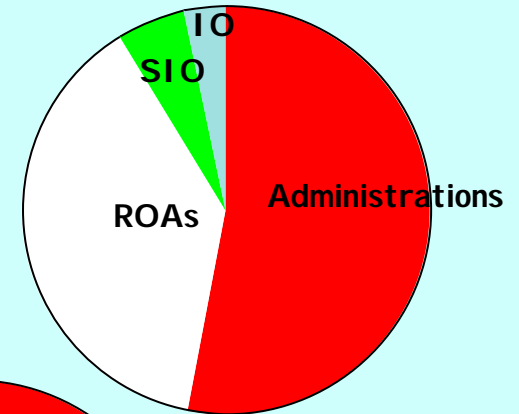
International Telecommunication Union

- **In the ITU there are 3 Sectors (Radiocommunication, Telecommunication and Development) + General Secretariat**
- **In the ITU-T, there are 14 Study Groups and TSB to support the works of SGs**
- **SG3 is in charge of developing tariff principles, including telecommunication related economic and policy related issues**
- **SG3 has 4 Questions to study, and has two Working Parties and several Rapporteurs Groups**



SG3 is unique

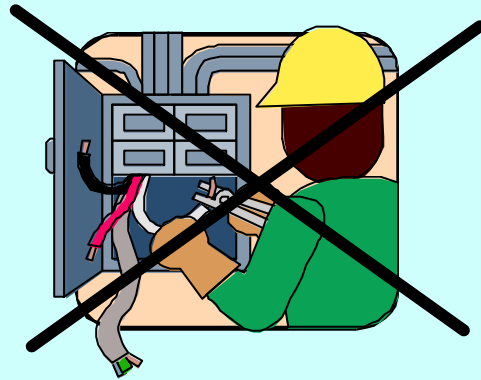
- Because of its composition



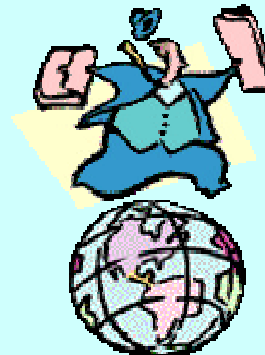


Dealing purely with non-technical standards and ...

- **Tariff/regulatory/Policy related issues**



- **There are 4 Regional Tariff Groups**

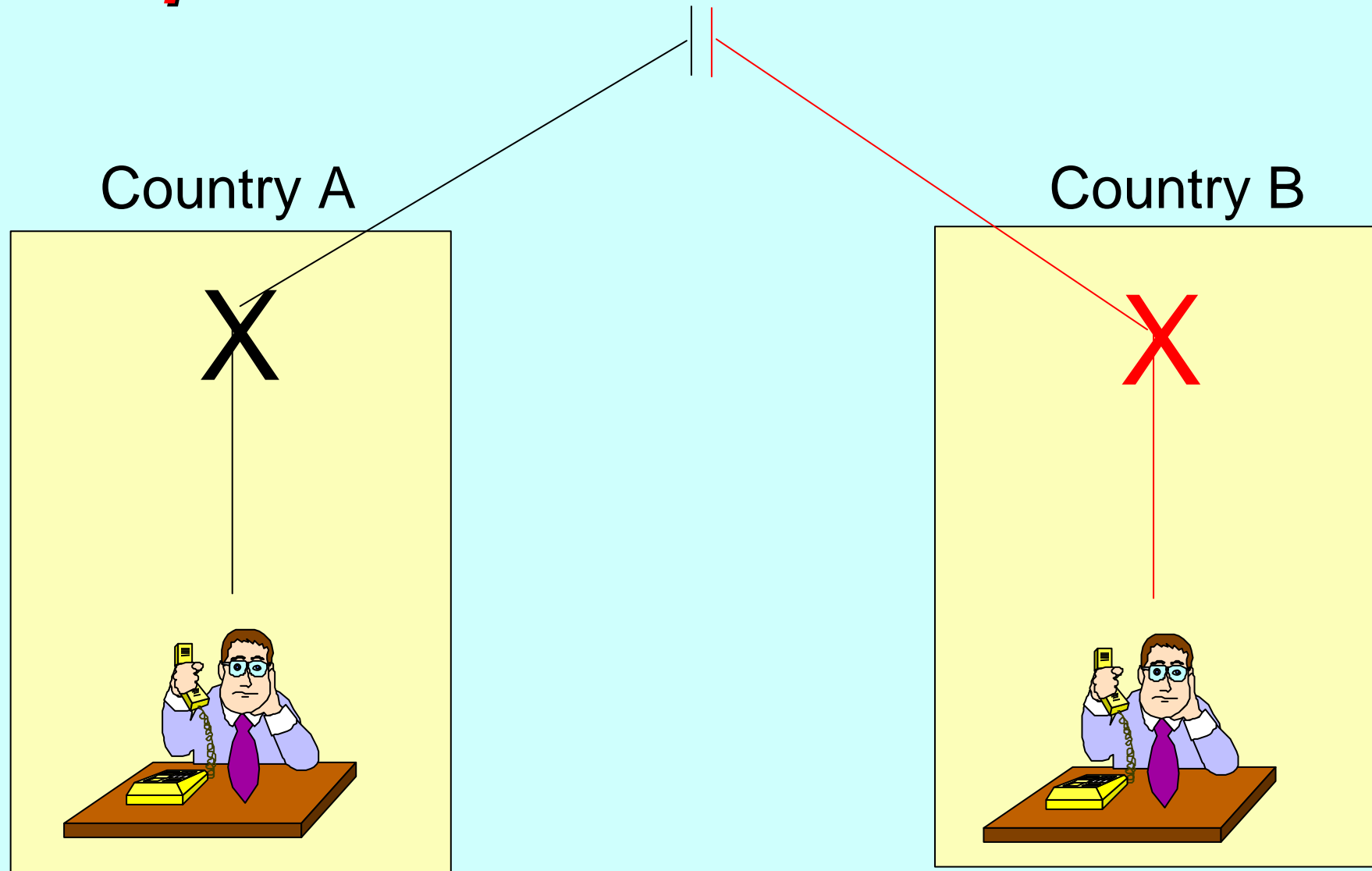




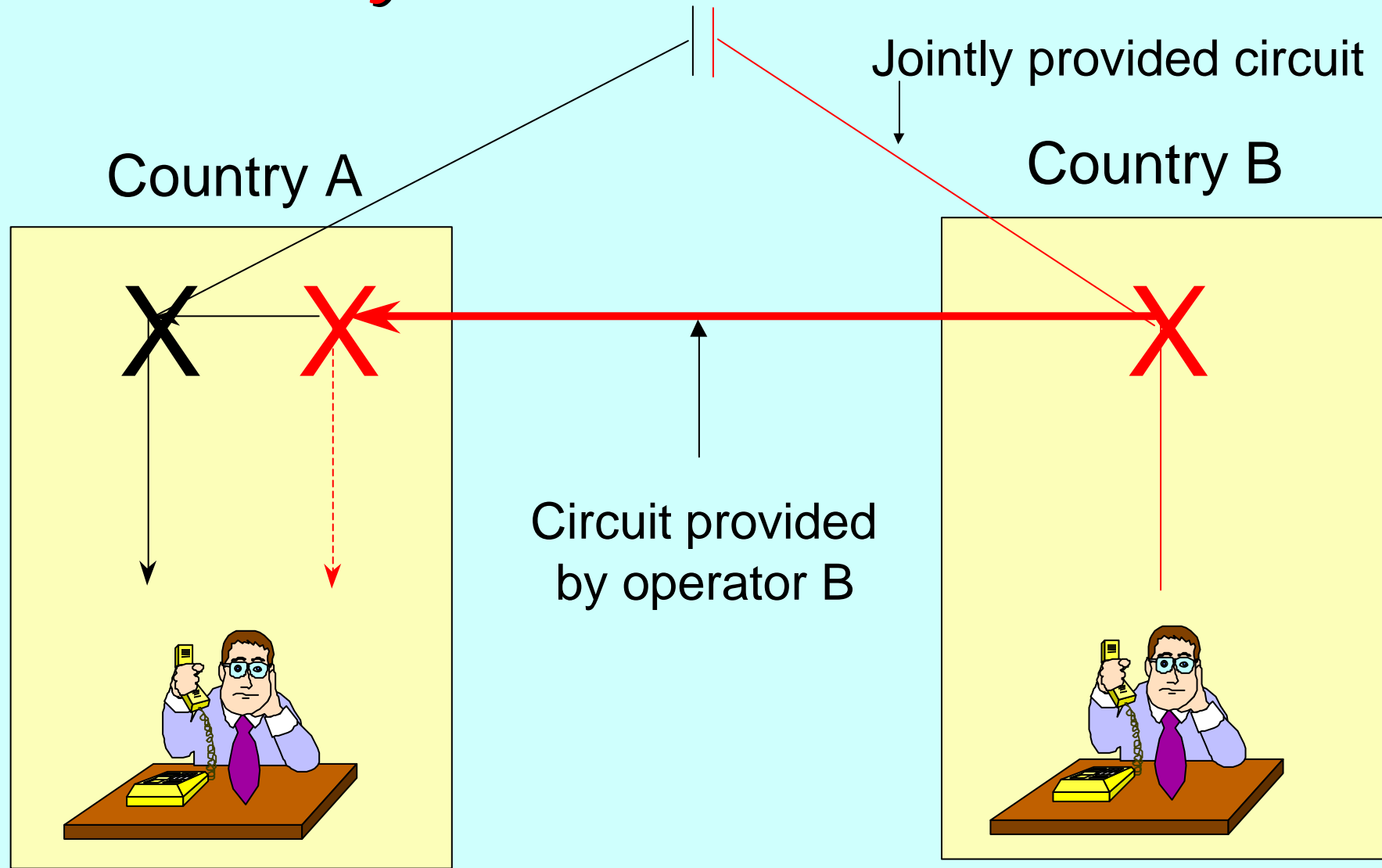
Main study items

- **Accounting rate reform**
 - ⇒ **Transitional arrangements**
 - ⇒ **Action to facilitate negotiations**
 - ⇒ **Network externalities**
- **Mobile termination charge**
 - ⇒ **Cost elements**
 - ⇒ **Level of termination charges**
- **International Internet Connectivity**
 - ⇒ **Implementation of Recommendation D.50**
 - ⇒ **Improving connectivity in LDCs**
- **Other studies**
 - ⇒ **International Telecommunication Regulations**

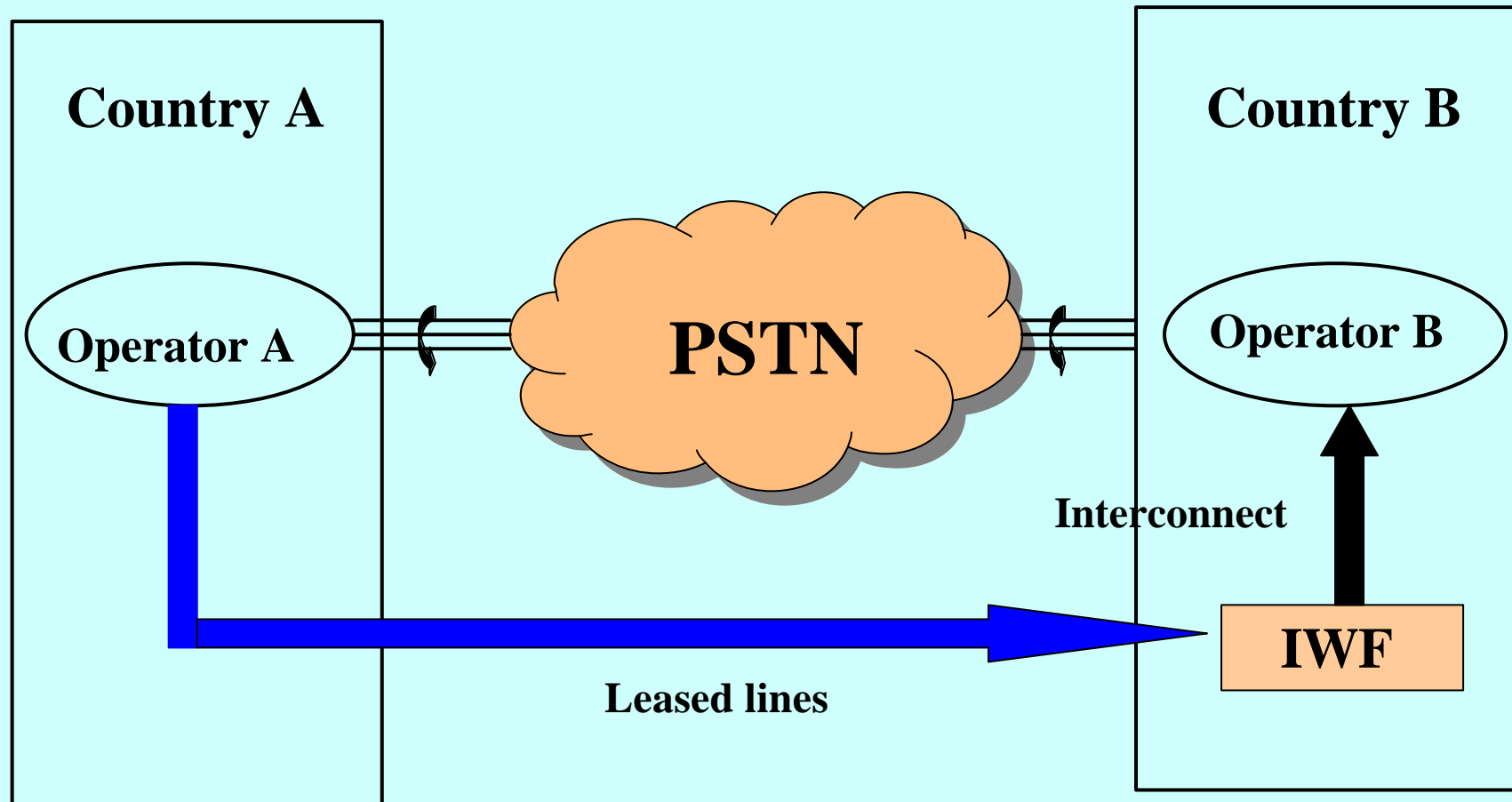
Traditional regime: Joint provision of service



Emerging regime: Market entry and interconnection

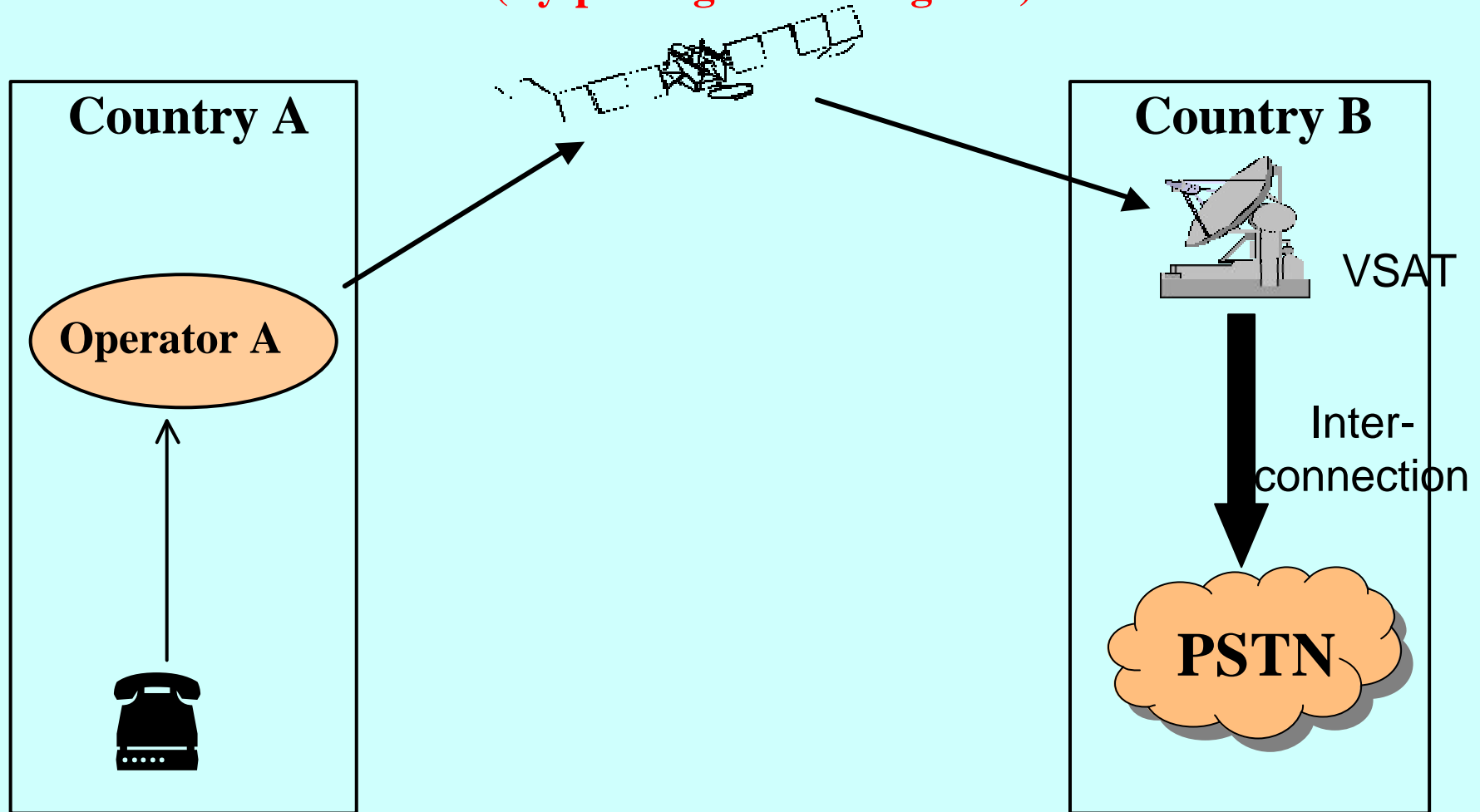


International simple resale (ISR) (By-passing accounting rate)



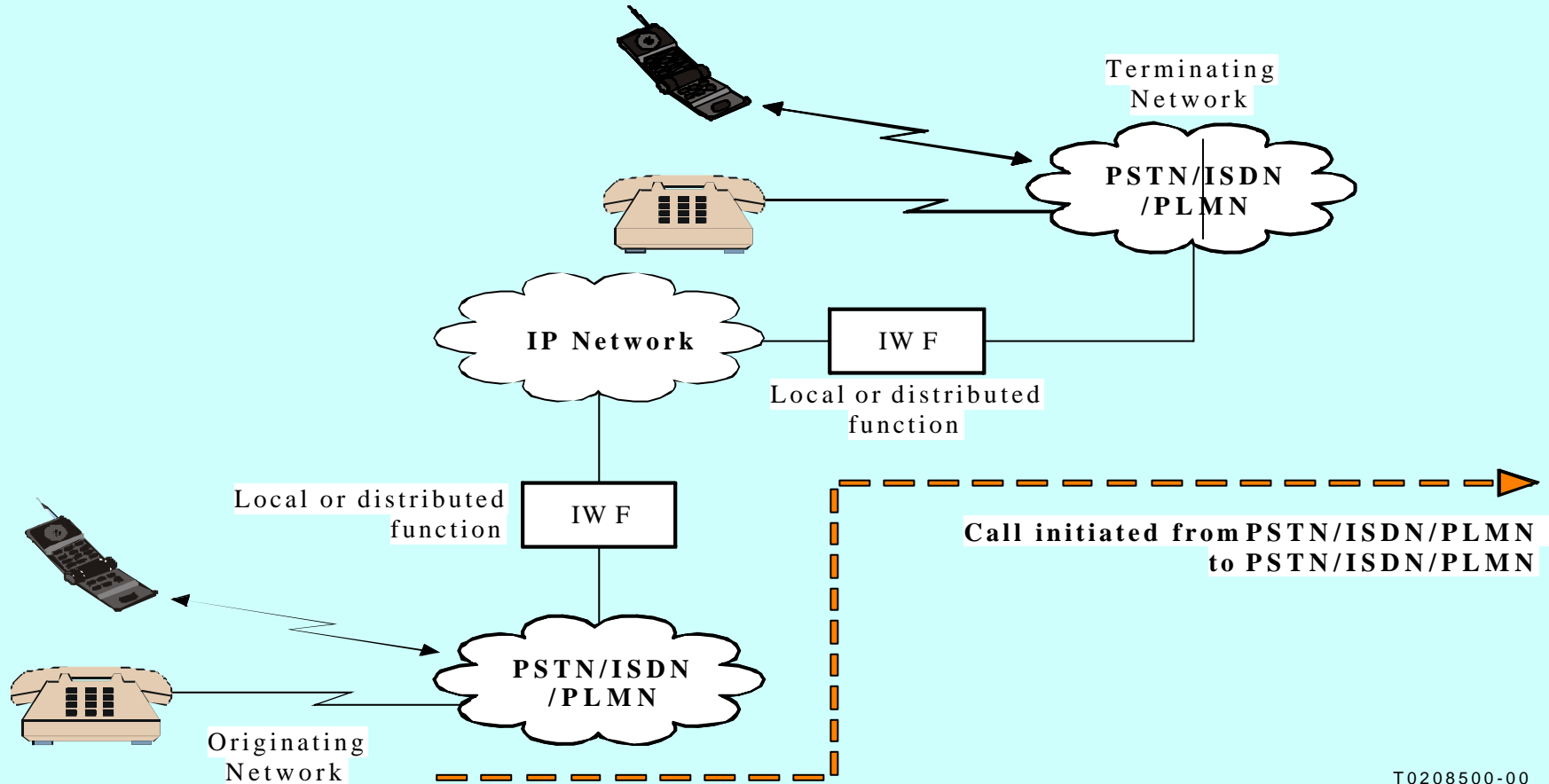
Once a foreign carrier accepts the benchmark rate, it can negotiate ISR arrangements with US carriers

Telephone service using data transmission (By-passing accounting rate)



Voice is packetized = data transmission
Telephone regulations do not apply

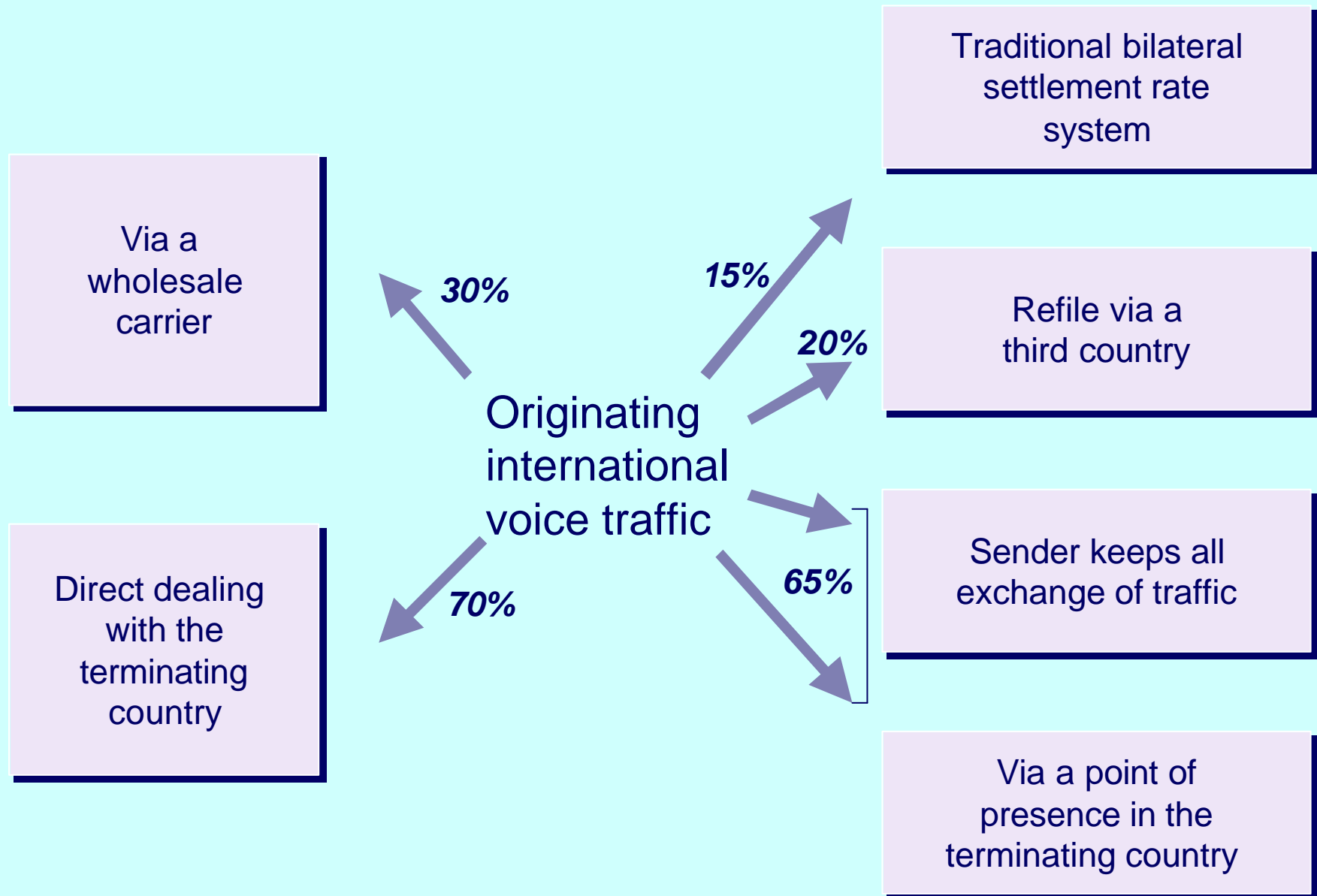
IP Telephony (by-passing accounting rate)



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Call from International Telecommunication Network (ITN) to another ITN via IP-based Network

Delivering international voice traffic in 2002

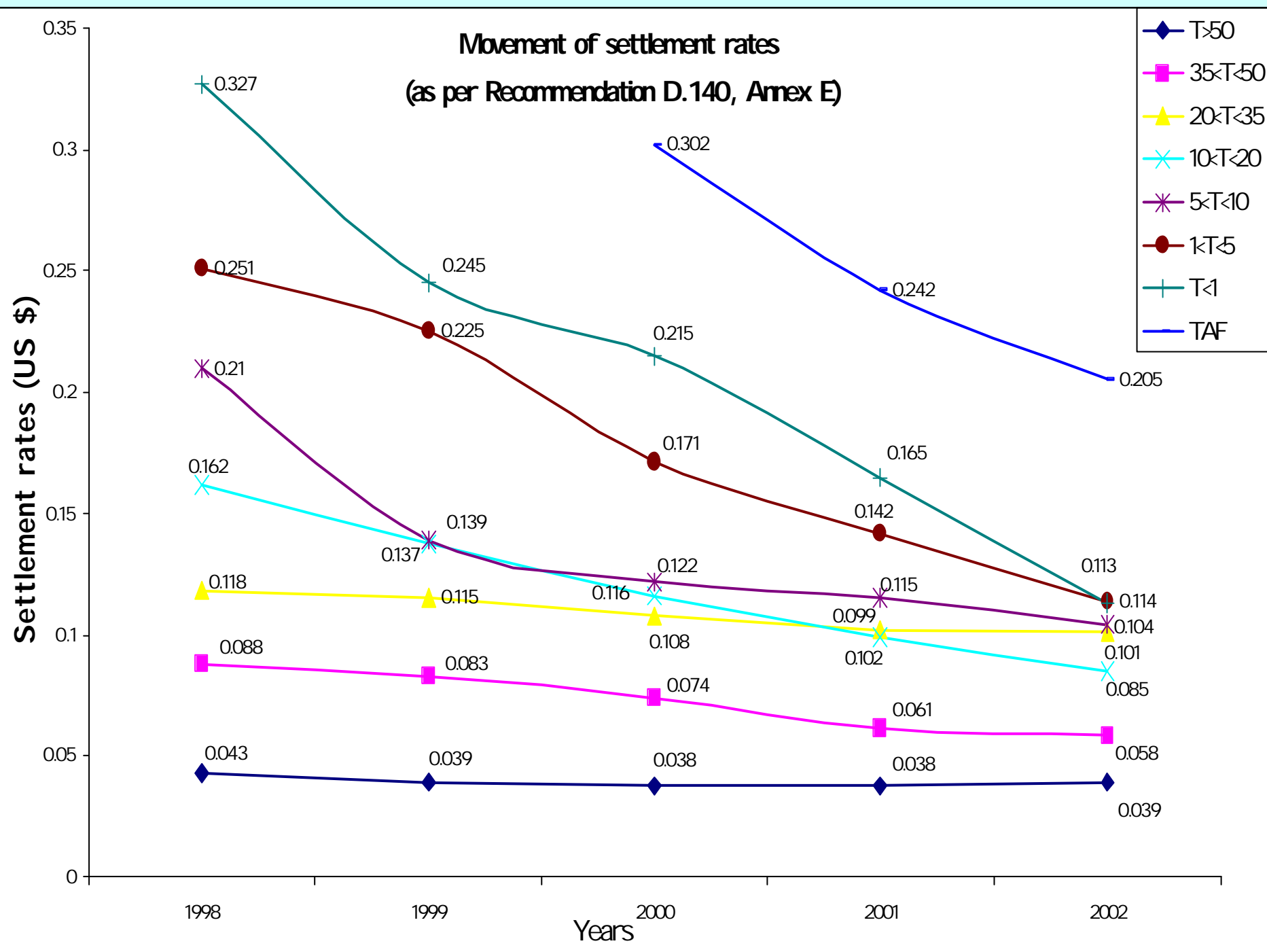




So, what's the problem?

- **Accounting rates are traditional way of sharing revenues from int'l services**
 - ⇒ **BUT, creates incentives among recipient countries to sustain rates at high level**
 - ⇒ **Accounting rate system not well-adapted to competitive market environment**
- **Strong pressure to move towards a cost-oriented system**
 - ⇒ **BUT, a cost-oriented system would be asymmetric**
 - ⇒ **US wants cost-oriented but rejects asymmetric charges for call termination**

Movement of settlement rates
 (as per Recommendation D.140, Annex E)





Solutions & difficulties

- **New Remuneration system (adopted)**
 - ⇒ **Termination charge system**
 - ⇒ **Settlement rate system**
 - ⇒ **Special arrangement**
- **Difficulty to quickly implement those systems**
 - ⇒ **Condition is to reach cost-oriented rate, but**
 - ⇒ **No cost data or model for some administrations ? SG3 developed principles and TAF, TAS, TAL cost models**
- **Transitional arrangements (review at WTSA)**
 - ⇒ **To facilitate staged reduction to cost based rate**
 - ⇒ **to avoid sudden fall of revenue (smooth transition)**
- **SG3 developed:**
 - ⇒ **Guidelines for negotiation**

Annex E to Recommendation D.140

“indicative target rates” by Teledensity (T) Band, in SDR (and US cents) per minute.

T<1	1<T>5	5<T<10	10<T<20	20<T<35	35<T<50	T>50
0.327 SDR	0.251 SDR	0.210 SDR	0.162 SDR	0.118 SDR	0.088 SDR	0.043 SDR
43.7¢ <small>(end 2001)</small>	33.5¢ <small>(end 2001)</small>	28.0¢ <small>(end 2001)</small>	21.6¢ <small>(end 2001)</small>	15.8¢ <small>end 2001)</small>	11.8¢ <small>(end 2001)</small>	5.7¢ <small>(end 2001)</small>
<i>Low income</i> FCC : 23 ¢ <small>(January 2002/2003)</small>		<i>Lower middle</i> FCC : 19 ¢ <small>(January 2001)</small>		<i>Upper middle</i> 19 ¢ (J.2000)		<i>High income</i> FCC : 15 ¢ <small>(January 1999)</small>

Note: The correspondence between teledensity band and income group shown in the bottom row is intended to be approximate, not precise. Source: ITU-T SG3 Report. 1 SDR = US\$1.39.

Guidelines to facilitate the negotiation

The following non-binding guidelines could be applied when negotiating accounting rates and accounting rates share in the international service:

1 Each party should ensure that; i.e., all information to be given to the other party should be credible in order to lead the negotiations into right direction.

2 The parties should negotiate freely and make agreements voluntary, any kind of coercion should be avoided.

Each party should act constructively, any offer, proposal, action, etc. should be directed towards reaching an agreement. Complex concepts should be simplified as much as possible.

4 Each party should act time-saving, any delay should be avoided.

5 Regular re-negotiations and future amendments should be possible.

6 Until such time as an appropriate dispute settlement arrangement may be approved by the ITU with respect to accounting rates, both parties should have the possibility to consult a person or institution for mediation.



Addition to Recommendation D.140

1 accounting rates for international telephone services should be cost-orientated and should take into account relevant cost trends;

2 each Administration should apply the above principle to all relations on a non-discriminatory basis; *Accordingly, international calls should not be treated any less favorably than comparable national calls*

3.



Proposed changes to Annex A of Recommendation D.140

A.1.3 National extension

....

- national transmission facilities;
- national switching facilities;
- the local delivery facilities to the extent that their costs vary depending on volume; and
- if appropriate and identified under a bilateral or multilateral agreement, the local delivery facilities to the extent that their costs do not vary depending on volume.

A.2.1 Direct costs

Direct costs derive from the provision of the relevant services and consist of

-



A.2.2 Indirect costs

These are costs, which could be identified as having a direct causal relationship to more than one service, which would normally require further analysis to determine each service's cost, and for which a general allocation mechanism is used instead. These may include but are not limited to:

- costs of network management and planning;
- costs of relevant frequency spectrum, rights of way and operational licenses ;
- costs of interoperator billing and interoperator customer management.

-

A.2.3 Common costs

... .. These may include but are not limited to:



Network Externality

- **Universal Obligation Fund = Cross Subsidy**
 - ⇒ **Not recognized as cost**
- **Network extremity = increase utility of a network to users**
 - ⇒ **operators to provide incentives for users to join the network = cost for the operators**
- **the network externality effect has a solid basis in economic analysis and had successfully - at least with some regulators - been brought to bear by mobile operators on their case for higher termination rates**
 - ⇒ **Can be used by the developing countries to enhancing take-up and roll-out of the network**

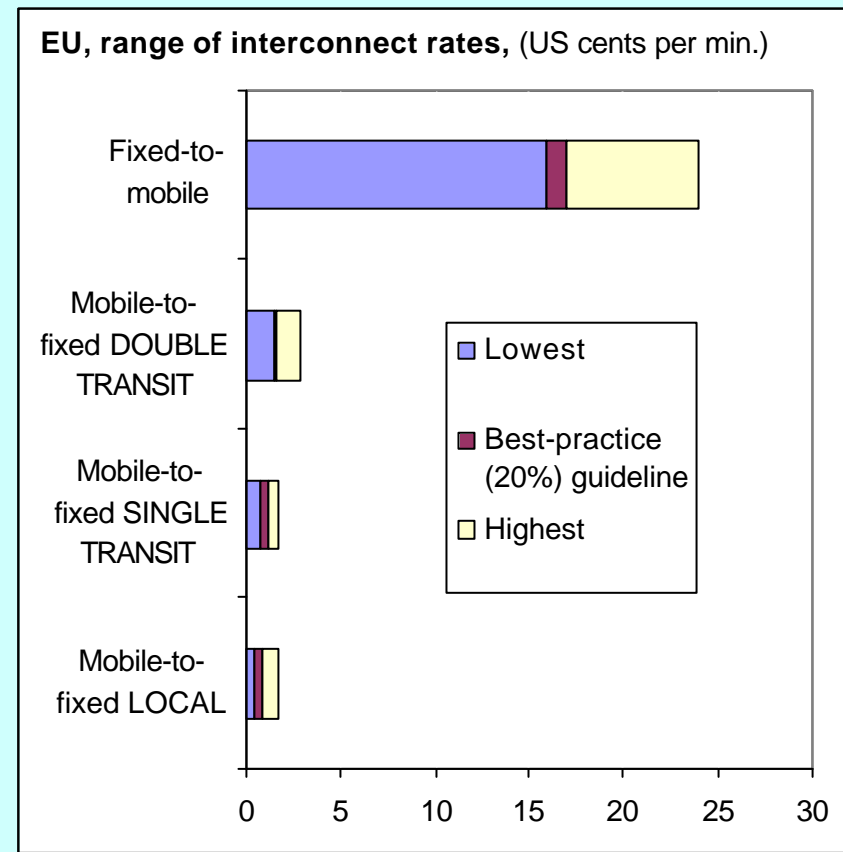
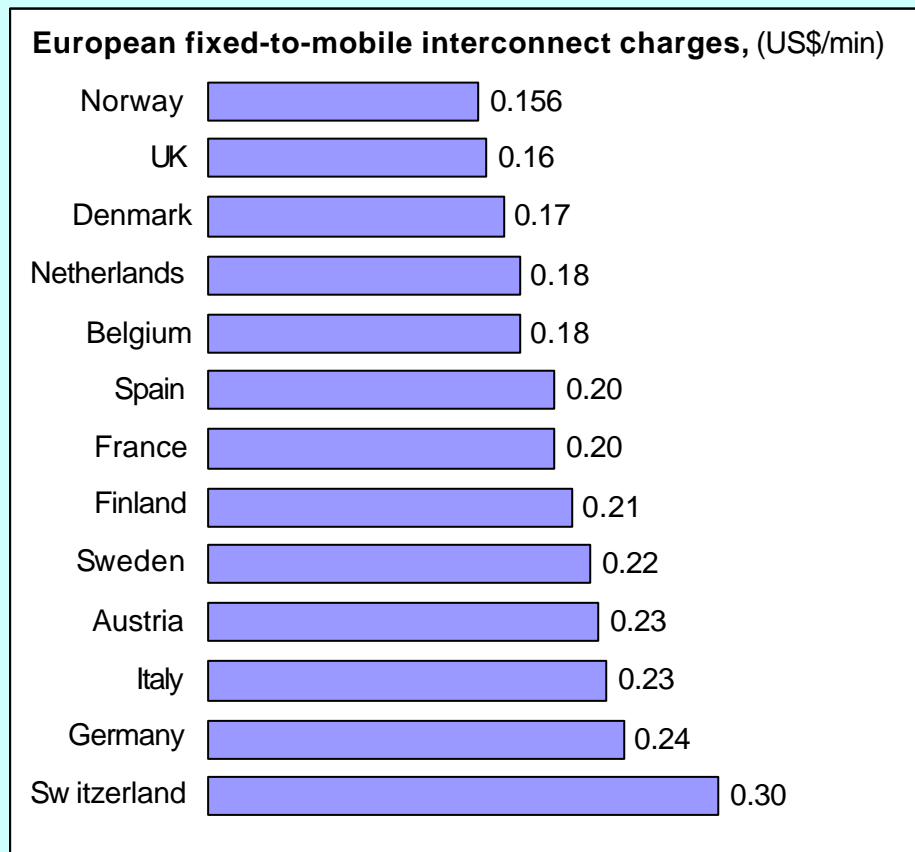


International call terminating on mobile network

- **SG3 revised D.93 in year 2000, allowing to negotiate**
 - ⇒ **a separate rate for traffic terminating on a mobile network**
 - ⇒ **however, this is by bilateral negotiation and when the rate is cost orientated**
 - ⇒ **The difference between the two rates should be as small as possible**
- **Many countries now request very high settlement rates (ten times)**
 - ⇒ **A review is now going on in SG3**

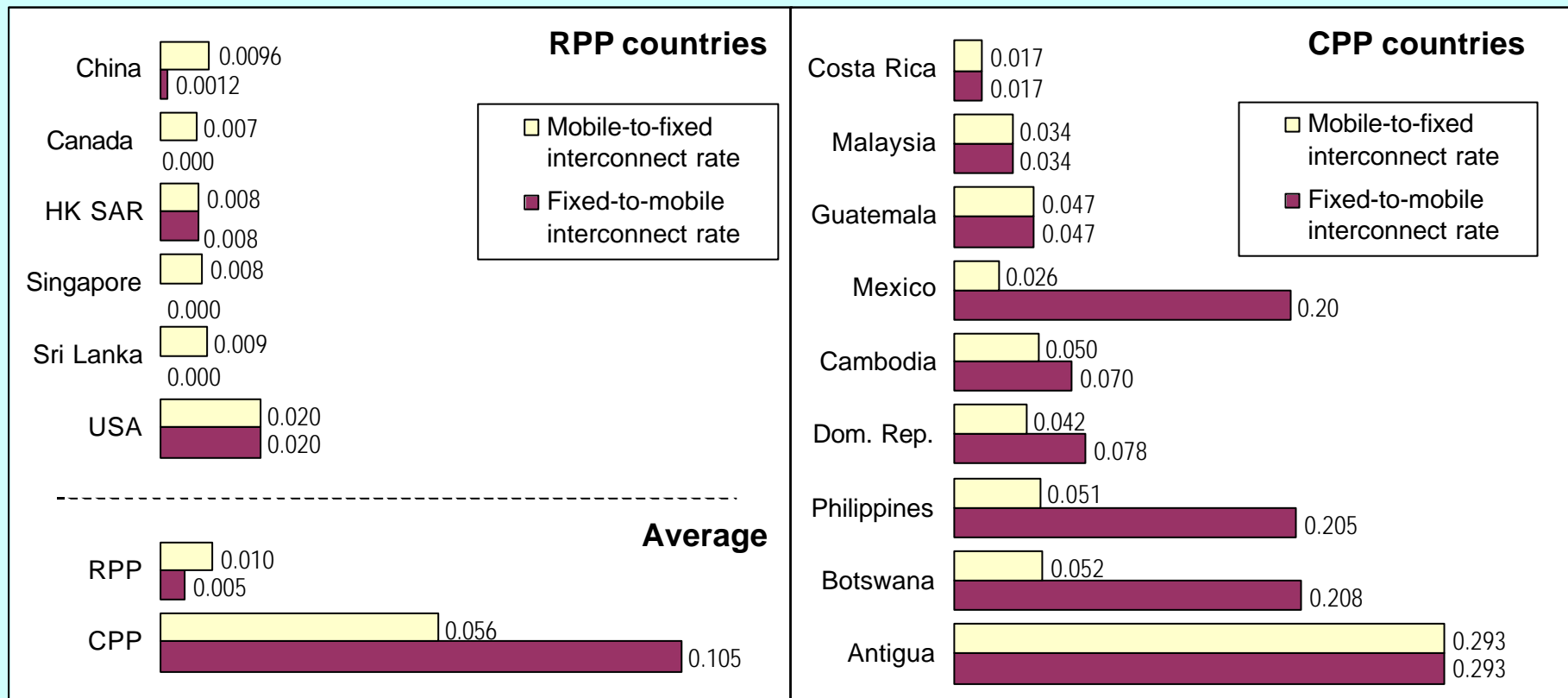
Interconnection Rates in Selected European Countries

Calling Party Pays (CPP). In US \$ per minute.



Interconnection rates in selected non-European countries

Calling Party Pays (CPP) vs. Receiving Party Pays (RPP). In US\$ per minute.



TAF average interconnection charges

	Fixed to Mobile Interconnect charge	Mobile to fixed Interconnect charge Local	Mobile to fixed Interconnect charge Single transit	Mobile to Fixed Interconnect charge Double transit
Average	0.167	0.078	0.096	0.150

Modification to Recommendation D.93

3.2 The accounting rates for international traffic [originating or] terminating at a mobile station should be cost oriented and should be applied on a nondiscriminatory basis to all relations, and international calls should be treated no less favorably than comparable national calls.

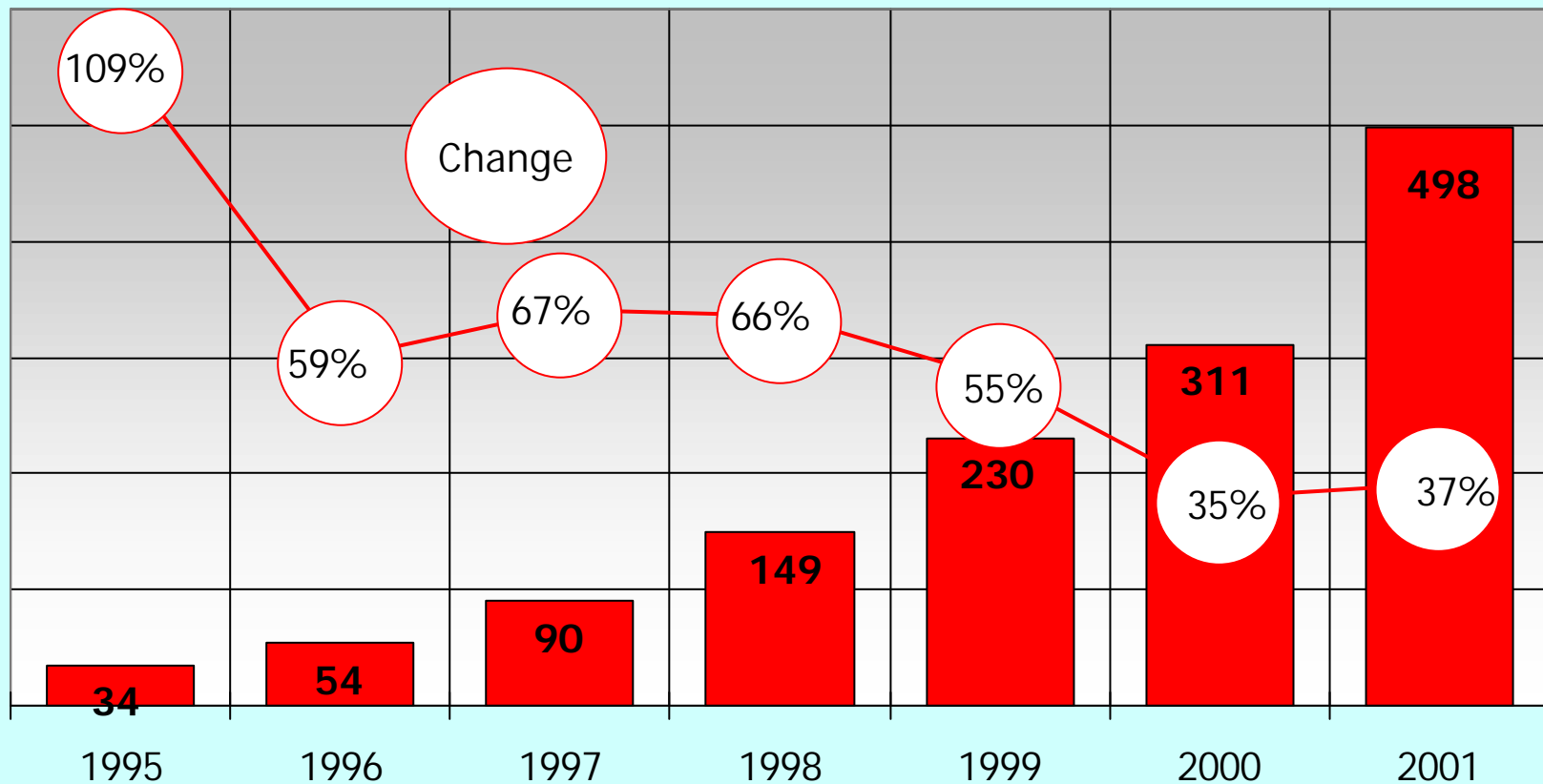
3.7 Where 3.3 b) applies but the difference between the two rates cannot objectively be justified on the basis of costs, the following could be considered:

a) The difference between the rates for calls terminating on fixed networks on the one hand and calls terminating on mobile networks on the other (arrived at by deducting the lower from the higher) should be no greater than the corresponding difference between the average of the available inter-operator rates for national fixed to fixed calls on the one hand and the average of available inter-operator rates for all national calls terminating on a mobile network on the other.

b) If such a comparison is not possible, the difference should be no greater than the corresponding difference between the average of retail rates for a national fixed to fixed call on the one hand and the average of retail rates for a national fixed to mobile call on the other hand.

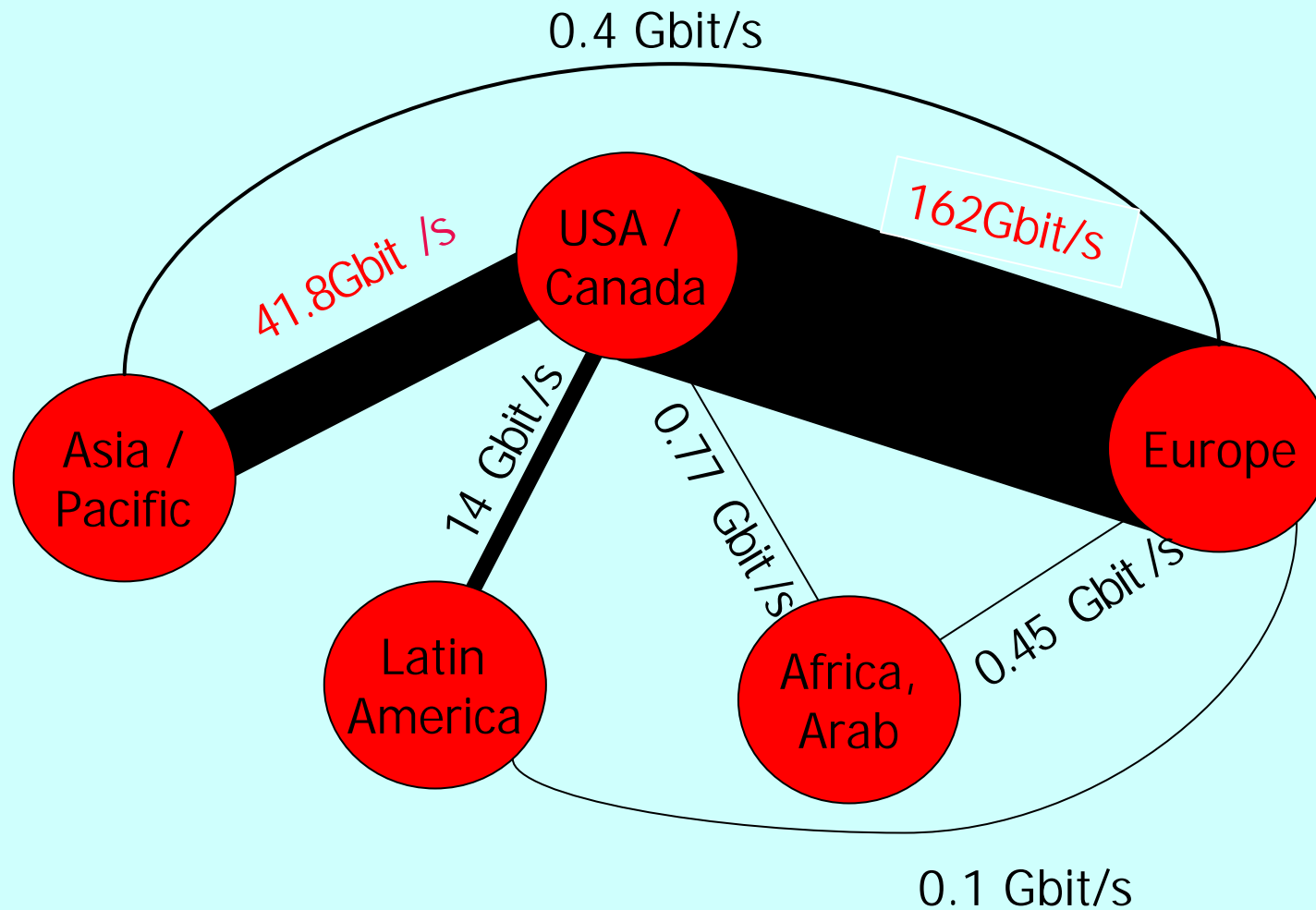
The Internet continues to grow ...

Internet users, million, and growth rate in %



Source: ITU.

Inter-regional Internet connectivity



Note: Gbit/s = Gigabits (1'000 Mb) per second.
Source: ITU adapted from TeleGeography.

Draft ITU-T Recommendation D.50

International Internet Connection

The World Telecommunication Standardization Assembly (Montreal, 2000),
recognizing

the sovereign right of each State to regulate its telecommunications, as reflected in the Preamble to the Constitution,

noting

- a) the rapid growth of Internet and Internet protocol-based international services;
- b) that international Internet connections remain subject to commercial agreements between the parties concerned; and
- c) that continuing technical and economic developments require ongoing studies in this area,

recommends

that Administrations involved in the provision of international Internet connections negotiate and agree to bilateral commercial arrangements enabling direct international Internet connections that take into account the possible need for compensation between them for the value of elements such as traffic flow, number of routes, geographical coverage and cost of international transmission amongst others.

Greece and the United States of America have expressed reservations and will not apply this Recommendation.

“Administration” means national administration of recognised operInternational Internet connection[1]



Rapporteur Groups meeting in Brussels (28 – 30 April 2003)

- ? study of the effects of peering
- ? Self-help by smaller networks with limited traffic
- ? development of general principles in Recommendation D.50