

Tariff comparison: Global Trends

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The views expressed in this paper are those of the author and do not necessarily reflect the opinions of the ITU or its membership. Dr Kelly can be contacted at Tim.Kelly@itu.int.



Agenda

- **The purpose of tariff comparisons**
- **Rate comparisons**
 - ⇒ **Installation charges**
 - ⇒ **Subscription charges**
 - ⇒ **Local and international call charges**
- **Tariff baskets**
 - ⇒ **OECD business and residential baskets**
 - ⇒ **OECD international basket**
 - ⇒ **Other baskets**
- **Trends over time**



Tariff comparisons: What for?

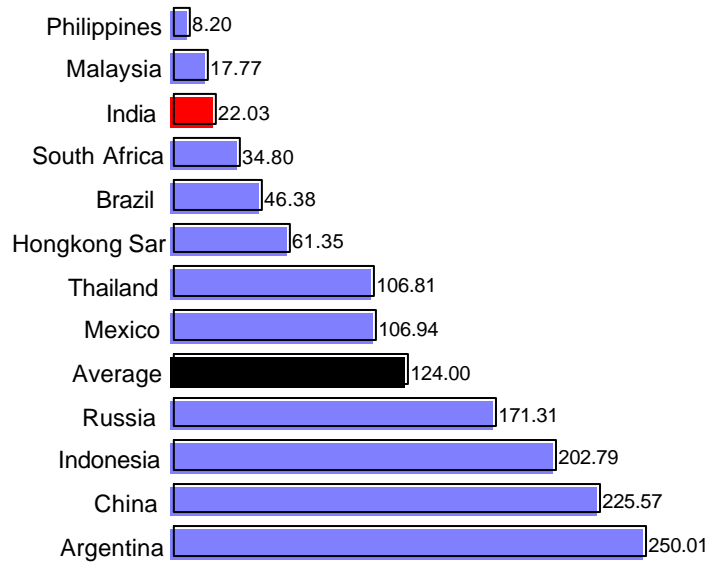
- To carry out benchmarking between competitive operators in the same country
- To carry out benchmarking between similar operators in different countries
- To track effects of tariff rebalancing over time
- To provide comparative information for managers, regulators, users
- To create “baskets” of different services to compare like with like



Different types of tariff comparison

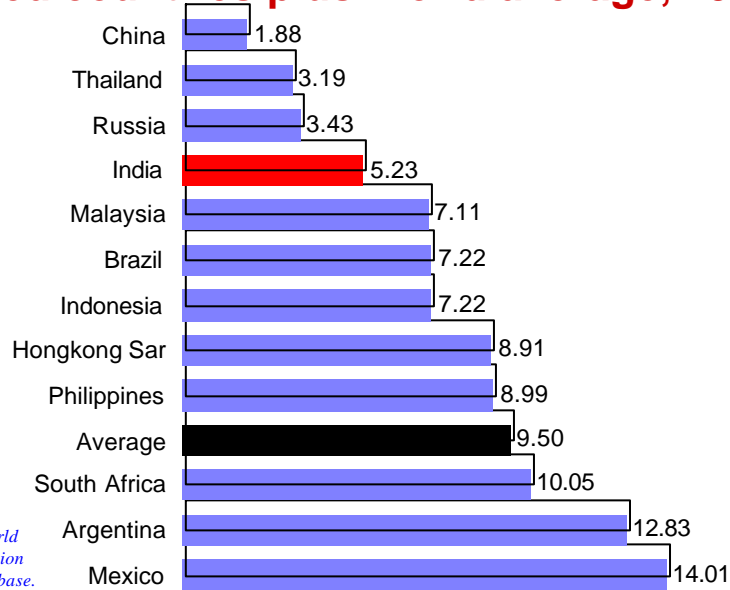
- Individual rate comparisons (e.g., installation charge, local call rate)
- Composite basket with fixed components (e.g., Siemens basket)
- Composite basket with variable components (e.g., OECD Tariff Comparison basket)
- Variations over time in same price variable

**Residential installation fee, in US\$:
Selected countries plus World average, 1998**



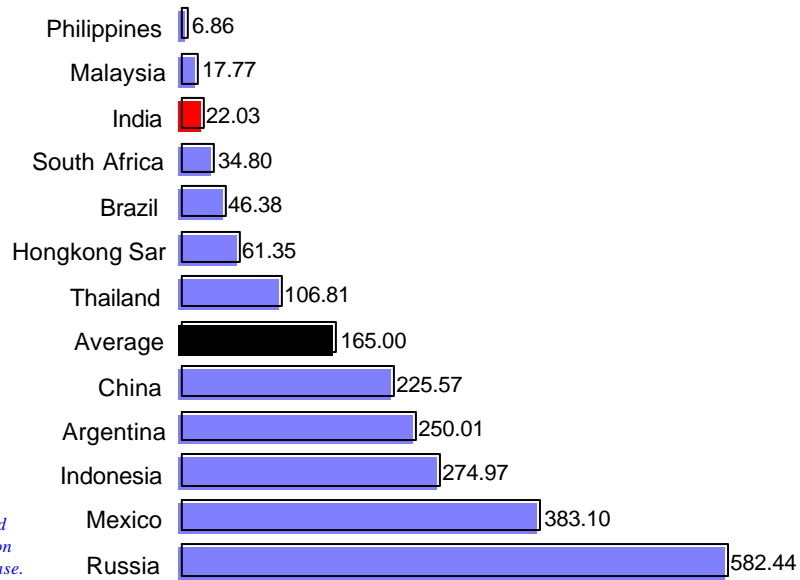
Source: ITU World
Telecommunication
Indicators Database.

**Monthly residential subscription, in US\$:
Selected countries plus World average, 1998**



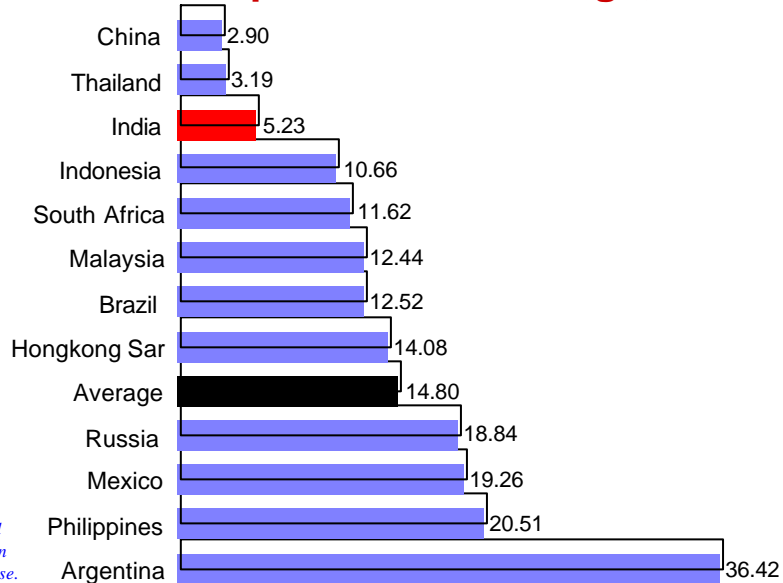
Source: ITU World
Telecommunication
Indicators Database.

**Business installation fee, in US\$:
Selected countries plus World average, 1998**



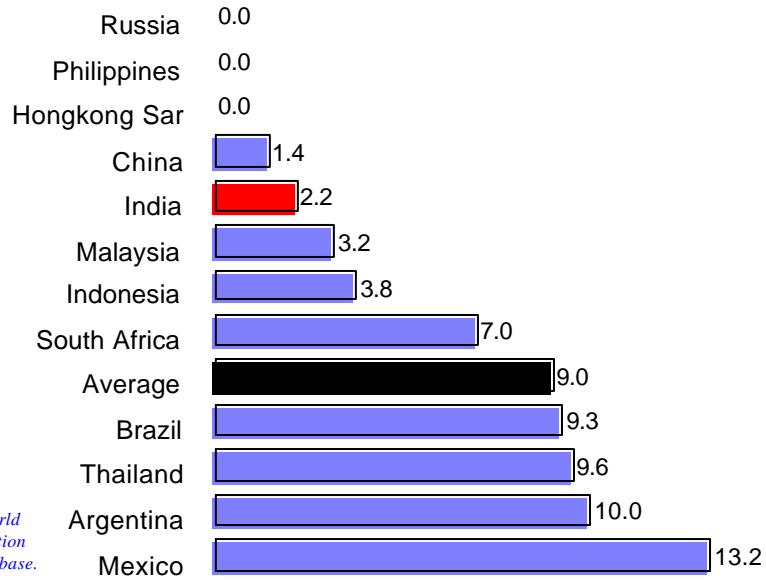
Source: ITU World
Telecommunication
Indicators Database.

**Monthly business subscription, in US\$:
Selected countries plus World average, 1998**



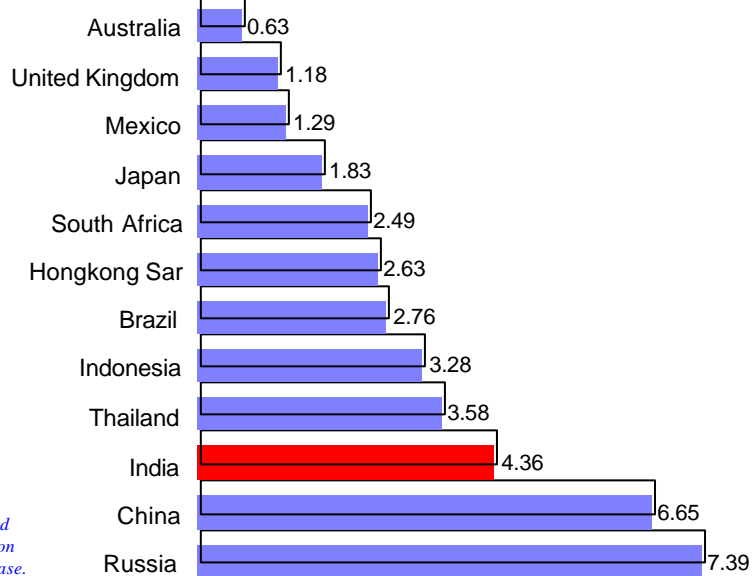
Source: ITU World
Telecommunication
Indicators Database.

**Local call charge in US cents per 3 mins:
Selected countries plus World average, 1998**



Source: ITU World
Telecommunication
Indicators Database.

**International 3 min call to US, in US \$:
Selected countries, 1998/99**



Source: ITU World
Telecommunication
Indicators Database.



Rate comparisons versus tariff baskets

- **Rate comparisons:**

- ⇒ **Easy to construct and understand**
- ⇒ **BUT, easy to misinterpret**
- ⇒ **Can be misleading due to different tariff structures and different tariff strategies between countries**

- **Tariff baskets:**

- ⇒ **Much harder to construct**
- ⇒ **BUT, much more meaningful in terms of comparisons between countries or operators with different tariff structures**
- ⇒ **More representative of experience of different user groups**

OECD tariff baskets:

Then and now ...

Six baskets defined:

- **Business telephony**
- **Residential telephony**
- **International telephony**
- **Mobile communications**
- **X.25 data communications**
- **Leased lines at 9.6 kbit/s, 56/64 kbit/s and 1.5/2.0 Mbit/s**

Comparisons between countries

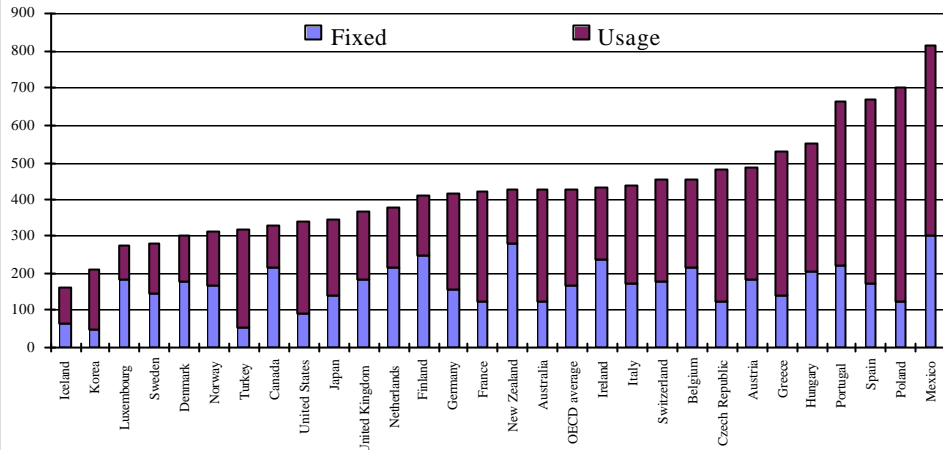
- **Additional telephony baskets to take account of usage discounts (e.g. small businesses, multinationals, elderly)**

- **Combined national and international telephony basket**

- **Additional baskets needed for Internet, ISDN, digital mobile (roaming), PCS, ATM etc**

Comparisons between operators within countries

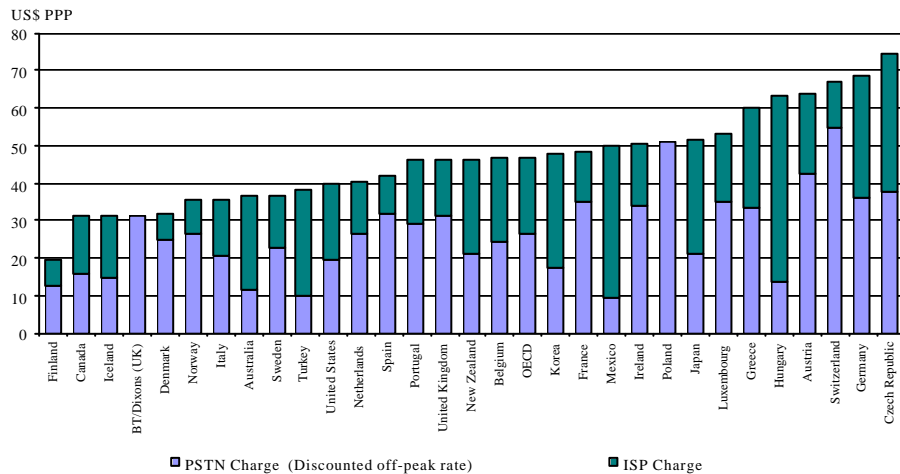
OECD residential tariff basket: August 1998



Note: Including tax. Calculation is based on Purchasing Power Parities expressed in US\$.

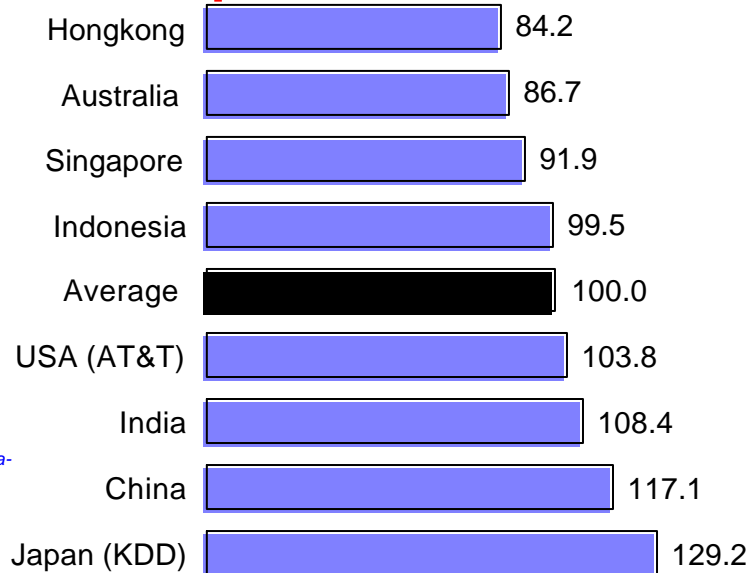
Source: OECD. Based on methodology defined in ICCP 22 "Performance indicators for Public Telecommunication Operators"

Off-peak, Internet access basket: August 1998, 20 hours per month



Source: OECD. Based on dial-up Internet access via PSTN. Excludes any element of fixed charges.

Int'l business call basket, 1996: based on call pairs, Asia-Pacific=100



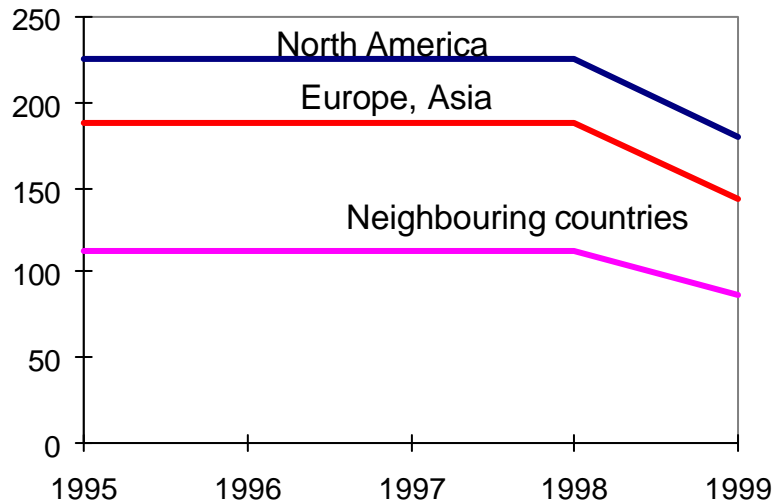
Source: ITU, Asia-Pacific Telecom Indicators, 1997.



Trends over time

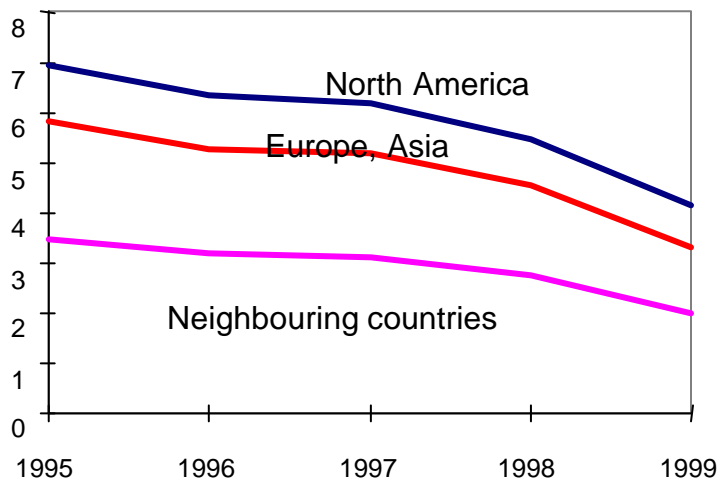
- Tracking trends in tariffs over time helps to assess:
 - ⇒ affordability of tariffs
 - ⇒ performance/efficiency of company
 - ⇒ competitive position of company
 - ⇒ Tariff rebalancing strategy
- Trends in local currency (Rupees)
 - ⇒ Provide most meaningful indicator for local customers
- Trends in US\$, Euros, SDRs or PPPs
 - ⇒ Provide comparability relative to other currencies and relative to local price inflation

Trends over time: India's international tariffs, 3 minute, peak rate call, in Rupees



Source: ITU/TeleGeography "Direction of Traffic, 1999"

Trends over time: India's international tariffs, 3 minute, peak rate call, in US\$



Source: ITU/TeleGeography "Direction of Traffic, 1999"



Conclusions: the value of tariff comparisons

- **A useful tool for management, for regulators and for users**
- **But, can be misleading if tariff comparisons are used selectively, or are quoted out of a wider socio-economic context**
- **Use of tariff baskets is a more reliable and meaningful indicator than simple rate comparisons**
- **Trends over time are best measure of company performance**