



The changing international telecommunications environment

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* The views expressed in this presentation are those of the author, and do not necessarily reflect the opinions of the ITU or its membership.



Agenda

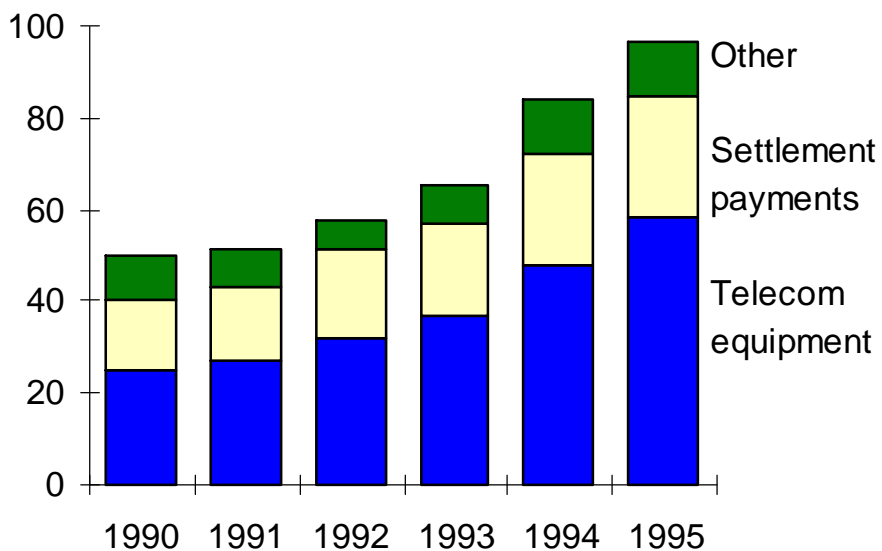
- Trade in telecommunications
- The stakes:
 - ⇒ Market liberalisation
 - ⇒ Reform of the accounting rate system
- ITU activities:
 - ⇒ World Telecom Policy Forum 1998
 - ⇒ The Case Studies Programme
 - ⇒ The Focus Group
- Next steps



Trade in telecoms

- **Dual role of telecommunications**
 - ⇒ As a facilitator of trade in other sectors (GATS)
 - ⇒ As a directly traded product and service (BTA)
- **How can telecom services be traded?**
Modes of delivery
 - ⇒ Cross-border (e.g., call re-origination)
 - ⇒ Commercial presence (e.g., Foreign Direct Investment)
 - ⇒ Consumption abroad (e.g., calling cards)
 - ⇒ Movement of staff (e.g., consultancy services)

Global Telecom Trade, US\$ billion



Note: "Other" includes privatisation receipts, cross-border roaming of mobiles, consultancy, FDI, foreign aid etc.
Source: ITU "World Telecommunication Development Report, 1996/97"

Countries permitting competition in basic telecoms:

1990

Japan
United Kingdom
United States

1995

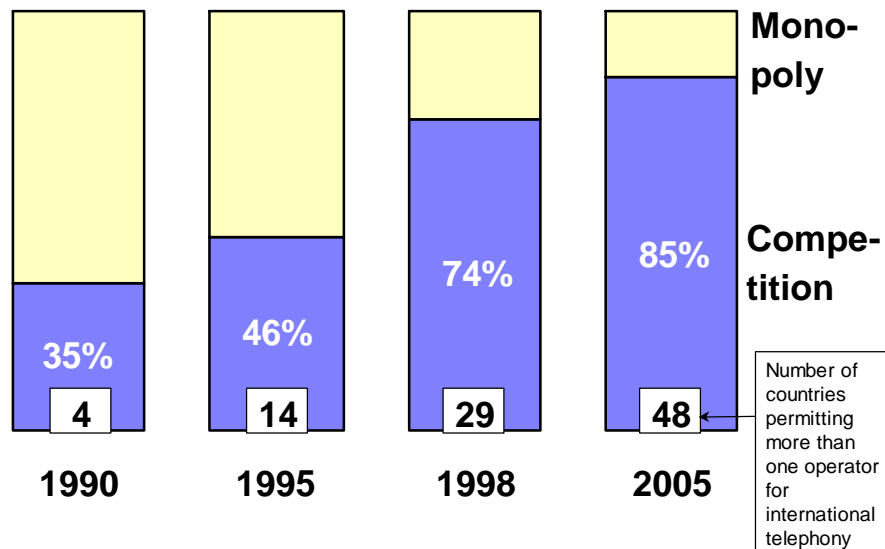
Australia
Canada
Chile
Finland
Japan
Korea (Rep.)
New Zealand
Philippines
Sweden
United Kingdom
United States

1998

Australia
Austria
Belgium
Canada
Chile
China
Denmark
El Salvador
Finland
France
Germany
Ghana
Hongkong SAR
Israel
Italy
Ireland (Dec 98) plus others

Japan
Korea (Rep.)
Mexico
New Zealand
Netherlands
Norway
Philippines
Russia
Spain (Dec 98)
Sweden
Switzerland
Uganda
UK
USA

Percentage of outgoing international traffic open to competition




Note: Analysis is based on WTO Basic Telecommunications Commitments and thus presents a minimum level of traffic likely to be open to competitive service provision. Source: ITU, WTO.



2nd World Telecommunication Policy Forum

What's covered, what's not?

<p><u>Covered</u> in WTO telecoms agreements</p> <ul style="list-style-type: none"> ● Government measures ● Individual country commitments (schedules) providing market access to stated markets in telecom services ● Related agreements (GATS, Information Technology) ● Regulatory principles ● Commercial presence (foreign direct investment) 	<p><u>Not covered</u> in WTO basic telecoms agreement</p> <ul style="list-style-type: none"> ● Non-government measures (e.g., commercial contracts) ● Market areas not covered in individual commitments or stated as exemptions ● Rest of world (including China, Russia etc) ● Accounting rates and settlements ● Broadcasting and audiovisual industry
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2nd World Telecommunication Policy Forum

Two Telecom Worlds?

<p><u>WTO World:</u></p> <ul style="list-style-type: none"> ● 132 Members, governments only ● 72 Members, accounting for 93% of global telecoms market and 55% of global population, have made market access commitments ● 63 Members have committed to regulatory principles (Reference Paper) 	<p><u>ITU World:</u></p> <ul style="list-style-type: none"> ● 188 Member States & 500+ Sector Members (private) ● 72 are also part of WTO world, in whole or in part ● 116 Member States, accounting for <45% of global population, not part of WTO telecoms world ● 56 are not WTO Members ● 60 are WTO Members but have not made market access commitments
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Accounting rate reform

- 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, many developing countries are heavily dependent on net settlement payments
 - ⇒ Transition may be quicker for some than others
 - ⇒ Cost-oriented system may well be asymmetric

Market realities and developing country fears ...

If the rate of reduction is too low ...

- Traffic will migrate to "least cost routes"
- Increasing volumes of traffic will flow outside the accounting rate system (e.g., via Internet)
- Local consumers will not benefit from lower call charges
- Foreign correspondents may refuse to pay for traffic terminated

If the rate of reduction is too fast ...

- There may be a sudden reduction in the volume of net settlement payments
- This may reduce the ability of the incumbent operator to finance its network build-out
- It may reduce the value of the operator ahead of possible privatisation
- National tariffs may need to increase to compensate



WTPF-98: The event

- 16-18th March, Geneva, chaired by Mr Neil McMillan CMG, UK
- Over 600 participants from 119 countries
- Active participation from WTO and World Bank
- Input document = SG's report plus nine country case studies
- Output document = Chairman's report containing three Opinions
- Website: <http://www.itu.int/wtpf>



WTPF-98 Output: Opinion A

- Recommends to ITU Member States to consider applying the WTO Regulatory Reference Principles
 - ⇒ Competitive safeguards
 - ⇒ Interconnection
 - ⇒ Universal service
 - ⇒ Licensing
 - ⇒ Independent regulators
 - ⇒ Allocation and use of scarce resources
- Proposes co-operation agreement between ITU and WTO



Opinion B: Implementation of GATS

- **Facilitating transition to a competitive telecoms environment, for example by sharing experience related to GATS implementation**
- **Gradual implementation of tariff rebalancing**
- **Encouraging competition on transit routes by applying transparency, non-discrimination and cost-orientation principles to transit traffic**
- **New role for ITU:**
 - ⇒ dissemination of data on international environment
 - ⇒ regional programme on regulation, case studies
 - ⇒ assistance to operators in developing cost-accounting

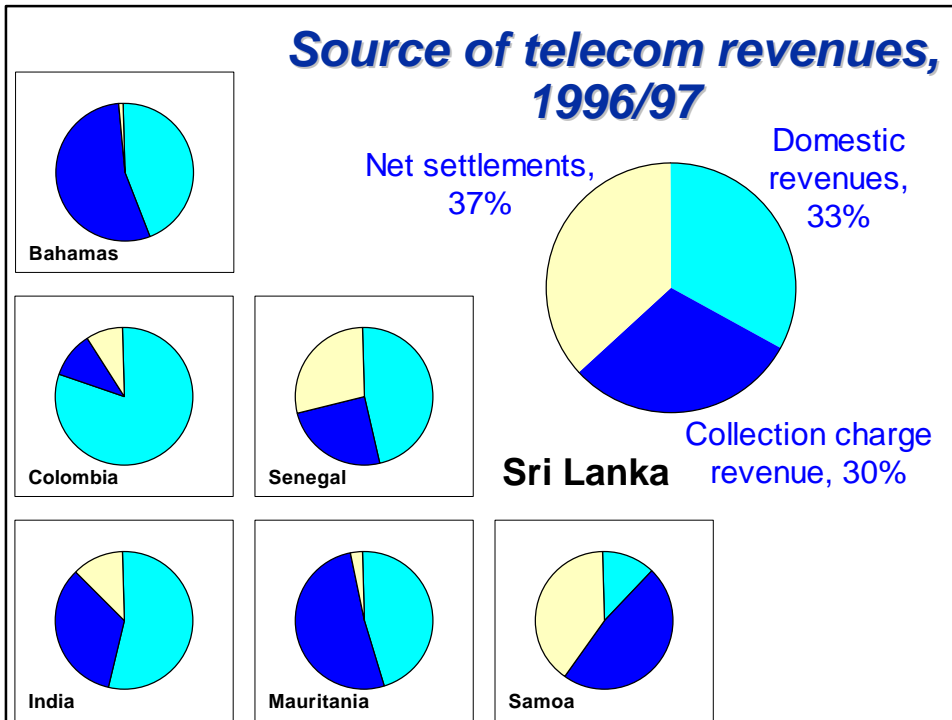


Case study countries and consultants

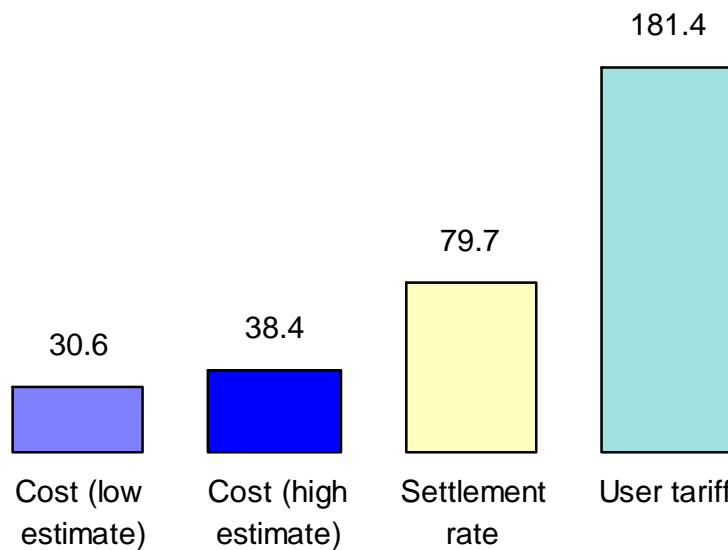
- **Bahamas (DNTA)**
- **Colombia (DNTA)**
- **India (Phillips TARIFICA, with IIM)**
- **Lesotho (Clifford Chance/BAH)**
- **Mauritania (ICEA)**
- **Samoa (ITU Asia-Pacific regional office)**
- **Senegal (ICEA)**
- **Sri Lanka (Antelope Consulting) ***
- **Uganda (Clifford Chance/BAH) ***

* Co-sponsored by Commonwealth Telecom Organisation & World Bank InfoDev

Source of telecom revenues, 1996/97

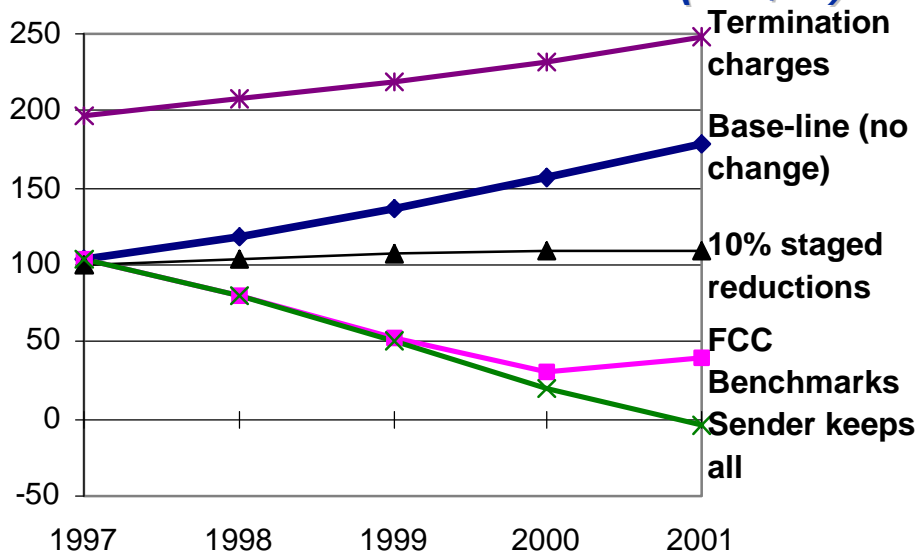


Average range of costs, settlement rates and user tariffs, US cents per minute



Note: Average settlement rate is weighted by main traffic correspondents for each country. Average user tariff is based on collection charge revenue divided by international minutes.

Colombia: Impact of different scenarios on net international income (US\$m)



Note: Net international income = collection charges, plus net settlement payments, minus costs.



Case studies: summary of issues

- Degree of dependence on net settlements
 - ⇒ High: Samoa, Sri Lanka, Senegal
 - ⇒ Moderate: India, Colombia, Uganda
 - ⇒ Low: Mauritania, Bahamas, Lesotho
- Estimation of costs per minute
 - ⇒ Range: 13-45 US cents
 - ⇒ Average: 30-38 US cents
- Impact of scenarios:
 - ⇒ Beneficial: Termination charges
 - ⇒ Neutral: Staged reductions
 - ⇒ Negative: Benchmarks, Sender-keeps-all



Follow-up: Assistance to Members

- **Regional programme**
 - ⇒ Seminars in Colombia, Dakar, Barbados, Bangkok, (Bahrain, Nairobi?)
 - ⇒ “Mini case studies” in Pacific, Francophone Africa, Caribbean/Latin America
 - ⇒ Fellowships for LDCs to participate in work of Focus Group
- **Additional case studies (Indonesia, Ukraine, Zimbabwe) commissioned by European Union**
- **Valletta Action plan, Programme 4**



Opinion C: Evolution of accounting rates

- **Endorses existing “transitional arrangements” (settlement rates <0.5 SDR by end 1998)**
- **Encourages countries to work together, on a bilateral or multilateral basis, to achieve cost-oriented settlement rates**
- **Creation of Focus Group**
 - ⇒ to develop transitional arrangements beyond 1998 including *ranges of indicative target rates*
 - ⇒ taking into account nine case studies and other existing market trends and statistical studies
 - ⇒ to report by 6th November 1998



WTPF-98 Follow-up: Focus Group

- Chair, Amb. Anthony Hill (Jamaica)
- Vice-Chair, Anthony Wong (Hong Kong, SAR)
- Meeting schedule:
 - ⇒ 8 June 1998
 - ⇒ 1-3 September 1998
 - ⇒ 7 December 1998
- Documentation at <http://www.itu.int/intset/focus>
- To join: send e-mail to tsbedh@itu.int



What does it all add up to?

- **Philosophical**
 - ⇒ Facilitating the transition to a competitive market environment
 - ⇒ Birth of a global information society
 - ⇒ Telecommunications as a traded service
- **Practical**
 - ⇒ Shift from a revenue-sharing to a cost-oriented regime for international telecommunications
 - ⇒ Market liberalisation now the dominant paradigm
 - ⇒ Efforts to provide a “soft landing” for those countries likely to be hardest hit by changes



Next steps

- **6th November 1998**
 - ⇒ Submission of Focus Group report
- **7-15 December 1998: ITU-T Study Group 3**
 - ⇒ Transitional arrangements beyond 1998 (Annex D to Recommendation D.140)?
 - ⇒ Expanded menu of remuneration options (Recommendation D.150)?
- **January 1999: Imposition of FCC benchmarks (if no multilateral agreement emerges)?**
- **June 1999: Approval of new ITU-T Recs?**
- **2000: Next round of WTO negotiations?**