<u>Revised Annex E</u>

GUIDELINES FOR BILATERAL NEGOTIATIONS OF TRANSITIONAL ARRANGEMENTS TOWARDS COST-ORIENTATION, 1999 to 2001[1]

E.1 Introduction

This Annex contains the multilaterally-agreed guidelines to be used in bilateral negotiations to establish and revise accounting rates, accounting rate shares and transit shares during the transition to cost-orientation, in cases where it has not proved possible to apply approach 1 in Annex C of this Recommendation, to the satisfaction of all parties in a correspondent relationship. When implementing these guidelines, Recommendations D.150, D.155 and other relevant D-series Recommendations should also be taken into account.

E.2 General

Recognizing the change in the international telecommunications environment and the agreement to expand the menu of remuneration arrangements to be incorporated into D.150, it is recommended that Administrations take into account the transitional arrangements towards cost-orientation, detailed below.

E.3 Indicative target rates for direct relations

E.3.1 As a transitional measure pending the application of approach 1 in Annex C, it is recommended that Administrations progressively move towards and attain the indicative target rates set out in Table 1 in their bilateral negotiations. The target rates are shown in SDRs per minute, for countries / territories grouped according to their level of teledensity (telephone lines per 100 inhabitants) at 1st January 1998. Administrations which have already attained these indicative target rates should continue to take positive steps to reduce their accounting rates to cost orientated levels.

Table 1: Indicative target rates for direct relations (settlement rates)
Based on the average of the lowest 20 per cent of current published settlement rates in each teledensity group, and measured in SDRs per minute (T = telephone lines per 100 inhabitants)

Teledensity $T \leq 1$	$1 < T \leq 5$	$5 < T \leq 10$	$10 < T \leq 20$	$20 < T \leq 35$	$35 < T \leq 50$	$T > 50$
0.327 SDR	0.251 SDR	0.210 SDR	0.162 SDR	0.118 SDR	0.088 SDR	0.043 SDR

Source: ITU-T Study Group 3 Focus Group.

E.3.2 The indicative target rates in Table 1 show <u>upper</u> limits and should not be interpreted as providing any guidance for establishing lower limits for direct relations, nor should they be taken as cost-orientated levels. It is recognized that, between competitive markets, rates for market access may be [considerably] below these target rates.

E.3.3 For small island states, which are defined as having a population of less than [200’000] inhabitants, distant from a continental mainland, off the main cable routes and therefore reliant on satellite communications, the indicative target rate of [0.292] SDR per minute may be used. The countries / territories within this category (see Tables A to G) may choose to adhere to this target or the one relevant to its teledensity.

E3.4 For the Least Developed Countries, which are recognized by the United Nations General Assembly, the indicative target rate of [0.312] SDR per minute may be used. The 48 LDCs, plus the 3 “as if” LDCs, eligible within category (see Tables A to G) may choose to adhere to this target or the one relevant to its teledensity.

[1] Note: This period may be extended, subject to the provisions in paragraph E5.3.

E.3.5 Where the indicative target rates proposed in Table 1 differ from the results obtained by applying a regional cost model which has been recognized by ITU-T Study Group 3, the results of the cost model could be applied, by bilateral agreement, within the region and in relations with Administrations outside the region, as described in Approach 1 of Annex C of this Recommendation. It is recognized that where this is not possible, the indicative target rates proposed in Table 1 could be used as the basis for the cost and/or accounting rate trends described in Approach 2 of Annex C of this Recommendation.

E.3.6 It is recommended that Administrations should utilize an appropriate costing methodology as soon as possible to determine their relevant costs.

E.3.7 Where the indicative target rates proposed in Table 1 differ from the cost elements identified in a country case study, which has been validated by the region concerned and endorsed by ITU-T Study Group 3, the cost elements from the case study could be applied, by bilateral agreement, within the region and in relations with Administrations outside the region.

E.4 Indicative target rates for indirect relations

E.4.1 In order to provide guidance on transit shares , on routes where an origin Administration lacks choice[2] among transit routes and service providers, it is recommended that transit Administrations move towards the indicative target rates (upper limits) set out in Table 2, in SDRs per minute[, according to the volume of traffic on a particular route].

Table 2: Indicative target rates for transit shares

In SDRs per minute, according to annual traffic flows (corresponding to typical circuit capacities) on different routes

Route minutes *Typical circuit*	*Routes with up to 350'000 minutes per year* *64 kbit/s*	*Routes with between 350'000 and 1.5 million minutes per year* *256 kbit/s*	*Routes with >1.5 million minutes per year* *1.5/2 Mbit/s*
Target rate (upper limit) for transit share, in SDRs per minute	0.06 SDR	0.05 SDR	0.03 SDR

Note: Estimates of line capacity are based on a 4:1 compression ratio (e.g., a 64 kbit/s line provides four voice circuits) and an 18% capacity utilisation.
Source: ITU Study Group 3 Focus Group.

E.4.2 The indicative target rates in Table 2 show upper limits and should not be interpreted as providing any guidance for establishing lower limits for transit shares, nor should they be taken as cost-orientated levels. It is recognized that, on competitive routes, transit shares may be considerably below these target rates.

[2] Five or less comparable transit providers.

E.5 Transition period

E.5.1 The starting point for the transition would be the current settlement rate level. Administrations which have already achieved the target rate should continue to move towards cost-orientation.

E5.2 The transitional arrangements towards cost-orientation should be negotiated through bilateral agreement, for instance in the following ways:

a) On the principle of a 50/50 division of accounting revenue from traffic exchanged (symmetry), with both Administrations applying the same rate (settlement rate) to attain a level at or below the indicative target rate of the Administration in the lower teledensity category by or before the end of the transition period.

b) In an asymmetric manner, with both Administrations applying different rates for call termination, in the context of an agreement to move to below the indicative target rate of the Administration in the lower teledensity category. In this case the Administration in the higher teledensity category would apply a lower rate for call termination than the Administration in the lower teledensity category.

c) In order to enhance Universal Access to telecommunications in developing countries, Administrations in developed countries may give consideration to terminating incoming calls at their own cost-orientated rate without requiring reciprocal treatment. Such consideration would be voluntary and based on bilateral agreement.

E.5.3 It is recommended that the indicative target rates for direct relations in Table 1 be attained by staged reductions over a three year period (i.e., by year-end 2001), taking fully into account those Administrations who encounter serious financial difficulties as a result of a sudden fall in net settlement payments, for which a smoother transition path could be negotiated by bilateral agreement. Additionally, for those Administrations in LDCs, a longer transition period is recommended, as a function of the level of dependency of the country on net settlement payments, as proposed in Table 3. Where circumstances are identified, [through a transparent process,] of the significant difficulties which Administrations of other developing countries may have in coping with the reduction, by bilateral agreement, using Table 3 as a reference.

E.5.4 It is recommended that the indicative target rates for transit shares shown in Table 2 be attained within [two] [three] years (i.e., by year-end [2000] [2001]).

Table 3: Transition period as a function of dependence on net settlement payments (NSP)

Net settlement payments (NSP) as a percentage of total telecommunication revenue (TTR)	*Target year for achieving target rate*
NSP < 10 per cent of TTR	year-end 2001
NSP between 10 - 20 per cent of TTR	year-end 2002
NSP between 20 - 30 per cent of TTR	year-end 2003
NSP greater than 30 per cent of TTR	year-end 2004

Note: 1. Calculations should be based on published data, from company accounts, on net settlement payments and total telecommunication revenue, valid for 1997 or most recent .
2. Data for net settlement payments and total telecommunication revenue should be valid for the country / territory as a whole, not just an individual Administration/.
Source: ITU-T Study Group 3 Focus Group.

E.6 Level of contributions to Universal Service Obligations

Any Member State has the right to define the kind of Universal Service Obligation it wishes to maintain. However, such Obligations should be administered in a transparent, non-discriminatory and competitively neutral manner which is not more burdensome than necessary for the kind of universal service defined by the Member.

Group of Countries/Territory

$T \leq 1$ (Group A)	$1<T\leq 5$ (B)	$5<T\leq 10$ (C)	$10<T\leq 20$ (D)	$20<T\leq 35$ (E)	$35<T\leq 50$ (F)	$T>50$ (G)
Afghanistan *	Albania	Azerbaijan	Argentina	Bahamas	Andorra	Anguilla +
Angola *	Algeria	Bolivia	Armenia	Bahrain	Antigua & Barbuda +	Australia
Bangladesh*	Bhutan*	Bosnia	Belize	Belarus	Aruba	Bermuda
Benin*	Cuba	Botswana	Chile	Brunei Darussalam	Ascension +	British Virgin Island +
Burkina Faso*	D.P.R. Korea	Brazil	Colombia	Bulgaria	Austria	Canada
Burundi*	Djibouti*	Cape Verde*	Costa Rica	Cook Islands +	Barbados	Cayman Islands +
Cambodia*	Gabon	China	Georgia	Croatia	Belgium	Cyprus
Cameroon	Gambia*	Dominican Rep	Iran (I.R.)	Czech Republic	Greenland	Denmark
Central African Rep*.	Guatemala	Ecuador	Jamaica	Dominica +	Guadeloupe	Falkland Is(Malvinas) +
Chad*	Honduras	Egypt	Kazakhstan	Estonia	Guam	Faroe Islands
Comoros*	India	El Salvador	Lebanon	French Guyana	Ireland	Finland
Congo	Indonesia	Fiji	Libya	French Polynesia	Israel	France
DPR Congo*	Iraq	Guyana	Malaysia	Grenada +	Italy	Germany
Côte d'Ivoire	Kiribati*+	Jordan	Mauritius	Hungary	Japan	Gibraltar
Equatorial Guinea*	Mongolia	Kyrgyzstan	Moldova	Kuwait	Korea (Rep.)	Greece
Eritrea*	Nicaragua*	Maldives*	Nauru +	Latvia	Macao	Guernsey
Ethiopia*	Pakistan	Marshall Islands +	Panama	Lithuania	Malta	Hong Kong China
Ghana	Papua New Guinea	Mayotte +	Poland	New Caledonia +	Martinique	Iceland
Guinea*	Paraguay	Mexico	Romania	Niue +	Montserrat +	Jersey
Guinea-Bissau*	Philippines	Micronesia +	Russia	Puerto Rico	Neth. Antilles	Liechtenstein
Haiti*	S.Tomé & Principe*+	Morocco	Saudi Arabia	Qatar	New Zealand	Luxembourg
Kenya	Senegal*	Namibia*	Seychelles +	Slovak Republic	Northern Marianas +	Monaco
Lao P.D.R*	Solomon Islands*	Oman	South Africa	St. Helena +	Portugal	Netherlands
Lesotho*	Sri Lanka	Peru	St. Vincent +	St. Lucia +	Réunion	Norway
Liberia*	Swaziland	Samoa*+	Suriname	Turkey	Singapore	San Marino
Madagascar*	Tajikistan	Syria	TFYR Macedonia	Turks & Caicos +	Slovenia	St.Pierre & Miquelon
Malawi*	Vanuatu*+	Thailand	Trinidad & Tobago	Uruguay	Spain	Sweden
Mali*	Viet Nam	Tonga +	Ukraine		St. Kitts and Nevis +	Switzerland
Mauritania*	West Bank and Gaza	Tunisia	Venezuela		United Arab Emirates	Taiwan-China
Mozambique*	Yemen*	Turkmenistan	Yugoslavia FR			United Kingdom
Myanmar *	Zimbabwe	Tuvalu*+				United States
Nepal*		Uzbekistan				Virgin Islands (US)
Niger*		Wallis and Futuna +				
Nigeria						
Rwanda*						
Sierra Leone*						
Somalia*						
Sudan*						
Tanzania*						
Togo*						
Uganda*						
Zambia*						

Note: **LDC**: Least Developed Country and “As if LDC” is indicated by *.
Small island state is indicated by **+.**
Teledensity, as of 1st January 1998.

Source: ITU Study Group 3 Focus Group.