

## COMMENTS FROM NEPAL TELECOMMUNICATIONS CORPORATION REGARDING THE REFORM ON ACCOUNTING RATE SYSTEM

### 1. Pressures for reform:

The benefit of the tremendous decrease in the international and long distance transmission cost because of the technological advancement, has not been enjoyed by the end user of telephone mainly because of the high accounting rate.

Internet telephony is emerging as a challenge to the traditional revenue sharing system. Without a substantial reduction in the international wholesale and retail price, carriers and the end users will be prompted to bypass the traditional system through Internet or other method like LCR.

Heavy imbalance of traffic in favor of low income countries has occurred in recent years because of the aggressive marketing strategy taken by the more liberalized international carriers of high income countries. This has resulted a better financial status for these international carriers. In their aggressive effort to make more profit they are also lobbying in national and international forum to reduce the settlement they are paying to less developed countries.

### 2.0 Discussion

Usually in the developing countries, the major portion of the net operating profit comes from the international settlement, which is used for the expansion of the network.

One should not forget that for telephone conversation even though only the calling party pays the bill, the importance of the called party cannot be underestimated. Without the called party the telephone conversation cannot take place. With the settlement received from the high income countries, the less income countries have been expanding the telephone subscriber base. The customers in the high income countries make IDD calls to the newly expanded network, which generates revenue for the international carriers. Thus this is a circular process. Any obstacle or hindrance in this process may stagnate the growth of the international traffic, which in turn will reduce the profit margin of the international carriers of the high income countries.

Individually every international carrier may try to negotiate a lower accounting rate, but at the same time he should promote the idea of forming larger subscriber base in the world for the growth of his business and profit. As proposed in many contribution, the assistance provided by the donor agencies

alone may not be sufficient to provide the financial requirement of a developing country.

In the seventies, International carriers hardly made any profit from international business. But in the nineties, they are making good profit. International carriers are making profit mainly because of the expanded telephone network of foreign countries.

ITU, a UN body should be more concerned with the high tariff for general people which is imposed by the carriers. Therefore any decrease in the accounting rate need to be related with the collection rate.

The carriers in high income countries which are paying net settlement to foreign carriers does not mean that they are in loss. In fact they are receiving the revenue from the customer in time but usually they pay the settlement to correspondents only after few months. This is in their favor. International carriers collect the revenue from the customers and once the revenue is in their hand they become tempted not to share that revenue.

Cost studies undertaken by the ITU Secretariat indicate the average cost of an international call should be around US\$ 0.25 per minute. This could be the average cost, but when implemented differentiation must be made for different countries with different level of income. Even the unilateral action of FCC (not endorsed by the international community) has categorized the countries in 4 different groups according to their income level.

Many contributions regarding the reform have indicated that termination fee could be the solution. It will be even more risky to reduce the termination fee, as this applies to all carriers. This system will be difficult to implement in case of neighboring countries. Conditional pressure may also be built towards developing countries from donor agencies to reduce the termination fee.

The pressure to reduce the accounting rate has been given due attention from the international agencies. But the more concerned topics could be the transit rate. The transit part of the total accounting rate (TAR) is often higher than the termination part. If international carriers are really willing to go on cost mechanism, first they should show their eagerness by reducing the transit rate, which is still applicable for incoming calls. So called confidential transit rate system is only serving the traffic generator. Transparency must be maintained in this regard.

### 3.0 Proposal

1. First of all international carriers should reduce the transit rate. Multilateral forum should be formed to deal with this problem.

2. Any reduction in accounting rate should reflect the reduction on collection rate.

Enough time frame should be given to the carriers to rebalance the tariff structure.

3. Unilateral actions should be denounced by the international community.

4. Accounting rate should be reduced only to serve the inhabitant of the world by providing the caller, a cost oriented tariff. But at the same time, the caller should pay little higher than the actual cost, so that with this contribution for the expansion of the network, next time he can also phone his friend who did not own a telephone earlier. This will also increase the traffic which will in turn benefit the service provider.