



REGIONAL SEMINAR ON COSTS AND TARIFFS AND TAL GROUP MEETING

TARIFF ASPECTS OF THE REGULATORY REGIME IN CUBA

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Ministry of Informatics and Communications, Cuba

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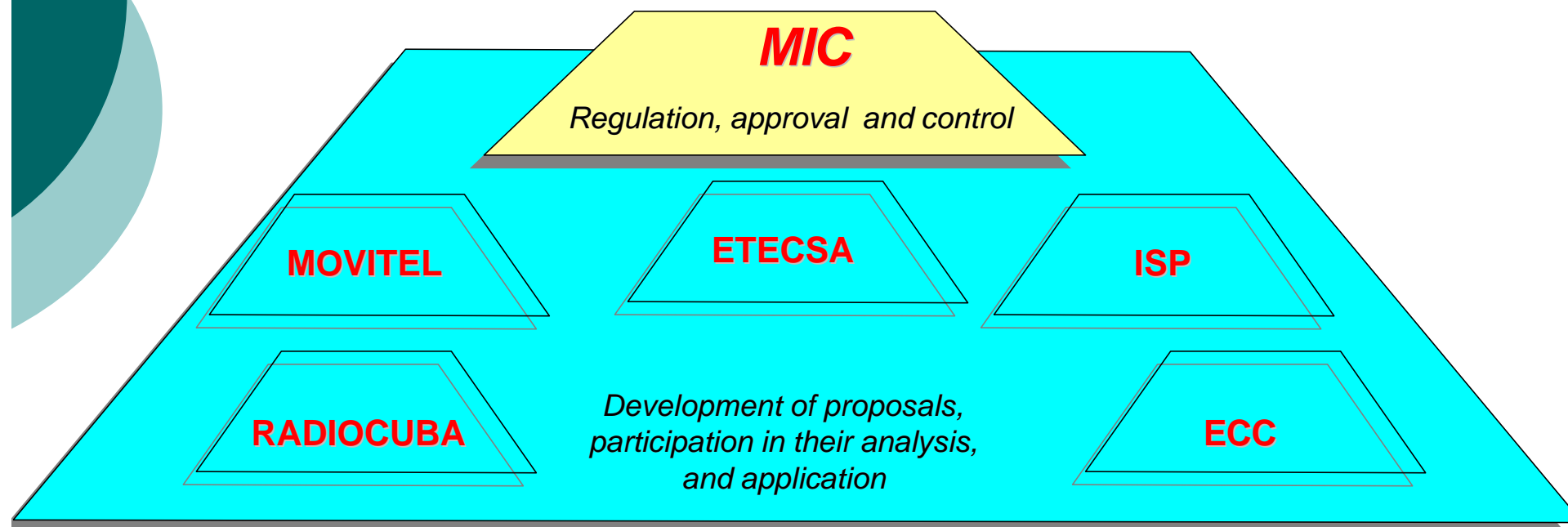


GENERAL PRINCIPLES OF THE REGULATORY REGIME



*In Cuba, telecommunication regulatory and operating functions are separated, the former being entrusted to the **Ministry of Informatics and Communications**, while operation and marketing of services is handled by authorized operators*

ROLES IN THE SETTING AND APPLICATION OF TARIFFS



The price of services is approved by the regulatory body, on the basis of proposals by operators based on their own cost models which take account of their total costs

MAIN OPERATOR



*ETECSA is a company constituted by foreign Cuban capital, operating since 1994. In 2003, the Executive Committee of the Council of Ministers issued **Decree 275** licensing it for a further 20 years to operate the services listed opposite, with 15 years of exclusivity for the first five services.*

Fixed telephony

Cellular mobile telephony

Signal transport

Data transmission

Telex

Virtual telephony

Public stations

Internet access

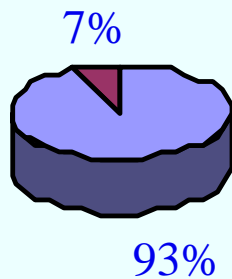
Value-added services

Trunked mobile service

Applications

NATIONAL TARIFF SCENARIOS

% MARKET SHARE



- Residential and State institutions (peso)
- Businesses and joint ventures (convertible peso)

RESIDENTIAL

Services are payable in pesos, at affordable prices, so as to fulfil universal service obligations

BUSINESS SECTOR

Services are payable in convertible pesos and at increasingly cost-oriented prices plus a reasonable return



PRICE OF SERVICES FOR RESIDENTIAL USERS

DECREE 275

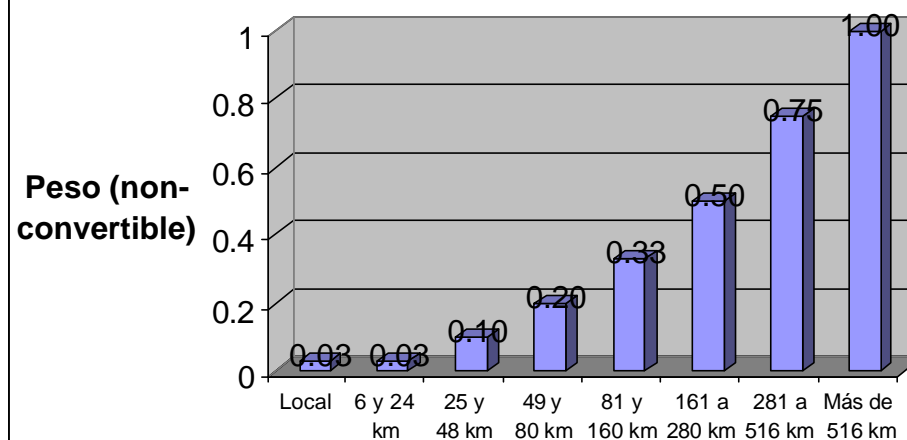
For each type of service, the regulatory body approves the rates for connection, reconnection, line rental, local calls and national long-distance calls.

These rates are revised every two years and may be adjusted with variations in the average wage and real costs, in non-convertible national currency.

TARIFFS APPLIED FOR THE RESIDENTIAL SECTOR

Residential telephone service tariffs have been maintained at the same level as before privatization, approximately equivalent in USD to:
25 cts monthly fee;
0.1 cts per minute of local call and 4 cts per minute of national long-distance call

National telephone tariffs in the residential sector





REGULATION OF TARIFFS FOR THE BUSINESS SECTOR

DECREE 275

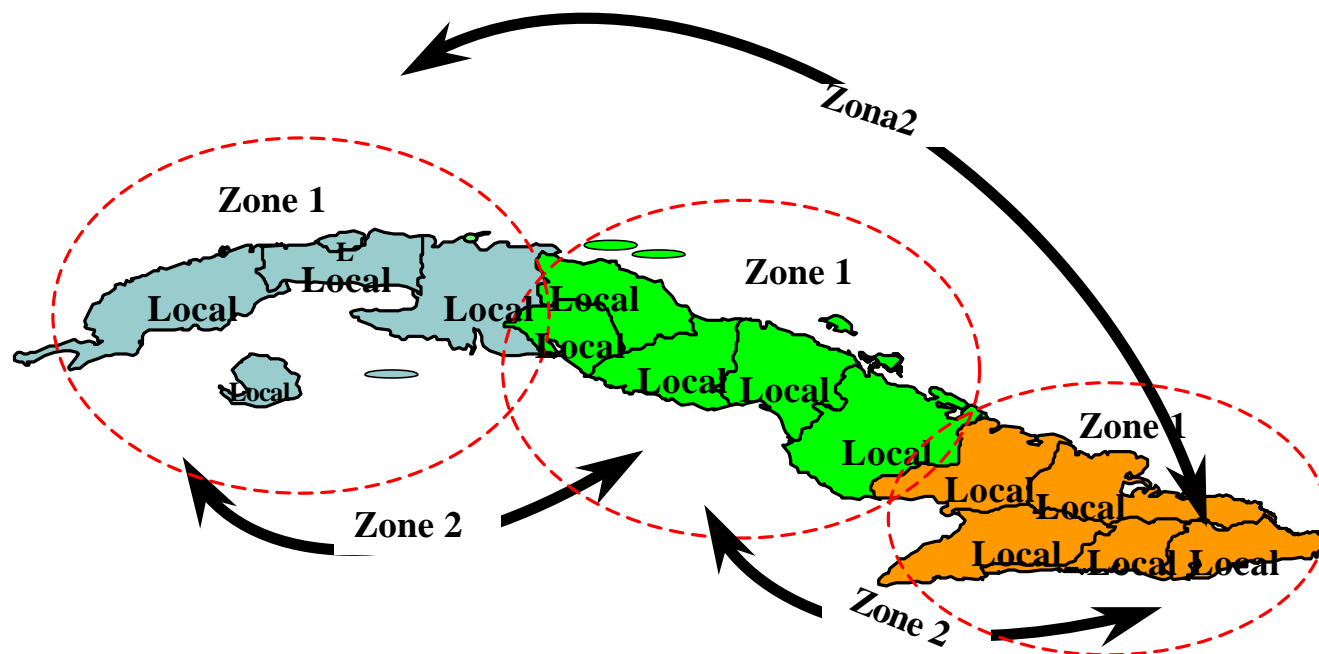
The operator proposes changes in rates for connection, reconnection, line rental, local calls, national long-distance calls and international long-distance calls to the regulatory body, which has 30 working days to respond.

If revenues fall below the level foreseen in the strategic plan by up to 10 per cent, the operator may modify the rates for the following year in order to offset the shortfall and ensure that the income target for the current year is met.

However, the tariffs may not be modified as described above if the shortfall in income is attributable to bad management on the part of ETECSA.

REFORM OF THE TARIFF SYSTEM FOR NATIONAL SERVICES

Consideration is currently being given to reducing the number of tariff zones and the price of national long-distance calls, offsetting the potential reduction in revenues as a result of this measure with an increase in the price of local calls, thereby helping to rebalance tariffs for these services.





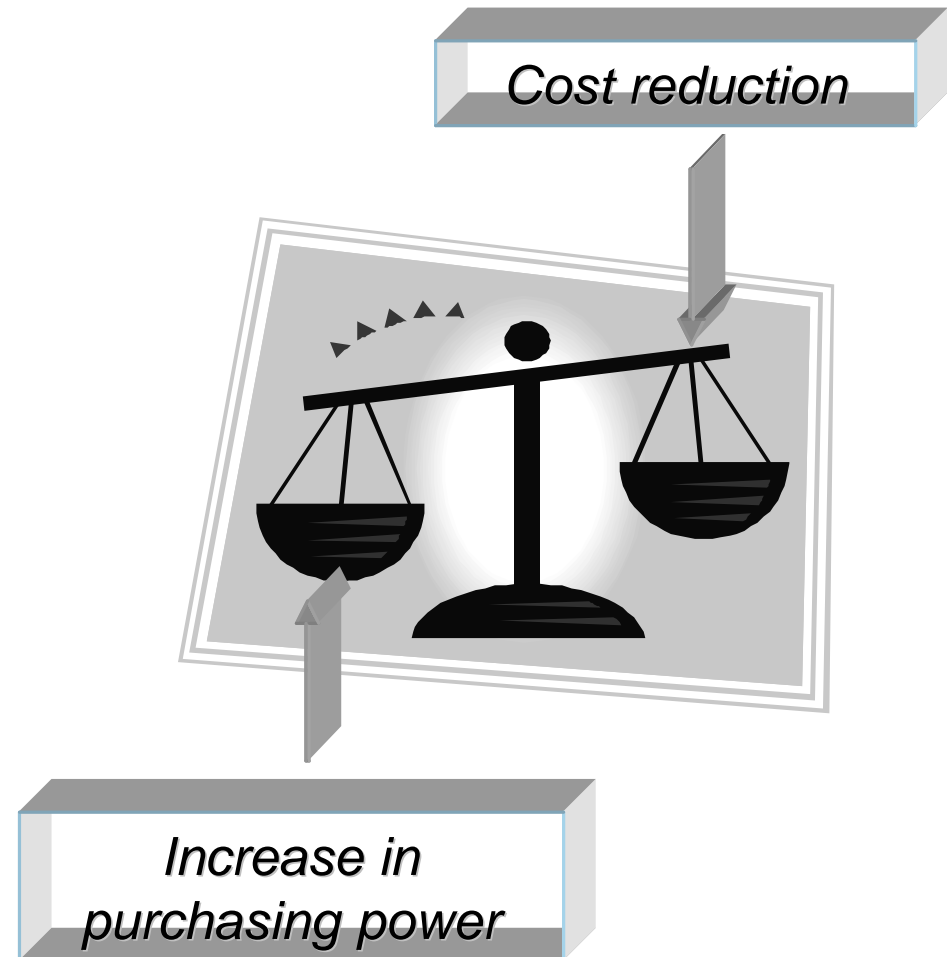
TARIFFS FOR INTERNATIONAL SERVICE

For the international long-distance service, rates are “capped” at the levels prevailing before privatization, although the operator is at liberty to – and indeed does – charge lower rates. The current rates are as follows:

	CONVERTIBLE PESO PER MINUTE
NORTH AMERICA	1.00
CENTRAL AMERICA AND CARIBBEAN	2.00
SOUTH AMERICA	2.00
REST OF THE WORLD	2.50

TARIFF REBALANCING

In the medium-term, full tariff rebalancing will be achieved by reducing the rates applied in the business sector (in proportion with cost reductions) and increasing rates in the residential sector as people's purchasing power increases.





REGULATIONS GOVERNING INTERCONNECTION CHARGES

National law and telecommunication sector regulations, in particular Law 77 on investments, provide for the participation of other suppliers for services which are not licensed exclusively to the main operator.

In such cases, tariffs and conditions governing interconnection to the PSTN are freely negotiated between operators.

Interconnection agreements shall meet criteria of transparency non-discrimination and cost orientation.



SETTLEMENT RATES BETWEEN COUNTRIES

Article 22 of Decree 275 stipulates that ETECSA may enter into interconnection agreements with foreign operators, whereby ETECSA negotiates directly the settlement and termination charges for international telephone traffic. On average, these rates are falling.



POSITION ON ALTERNATIVE CALLING PROCEDURES

Resolution 120/2003 of the Ministry of Informatics and Communications establishes that such procedures are illegal. These include:

- Call-back.
- Routing of calls through unauthorized countries.
- Simple international resale.
- Internet telephony.
- Any other procedure that infringes bilateral agreements between international operators.



SUMMARY

Tariffs are approved by the regulatory body on the basis of proposals by operators, having regard to their total costs plus a reasonable return.

In setting tariffs, account is taken of the need to fulfil universal service obligations and the need to safeguard operators' commercial interests.

Interconnection rates are negotiated directly between operators, having regard to principles of cost orientation, transparency and non-discrimination.

Measures are being taken to move gradually and smoothly towards tariff rebalancing and cost-oriented tariffs.