Regulating USO

Seminar on Tariffs, Regulatory and WTO Issues and their impact on the trade of telecommunication services in Central America

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Regulating the Access Deficit, including USC

Consequences of Regulatory decisions

pape-gorgui.toure@itu.int

Access deficit and USC

- USC is part of the Access deficit
- Access Deficit is recognise where a regulatory authority imposes constraints, setting prices below costs
- Where USC is recognised separately, it may be funded differently and reduces the level of the Access Deficit

Access Deficit main elements

- The Access Deficit elements are:
  - *the price versus the cost of domestic communications;*
  - *level of the monthly subscription fee;*
  - *the level of the installation fee (although not critical)*
- Access deficit is given by:

  cost - price of domestic comm. - share of domestic comm. in the yearly flat fees (12*monthly +installation fees)

Regulatory concerns

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- The political authorities need to make the telecommunication services accessible and affordable to the needless people;
- they tend to protect custmers with a very low usage against high flat rates (through the monthly subscription fee)
- the national regulatory authority's main mission is to protect the users including by promoting a fair competition where applicable
- the following slides highlight the possible consequences off a some bad decisions in sharing the access deficit: "**I**" is the Incumbent and "**C**" the competitor

A low monthly subscription fee is imposed to “I” only

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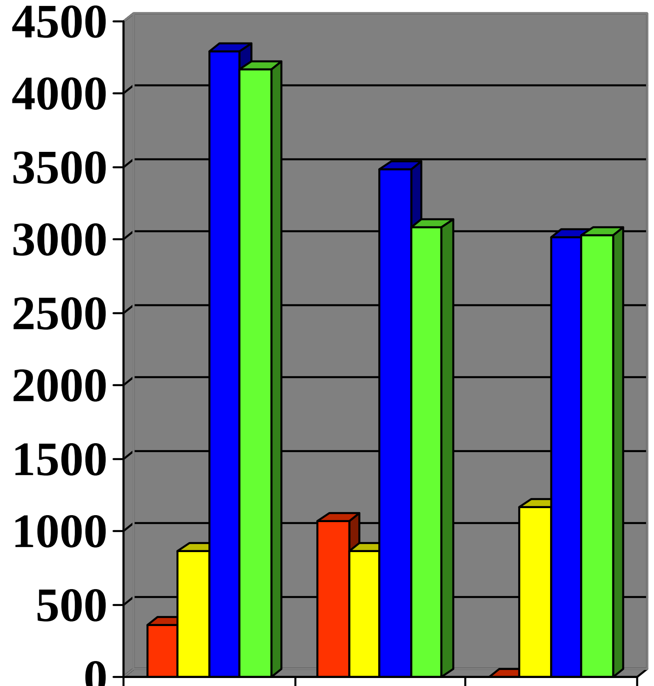
Scenario1: ***“I” maintains his tariffs***

- “C” develop several sets of tariffs including a higher MSF / lower time based prices, and a lower MSF /higher time based prices;
- one of those will be identical to the tariffs of “I”
- “C” advertise on low time based international prices in order to attract the high volume users and on low MSF to attract low volume users

--> “I” cannot react and looses market shares



	"I"	"C1"	"C2"
MSF	357	1071	0
Domestic	872	872	1168
Internat IN	4292	3481	3019
Internat OUT	4161	3086	3029

A low monthly subscription fee is imposed to “I” only

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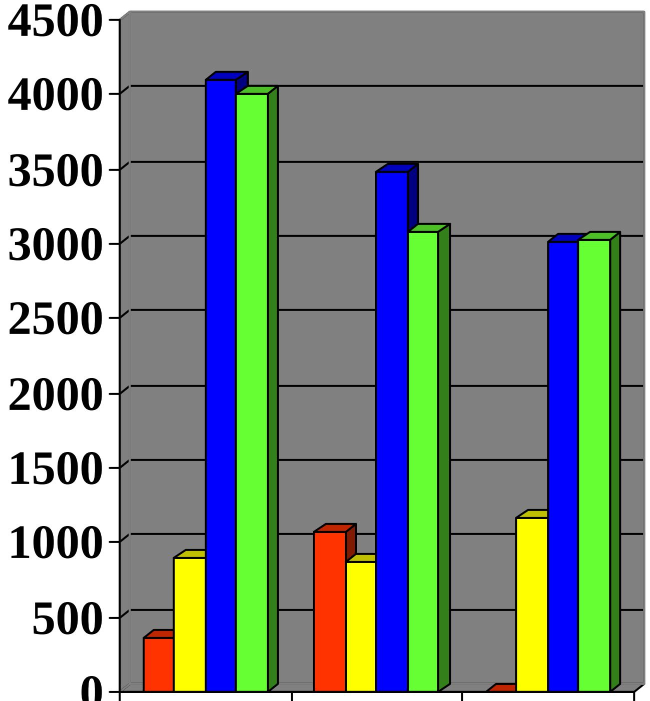
Scenario2: ***“I” increases slightly his domestic and decreases internat. tariffs***

- “C” develop several sets of tariffs including a higher MSF / lower time based prices and a lower MSF/higher time based prices;
- one of those will be identical to the former tariffs of “I”
- “C” advertise on low time based prices in order to attract the high volume users, on low MSF to attract low volume users and basic tariffs stability to contest “I’s” legitimity

--> “I” cannot react and looses market shares



	"I"	C1	C2
MSF	357	1071	0
Domestic	900	872	1168
Internat IN	4100	3481	3019
Internat OUT	4000	3086	3029

Low domestic rates are imposed to “I” only

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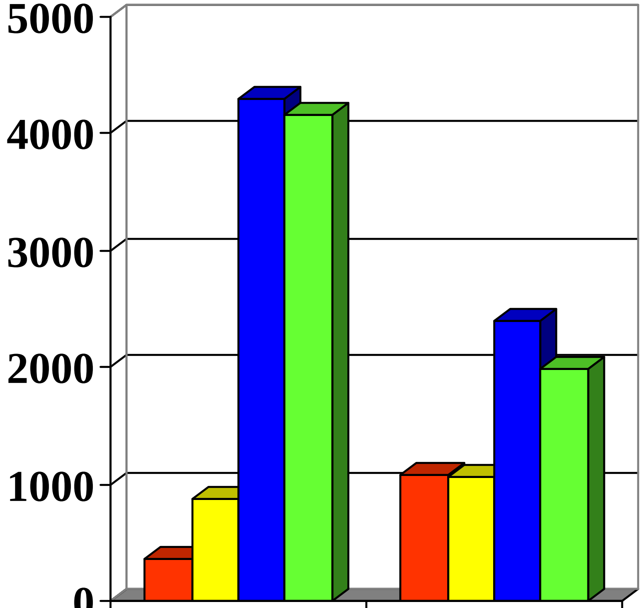
Scenario 3: ***The International traffic is the main source of revenues and no ACD imposed to “C”***

- “C” chooses a high MSF in order to have cost orientated domestic rates
- proposes attractive cost orientated international tariffs to the business customers
- “C” can also define a set of tariffs aiming the divers customer segments
- “I” will have difficulties to keep his best customers



	"I"	"C1"
MSF	357	1071
Domestic	872	1060
Internat IN	4292	2390
Internat OUT	4161	1991

Low domestic rates are imposed to “I” only

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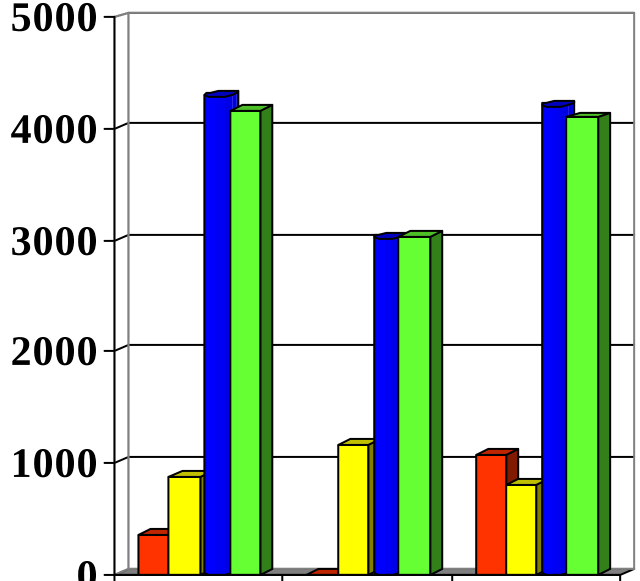
Scenario 4: ***The domestic traffic is the main source of revenues***

- “C” develop several sets of tariffs including a higher MSF / lower time based prices and a lower MSF /higher time based prices;
- one of those will be identical to the tariffs of “I”
- “C” advertise on low prices in order to attract the high volume users and on low MSF to attract low volume users



	"I"	"C1"	"C2"
MSF	357	0	1071
Domestic	872	1168	800
Internat IN	4292	3019	4200
Internat OUT	4161	3029	4100

Bad interconnection arrangements

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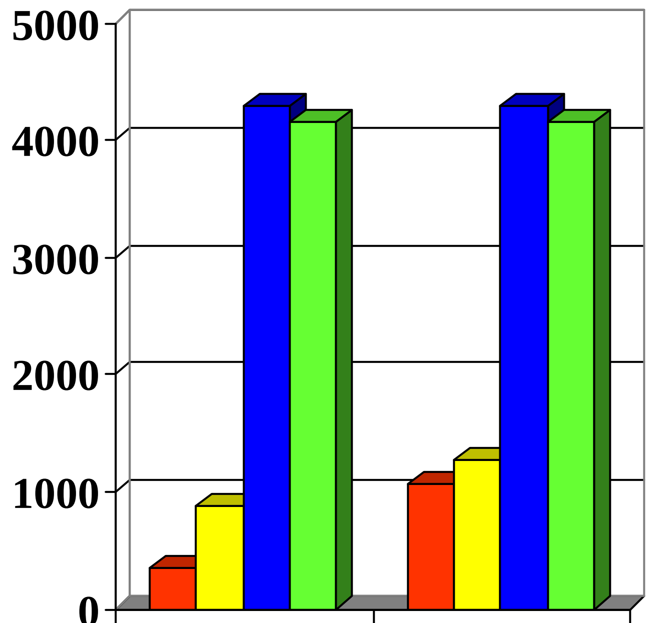
Scenario 5: ***The domestic interconnection prices are cost orientated and the international interconnection prices set at retail rates***

- if “C” is obliged to use the IGW of “I” then the price of “C” will be higher than the price of “I” in both domestic and international;
- “C” will try to capture high international traffic volume customers and can not guarantee success,
- or “C” will try to negotiate favourable incoming interconnection fee and live with the remuneration of the traffic balance



	"I"	"C1"
MSF	357	1071
Domestic	872	1277
Internat IN	4292	4292
Internat OUT	4161	4161

Bad interconnection arrangements

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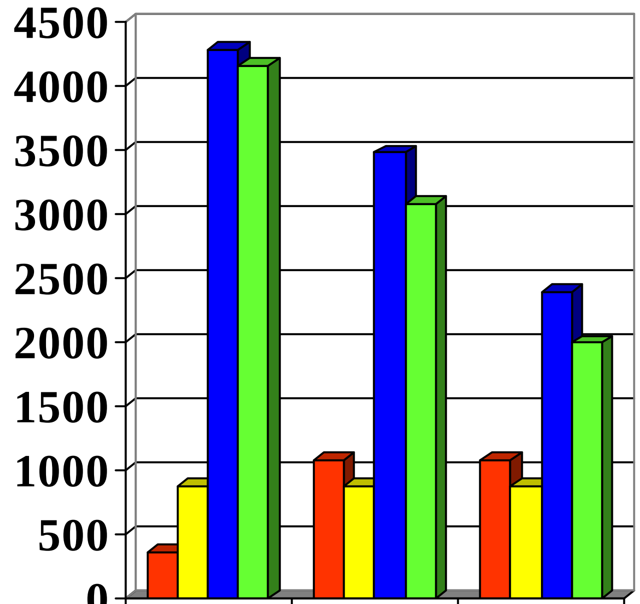
<u>Scenario 6</u>: ***Domestic wholesale price are equal to domestic retail prices***

- if the competitor “C” has an IGW, he will negotiate very low settlement rates and deviated the international incoming traffic at his advantage;
- such a situation, close to ISR, might destabilise “I” if a significant part of his total revenues is provided by traffic balances inpayments;
- If no Access Deficit participation is imposed to “C”, he will be able to have very low international prices and “I” will loose quickly international market shares



	"I"	"C" if ACD	"C" if no ACD
MSF	357	1071	1071
Domestic	872	872	872
Internat IN	4292	3481	2390
Internat OUT	4161	3086	1991

Recommendations for a fair multi-operator market

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- Use the appropriate tools to calculate the cost orientated tariffs of domestic and international services;
- identify the Access Deficits, including USC;
- define and publish the constraints put on the monthly subscription fee and the domestic traffic price and make sure that all the operators are implementing them correctly;
- secure fair interconnection tariffs by providing wholesale price (progressively) free off access deficit costs;
- re-evaluate the interconnection tariffs at least once a year.

END