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# **Seminar on Regulatory and Tariff issues for the Caribbean countries**

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# **Regulating the Access Deficit, including USO**

Consequences of Regulatory decisions

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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.



## Access deficit and USO

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



## Access Deficit main elements

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- 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:  
$$\text{cost} - \text{price of domestic comm.} - \text{share of domestic comm. in the yearly flat fees}$$
$$(12 * \text{monthly} + \text{installation fees})$$



## Regulatory concerns

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- The political authorities need to make the telecommunication services accessible and affordable to the needful people;
- they tend to protect subscribers 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 of some bad decisions in sharing the access deficit: “**I**” is the Incumbent and “**C**” the competitor



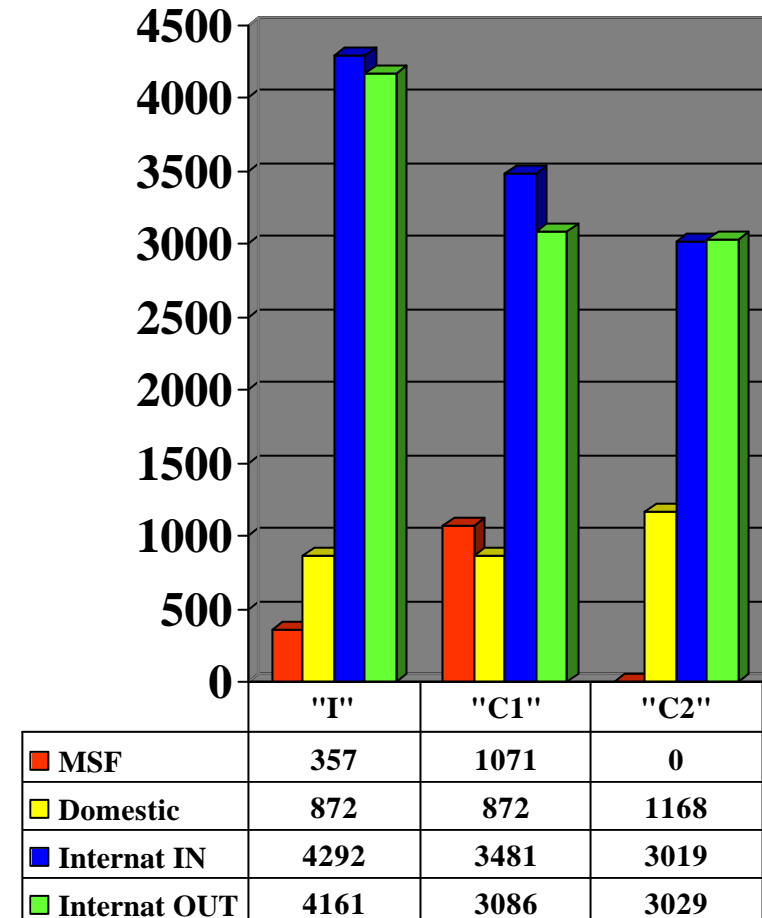
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A low monthly subscription fee is imposed to “T” only

## 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 loses market shares

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

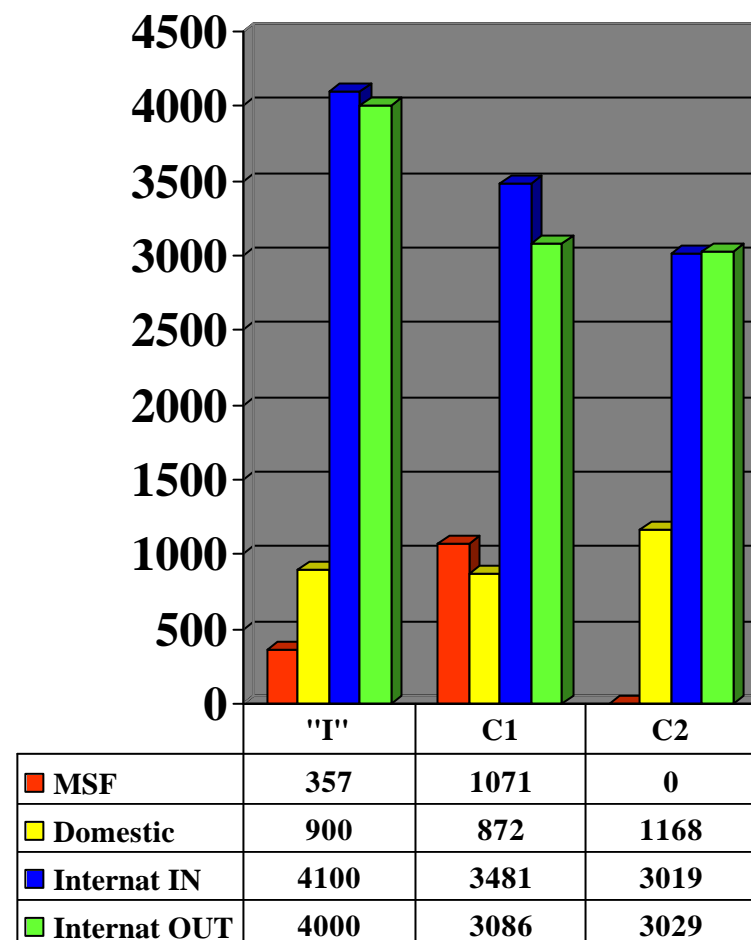
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Scenario2: “I” increases slightly his domestic and decreases internat. tariffs

- “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” legitimacy

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





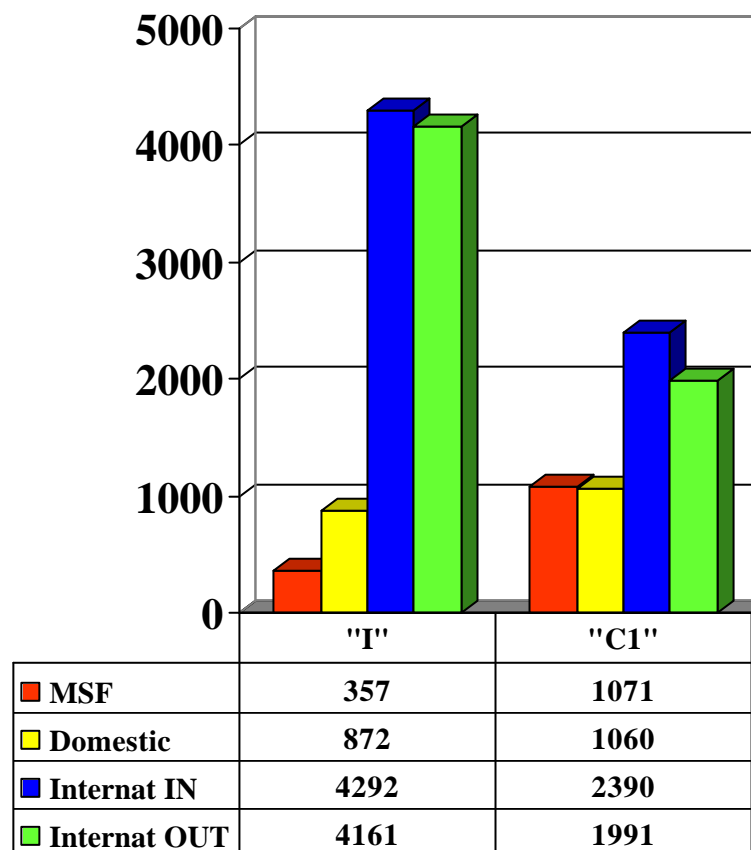
Low domestic rates are imposed to “I” only

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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







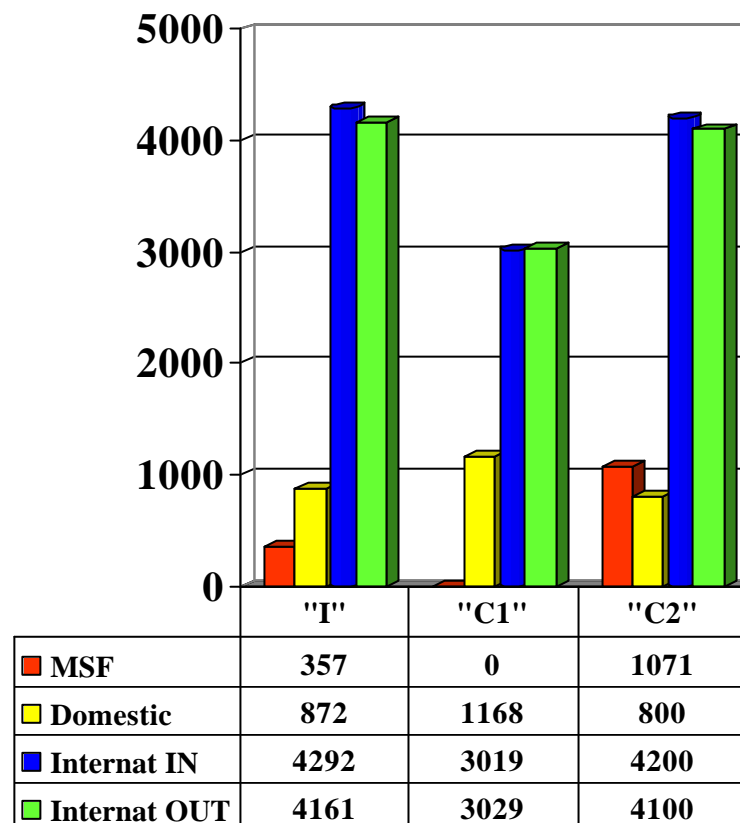
## Low domestic rates are imposed to “I” only

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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





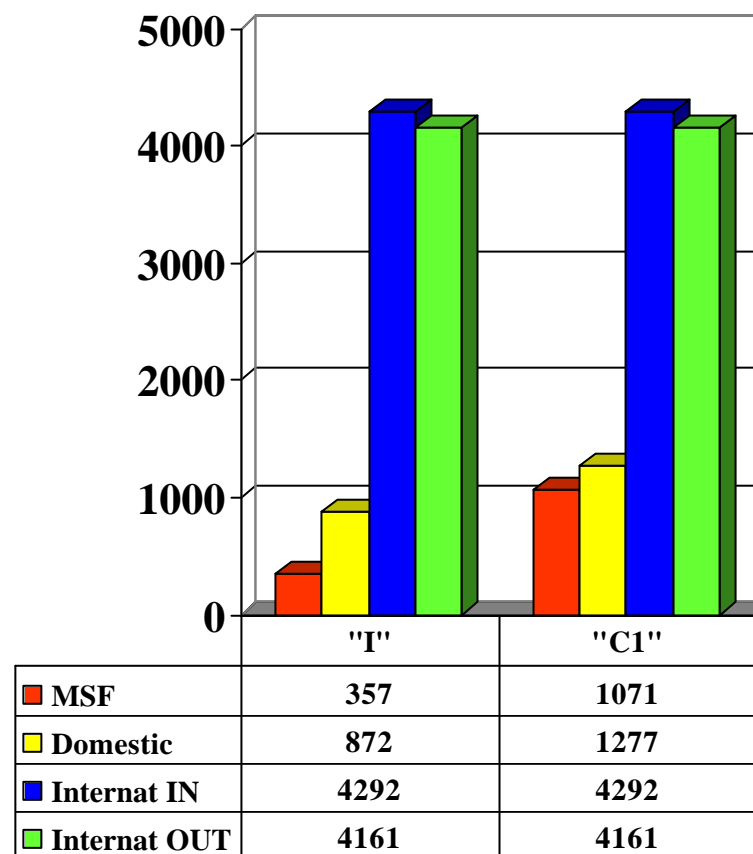
# Bad interconnection arrangements

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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





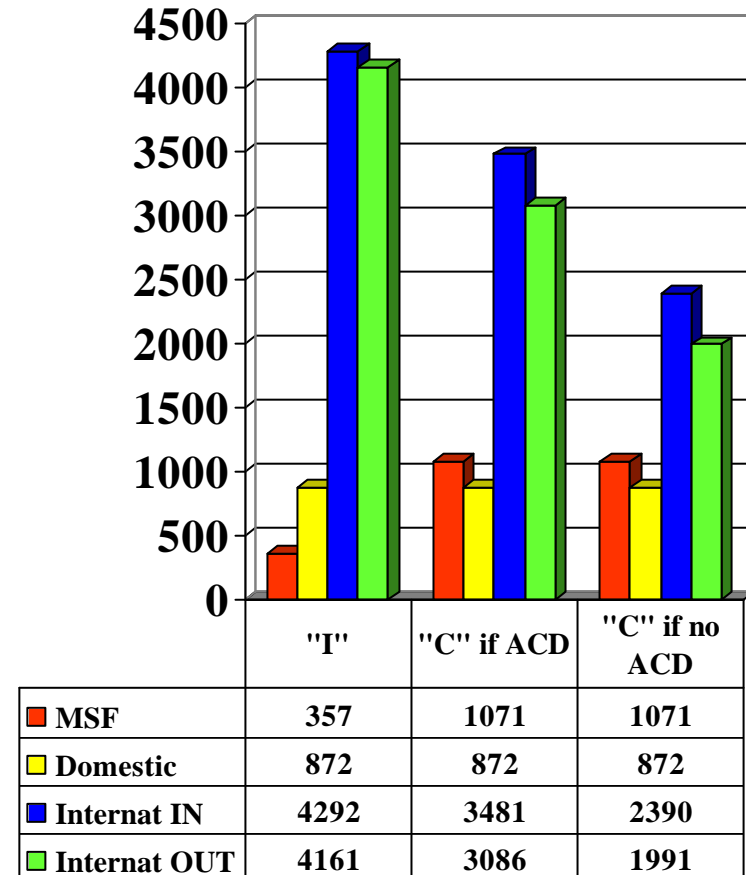
# Bad interconnection arrangements

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## Scenario 6: *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





## 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 USO;
- 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