

**RECORD OF THE PROCEEDINGS OF THE REGIONAL  
WORKSHOP ON COSTS AND TARIFFS, ARUSHA (TANZANIA)  
15<sup>TH</sup> – 17<sup>TH</sup> APRIL 2002**

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**OPENING**

The workshop, which was attended by 82 participants from 34 countries, was officially opened by Mr George Mbowe, Commissioner at the Tanzanian Communications Commission (TCC) who welcomed the participants to the seminar. In his opening address he informed the participants that to his understanding, the seminar had seven fundamental issues to be covered.

Col NALINGIGWA, Director General (TCC), welcomed all the participants to the meeting and to Arusha and expressed his hope that they would enjoy being in Arusha and seeing the wonderful sights of the town. He then invited Mr Saburo Tanaka, the Chief, administrative interim, on the Study, Strategy and Cooperation Department of the TSB of the ITU to give his remarks. Mr Matano Ndaro, as the Chairman of the TAF Group, gave vote of thanks.

The delegates elected the DG of TCC as Chairman. The workshop was called to order at 11:00 hours. At this point, the Chairman invited Mr Pape G Toure, Head of the ITU/BDT Financing Strategies Unit who took the participants through the work program. He went on to inform the participants that Resolution 26 is still in force. He further commented on the fact that the working program for the workshop had been reviewed by the ITU at the request of Members in order to make it more interactive by giving more room for exchange of experiences between the participants.

**PRESENTATIONS**

The opening session was then followed by a series of presentations, commencing with a presentation by Mr Saburo Tanaka on the theme “Global Trends in Telecommunication Development”.

**Global trends in telecommunication development**

Mr Tanaka informed the participants that the ‘Digital Divide’ was of great concern to the ITU and as a result the ITU recently held the World Telecommunications Development Conference on the same.

He indicated that competition was the order of the day and that the majority of the operators have already adapted to the changing environment. The presentation showed

that countries that have opened up to competition have also shown a remarkable increase in teledensity.

### **Tariff trends coming out of TAF model-based case studies**

On the basis of consolidated data provided from eight African countries, different concrete information has been shown, including cost structures, cost orientated and cost based tariffs, global USO policy impacts on access deficit and its consequences on international and national tariffs and rates.

### **Discussion on actual tariff policies and on the impact of market Liberalization on tariff trends in africa**

A presentation of the Ugandan experience was given by Mr S Omler, who demonstrated how the reduction of the number of agreements on accounting rates from 25 to 5 has also made it possible to reduce international rates, thereby enabling it to provide affordable services to subscribers and being able to deter illegal VoIP terminations.

### **BDT Cost Model Software Based On Rec. D. 600.**

Mr Toure was again invited to present the TAF cost model software based on Recommendation D.600R. In his presentation he reiterated that the tariff trends coming out of the TAF model is based on actual case studies, and indicated that the model has been tested and is almost ready for use. He also pointed out the four critical sections of the model which are; traffic collection, COA elements, and unit cost of services.

He advised that the software, which is still being finalized, would initially be available only in the French and English languages. It will later be available in other languages. He further indicated that the Beta version was to have been posted by April 2<sup>nd</sup>, 2002. Members were to that effect advised to make the necessary observation by 15<sup>th</sup> May 2002.

### **TUESDAY 16<sup>TH</sup> APRIL 2002**

The Chairman welcomed participants to the second day of the seminar. Having made a few remarks he invited Dr Neu to give a presentation on the Process and Principles of calculating interconnection rates.

### **Process and principle of calculating interconnection rates**

In the presentation he dealt with all the important aspects of interconnection regimes by expressing ideal and best practice approaches to the regulation and pricing of interconnection.

Although the presentation was basically on the determination of desirable

methods of calculating interconnection charges as well as the pricing of interconnection, it also discussed other regulatory aspects such as guidelines for interconnection negotiations, dispute resolution as well as the powers of the regulator to intervene.

### **Examples of conflicts between local operators or between local operators and their regulators**

After the afternoon tea break an opportunity was given to three countries to present examples of conflict between local operators or between operators and their regulators. The three countries being Tanzania, Ghana and Burkina Faso. All three experiences were essentially similar as they were all primarily based on interconnection charges. All presentations indicated that the regulator normally comes in as a last resort to assist resolve the problems.

Further the meeting was informed that the law in most instances requires all operators to meet their universal service obligations as stated in the individual licenses.

It was generally understood during this discussion that critical disputes normally center around tariffs and interconnection.

### **Activity Based Costing**

At this point the floor was given to Mr Toure to present the Activity Based Costing (ABC) methodology. In giving an overview of 'ABC', he indicated that a product or service usually has three types of costs;-

- Direct costs – these are costs normally traceable directly to the product
- Indirect costs – these are normally identified for the product e.g., those generated by the network
- Common costs – these are normally not traceable to the product and can sometimes be shared by several products

He also indicated that 'ABC' is a cost allocation method and not a cost concept and the activities related to the work that the employees do.

Activities could be classified into three types, which are; primary activities, secondary activities and project activities. He also indicated that this presentation was co-joined with the presentation entitled 'Organization of the implementation of ABC'.

He concluded the presentation by saying that a cost object (i.e. a product) is activity demanding, and that an activity is resource demanding and finally that a resource (mainly man or machine) is costly. Thus requiring modern management trends.

### **ISP's interconnection**

After the Activity Based Costing methodology presentation, Mr Toure proceeded to present the topic 'Interconnecting ISP's'. He stated that the relations between the providers of the service must be clear and not discriminatory and that if interconnection relations between countries must be managed, then regulations regarding interface and links to be used must be clear.

He further stated that the main goal of interconnection should be to maximise the economic benefits of externalities and to reduce the price of services. He alluded to the fact that there are four different types of VoIP communications e.g., national end user calling through link A i.e. computer to computer, national end user calling through link B i.e. phone to phone, international ISP calling through link A i.e. computer to computer termination with a locally set connection and an international ISP calling through link B i.e. phone to phone termination.

He further informed the participants that there are three basic ways to access the global telephone network through the internet:

1. through a direct link to the ISP,
2. a national call to the ISP's set of modems connected to the internet backbone, and
3. a national call to the VoIP server connected to the internet backbone.

He advised that countries that ban the use of Internet telephony might deprive their economies of important opportunities. He however said that the introduction of VoIP must not be done outside the global regulatory framework only because of the technology used. He also said the economic efficiency of VoIP could be reduced if the cost orientation rules are not applied equitably to all the network segments used.

The main conclusions of the presentation are:

- where the use of a cost model (i.e.: TAF model) reveals existence of access deficit, the ISPs providing VoIP must be recognized by regulatory bodies as regular "telephone networks operators" and subject to the same rules regarding USO cost and interconnection, in particular the choice of point of interconnection;
- the regulatory bodies should guarantee that, where subsidies are allowed in consequence of USO policy, no regulatory arbitrage is hindering the fairness of competition (through subsidy misappropriation or tax avoidance).

Following this presentation the Chairman invited Dr Neu to present the subject of 'Pricing of Mobile Services'.

### **Pricing of Mobile Services**

He informed the participants that the presentation would be shortened to cover only 'Pricing of Mobile Services' as the other aspects had already been dealt with in an earlier presentation.

He pointed out that generally the pricing of mobile services takes into account the following elements:-

- That the market situation presents vigorous competition in the provision of the associated services
- That the price for mobile operators services must be able to cover its direct costs

- That for all market segments, the margin above the direct costs must cover total common costs as well as being able to provide for profit

Specific market scenarios were addressed and the following were the highlights;

- Cases of opening a mobile services market where an incumbent operator already exists
- The pricing of mobile services derived from externalities
- Penetration pricing geared at rapidly acquiring a large customer base

He further observed that studies have shown that in countries where CPP (calling party pays) type of pricing is used mobile operators have grown faster.

### **Cases Of ISP Interconnection Disputes**

The discussions were introduced by M. Abossé AKUE-KPAKPO from Togo and centred around fixed network access by ISPs, the pricing of services provided to them and ISP international telephone traffic termination.

In a broader context, Mr. Mamadou Pathé Barry from Guinea proceeded with an important introduction of the tariff policies in his country, highlighting in particular the positive impact of BDT activities in that regard and the tremendous hope inspired by the forthcoming diffusion of the TAF model for the whole region.

### **Cases of Mobile Services Pricing**

The following countries were invited to present country experiences on the pricing of mobile services; Cote d'Ivoire and Kenya.

In the case of Cote d'Ivoire it was learnt that there are three (03) mobile operators two of which have a subscriber base of over 300,000 each while the third has over 30,000 subscribers. Participants were informed that operators are at liberty to set the interconnection charges and the regulator requires all operators (fixed and mobile) to interconnect. Because of the traffic imbalance between fixed to mobile and between mobile to fixed, the regulator has been forced to intervene, by adopting an approach which is based on the cost of access into the respective network.

In the case of Kenya the participants were informed that after privatisation in 1999 the then dominant operator Telkom Kenya which is 100% owned by the government, through its subsidiary Safaricom commenced providing mobile services. In May 2002, Vodacom UK acquired 40% of Safaricom, came a second mobile operator, Kencell which is 100% private also started operation.

Generally, pricing of mobile services in Kenya is not regulated. There are two pricing platforms i.e., pre-paid for individuals and post-paid for corporate uses.

**Closing ceremony**

The Chairman highlighted the success of this seminar for the large participation (34 countries) as well as for the quality of the information provided to both operators and regulators in the region. He notes that the formula of an interactive seminar revealed more success; on behalf of all the participants, he expressed his gratitude to all the people and the ITU who made the Seminar a reality, and encouraged the BDT to proceed in the same direction.