



Regulating Tariffs: why, what, how and to whom?

Scott Minehane presented at the meeting the theme "Tariff regulation and implementation", where he defined the term tariff and then deconstructed it by elaborating thoroughly on aspects such as why, what, how and whom to regulate tariffs. In his understanding regulating tariffs "is the deliberate and conscious action of governments to intervene



in the free workings of the market".

He defended his view saying that this regulation is generally justified on two grounds: to prevent or correct market failure; to pursue specific policy objectives. This in turn with a clear objective of ensuring that certain services are affordable to users and competitors to avert excessive charges.

1. Can you elaborate more on the topic you presented?

What I would say is that given the importance from an economic perspective of having broadband services given the studies in a range of developed countries markets and emerging markets like Malaysia, there is a need to adopt a four-pronged strategy to promote broadband investment and facilitate sustainable broadband competition in Africa, namely:

1. Promotion of broadband wireless access (and wired access where appropriate)
2. Developing robust backhaul networks
3. Improving international data connectivity
4. Developing African content.

In terms of the first point, I highlighted 4 specific ways to promote broadband/wireless, namely:

- (a) Making Spectrum available for new

wireless technologies like LTE especially in the 700 Mhz band arising from the 'Digital dividend';

- (b) Reconsidering spectrum allocation decisions in ITU Region 1 as they apply to Africa (e.g. Wimax at 3.5 GHz);

- (c) Consider mandating or facilitating 'data MVNOs' which allow others to resale at a profit wireless broadband services provided on inter alia HSDPA networks; and

- (d) Revisit competition frameworks and rules which apply in the brave new world of broadband in particular, developed country models which are focused on fixed line incumbents and non-convergence models may be inappropriate for African markets.

2. Basically what you mean about tariffs and policy objectives and the questions on why, what to, how to and who to regulate?

Any industry regulation on tariffs - both at the retail (i.e. to consumers) and wholesale (between operators), should be clear, with concise and well-defined goals. Such regulation should only be put in place only justified on two grounds, namely (i) to

prevent or to correct market failure (e.g. where competition fails) or (ii) to pursue specific policy objectives (e.g. affordability).

3. Can you draw any parallel on the model to be adopted for Africa, as the continent's people are poor and lack basic means to live, I mean, can you give us a best cost and tariff model which is better for Africa?

In order to achieve the most affordable tariffs, both at the retail and wholesale level, should to the extent possible, be cost based. Otherwise there are various distortions which flow on to consumers, which will be to their detriment. Cost based tariffs are found in most developed country markets as well as Asia. A move in this direction should be a priority in Africa

Coverage of telephone services in Mozambique

In Mozambique, more than 4 million citizens use, today, a mobile phone and are connected to Mcel and Vodacom networks.

TDM remains the only fixed telephone operator, even though the exclusivity period ended in December 31st, 2007.

INCM stimulates private investment participation in the development of the sector.

Fixed and mobile subscribers

Year	2004	2005	2006	2007	2008
Fixed	75.256	65.992	70.313	76.000	78.324
Mobile	610.473	1.503.9	2.667.2	3.079.7	4.405.0
		43	66	83	06

Districts:

Fixed coverage in districts

Every provincial capital are covered by the fixed telecommunication network

116 districts, out of the existing 128, are covered, representing 91%

Mobile network coverage

Every Provincial Capital, Municipality and Development Corridors are covered by the mobile communication service

From the existing 128 districts, 95 already are covered by the mobile service, representing 86.71%

EDITORIAL

Mozambique hosted two important events aimed at shaping up the future development of telecommunication sector in Africa.

From 4 to 6 of May, in this Indian Ocean Pearl country were discussed economic and financial aspects related to the Bureau for Development of Telecommunication (BDT) DOHA Action Plan. Then, from 6 to 8 of May, it was the time for the Regional Group meeting specialized on costs, tariffs and rates of telephone services.

Both events were organized by the International Telecommunication Union (ITU) under the collaboration of Instituto Nacional das Comunicações de Moçambique (INCM, Mozambique's Post and Telecommunication Regulatory Authority).

During five working days, the participants were potentiated with the necessary instruments to establish a pricing regime to be practiced by public telecommunication operators, their agents and other intermediaries, in the provision of telecommunication services, as well as the prices to establish among operators in relation to interconnection networks.

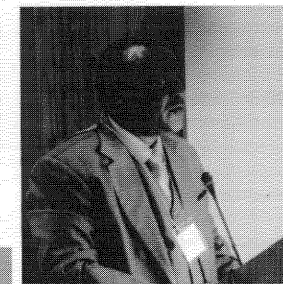
Both events involved at least 100 people from 26 African countries, including government officials, regulators, operators, technicians and economic and financial experts from the continent.

The information sharing process created a unique opportunity for the delegates to know each other and exchange experience and expertise on the subject matter as well as interaction during entertainment moments prepared on purpose to display Mozambican cultural background, through its music and dance and national cuisine, which is beyond doubt finger licking good!

In this newsletter produced especially for this event you'll find insightful articles on everything that was discussed during this gathering. Mr. Isidoro Pedro da Silva's opening remarks shed a light on what all of us expected from the meeting. Also you'll find some critical aspects which will help each one of us to forge the future of telecommunication for Africa.

Promoting access to telecom services

The Chairman of INCM Board of Administration, Eng. Isidoro Pedro da Silva, defended on Monday that African countries must discuss and adopt a telecommunication services pricing system with the ultimate goal of promoting Universal Access in the continent, where the majority of its population is still being excluded.



Mr. Isidoro da Silva - INCM Chairman

The Mozambican government hopes that information sharing among our organizations representatives will result in an effective fostering of the regulating authorities through giving them the necessary instruments to help improving the evaluation of costs, tariffs and rates of telecommunication services.

In Mozambique, where there are many telecom operators price fixation is liberalized, with INCM, as the Posts and Telecommunication regulatory authority, holding the role of monitoring the implementation process, obeying the good practices. "Within our market, we find an environment where regulator and operators seek understanding on the matter", Mr. Isidoro da Silva displayed the formula in use.

Ending his key note speech he signalled that he hopes that the results of the recommendations from the seminar's discussion are profoundly valuable "for our governments, as they will contribute to the creation of scenario of sustainable tariff policy for the development of telecommunication in our countries".

In Mozambique there are operating, in different segments of the telecommunication market, one fixed telephone operator and two mobile phone operators, 27 data transmission operators, 37 ISP operators, 914 radio communication operators, 31 radio broadcasters, 12 television broadcasters and 2 cable television operators.

Speaking at the opening ceremony of the BDT Seminar and SG3RG-AFR meeting, last Monday, Mr. Silva added that with this view, "It's the desire of all of us that telecommunication services prices lower to acceptable levels, thus, ensuring citizen active participation in political, economic and social processes".

"The access by the citizen to telecommunication services and to its benefits, depends, among other factors, on the international conjecture and the national tariffs policy practiced within our countries", he stressed.

INCM Chairman further added "we must highlight that it constitute matters of great interest to Africa the regional linkage to the internet, network externalities, digital divide, interconnectivity between networks, cost model, and so forth".

Forging the future of telecoms in Africa

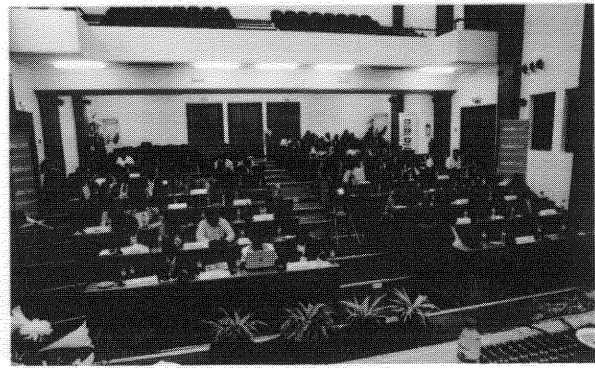
The telecommunication landscape isn't the perfect one in Africa. Most of its citizens are still excluded from the benefits of it to conduct their daily lives as it is still expensive, not affordable for many. It is with the view of changing this landscape regulating authorities from across Africa gathered in Maputo, in Mozambique, to discuss ways of systematizing ideas on how to work toward augmenting the penetration of telecom services.



Gender represented at BDT seminar and meeting

Maputo meeting drew important conclusions that will help achieve this goal; the same drawn in the Millennium Development Goals, which envisage the need to provide telecommunication services at affordable tariffs, prices or rate and, thus, give people the opportunity to access this global village being sped up by

the past five working days. The plan envisage the need for African countries to develop and implement financing policies and strategies that are appropriate to their economic situations, among which are those related to the internet and cost-oriented pricing, with a view to fostering equitable and affordable access to



BDT seminar and meeting plenary

telecommunication development.

The priorities of this endeavour are highlighted in the Doha Action Plan, the key element discussed in Maputo, over

innovative and sustainable services, emphasizing the following are of activity:

1. Introduction of new financing schemes/mechanisms for the development of telecommunication networks, including broadcasting, ICT

services/applications and national ICT strategies;

2. Development of universal access programmes through the identification of economically viable projects;
3. Integration of changes in the evolving environment of trade in telecommunication networks and in ICT services/applications into their policies and strategies;
4. Determination of cost of retail services and of cost-based rates for interconnection and transit, international internet connectivity, site-sharing facilities and leasing.

These are the paramount necessities to guide Africa's telecommunication community in the nearest future.

The highlight of this meeting is that every regulating authority must engage in the process to forge the true future of telecoms in Africa, as the continent still lags behind compared to other continents. Although, most Africans now can access a mobile gadget, this in itself does not mean that Africans are entirely part or actors in the global telecommunication community. Much still need be done, starting from the prices. As mentioned above many Africans have the first contact with the communication world via cell phone, but most of them do not take advantage of the multiple functions because to have access to the various services on offer is still expensive.

This meeting showed clearly that a bright future awaits Africa in this field, what is urgently needed is the establishment of an increasingly affordable model of costs, tariffs and rates to access telecommunication. This is what most of the presentation tried to highlight over the past five days.

Ficha tecnica

Editor: Edmundo Manhica
 Translator: Manuel Mucari
 Designer: Amâncio Ubisse

Tel: (+258) 21 227100/21 490131/9
 Cell: (+258) 82 3283850
 Fax: (+258) 21 494435
 E-mail: info@incm.gov.mz
 Web: <http://www.incm.gov.mz>
 Gabinete de Comunicação e Imagem
 (GCI)

Benchmarking costs and tariffs

In order to understand what this meeting was all about, two experts on the matter answered to this questionnaire. They are Scott Minehane, Managing Director Windsor Place Consulting Pty Ltd, and Richard Hill, ITU Counsellor. Here are their insights:

1. What do you think are likely to be the outcomes of this meeting? Can you give some insight on the possible outcomes?

Scott Minehane (SM) – Regulators in the region will receive training and increase in skill sets in areas including broadband policies and tariff regulation which are critical. The meeting is also acting as a forum for the exchange of views, successful strategies, and regulatory approaches in Africa.

Richard Hill (RH) – It is expected that work will progress regarding ITU-T Recommendation D.156* on network externalities and regarding the International Telecommunication Regulations. In addition, there will be exchanges of views and experiences regarding tariff and economic issues, including regulatory issues, in particular regarding international Internet connectivity. There will also be discussion of cost modelling.

2. What sort of breakthrough is likely to come out of this meeting with regard to tariffs and related issues being discussed here in Maputo?

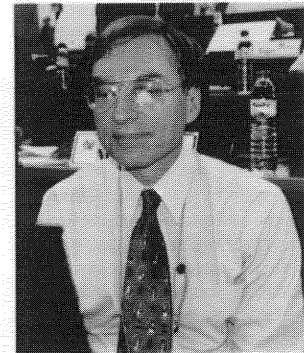
SC – This meeting is a forum for discussion rather than decision making - at this point (although there is a formal regional meeting starting later today (Wednesday).

RH – No breakthroughs are expected. This meeting is part of the regular, ongoing, long-term work of the ITU-T. The objectives for the Regional Group are to provide telecommunication regulators with the information and tools they need to create appropriate regulatory pricing frameworks so as to facilitate the further development of telecommunications.

3. Do you think Study Group 3 is shaping the future of telecom sector/services in Africa?

SM – Yes, certainly. This group represents the majority of African telecommunication regulators who are determining policies to address the digital divide in Africa, and developing policies aimed at facilitating investment in critical telecommunication infrastructure. Such investment is necessary to underpin the continent's economic growth - this is even more important currently given the Global Financial Crisis.

RH – Yes. The group has agreed key economic policies, such as network externalities, which



Mr. Richard Hill -ITU

have the potential to increase significantly the investments in telecommunications in Africa.

4. Is there any particular model for Africa, knowing that the majority of people come into contact with communication for the first time via mobile phone, whose tariffs are still prohibitive?

SM – While it would be good to see lower mobile tariffs in order to increase telephone access, operators do need to make a reasonable return in order to continue to invest in infrastructure - both in terms of improved coverage but also in order to offer broadband wireless services (e.g. using HSDPA).

RH – There is no "one-size-fits-all model". Certain general principles can be applied in all countries, such as cost-oriented pricing, measures to favour competition, etc. However, each country must adapt those general principles to their specific situation, through national laws and regulations.

5. Is there a possibility of having a harmonization of cost model or tariffs to increase penetration of telecom services? How can it be done?

SM – Forums like this one do allow industry regulators to understand the prices and costs in other countries and benchmark the costs and tariffs in their own market. Any inconsistencies can be highlighted and the reasons for such differences studied. Over time, this process

facilitates a move to lower retail and wholesale tariffs modelled on regional best practice.

RH – Harmonization is possible and desirable in terms of general principles, but not necessarily in terms of specific details, because of the differences in the situations of the several countries. The purpose of the regular ITU regional meetings is precisely to foster sharing of information and experiences, and to agree on items that can be standardized. Those agreements can be formalized as ITU-T Recommendations.

These meetings are part of an overall strategy however there is no fixed timeline or time plan. And that is because implementation is a national matter and the timing depends greatly on local conditions. It is generally accepted that liberalization and competition have resulted in lower priced to consumers, greater variety of service offers, and increased penetration, in particular for mobile phones.

What is Study Group 3?

It's responsibilities, among others, is to conduct studies relating to tariff and accounting matters (including costing methodologies) for international telecommunication services and study of related telecommunication economic, accounting and policy issues. To this end, Study Group 3 shall in particular foster collaboration among its members with a view to establishment of rates to levels as low as possible consistent with an efficient service and taking into account the necessity for maintaining independent financial administration of telecommunication on a sound basis.

The DOHA Action Plan

It is a comprehensive package that will enable developing countries to promote the equitable and sustainable development of information and communications technologies (ICT) networks and services. It consists of the following programmes: 1) regulatory reform; 2) ICT infrastructure and technology development; 3) E-strategies and ICT applications; 4) Economics and finance, including costs and tariffs; 5) Human capacity building.