

Focus Group Chairman's working document (updated version : 12/06/98)

1. Purpose

The purpose of this document is to indicate the scope of work of the Focus Group and to invite contributions on the specific issues so that the Focus Group can progress in its work prior to the next Study Group 3 meeting in June 1998 in a methodical way. I would like to remind you that our terms of reference were adopted at the World Telecommunication Policy Forum, held 16-18 March 1998 (see TSB Circular 109 of 7 April 1998). This working document has been developed in line with those terms of reference, as only Study Group 3 can introduce modifications to our terms of reference.

2. Objective

Study Group 3 agreed at its last meeting, on transitional arrangements and, as a first step, decided to recommend the reduction of accounting rates to less than 1 SDR per minute after deducting transit charges by the end of 1998 with some special provisions including scheduled reduction (see report COM 3-R 8 for details on these arrangements). The Focus Group's task is to propose transitional arrangements towards cost orientation *beyond* 1998 up to a date to be determined. Such transitional arrangement could facilitate the implementation of any future remuneration system, for instance based on a termination charge system. Our report to the Study Group 3 should cover both the cases of direct relations and transit relations. We are committed to implementing cost orientated accounting rates as described in ITU-T Recommendation D.140

3. Tasks

Our tasks may be summarized as follows :

- a) to develop a set of figures for direct and transit relations which may take the form of target rates (expressed in fractions of an SDR per minute) or targets for staged reductions (expressed in percentage change per year);
- b) to define an appropriate time trajectory from 1998 to a specific date to be determined or until cost-orientation is achieved;
- c) to tailor transition paths taking into account the different stages of telecommunications development in different countries or regions
- d) to define the levels of contributions to a universal service fund or other charges which could be identified.

To achieve those tasks, we will need to narrow our range of discussions. I would propose to focus on four possible interim transitional mechanisms:

1) Determination of price caps for the settlement rates and the transit rates

This can be realized either by using a cost model (for instance, based on Long Run Incremental Costs (LRIC) or Fully Distributed Costs (FDC)) or by developing "interim mechanisms" pending the consensus to develop and to use such cost methodologies. As we are working under time constraints, we should concentrate our discussion on the second option. What kind of "interim mechanisms" to estimate costs are available and what agreement on cost orientated price caps (for symmetric or asymmetric regimes) could be reached?

2) Designated target ranges

An alternative to price caps would be to set a target range, as had been done in the African Regional Tariff Group (TAF). Report TAF-R 2 paragraph 10 indicates a possible way of determining a transitional arrangement. Similarly, the Tariff Group for Asia and Oceania (TAS) revises and replaces in Recommendation D.500 R the maximum accounting rates levels each year based on the findings of the cost study results. For this cost study the TAS Group members use the cost model developed by the TAS Group. Would it be appropriate to extend these methodologies to other regions?

3) Estimated cost elements obtained in the nine case studies

The case studies reveal a range of costs per minute for terminating international telephone call. But those data need to be validated with the assistance of BDT. The Resolution adopted at the last WTDC in Valetta (Document 200, rev.3) requests BDT to work with the Regional Tariff Groups and to organize additional workshops in order to finalize the results of the case studies. How can the Focus Group contribute to the process and use the results obtained from a case study approach?

4) Best practice rate

It should be possible to collect information on lowest, or "best practice", accounting rates, transit rates, interconnect rates and collection rates existing in the markets. Such information may provide some guidance on existing market practices and trends which could be used as reference points in estimating costing issues in the market situations concerned, particularly when other cost data are not available or insufficiently update. Caution should however be exercised in applying such rates to market situations which are different. This may be spelt out according to principles and guidelines already agreed or discussed.

We have limited time at our disposal and therefore I count on your understanding to carry out the work assigned, especially on the data-oriented studies, and to leave to Study Group 3 and Working Party 2/3 the important task of determining cost methodologies and new forms of remuneration which could be applied after the transitional period. I would request contributions indicating which of the above mentioned mechanisms you believe is better suited to achieving our objectives and how we could concretely determine the target rates. As far as possible, contributions should contain necessary information/data to assist in the determination of target rates.
