Focus Group Chairman's Working Document (rev 3, 16 October 1998)

Purpose

The terms of reference for the Focus Group, as established by the World Telecommunication Policy Forum (16-18 March, 1998) and confirmed by ITU-T Study Group 3 (2-12 June 1998), call upon the Group, *inter alia*, to develop "*proposals for solutions for transitional arrangements towards cost-orientation beyond 1998, including ranges of indicative target rates*". This revised version of the Chairman's working document builds upon the approach which was discussed and revised at the two Plenary meeting of the Focus Group, held on 8th July and 1-3 September respectively. It draws upon submissions received by the Focus Group up to 10th October 1998. The aim is to develop a consensus text which will form the sole contribution of the Focus Group to ITU-T Study Group 3. The draft contribution is available as a separate document. It takes the form of a proposed new Annex E to ITU-T Recommendation D.140. If there is agreement within ITU Study Group 3 on transitional arrangements beyond 1998, then Annex E would supplement the existing Annex D on transitional arrangements up to the end of 1998. The deadline for submission of the contribution to ITU-T Study Group 3is 6th November 1998 and consequently the deadline for comments on the draft contribution is **30th October 1998**.

Objective

Study Group 3 agreed, at its June 1998 meeting, a revision to ITU-T Recommendation D.140 defining transitional arrangements towards cost-orientation 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 provisions especially for the Least Developed Countries including scheduled reductions (see Annex D to Recommendation D.140 for details of 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 a transitional arrangement could facilitate the implementation of any future remuneration systems, for instance any based on termination charges. This revised document contains proposals for such transitional arrangements and covers both direct and transit relations.

1. Summary of Contributions

The Focus Group's tasks were agreed at the first Plenary meeting, held on 8th June 1998. For each agreed task, a) to d) (highlighted), the contributions coming from Focus Group members, particularly those received since the second Plenary meeting, are reflected below.

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);

In the contributions to the Focus Group, there is broad agreement that an effective way to achieve cost-orientation is through the introduction of competition on both ends of the route. This point is made by the FCC [contribution No. 52], Senegal [50], Canada [51], ETNO [40] and others. Several contributions point out the importance of establishing rates which reflect market realities, especially between markets where services are provided outside the accounting rate system, for instance using International Simple Resale (ISR) or Internet Telephony (see, for instance, Hong Kong Telecom International (HKTI, [43]) and Singapore [42]). Nevertheless, in the absence of effective competition and mutually-agreed, internationally-recognised cost models, then indicative target rates, developed within the Focus Group and agreed by ITU-T Study Group 3, could serve as the basis for staged reductions in the transition to cost-orientation.

A1) Target rates for direct relations

On the basis of contributions to the Focus Group, and analysis of the country case studies, it is recognised that there is value in categorising countries / territories for the purpose of establishing indicative target rates (see the Secretariat methodological note on teledensity bands [46]). The categories should be defined to capture characteristics that reflect underlying cost differences among countries / territories and their ability to make timely adjustments towards cost-orientation (Hong Kong China, [21], FCC [52], Viet Nam [54]).

How many categories should be defined? AT&T [15] and Trinidad and Tobago [25] suggest three categories of countries / territories, and Sprint [10] suggests five categories. Hong Kong China [20] and the ITU Secretariat [18] initially suggested six categories, and this was reflected in the second revision of the Chairman's Working Document (25th August 1998).

Following discussion at the second Plenary meeting, a Secretariat methodological note [46] has suggested increasing the number of categories to seven, and possibly eight if a special category for small island states is defined. The increase in the number, which is in part justified by the fact that more countries / territories are now under consideration (a total of 224), has received support from Viet Nam [54]; Telecom New Zealand and the Cook Islands [44, 56], which want recognition of the particular problems faced by small island states; from Singapore [41] and KDD [30], which want to see a distinction between liberalised and non-liberalised markets, and from Trinidad & Tobago [47], which wants to see the 10-30 teledensity band divided into two. The increase in the number of categories is not, however, supported by the FCC [52] which prefers six categories, including combining the 1-5 and 5-10 teledensity bands into one. This is opposed by Viet Nam [56].

What indicator should be used to define the different categories? There is broad support for the use of teledensity (telephone main lines per 100 inhabitants), notably from Hong Kong China [20, 21] and Viet Nam [54]. For reference, see Groups A to G in the draft contribution. The rationale for the use of teledensity is put forward by the Secretariat in a methodological note [46]. Others, like the FCC [52], would prefer to use socio-economic variables, such as GDP per capita which is used in the UN/World Bank classification and which was used in an earlier Secretariat methodological note [18]. There is an emerging consensus that, while teledensity offers a stable platform for analysis, it may need to be tempered by other considerations, notably LDC or small island status (Secretariat [46], TCNZ [44, 56]). Also, there is strong support for taking into account the degree of dependency on net settlement payment, notably from Senegal [50], FCC [52], Trinidad & Tobago [47] and Burundi [32].

Others point to the importance of being pragmatic in the application of classification criteria proposed, including TeleGlobe [51] and HKTI [43].

How should target rates in each category be established? In the second draft of the Chairman's Working Document, it had been proposed to use the average of the lowest five countries / territories in each category to establish target rates. This proposal, first made by AT&T [15], was subsequently taken up in a Secretariat methodological note [18] and by Hong Kong China [20, 21]. The FCC [52] would prefer to take a pure 'best practice' approach, in which only the operator with the lowest settlement rate in the country / territory with the lowest settlement rate is taken as the target in each category. However, Jamaica pointed out that the operator with the lowest accounting rate for Jamaica is not authorised to provide voice services in the domestic market, and consequently prefers to use the average of all operators in each country / territory. Others, notably DoT India [49] and Viet Nam [54] proposed taking the lowest 20 per cent in each category, with perhaps a minimum of five countries / territories in each category to ensure that they are sufficiently representative. This approach was explored further in a Secretariat note [46]. Some favour using the median value, notably Trinidad & Tobago [47]; for reference, see Annex Table 1 in the draft contribution.

What data should be used? The second draft of the Chairman's Working Document used mainly data published by the FCC as, at the time, only data for earlier years was available for the United Kingdom and New Zealand. The FCC [52] proposed that the Group take as wide a range of data as possible. This was widely supported. Subsequently, more recent data was made available from OFTEL of the United Kingdom (July/August 1998) and from Telecom New Zealand (30 June 1998). The Secretariat also sent out a data questionnaire inviting Member States to submit additional data, to which some 12 responses were received. This data has also been taken into account and a summary will be issued by the Secretariat.

What cut-off point for the data should be used? Some contributions, notably the FCC [52], urge the Group to use current settlement rate data, as close as possible to the start of the transition period on 1 January 1999, on the grounds that this will better reflect "market realities". Others, such as India [49] and Viet Nam [54], prefer to use data from an earlier period, such as 1 January 1998 or 1 June 1998, as close as possible to the date for the teledensity data, which is valid for 1 January 1998, on the grounds that this will make the transition path easier. To date, all countries responding to the request by the Secretariat to submit data have presented the latest available, on a confidential basis, and none has submitted earlier data.

A2) Target rates for transit shares

Only limited published data is available to support the establishment of target rates for transit shares. OFTEL (UK) publishes data for transit on some routes[1], though not necessarily for all operators on liberalised routes. On at least four routes, where transit is provided by TeleDanmark (two routes), Mauritius Telecom and MCI (USA), no charge is levied for transit. The lowest non-zero transit share is 0.04 SDR per minute, provided to AT&T in correspondence with Telkom South Africa. In total, data for some 61 transit routes are published by OFTEL and the average of the lowest 20 per cent is 0.0459 SDR per minute. This figure could be lower if transit shares for all operators in the UK market, or all routes, were published.

The only data on transit shares submitted to the Focus Group, came from Cameroon [17] which pointed out that the transit shares in the relations of majority of African countries are on average at 0.33 SDR and that in future, transit rates must be directed towards cost. Trinidad & Tobago [47] argues that international transmission and switch costs average between US$ 0.02 to US$ 0.04 (0.015 - 0.03 SDR). The Secretariat methodological note on transit shares [28], reviews data on transit collected by Regional Tariff Groups, and proposes a methodology, based on cost proxies and categorised by traffic volume, to establish target rates. The proposed rates range between 0.03 to 0.06 SDR per minute. This approach received wide support in the Focus Group, notably from Viet Nam [54], Senegal [50], and Burundi [32] though it was criticised by AT&T [48]. Trinidad & Tobago [47] argue that the proposed targets are too high.

[1] See the OFTEL website at http://www.oftel.gov.uk/feedback/tiar998.htm.

AT&T [48], supported by the FCC [52], argues that the same approach should be used to determine target rates for transit shares as for direct relations, but neither submitted any transit share data which would make it possible to apply the same methodology. AT&T [38, 48] and TeleGlobe [51] further submit that WTPF Opinion B calls upon ITU Member States and Sector Members "*to apply to transit rates the principles of transparency, non-discrimination and cost orientation in all situations in which the transit service provider holds a dominant position*". This can be interpreted to mean that the target rates would not apply in other situations.

b) to define an appropriate time trajectory from 1998 to a specific date to be determined until cost-orientation is achieved;
c) to tailor transition paths taking into account the different stages of telecommunications development in different countries or regions;

The issue of time trajectory and transition paths has attracted much less comment than indicative target rates. This may be because the proposals in the second draft of the Chairman's Working Document have wide support (see, for instance, Viet Nam [54], TeleGlobe [51]), but it also reflects the view that it is difficult to forecast cost trends more than a few years ahead (Senegal [50]).

The second draft proposed a transition period of three years (to year-end 2001) for direct relations and two years (to year-end 2000) for transit shares. AT&T [48] points to an inconsistency between these two dates. FCC [52] argues that, between countries in a similar situation, the transition period could be much shorter. India [49] argues for a longer transition period for LDCs, small island states, and for countries, such as itself, with a wide gap between actual and target rates. The concerns about countries / territories with very low teledensity, which do not necessarily generate high volumes of traffic, are also picked up by HKTI [43].

The second draft had proposed a rate of reduction of at least 12 per cent per annum, this being the global trend in the compound rate of reduction in settlement rates observed over the last three years, as pointed out by Singapore [31]. This argument was further elaborated in a Secretariat methodological note on the transition path [37]. Trinidad & Tobago (TSTT, [47)] argued that a figure of 7.39 per cent per year should be used, as this corresponds to the rate of reduction in US settlement rates over the previous ten years. The FCC [52] notes that the rate of fall is accelerating and therefore 12 per cent per year might be too modest. Trinidad & Tobago [39] propose a variable rate of reduction, according to the teledensity group and current settlement rate level. This would vary between 8-24 per cent for rates above 0.5 SDR and 8-30 per cent for rates below 0.5 SDR, with countries in the highest teledensity group expected to reduce their rates fastest. Mexico [55] argues for a rate of reduction of between 5 and 12 per cent per year.

The TAF Group [1] and Hong Kong China [21] both put forward suggestions for classifying countries / territories according to their degree of dependence on net settlement payments as a percentage of total telecommunication revenue. FCC [52] propose that, if net settlement payments are used, it should be on the basis of total telecommunication revenue for the country / territory as a whole, and not applied to individual Administrations/ROAs. Senegal [50] points out that the figures should be based on official accounting documents and verified by the Administrations/ROAs in the correspondent relationship.

A number of contributions support an explicit link between the length of the transition period (and therefore the average rate of reduction) and the degree of dependency on net settlement payments. This idea, which was discussed at the second Plenary meeting, is supported by Senegal [50], India [49] and HKTI [43]. It is also supported by Trinidad & Tobago [47], which would like to see other factors, such as GDP and 'capital requirements' taken into account. The FCC [52] proposes limiting any extensions to the proposed transition period strictly to the Least Developed Countries.

d) to define the levels of contributions to a universal service fund or other charges which could be identified.

The second draft of the Chairman's Working Document proposes an approach to Universal Service Obligations which acknowledges that it is primarily a national issue, but with an important international dimension, especially with regard to Universal Access. Net settlement payments and above-cost settlement rates have traditionally been used to cross-subsidise domestic network development. In an increasingly competitive environment, it is difficult to secure the willing acceptance by the correspondent where such subsidies are not transparent. On that basis, the second draft had proposed that transparent measures, such as an asymmetric split of the accounting rate share, could be used, by bilateral agreement, to assist those countries / territories with very low teledensity making the transition to cost-orientation, by cushioning them from a sudden fall in net settlement payments. Two methodological notes from the Secretariat dealing with asymmetric arrangements [45] and USOs [53] provide elaboration on these two aspects, with illustrations.

Most contributions acknowledge the significance of Universal Service Obligations. TeleGlobe [42, 51] argues that there is already a Universal Service element included in the calculation of the cost of the settlement rate, and that to add an additional component would result in double-counting. FCC [52] argues that asymmetric rates should only be introduced once cost-orientation has been achieved. HKTI [43] goes further, in saying that not only should asymmetric rates be bilaterally agreed, but they must also respect local regulatory practice. India [49] strongly supports the use of asymmetric arrangements, supported by a multilateral agreement, without the necessity for bilateral agreement. Trinidad & Tobago [25, 37] propose that the target rates be applied in an asymmetric manner with each Administration / ROA reducing its settlement rates towards the target for its own teledensity category, with Administrations / ROAs in higher teledensity categories decreasing at a faster rate. Trinidad & Tobago [47] also draws attention to the close linkage with the proposed changes to ITU-T Recommendation D.150.

The Secretariat note [53] argues that asymmetric rates should be targeted to assist the Least Developed Countries and other very low teledensity countries / territories. The Secretariat, along with Hong Kong China [21] and Singapore [41], argues that asymmetric arrangements could be introduced during the transition phase towards cost-orientation with a variation of a few percentage points from 50/50. Viet Nam [54] argues that the degree of asymmetry should reflect underlying cost differences. Hong Kong China [21] puts forward a proposal that, where asymmetric arrangements are introduced, the resulting incremental net settlement payments could be paid into a Universal Service Fund.

Senegal [50] suggests tying the degree of asymmetry to growth in the volume of traffic. The country benefiting from the lower rate should be able to reduce its outgoing collection charge by a faster rate, thus stimulating traffic demand which could go some way to offsetting the traffic imbalance on the route. The argument concerning price elasticities of demand is also taken up in the contributions from WIK [27] and TEMIC [33]. No contributions to the Focus Group actually provide data to show the existence of elasticities of demand, and the evidence from the country case studies does not provide a basis for firm conclusions. HKTI [43] points out that for international calls, potential price elasticities are masked by the high potential for product substitution, for instance between fixed-line, mobile, fax and Internet. The direction of traffic is affected by arbitrage and call-back. Demand is also influenced by general economic trends: in the case of Hong Kong China, both IDD collection rates and international traffic rates have been falling in the last year, due to the Asian Financial Crisis.

2. Chairman's Proposed Approach

A1) Target rates for direct relations

The consensus approach should be simple, practical, and at the same time flexible enough to cover all likely cases. Following discussion at the second Plenary meeting, there is broad support for the establishment of target rates on the basis of lowest prevailing settlement rates in different categories of countries / territories. However, there continues to be divergence of opinion concerning the details, and therefore the approach taken here is to try to build consensus and to avoid taking extreme positions. It is recognised that an approach based on current lowest rates will not necessarily be cost-oriented for all categories, but it can be interpreted as moving towards cost-orientation. A cost study of 13 West African countries notes that the proposed target rates are very similar to those obtained by applying a cost methodology (Senegal, [50]). It is important to note that current lowest rates will change over time and will need to be reviewed at regular intervals. ITU-T Study Group 3 may wish to agree a timetable for review. The transition for each country / territory would start from the current settlement rate level on different routes and move towards the indicative target rates in an expeditious manner.

The highlighted texts below are extracted from the draft contribution:

> E.3.1 Rates for remuneration for the use of telecommunication facilities should be established by mutual agreement among origin and destination Administration/ROAs in correspondent relationships, on the basis of cost data and mutually-agreed cost models. In the absence of sufficient cost data, and in order to facilitate the transition towards rates which are cost-oriented, transparent, and applied in a non-discriminatory manner, it is recommended that each Administration/ROA move towards the indicative target rates (upper limits) set out in Table 1. The target rates are shown in SDRs per minute, for countries / territories grouped according to their level of teledensity (telephone lines per 100 inhabitants).

Concerning the categorisation of countries / territories, for the purpose of agreeing target rates, it is proposed to use seven categories, related to teledensity, with a broadly similar number of countries / territories in each category (see Table 1). The use of teledensity to distinguish among countries / territories at different levels of telecommunication development has received strong support in e-mail exchanges and is consistent with the goals of achieving Universal Access and establishing target rates which are cost-oriented. Variations in teledensity appear to be a significant underlying factor in explaining cost differences between countries / territories. Teledensity also appears to be closely correlated with other factors, such as GDP per capita, income group and LDC status.

> E.3.2 For small island states, which are defined as having a population of less than 200'000 inhabitants, distant from a continental mainland, off the main cable routes and therefore reliant on satellite communications, a separate category is proposed for which the recommended target rate is 0.29 SDR per minute. The 30 countries / territories eligible for this category (see Tables A to G) may choose to adhere to this target or those listed in Table 1.

There are cases where teledensity does not appear to be a good indicator of underlying cost factors. The main 'outlyers' in the relationship between teledensity and cost appear to be small island states, as shown in the preliminary studies carried out in the Pacific Islands by the ITU Asia-Pacific Regional Office. This is because small island states appear to have much higher unit costs than other countries / territories by virtue of their low total volume of international traffic, and the lack of possibilities to achieve economies of scale. It is therefore proposed that a special category should be created for small island states, in addition to the existing teledensity categories, so that eligible countries / territories may choose to which category they wish to adhere. The criteria proposed to define small island states are listed in the draft contribution.

Table 1: Target rates for direct relations (settlement rates)

Based on the average of the lowest 20 per cent of current published settlement rates in each teledensity group, and measured in SDRs per minute (T = telephone lines per 100 inhabitants)

Teledensity $T \leq 1$	$1 < T \leq 5$	$5 < T \leq 10$	$10 < T \leq 20$	$20 < T \leq 35$	$35 < T \leq 50$	$T > 50$
0.327 SDR	0.251 SDR	0.210 SDR	0.162 SDR	0.118 SDR	0.088 SDR	0.043 SDR

Source: ITU-T Study Group 3 Focus Group.

To establish indicative target rates within each teledensity group, and for the small island states group, it is proposed to use the average of settlement rates of the lowest 20 per cent of countries / territories within each group. This represents a balance between those proposing the lowest rate as true 'best practice', and those proposing the median as more representative of the existing distribution of settlement rates within each group. The use of the lowest 20 per cent eliminates the bias, within and between groups of uneven size, that would arise from using the settlement rates of the lowest five countries / territories in each group. Where there are multiple operators in one country / territory, it is proposed to take the average of their lowest rates. Mexico [55] and others, have proposed that the term 'best practices' should not be used in the final contribution.

The analysis in Table 1 is based on published data from three countries (New Zealand, United Kingdom and United States) plus data submitted to the Focus Group by Cuba, Fiji, France Telecom, Ghana, Hong Kong Telecom International, Jamaica, Mexico, Nepal, Solomon Islands, TeleGlobe, Trinidad & Tobago and Tonga.

The 12 Administrations/ROAs responding to the data questionnaire submitted current data. It is proposed that the data used in Table 1 should now be considered stable.

A2) Target rates for transit shares

E.4.1 Rates for the provision of transit service should be established by mutual agreement among the Administration/ROA sending the traffic, the transit service provider(s) and the Administration/ROA terminating the traffic. Target rates for direct relations shown in Table 1 exclude additional charges payable to any third parties, such as transit service providers. In order to provide guidance on cost trends, particularly on routes where a transit service provider holds a dominant position and/or where the sending or receiving Administration/ROA lacks a choice of transit service provider, target rates for transit shares (upper limits) are proposed in Table 2, in SDRs per minute, according to the volume of traffic on a particular route.

There would appear to be a reasonable degree of consensus to support the target rates for transit shares proposed in the second draft of the Chairman's Working Document. Therefore, these have been maintained (see Table 2). The new data on transit, published by OFTEL, confirms that if an approach based on the average of the lowest 20 per cent is used, then a rate of 0.0459 is obtained, which co-incidentally falls almost half way between the proposed range of 0.03 to 0.06 SDR. It would be useful if more data on actual transit relations could be submitted so that the same methodology could be used for determining transit shares as for direct relations.

Table 2: Target rates for transit shares
In SDRs per minute, according to annual traffic flows (corresponding to typical circuit capacities) on different routes

Route minutes *Typical circuit*	*Routes with up to 350'000 minutes per year* *64 kbit/s*	*Routes with between 350'000 and 1.5 million minutes per year* *256 kbit/s*	*Routes with >1.5 million minutes per year* *1.5/2 Mbit/s*
Target rate (upper limit) for transit share, in SDRs per minute	0.06 SDR	0.05 SDR	0.03 SDR

Note: Estimates of line capacity are based on a 4:1 compression ratio (e.g., a 64 kbit/s line provides four voice circuits) and an 18% capacity utilisation.
Source: ITU Study Group 3 Focus Group.

E.4.2 The target rates shown in Table 2 show upper limits and should not be interpreted as providing any guidance for establishing lower limits for transit shares. It is recognised that, on competitive routes, transit shares may be considerably below these target rates.

The major point of contention appears to be whether or not the proposed target rates should apply only on routes where there is a dominant transit provider or whether they would apply also on competitive routes. It can be reasonably assumed that, on competitive routes, rates which are lower than these targets would apply. Nevertheless, there is a danger that these targets might be interpreted as being lower limits rather than upper limits. For that reason, it is to be emphasised that the proposed target rates for transit shares are indeed upper limits and that, on competitive routes, much lower transit shares may prevail.

B & C) Time trajectory and transition path

E.5.1 It is recommended that the target rates for direct relations shown in Table 1 be attained by staged reductions over a three year period, (i.e., before year-end 2001) with the exception of those Administrations/ROAs likely to encounter serious financial difficulties, as outlined in Table 3. For those Administrations/ROAs, a longer transition period is recommended, as a function of the level of dependency of the country / territory on net settlement payments. The starting point for the transition would be the current settlement rate level.

In the fast-changing telecommunications environment, the concept of cost-orientation is a moving target. Furthermore, cost-oriented rates are unlikely to be the same in different countries / territories at different levels of traffic volume and socio-economic development. On traffic routes among competitive markets, actual settlement rates are already as low as 0.04 SDR per minute, and national interconnect rates are lower still. However for other categories of countries / territories, it will require transitional periods varying in timescales for them to achieve the targets in their respective teledensity groups.

There appears to be broad support for a transition period of three years (i.e., between year-end1998 and year-end 2001). Several contributions note that the accounting rate system is under pressure, particularly from ISR and Internet Telephony among other technological and commercial developments. If the speed of transition is too slow, then increasing volumes of traffic may simply shift outside the accounting rate system with adverse affects on those countries / territories which are reliant on net settlement payments. It is likely that Administrations/ROAs with a high degree of dependence on net settlement payments would not be able to achieve cost-oriented rates within this timeframe. Consequently, a number of measures are proposed to smooth the transition path, including a longer transition period and use of asymmetric arrangements.

E.6.1 Administrations/ROAs should apply staged reductions which will enable them to attain, by the relevant target year (2001-2004) the target rate for direct relations relevant to their teledensity category. To provide guidance on the appropriate percentage reduction, it is noted that the global average reduction achieved between 1995 and 1997 was 12 per cent per year. It is recommended that the rate of reduction in any one year be no less than 5 per cent, even for those Administrations/ROAs which have already achieved the target rate.

It is proposed that Administrations/ROAs make staged reductions in an expeditious manner at a rate which will meet their target and which is consistent with their policy objectives and technical capacities. It is noted that the global average rate of reduction over the last three years was around 12 per cent per year (see document COM 3-53) and it appears to be accelerating.

Table 3: Transition period as a function of dependence on net settlement payments

Net settlement payments (NSP) as a percentage of total telecommunication revenue (TTR)	*Target year for achieving target rate*
NSP < 10 per cent of TTR	year-end 2001
NSP between 10 - 20 per cent of TTR	year-end 2002
NSP between 20 - 30 per cent of TTR	year-end 2003
NSP greater than 30 per cent of TTR	year-end 2004

Note: 1. Calculations should be based on published data, from company accounts, on net settlement payments and total telecommunications revenue, valid for 1997 or most recent.
2. Data for net settlement payments and total telecommunications revenue should be valid for the country / territory as a whole, not just an individual Administration/ROA.
Source: ITU-T Study Group 3 Focus Group.

Those countries / territories which have a high degree of dependence on net settlement payments as a percentage of total telecommunications revenue may experience difficulties in reaching the proposed target rates within three years. A longer transition period, which corresponds to a slower annual rate of reduction, may be proposed for these countries / territories, as a function of their degree of dependency on net settlement payments as a percentage of total telecommunication revenue (see Table 3).

E.6.2 As proposed in E.3.6, by bilateral agreement, it may be possible to vary the 50/50 arrangements by a few percentage points, in the transition towards cost-oriented rates. This could help to accelerate reductions in the total accounting rate and to stimulate increases in the volume of traffic. In the event of a sudden fall in the net settlement payment made to a Least Developed Country, or to a country / territory with a high level of dependency on net settlement payments, a variation from the 50/50 arrangements may also be made, based on prior agreement.

Use of asymmetric arrangements could enable a faster rate of reduction in the total accounting rate. Asymmetric arrangements may also assist by allowing the low teledensity Administration / ROA to reduce its collection charge, which should assist to increase the volume of outgoing traffic, thereby reducing the traffic imbalance. In addition, by prior agreement, it may be possible to vary the 50/50 arrangements retrospectively, to cushion revenues in the event of a sudden fall in net settlement payments.

E.5.2 It is recommended the target rates for transit shares shown in Table 2 be attained within two years (i.e., before year-end 2000).

For the transit share, where the financial impacts on the transit service providers are not likely to be substantial, a faster rate of reduction is proposed to achieve the targets within two years.

D) Universal Service Contributions

E.7.1 It is recognised that Member States have traditionally used net settlement payments to finance, in part, their Universal Service Obligations. Any Member State has the right to define the kind of Universal Service Obligation it wishes to maintain. However, such Obligations, insofar as they require the co-operation of other Administrations / ROAs in a correspondent relationship, should be administered in a transparent, non-discriminatory and competitively neutral manner which is not more burdensome than necessary for the kind of universal service defined by the Member.

In the WTO regulatory reference paper, as noted in Opinion A of the World Telecommunication Policy Forum, Universal Service is treated as a matter of national policy:

"Any Member has the right to define the kind of universal service obligation it wishes to maintain. Such obligations will not be regarded as anti-competitive per se, provided they are administered in a transparent, non-discriminatory and competitively neutral manner and are not more burdensome than necessary for the kind of universal service defined by the Member."

E.7.2 In order to enhance Universal Access to telecommunications among the Least Developed Countries and other countries / territories with very low teledensity, Administrations/ROAs in a higher teledensity category may give favourable consideration to terminating incoming calls at their own cost-oriented rate without requiring reciprocal treatment. Such favourable consideration would be voluntary and based on mutual agreement.

Taking into account the multilateral character of the commitments made at the WTO to extending market access, Administrations/ROAs may wish, to offer to terminate incoming calls at their own target rate without seeking reciprocal treatment. Such asymmetric arrangements would be particularly appropriate between Administrations/ROAs that have achieved target rates within their different teledensity categories.

The current Annex D to ITU-T Recommendation D.140 provides for special provisions to facilitate the transition towards cost-oriented settlement rates, particularly for the Least Developed Countries and proposes "*alterations of the 50/50 arrangement to cushion revenue reductions, provided that such alterations are made within the context of an agreement to achieve cost-orientated rates*." This would be consistent with the goal of extending Universal Access and could be implemented through voluntary instruments including a Memorandum of Understanding. It is suggested that such asymmetric arrangements be targeted at helping the Least Developed Countries and other countries / territories with a very low teledensity. Insofar as asymmetric arrangements are introduced before cost-oriented settlement rates have been reached, it is suggested that the degree of variation from a 50/50 split be limited to a few percentage points to avoid creating too much scope for price arbitrage.

Dispute Resolution

Several of the contributions, notably Trinidad & Tobago [25, 47] and HKTI [43], call for the establishment of a dispute resolution mechanism for settlement rate disputes. This topic was also raised in the second Plenary meeting. HKTI [43] argues that this could operate through arbitration panels, possibly under the auspices of ITU-T Study Group 3. While acknowledging the importance attached to this issue, it is recognised that it falls outside the mandate of the Focus Group and that the broader issues that would be raised — legal, political, financial — may also exceed the mandate of ITU-T Study Group 3. A draft Recommendation[2] on this theme, has been submitted to the ITU Plenipotentiary by Trinidad & Tobago. It is proposed to await developments at the Plenipotentiary Conference rather than to include any specific reference to dispute resolution in the Focus Group contribution, which is due on the final day of the Plenipotentiary.

[2] The Trinidad & Tobago document is entitled "Settlement of disputes procedures in the establishment of settlement rates between administrations" (document PP-98/75). The proposal is also supported by the State of Bahrain which has submitted its own document entitled "Accounting rate reform: Termination Fee" (document PP-98/94). Both documents are available on the ITU website at: http://www.itu.int/itudoc/gs/plenipot/pp98/docs1.html.

Next steps

The Draft Contribution to ITU-T Study Group 3 entitled “Transitional Arrangements to cost orientation beyond 1998”, is proposed as a new Annex E of ITU-T Recommendation D.140, as suggested by Mexico [55], to supplement the existing Annex D to that Recommendation. Comments on the draft contribution are requested by 30th October, in order to facilitate the drafting of the final contribution to ITU-T Study group 3, to be submitted on 6th November 1998. On 7th December the Focus Group is scheduled to meet and its agenda has been circulated under collective letter 7/3. ITU-T Study Group 3 is scheduled to meet on 8-15th December 1998 when the contribution will be discussed. At the same meeting, Study Group 3 will also discuss a proposed revision to the text of ITU-T Recommendation D.150, concerning an expanded menu of future remuneration options, including termination charges. Both texts could be submitted at the same time to ITU Member States for approval by accelerated procedure, in the second quarter of 1999, if they are considered stable.