

BDT contributions to the ITU-T Study Group 3 Focus Group

This document describes the BDT's support to the Telecommunication Standardization Sector in its work (through ITU-T Study Group 3 and its Focus Group) on the future of the international accounting rate and settlements system.

While the Focus Group's work will soon be completed, it is envisaged that the BDT will continue with the programme of support for accounting rate reform and cost-oriented tariffing as part of Programme 4 or the Valletta Action Plan. Members of the Focus Group are invited to provide comments and guidance for what directions this programme of support should take.

Background:

In resolution 12, adopted by the World Telecommunication Development Conference (WTDC 1998), held in Valetta, Malta from 23 March to 1 April 1998, the BDT was instructed to implement the activities which the Director was invited to undertake by Opinions B and C of the World Telecommunication Policy Forum 1998.

BDT has a duty to help developing countries to participate in, and make constructive contributions to, the work of Study Group 3 and its Focus Group since it is the developing countries who may be hardest hit by the impact of any change in the international settlement system. It is worth noting that, since the previous study period, BDT has been collaborating with the regional tariff groups of ITU-T (e.g., TAS, TAF, TAL and TEUREM). The Bureau was requested, *inter alia*: "*to finalize and/or validate cost models which can be used to assist the transitional process towards new accounting rates systems*" and "*to continue the use of case studies, such as those carried out in connection with the Forum through further detailed studies, and to develop possible models for progressive implementation of cost oriented tariffs*".

A regional work programme to implement these activities was adopted at WTDC 1998 which provides for close cooperation between BDT, the regional tariff groups and the Focus Group established by ITU-T Study Group 3. In addition, BDT, together with ITU-T and the Strategic Planning Unit, has provided the secretariat of the Focus Group.

1. Implementation of the BDT Programme

To help the developing countries participate in the Focus Group and SG3 (TSB) work, BDT has provided 12 fellowships for the two plenary meetings of June and September and a further 14 fellowships will be offered for the next meeting in December 1998.

Moreover, to facilitate the participation of developing countries in the regional programme described below, BDT offered some 68 fellowships to assist participation in the six seminars and seven workshops which have taken place or are planned.

2. The Regional Work Programme

The first phase of the regional work programme includes seminars where the results of case studies already conducted are studied in detail and, where necessary validated, in order to illustrate the conditions under which developing countries could implement cost-oriented accounting rates. During these seminars, regional experts and tariff group members may decide to initiate further case studies and/or to carry out sub-regional workshops for countries displaying a similar level of economic development. The objective of these workshops, which constitute the second phase of the regional programme, is to raise awareness in countries by putting forward solutions for developing a costing methodology to estimate the actual unit cost per minute of an international telephone call (incoming and outgoing). The outcome of the workshops would not necessarily be final cost results, but would provide a workable set of analytical tools that is

sufficiently flexible and robust to be applied to each country's situation for the purposes of assessing appropriate costs and, ultimately, negotiating revisions of the settlement rates.

In accordance with the results of the regional seminars and the decisions taken by the participants, each region has chosen its own path for determining how to conduct workshops and/or additional case studies. This contribution provides a region by region summary of the work carried out and their outputs in the belief that this can positively contribute to the work of the Focus Group and SG3.

LATIN AMERICAN AND CARIBBEAN REGIONS

A Seminar on the Colombian Case Study was held in Bogota on 28 - 29 May 1998, with some 40 representatives from 16 countries of the Latin American and Caribbean regions present.

It was pointed out that though the initial Case Studies included some elements of cost analysis, they were not designed to provide a definitive analysis of costs. The basic intent was to emphasize the potential *impact* of alternative *scenarios* for changes in the accounting rate system, as per the countries studied.

The seminar, in reviewing some of the conclusions of the study, was informed by contribution of experiences drawn from other countries in the region. Input from members of the Colombian telecommunications sector was also very instructive. These contributions reinforced the findings of the study, and implied that similar impacts could be anticipated for many other countries in the region.

Participants agreed that the base cost of US\$0.40 per minute for both outgoing and incoming international telephone traffic, as proposed by the Colombia case study, appears to be valid. It was noted that the analysis assumed that incremental international service costs are no less than about US\$0.25 per minute, and this cost would rise to about US\$0.35 to US\$0.40 per minute, when including a proportionate allocation of common costs, and the universal service and access charge obligations.

The above findings are potentially useful, as are the other estimates of the range of costs produced by the Case Studies, as a basis for pursuing, to some degree, short-term, interim targets for settlement rate reductions; targets that would be more economically viable than the FCC benchmark figures. The most important conclusion of the Bogota seminar, however, with respect to costs, is that considerably more work needs to be done on this issue, on a multilateral basis, using realistic data and commonly accepted methodologies and assumptions.

A large portion of the seminar was devoted to discussion of the parameters of such studies of cost, and how they should fit into the overall process of reform of the accounting rate system.

The consensus of the seminar participants was that the process of analyzing costs should concern itself, initially, more with defining a transparent and broadly supported *methodology* for determining country-specific termination costs, rather than with producing specific immediate cost results. Nevertheless, the development of such a methodology, which must address a range of issues concerning different accounting systems, technological and demographic factors, and data availability, should be based upon actual experience in a sample of countries. Toward this end, the seminar participants supported the ITU suggestion that a series of *workshops* should be instituted, with direct participation by up to 3 or 4 countries, for the express purpose of examining in detail cost data, assumptions, and methodologies.

The proposal was well received, and Nicaragua indicated its willingness to host a cost study workshop for Central America countries. Surinam, Trinidad and Tobago offered to convene workshops for Caribbean countries.

It was also pointed out that, ideally, representatives from carriers and governments outside the region (e.g., the U.S.), that have a vested interest in the outcome of such studies and which have questioned the "validity" of the Case Study cost estimates, among other things, should be invited to contribute in a constructive manner to the development of cost study methodologies. If a universally accepted basic framework for evaluating costs was established, then negotiations and debates could revolve around *inputs* to the model, rather than its results.

The meeting ended with a communication of the urgency with which the region must work on costing methodologies, including the validation of the Bahamas Case Study.

The Seminar on the Bahamas Case Study was held in Bridgetown, Barbados, on 20-21 July 1998. In attendance were 59 participants representing Administrations and ROAs of 14 Caribbean countries.

The recommendations of the seminar are the following:

- Caribbean Administrations and ROAs should use the knowledge gained from the seminar to establish a platform for further discussion between both parties on matters related to accounting rates and regulatory reform and the advent of competition.
- The Bahamas Case Study should be submitted to the Focus Group with minor modifications, as a valid basis for the determination of transition arrangements for that country.
- Cost models developed for the Caribbean should be consistent with the peculiarities of local circumstances yet should be relatively simple to manipulate,

The priority activities of the Work Program of the Caribbean were itemized as:

- a) Analysis of the impact of changes in settlement rates on Caribbean economies to assist the work that is to be undertaken in the Focus Group with regards to the transition to cost oriented tariff;
- b) Determine scientifically (i.e. with the aid of appropriate cost methodology/ies) the actual per minute cost of delivering international service in the respective countries of the region; and
- c) Assessment of termination fees, as Caribbean countries are likely to support the termination fee concept currently under consideration at SG 3.

A series of workshops was scheduled to provide training to appropriate personnel in the region in cost related assessment techniques.

Following the seminar in Bogota, a workshop has been held in Managua, Nicaragua, (21 - 25 September 1998), with the participation of different telecommunication organisations from Costa Rica, El Salvador, Guatemala, Honduras and Cuba (fixed and mobile operators, regulatory bodies). As a conclusion of the meeting, a model for the assessment of the telecommunication services costs had been elaborated and agreed upon. This model is based on a long run marginal cost analysis. The participants have agreed to perform cost simulations on the basis of the model with their specific date. A debriefing seminar will be organized in order to compare the results and derive the appropriate conclusions. Relevant figures at regional level are expected to serve the purposes of SG3.

Two workshops were held in the Caribbean Region (Surinam, 5 - 7 October 1998, Barbados 12 - 14 October 1998) to train and assist personnel from Administrations and ROAs in Caribbean countries for formulating an appropriate methodology to cost international services. A third workshop is scheduled in Grenada at the end of November 1998. At both workshops there was overwhelming support for the continued assistance of the BDT Cost and Tariff expertise to

undertake cost assessment. The participants all expressed the need to undertake case studies in their countries. Specifically, analysis of data from Trinidad and Tobago, Barbados and Belize are being carried out by the BDT expert for the preparation of case studies and are in advanced stages. The calculation of a termination fee for Trinidad and Tobago is also in an advanced stage of development. The Chairman of the Board of TELESUR (Surinam) has requested the BDT's assistance for a cost study.

AFRICA REGION

A Seminar was held in Dakar, Senegal, (15 - 17 July 1998) to present the Senegal and Mauritania Case Studies and to validate the methodology. The seminar achieved its objectives in formalizing an interim method for calculating telephone service cost with a view to contributing to the work of the Focus Group. The general principle of distributing costs by telephone service according to traffic was validated and the marginal cost methodology was rejected. The participants argued that it did not reflect the real cost structure of their "nascent" networks. Participants were invited to participate in two workshops to implement the adopted method, provided that they could gather the necessary traffic and financial data.

Two workshops were held for African French-speaking countries, one in Yaounde, Cameroon, (17 - 21 August 1998) with five countries from Central Africa and another in Bamako, Mali, (24 - 28 August 1998) with seven countries from Western Africa. They obtained ranges of costs that are consistent with those coming from a "near best practice" methodology, although they are several times lower than their current prices. There is a large difference between the two extreme figures from 0.211 SDR to 0.612 SDR (Average 0.380) and the participants are thinking that in such a case an approach based on country by country target-setting, is more appropriate after a multinational negotiated framework has been adopted for the transition beyond 1998.

A Seminar for English-speaking African countries is scheduled from 24 - 27 November 1998 in Nairobi, Kenya for presentation and eventual validation of the Zimbabwe, Lesotho and Uganda Case Studies. The seminar will offer other examples of cost calculation (i.e. PATU/ARTC cost model, cost methodology adopted for the transition period by the French-speaking African countries). The seminar is associated with the Sub-Regional Group Meeting for designing a strategy for development of the region's cost methodology based on an analytical costing system. The work of the Sub-Regional Group will be carried out in close cooperation with the TAF Group Management present at the seminar (President and Vice-President of the TAF Group).

The sub-regional groups should take into account the work already undertaken during the TAF Group Meeting, specifically the work done for an "African Cost Model".

ASIA PACIFIC REGION

A Seminar on Accounting Rate Reform was held in Bangkok, Thailand, (17 - 18 September 1998). More than 21 countries from the Asia Pacific Region were represented.

This two-day seminar furnished delegates with information, discussion and analysis on accounting rate reform. Delegates learned more about the changing international telecom environment, reports of the ITU Focus Group, and the methodology and application of the TAS Costing Model. Case studies, particularly for India, furnished examples, issues and benefits of considering cost based accounting and pricing of services. Comparative analysis of case studies and comparison with the FCC's TCP results, as well as panel discussions, furnished a framework within which delegates could consider their own cost accounting. Review of alternate cost methodologies, including cost proxies and best practices, highlighted current trends and options available to regulators and policy makers. Panel discussion of the implications of cost based accounting for Asia and the Pacific countries placed the current activities within a global perspective and emphasized the relative importance of using costing for operational and strategic planning purposes.

It was felt that the TAS model needs to be refined and modified to suit the data available to different telecom operating companies. Many participants pointed out that the conflicting demands of tariff rebalancing must be achieved in such a way that it does not result in many low-income people being deprived of access to communication technology. Overall, in the region, there was broad support for the proposed "best practice approach" though this would

evidently need to be modified in cases where the application of a cost model shows actual costs to exceed best practice (as in the case of several Pacific Islands).

A number of small developing countries in the Asia Oceanic Region have indicated that they require assistance in applying TAS costing methodology and are of the view that the specific settlement compensation levels, proposed by the FCC, may be below their actual operating costs.

A workshop, held in Port Vila, Vanuatu, 27 - 28 July 1998, was undertaken as a "preparatory" workshop in connection with country-specific assistance to four South Pacific developing countries in the application of the TAS costing methodology. Twenty-two participants representing 14 Island countries of the Pacific attended the workshop.

The preparatory workshop was the first phase of a three-phase program related to the ITU/BDT's follow-up activities from the World Policy Forum-98. The overall objectives of this particular program for the Pacific area of the ITU's Asia-Pacific Region are as follows:

- 1) to foster settlement reform and the application of "cost-based" accounting rates;
- 2) to assist operators in developing countries in the process of determining the cost of terminating international traffic;
- 3) to provide input to the ITU Focus Group on Settlement Reform; and
- 4) to foster the use of the TAS Group costing methodology by responding to requests from operators in small developing countries for assistance in employing the methodology;

To achieve the above-mentioned objectives, the following outputs were identified which make up the three phases of activities associated with this project:

- a) Preparatory workshop: before undertaking the country case studies the workshop will provide a forum to discuss the study approach, the related issues, seek input and specify, review and discuss the data input requirements for the studies;
- b) Conduct four costing studies employing the basic TAS methodology in cooperation with operators in small developing countries of the Pacific;
- c) Concluding Workshop - to present the results of the cost studies to the participating countries and other country representatives from developing economies of the Pacific and to seek input on the final report for the Focus Group.

The Preparatory Workshop provided an effective forum for reviewing the overall subject of settlement reform with representatives of the developing economies of the Pacific and also providing an overview of the TAS Methodology prior to undertaking the four country-specific assistance program in the application of the methodology.

However, more importantly, it provided a forum in which to raise and discuss issues related to settlement reform in general, the application of the TAS Methodology, and the identification of some of the unique costing, revenue and settlement issues which concern the Governments and Operators in the developing economies of the Pacific.

Direct assistance was provided to operators of four countries (Cook Islands, Federated States of Micronesia, Marshall Islands and Vanuatu) in the application of the TAS costing methodology. The results range from a total cost of 53 to 99 US cents per minute with an average of 69 cents per minute. In terms of the individual network component costs, the international

transmission component cost ranges from 18 to 35 US cents, the international switching component from 7 to 23 cents and the national extension component from 18 to 41 cents.

The concluding workshop for the Pacific Oceanic Region was held in Fiji on 19 - 20 October, 1998. The meeting produced a document consisting of a Pacific Resolution and suggesting the document to be transmitted to the Focus Group. This document is available in the Focus Group Reflector as contribution No. 59 and the concerns of small island states have been reflected in the draft contribution of the Focus Group to SG3..

ARAB STATES REGION

Recently the Arab States have decided that they could not continue with the same criteria that the European Countries use in calculating costs and tariffs. They decided to create a regional tariff group for the purpose of defining their own cost model, in order to adopt international tariffs based on their real costs. BDT was requested to provide training and assistance to formulate an appropriate methodology to estimate unit costs of international voice telephony.

A seminar is scheduled tentatively in Oman on 28 - 30 November, 1998. During this seminar experts from other regions will provide their experiences of implementation of a cost methodology within their regions. The goal of the seminar is to convince participants from the Arab States that the process of analyzing costs should be based upon actual experience of countries with a similar economic and telecommunication development, as well as on their own experience. Commonly accepted cost study methods should serve as the basis for case studies in the Arab States Region. The objective of these case studies should be to converge upon a workable set of analytical tools that are sufficiently flexible and robust to be applied to any country in the region for purposes of assessing appropriate costs and ultimately negotiating revisions to settlement rates.

3. Summary: BDT Contribution to the Focus Group

This report has indicated some of the many ways in which the BDT has provided support for the Focus Group. To summarise, the BDT has helped:

- To **broaden participation** in the work of SG3 and the Focus Group, by providing fellowships to participants from the Least Developed Countries;
- To **analyse the impact** of changes in the international telecommunications environment, by commissioning and validating country case studies;
- To **provide data** to assist the work of the Focus Group, from the World Telecommunication Indicators Database as well as from the country case studies;
- To **provide a forum for discussion** of accounting rate reform issues, through the programme of regional seminars;
- To **offer assistance to Members**, notably through the work of tariff experts in developing cost-accounting frameworks and utilising cost methodologies;
- To **raise awareness** of the Focus Group's work, through its programme of regional seminars;
- To **highlight the difficulties faced by particular groups of developing countries**, such as the Small Island States.