

# Digicel

The Bigger, Better Network.

*Comments by Digicel (Barbados) Limited*

regarding:

**Fair Trading Commission's Public Consultation:**

**"Reference Interconnection Offer"**

**13 March 2009**

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## **1 ISSUES DISCUSSED IN THIS SUBMISSION**

In this submission Digicel (Barbados) Limited addresses all aspects of Cable & Wireless (C&W) tariff schedule – including: the pricing of the joining service; PSTN terminating access service; Special Access Services; and PSTN Transit services. We also include a discussion of the possibility that an access deficit charge (ADC) might become payable by including this option in the RIO.

## **2 TERMINATION SERVICE**

### **2.1 PSTN Terminating Access Service**

A C&W charge of BBD \$0.0402 (2.1 US dollar cents) for call setup is exorbitant. It is many times in excess of the cost of the resources involved in call setup. Digicel wishes to dispute this value. We show some information about call setup costs from Scandinavia and C&W in Jamaica in the Appendix.

The call duration charge is non-transparent and Digicel wishes to dispute it. The interconnection specific charge, which is also a call duration charge, is not transparent. We doubt it relates a time driven cost. Digicel wishes to dispute it as well.

Similarly, for the transit charges under PLMN: C&W effectively refuses to connect on the basis of ‘mobile to mobile’ networks. While C&W would argue that mobile termination rates (MTR) are reciprocal, C&W in fact charges non cost-based transit charges on top of the MTR and provides no transparency as to the categories that make up this or other transit related charges. Digicel wishes to dispute these charges.

### **2.2 Special Access Services**

All the services in this category appear to be charged well above the costs that have been estimated in jurisdictions that have substantially higher labour costs than Barbados. DQ duration costs are likely to be little more than half the amount C&W charges Digicel. Moreover, the call set-up charges are exorbitant. It seems impossible that they bear any relation to the actual costs involved. Digicel wish to dispute these values.

The UK has a competitive market for calls for directory assistance. We are told that the volume weight average price of calls from fixed lines (which will not involve mobile origination costs) is closer to 20 than 30 pence per minute. Looking at the table in the Appendix seems to confirm this. There are per call costs in some cases, but those firms that do charge this fee charge a much lower per minute fee.

By taking 23 pence as an average we get BBD \$ 0.84 for 1 minute using the 500 day average exchange rate. This is cheaper than in Barbados even though UK wage rates, that are the single largest cost component of running a call centre, are approximately three

times those in Barbados.<sup>1</sup> This raises more than a suspicion that C&W is charging Digicel excessively for special access services.

### 2.3 PSTN Transit Service

Digicel is currently paying outrageously excessive fees for transiting calls from C&W to BMobile, TeleBarbados and BLUE. These fees are as follows:<sup>2</sup>

<b>Call setup charge</b>	<b>Call duration charge</b>	<b>Interconnection specific charge</b>
BBD \$ per call	BBD \$ per 60 secs	BBD \$
0.031	0.005	0.006

BBD \$0.031 per call for call setup for a transit service is exorbitant. It is well above the cost of complete call setup in a fixed network, and we are informed that a transit service of the type provided by C&W will involve substantially less processing power than is used for complete call setup in a fixed network. Digicel thus wishes for this issue to be addressed as part of a debate concerning a new RIO.<sup>3</sup>

Normal interconnection call setup fees for calls that go to any of the tens of thousands of possible PSTN end-user destinations are very much lower in other jurisdictions than the setup fees C&W Barbados is currently charging Digicel for its transit traffic. They are less than one sixth for C&W Jamaica and about one fifth of the C&W Barbados charge in Sweden (see the information in the annex to this document).

Moreover, these setup prices are for normal calls that terminate on the PSTN. The transit service Digicel is required to purchase from C&W because C&W will not effectively agree to mobile to mobile interconnection, has only 3 destinations (BMobile, TeleBarbados and BLUE), meaning that C&W's PSTN switch can and should have been configured so that a transit call only uses a fraction of the processing capacity that is required to set up a 'normal' call – one that goes to any of the roughly one hundred thousand end-user destinations. Digicel has grave concerns that either C&W has never yet optimised its switch for Digicel transit traffic, or is charging Digicel as if it had not.

The interconnection specific charge is also of highly dubious legitimacy in level and fact. A detailed explanation of what these fees represent has never been made available to

<sup>1</sup> GDP per capita in Barbados is 30% of what it is in the UK – see the data in the annex to this document. We believe UK wage rates are likely to also be about 3 times those in Barbados.

<sup>2</sup> US\$ cent values are below:

<b>Call Setup charge</b>	<b>Call duration charge</b>	<b>Interconnection specific charge</b>
US\$ cents per call	US\$ cents per 60 secs	US\$ cents per 60 secs
1.15	0.25	0.3

<sup>3</sup> Digicel has heard that some C&W cost figures submitted to the FTC were FDC cost coming from C&W's accounts. Notwithstanding the fact that Digicel doubt whether existing RIO interconnection costs coincide with C&W FDC accounting costs, such costs do not represent economic costs and can diverge substantial from the actual economic costs involved

Digicel. Among other things, we need transparency and, with the relevant information provided, we would be in a better position to assess these figures. Digicel disputes these charges.

### **3 NO ACCESS DEFICIT**

No access deficit charge (ADC) scheme has ever operated in Barbados.

As a matter of accuracy, an access deficit concerns the access network which runs from the customer premises up to the line card. It represents the non-traffic sensitive costs in a network.

The concept of an ADC scheme is based on a theoretic economic model developed by academics. It has never been a practical or workable proposition in a liberalised telecoms sector.

Even when expertly designed, ADC schemes are unsustainable. In practice, any ADC scheme would unavoidably be a costly compromise, such that the academic theory would not be practised on its merits. Digicel's view of ADC schemes, which we believe is shared by regulatory economists who work in the field, is that even an expertly designed ADC scheme will create more problems that it solves.

Even the Oftel scheme in the UK (the first in a competitive market) which was introduced in the early 1990s and abandoned as unworkable in 1996, was recognised as being incorrectly designed, soon after its adoption. From 1998, ADC schemes became illegal in the EU, not least because of their unavoidable complexity, lack of transparency and the problems they caused for the development of competition.

It is important to recognise that even if there is an access deficit (which we dispute), competitors that provide their own access service such as mobile networks or triple-play fibre-coaxial networks should not pay an ADC.

In their report to the European Commission the Scientific Institute for Communication Services *Wissenschaftliches Institut für Kommunikationsdienste* (WIK) and consultants Cullen International WIK wrote,

*“In practice, therefore, ADC schemes are policies that can be developed on paper but come with an acute risk that they would not be operated as envisaged by theory, and would thus give rise to additional economic distortion”.*<sup>4</sup>

In a liberalised environment, ADCs are inevitably anticompetitive, inefficient and contrary to the public interest. It is not possible to design and operate a scheme which

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<sup>4</sup> “Study on Universal Service in the Accession Countries,” (2001), © ECSC – EC – EAEC, Brussels – Luxembourg, 2001, p.55.

fully corrects for economic distortions caused by mandated cross-subsidies. If there is an access deficit in Barbados (which Digicel disputes) a commitment to tariff rebalancing is a must. It is the only palatable remedy; it is the strongly recommended policy of the World Bank and the ITU.

*“Tariff rebalancing is a necessity for all governments and operators.”<sup>5</sup>*  
*“Tariff rebalancing is a fundamental aspect of a competitive market”.<sup>6</sup>*

A summary of the grave shortcomings of ADC schemes in general are:

- ADC schemes cannot be designed to take account of all the ways firms can find to by-pass the rules, and will be the cause of costly economic distortion
- Especially in developing countries, mobile networks provide access to far more people than do fixed incumbents; as mobile networks are also providing access, they should thus also receive ADCs
- Before an ADC scheme can be designed and implemented, an accurate measure of the incumbent’s forward-looking access deficit (AD) is required. This cannot be obtained from the incumbent’s accounts.
- Few regulators in the world have the expert economists needed to design and operate an ADC scheme on its merits. Such complexity means that ADC schemes have no transparency

An ADC scheme has never operated in Barbados and it is not in the public interest that one be introduced now. It is a concept that was derived by academics for an earlier error when analogue mobile networks were just starting out, and when there was virtually no access competition. The facts on the ground are much different now in comparison to 20 years ago, making any ADC scheme even more inequitable, distortionary and anticompetitive than when first devised.

## **4 CONCLUSION**

Digicel wishes to thank the FTC for the opportunity to comment on this important matter. Digicel looks forward keenly to the next step in the process.

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<sup>5</sup> ITU-D, Study Group 1, Second Study Period (1998-2002), Final Report, p.5: <http://www.itu.int/pub/D-STG-SG01.12-2002/en>

<sup>6</sup> *Ibid*, p.27.

## APPENDIX

### Setup prices from other jurisdictions

#### Sweden

	Start(Set-up) SEK/call
Calls within major metropolitan areas	0,0275
Other calls	0,0285

	Start(Set-up) Bd\$/call
Calls within major metropolitan areas	0.00626
Other calls	0.00649

#### Norway

	PSTN termination setup fee (NOK)
Peak per call	0.054
Off-peak per call	0.054

	PSTN termination setup fee Bd\$/call
Peak and off-peak per call	0.0154

#### Denmark

	PSTN termination setup fee (local) (DKK)
Peak per call	0.02
Off-Peak per call	0.02

	PSTN termination setup fee (local) (Bd\$)
Peak per call	0.00683
Off-Peak per call	0.00683

#### Jamaica<sup>7</sup>



Local		
Call Setup charge J\$		
Peak	Off-peak	W-end
0.236	0.164	0.118
Call Setup charge Bd\$		
Peak	Off-peak	W-end
0.00523708	0.003639	0.002619

<sup>7</sup> C&WJ RIO 5 Tariff Schedule March 2003

## UK prices to call for directory assistance<sup>8</sup>

<i>tel no</i>	<i>company</i>	<i>connection charge</i>	<i>call cost</i>	<i>number of searches</i>
118800	<a href="#">Directory Enquiries UK</a>	none	19p/min	unlimited
118888	<a href="#">118888</a>	none	20p/min	unlimited
118811	<a href="#">One</a>	none	30p/call	1
118877	<a href="#">Telco</a>	30p	5p/min	1
118111	<a href="#">One.Tel</a>	none	35p/call	1
118099	<a href="#">Cable &amp; Wireless</a>	none	35p/call	1
118247	<a href="#">Yellow Pages</a>	none	40p/min	unlimited
118000	<a href="#">Orange</a>	none	49p/1st min 20p/min thereafter	3
118499	<a href="#">Share UK</a>	25p	30p/min	2
118180	<a href="#">Telewest</a>	25p	30p/min	2
118119	<a href="#">192.com</a>	25p	30p/call	2
118500	<a href="#">BT UK</a>	25p	30p/min	unlimited
118404	BT Wales (in Welsh)	25p	30p/call	unlimited
118866	<a href="#">118866</a>	49p	9p/min	unlimited
118118	<a href="#">The Number</a>	49p	9p/min	unlimited

## GDP per Capita – Barbados \ UK

Country	Rank	IMF <sup>[1]</sup>	Rank	WB <sup>[2]</sup>	Rank	CIA <sup>[3]</sup>
 <a href="#">Barbados</a>	50	13,701	—	N/A	52	13,395
 <a href="#">United Kingdom</a>	20	45,681	12	44,693	21	45,731

<sup>8</sup> See [http://www.adcall.com/directory\\_enquiries\\_uk\\_118.html](http://www.adcall.com/directory_enquiries_uk_118.html)