CARITEL's Reference Interconnect Offer submission, 2009

Successive governments have pursued policies and stated support for market reform and competition to enhance Barbados' competitiveness.
They have recognised that consumers and business benefits when rates are cost-based and new services introduced that will benefit the community at large.
Interconnection and by extension a Reference Interconnect Order that is updated regularly, is recognised by governments internationally as an essential tool to promote competition, ensure continued investment in the market, resulting in increased employment and permitting new service offerings.
As a signatory to international accords such as the Millennium Development Goals (MDGs) which expressly include a target of increasing a society's access to the Internet, the World Trade Organisation (WTO) and the goals of the World Summit on the Information Society (WSIS) Barbados has made it clear that competition and effective regulation have vital roles in promoting social and economic development.
This is no more urgent than in these current times where competitive rates, including termination rates, and an enhanced, competitive telecommunications environment hold out the bright possibilities of aiding in the government's response to the global economic meltdown.
The current review of the RIO as submitted by LIME (formerly Cable & Wireless (Barbados) Ltd) provides a timely opportunity to review termination rates that CARITEL considers to be woefully out of touch with reality and are no longer related to changes in costs, and increases in efficiency and productivity by LIME.
We note that consolidation of the RIO involves a review of separate arrangements which date back as far as January 22nd, 2004.
LIME has however been inclined to proposed that the former rates, which we consider as outdated for its times, be retained for an indefinite period.
Some regulators, recognising the dynamic nature of the telecommunications industry, review Interconnection agreements as frequent and bi-annually. They recognise that competition and efficiencies are driving down cost inputs, such as plant and equipment. They further recognise that emerging services must be implemented quickly for economies and societies to benefits from them and when enjoined with fair and accurate rates that are consistent with the times such services provide a boon to citizens.
The Reference Interconnect Offer consequently provides an opportunity to substantially review the old arrangements. Such as review, including provisions for new services, could benefit citizens, the business sector, tourists and local and international investors. However, if a RIO is not improved to reflect new service offerings and alternative methods of regulation it has been widely accepted internationally that an entrenched incumbent monopoly may be inadvertently allowed to restrict the growth and delivery of services of its competitors, maintain unjustifiably high rates and retard innovation and social and economic development.
Morten Falch (February 2004), in a paper entitled "Cost based Interconnection charges, competition and investments", found that generally, lower interconnection rates fostered competition in Denmark and other European Union countries.

Successive governments of Barbados have expressed an abhorrence of monopolies which maintain prices that are inexplicably high and support a competitive marketplace where the consumer is a true beneficiary.

Prime Minister David Thompson, speaking on CBC TV recently, made a direct inference to LIME when he attributed high telecommunication rates to a monopoly.

CARITEL, in its ongoing analysis of the Barbadian telecommunications sector over more than 17 years, concurs with this assessment by the Prime Minister Thompson. In our submissions to the Fair Trading Commission on the Price Cap and our ongoing research shows that LIME (formerly trading as Cable & Wireless Inc.) has maintained unjustifiably high termination rates. We note that incoming termination rates are less than 0.0010 cents (US) and have been low for many years. While these rates remain significantly lower than the termination rates which have an impact on what consumers and businesses are charged there has been no pass-through of benefits to consumers and business as a consequence of significantly lower termination rates which should be an important factor in what customers are charged as retail long distance rates.

CARITEL continues to argue that LIME has significantly reduced its costs locally, increased its productivity and efficiency substantially, through sustained layoffs and other measures, including outsourcing and reduced costs for assets such as ownership of office buildings.

LIME's ability to sustain reductions in costs, increase efficiency, productivity and net income, has also been cited by research published by the University of the West Indies (UWI) at Cave Hill.

This is supported in Table 1. below, published in a paper entitled "Price Cap Regulation of Telecoms in Barbados" in the Journal of Eastern Caribbean Studies (Vol. 32, No. 3, September 2007) by the Sir Arthur Lewis Institute of Social and Economic Studies (SALISES). Updated data supplied by University Economist Dr. Winston Moore, who has contributed to this analysis, shows that for 2008, Return on Equity (calculated as a percentage) was 40.8 while Return on Equity reached a four-year high of 27.1 per cent.

Table 1: Profitability of Regulated Company

Indicator	1999	2000	2003	2004	2005	2006	2007
ROE (%)	34.2	32.7	-19.7	-13.2	42.2	42.6	44.3
ROA (%)	12.5	13.2	-9.7	-6.5	20.9	23.9	25.9
International (% Assets)	24.2	21.4	27.2	38.1	29.3	26.5	27.8
Domestic (% Assets)	28.9	31.2	55.1	71.0	63.3	57.3	51.1
Mobile	n.a.	n.a.	n.a.	n.a.	17.1*	18.9*	19.0*
Broadband	n.a.	n.a.	n.a.	n.a.	1.9*	3.4*	3.5*
Domestic Voice	n.a.	n.a.	n.a.	n.a.	44.3*	35*	35.2*
Information (% Assets)	3.0	3.3	2.2	1.8	1.2	0.5	2.0
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Assets ($Mil)	297.0	309.9	429.0	336.4	393.1	421.5	443.8
Equity ($Mil)	108.4	124.6	211.3	164.9	194.1	236.4	259.1
Net Income ($Mil)	37.1	40.8	-41.6	-21.8	82.0	100.7	114.8

Source: Cable and Wireless' Reports and Hope and Moore (2007)

These achievements are partly attributed to its outdated Reference Interconnect Order which does not reflect the true costs associated with delivery of service.
While the company has also benefited through amortisation and depreciation of legacy equipment the virtually unchanged, proposed converged Reference Interconnect Offer is designed to maintain the company's status quo without reflecting new service offerings, reduced termination rates and its reduce costs.

CARITEL understands that there has been no new commissioning of DMS switching plant since December 1998 when two switches were commissioned. Information from the FTC records on the 2002 hearing on a represcription of the useful lives of the assets and plant in service for what is now LIME indicates that all DMS 100 switches were retired during 1991-1998 because they were incapable of delivering service. Given the 10 year approval for the lives of switching equipment, the lack of investment and an understanding that the merger of the former companies Barbados External Telecommunications (BET) and BARTEL may have led to excess switching and other capacity it appears reasonable to suggest that LIME has over the years achieved excessive profits from its plant and equipment.
The FTC should also consider whether LIME has excess conduit capacity that is not used and has been amortised over time.
Our review of the draft consolidated RIO finds that virtually all of the termination rates and charges contained in the separate RIO documents have been retained in the proposed consolidated RIO without any consideration of changes in circumstances in more than five years.
As a consequence of a virtual halt in investment in new landline services the only hope for new investment and providing service to citizens, including young entrepreneurs whose needs for Internet service remain unmet, resides in TeleBarbados Inc. and its capacity to finance new network development to both so-called rural areas as well as residential communities.
A review of the Cable & Wireless Jamaica RIO, April 2004, suggests a level of granularity in the costs associated with termination charges which is not reflected in the consolidated document under review. For example C&WJ RIO 5A Page 8 (eight) provides early termination charges for towers, including 80 foot wooden poles, to provide various services.
The benefits of similar empirical analysis by the FTC which could lead to lower termination rates for new entrants or competitors to LIME (Barbados) and consequently result in lower charges to competitors which could be passed on to consumers in the form of lower retail rates for services.
We believe that if business is to grow and education enhanced through access to modern communications, if consumers are to have access to new services and possibly improved quality of service from new entrants and the incumbent, that major changes are required to the draft Reference Interconnect Order.
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We would also ask the FTC to consider the value of criticism from at least one consumer and we understand one service provider of the previous Reference Interconnect Offer that it excludes international call termination from fixed lines. We ask the Commission to review this in the interest of the stated government policy of increasing competition and providing lower service charges to consumers.
We feel that it is opportune for the Commission to be flexible in the RIO and the way carriers are paid for termination.

Recommendations :

1. That termination rates in a new Reference Interconnect Offer are cost-based and reflect at least a 60 per cent reduction of current rates.

2. That the new RIO reflects greater granularity of detail in rates which are cost-based.

3. That the following new services and appropriate cost-based tariffs are provided for : Calling Cards; Two-Stage Dialing; Indirect Access.

4. That the Commission in future research Next Generation technologies and services which may require Interconnection and a determination of cost-based rates.

5. That the Commission carefully scrutinises the proposed RIO to ensure that legal text that would support LIME's market dominance and that is inconsistent with a competitive telecommunications market is removed.

6. That the Commission considers whether the absence of a category for international call termination from fixed lines inhibits competition and, if so, that it makes provision for such a category with cost-based rates.

6. That where appropriate the Commission considers implementing Bill and Keep and other methodologies of inter-carrier payments that foster competition.

7. That in future more time be provided to consumers to consider such voluminous documents which require substantial time and expertise for research and analysis.

(ENDS)