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SERIES D: GENERAL TARIFF PRINCIPLES

Recommendations for regional application –
Recommendations applicable in Latin America

Accounting rates applicable to direct traffic relations in voice telephony between countries in Latin America and the Caribbean

ITU-T Recommendation D.400R

(Previously CCITT Recommendation)

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ITU-T RECOMMENDATION D.400R

ACCOUNTING RATES APPLICABLE TO DIRECT TRAFFIC RELATIONS IN VOICE TELEPHONY BETWEEN COUNTRIES IN LATIN AMERICA AND THE CARIBBEAN

Summary

This Recommendation establishes the base for negotiation of accounting rates which apply to countries in the TAL Group.

The TAL Group had decided to revise the maximum level of accounting rates stipulated in Recommendation D.500R on the basis of the results of the 1999 accounting rate survey in the region. The cost model/methodology developed by this Group is also annexed as an appendix to this Recommendation.

Source

ITU-T Recommendation D.400R was revised by ITU-T Study Group 3 (1997-2000) and was approved under the WTSC Resolution No. 1 procedure on 17 December 1999.

FOREWORD

ITU (International Telecommunication Union) is the United Nations Specialized Agency in the field of telecommunications. The ITU Telecommunication Standardization Sector (ITU-T) is a permanent organ of the ITU. The ITU-T is responsible for studying technical, operating and tariff questions and issuing Recommendations on them with a view to standardizing telecommunications on a worldwide basis.

The World Telecommunication Standardization Conference (WTSC), which meets every four years, establishes the topics for study by the ITU-T Study Groups which, in their turn, produce Recommendations on these topics.

The approval of Recommendations by the Members of the ITU-T is covered by the procedure laid down in WTSC Resolution No. 1.

In some areas of information technology which fall within ITU-T's purview, the necessary standards are prepared on a collaborative basis with ISO and IEC.

NOTE

In this Recommendation, the expression "Administration" is used for conciseness to indicate both a telecommunication administration and a recognized operating agency.

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As of the date of approval of this Recommendation, the ITU had not received notice of intellectual property, protected by patents, which may be required to implement this Recommendation. However, implementors are cautioned that this may not represent the latest information and are therefore strongly urged to consult the TSB patent database.

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Recommendation D.400R**ACCOUNTING RATES APPLICABLE TO DIRECT TRAFFIC RELATIONS IN VOICE TELEPHONY BETWEEN COUNTRIES IN LATIN AMERICA AND THE CARIBBEAN***(Melbourne 1988; revised in 1999)*

It is recommended that subject to their sovereignty, Administrations of the countries of the Tariff Region of Latin America and the Caribbean, when negotiating agreements among themselves to establish accounting rates in respect to their direct telephone relations, should give consideration to the following:

- 1) In traffic relations, where analytical cost data are available through the application of a cost model/methodology approved by TAL (see Appendix II), such data should form the basis for multilateral negotiations as provided for in the ITU Regulations and Recommendations D.140 and D.150.
- 2) Where relevant cost data, as referred to in 1) above, are not available, the median of a sample of published accounting rates in the TAL tariff survey, as in Appendix I, should be used as a basis for bilateral negotiations as provided for in the ITU Regulations and Recommendations D.140 and D.150. Appendix I will be revised annually.
- 3) Administrations of countries that will be subject to extreme economic difficulties in implementing the rates suggested in Appendix I should be allowed phased transitional arrangements towards the suggested target rate that applies to the country.
- 4) The Administration of each country seeking concessional arrangements under 3) above is responsible for providing the relevant evidence, when required in support of its case.
- 5) Notwithstanding 2) and 3) above, each Administration should work expeditiously to make available analytical cost data to implement the proposed amendments to Recommendation D.150.
- 6) As a further transitional arrangement, accounting rates for exchanging traffic among countries of the TAL Region should not be set at levels above those that apply to traffic exchanged with countries outside the TAL Region, unless there is a justification.
- 7) In exchanging traffic, Administration may bilaterally agree to arrangement other than 50/50 sharing of accounting rate.

APPENDIX I**Maximum accounting rate**

The recommended maximum accounting rate per minute is 0.68 SDR.

**Documents**

Document Sharing Hub

APPENDIX II

Methodology for evaluating cost of an international call for TAL members

II.1 Introduction

Most of the Administrations in the TAL region are aware that recent international developments have accentuated the need for the application of appropriate cost accounting methodologies to calculate the actual cost of telecommunication services. This is to ensure that tariffs are reflective of associated costs. Detailed cost accounting in telecommunications is no longer an elective pursuit, it is a compulsory exercise. In the circumstances, TAL has developed a methodology which can assist the TAL countries in estimating the cost per minute of International Message Telephone Service (IMTS) and their respective termination charges.

This appendix is separated into five subclauses:

- Subclause II.1: Introduction.
- Subclause II.2: General overview. It provides a general overview of costing methodologies, the need for compliance with the principles under ITU-T D.140, special characteristics of economies in the region and the formula for calculating per unit cost and termination charge.
- Subclause II.3: Description of the methodology. It provides a description of the methodology adapted by TAL members taking note of subclause II.2.
- Subclause II.4: Detailed checklists. It provides a detailed checklist of the investment items and their associated cost to be included in the determination of the different elements of the cost of an international call (international transmission, international switch and national extension).
- Subclause II.5: Working example. It provides a working example of the application of the TAL costing methodology. It is recognized that the format and the allocator(s) adopted by any member of TAL in their efforts to determine the cost of an international call may differ. The principles noted under subclause II.2 however are expected to be maintained.

II.2 General overview

II.2.1 Brief review of methodologies considered

In developing the cost methodology to determine the price per minute of an international call for the TAL region, a number of cost models were considered including:

The Ramsey Method

A derivation of tariff based on marginal utility. This model allows for the coverage of fixed and variable costs where price elasticity is unresponsive.

The Incremental Cost Method

Which equates tariff to cost of production of the additional unit of the good or service. Added to unit cost is an allocated share of common costs, excluding administrative costs.

The Marginal Cost Method

A calculus of costs that includes operational and maintenance costs, depreciation, the financial cost of servicing debt or the opportunity cost with respect to the capital invested as per the last unit of the good or service produced.

The TAS Model

Which denominates unit cost in terms of investment and operating costs, shared costs which include direct and indirect R&D costs, i.e. the application of a FDC Approach.

The Fully Distributed Cost (FDC) Method

Accounts for unit cost on the basis of fixed and variable costs giving due cognizance to externalities.

Whatever method is applied, costing a telephone call remains the most controversial aspect of international settlement reform. The Accounting Rates Principles for International Telephone Services, as recommended under ITU-T D.140, prescribes that accounting rates for international telephone services should be cost-originated and should take into account the relevant cost trends in terms of network, financial and overheads costs.

The guidelines set forth under Recommendation D.140 for the cost elements when determining the cost of international telephony are the following:

- international transmission facilities;
- international switching facilities; and
- national extension.

International transmission facilities involve:

International terrestrial transmission or international submarine and/or international satellite transmission; cable-landing stations, national links between these facilities and the international exchange.

Switch – international switch center and associated transmission and switch signalling equipment.

National extension network consists of national exchanges and national transmission facilities and, where appropriate and identified by mutual or multilateral agreement, the local loop.

D.140 stipulates that the operator's costs should be identified pursuant to world-based accepted accounting practices in terms of direct and indirect costs. Direct costs are analogous to investment, operation and maintenance, rental and lease of facilities, switched transit traffic and direct transit leasing costs where applicable and direct investment in research and development. Indirect or common costs are expenses that are not exclusive to the provision of international telephone service, including, general administration, management and accounting systems, other research and development and appropriate taxes. D.140 also allows for other costs to be included in the cost calculus, subject to bilateral agreement.

II.2.2 The way forward

In developing the cost methodology, elements were taken from most of the models in the reference above, in particular the TAS model. However, the fundamental concept that shaped the principal equation of the methodology for TAL members is based on certain socioeconomic characteristics that are common in Latin American and Caribbean economies and which impact significantly on the cost of delivering telecommunication services in these countries.

Cognizance was given to the fact that most, if not all the Administrations in the TAL region, operate less-than-full-capacity telecommunication operations. Less-than-full-capacity throughput indicates that long run "Parieto Optimality" has not been attained in the delivery of telecommunication services. As such average cost is above both incremental cost and marginal cost but may not be at the highest point on the long run cost curve. It is therefore analytically inappropriate to estimate cost of service for these telecommunication Administrations by applying models with inbuilt parameters based on assumptions of optimum efficiency. It must be borne in mind that the objective is to estimate the actual cost, not the expected cost therefore actual, audited accounts and information of a company's general ledger is recommended to be used to determine the price of an international call.