I have one major point to make and some comments on a few other points at issue.

What is this subject really all about?

The short answer is that the United States regulators (FCC) want other countries to do, to accomplish, something that they do not have the political will to accomplish in the U.S. To rebalance the sources of telecom Revenues using Ramsey. That action is clearly required for a fully competitive market to operate in a rational way. But, of course, if such prices were in effect there would be no reason for regulators to exist any longer.

We need to get some preliminaries out of the way:

1. No one will argue that economically efficient pricing is wrong.

2. There should also be no argument that no government wants to inflict economically efficient prices on their own voters if they can find a way to avoid it, regardless of how inefficient.

In leading into a discussion on international accounting rates, we should all remember that developed countries have used economically inefficient prices to develop their own telecom network infrastructures.

Now those governments who already have developed economies and developed telecom infrastructures (and this especially applies to the U.S. Government) do not want to allow developing countries to use the same path to telecom development that they used.

Now why is that? Because they (the developed countries) do not want the developing countries to use what they claim is their money to do it. So much for all of the claims of support for the objectives of the GII/GIS.

We have the same issue now being hotly contested within the U.S. I will give you two examples:

States like New York, Maryland and Massachusetts do not want to send their telecom dollars to Utah and Montana to support Universal Services. You can also read that to mean that the Utah and Montana
Governments do not want to have their voters paying market-clearing prices for the telecom services they already have.

Case Two: interexchange carriers like AT&T and MCI do not want their customers to pay for the costs of supporting Universal Services (read: local access lines).

What makes both of these cases interesting is that most of the population in the U.S. can clearly afford to pay market-clearing prices for local access lines, including those in rural areas. This has never really been an argument about economically efficient prices. It has always been a political argument—someone else should pay.

In many developing countries of the world, the ability to pay market clearing prices is clearly not a near term possibility. In most developing countries, the telecom infrastructure is woefully inadequate to reasonably serve the population of the country. For those who do have telecom service, the service is often so poor that it is barely useful.

In many of these countries, a significant majority of telecom revenues is now derived from international services—with a lot of that coming from accounting rate settlements. Such countries have few policy options. Yet the U.S. says (in the FCC Accounting Rate Order) that developing countries have to give up a major source of their total telecom revenue in less than five years.

It took the FCC that long to phase in a $3.50 residence subscriber line charge. The FCC became so exhausted with that bit of rate rebalancing effort that they have spent the last eight years trying to recover. They have done nothing since.

That rebalancing involved a small percentage of the total telecom revenue rebalancing required and an even smaller percentage of the total telecom revenue. Much remains to be done in the U.S. relative to rate rebalancing. Yet the FCC “orders” other countries to rebalance 50%–60% and up to 80% of a country’s total telecom revenue sources in the same 5-year period of time. The essence of the FCC order: Do what I say not what I do!

As I have indicated, developing countries have few policy options. Many of them recognize that the trends of technology (the capability to do more things cheaper) endangers their traditional sources of revenue—international settlements. Further, they recognize that telecom is a necessary element to the overall development of their economies. A policy decision in developing country of total open entry may allow the larger/multi-national business to be far better served. But how do they assure that the vast residential and rural areas become served when it is not clear that that segment of the population can pay market-clearing prices. Then what does a developing country do?

There is no empirical evidence that indicates that merely opening low per-capita income markets to competitive supply will be sufficient to develop a broadly available telecom infrastructure when current telecom development is measured at 2-5 lines per hundred of the population.
I have a paper that I wrote for another purpose that spends some time addressing this particular dilemma. It will be available with this paper.

Now I have a few comments on some of the other issues at hand.

First—there is a relationship between how the FCC operates in the international arena and how it operates on the domestic front.

1. It is always looking for ways to extend its jurisdiction.
   - The extraterritoriality of the FCC Accounting Rate Order is obvious. It attempts to set telecom pricing policy for every country of the world.
   - Domestically, in its Interconnection Order, the FCC tells the states how to price all their services.

In the domestic arena, however, we have a federal court - the 8th circuit court of appeals - that has told the FCC that they were wrong. That they had no such authority. I wonder – where is the equivalent of the 8th circuit court for the FCC’s accounting rate order?

2. Now why is the FCC bureaucracy looking to extend its jurisdiction?

There are several possibilities —

They know the right answers and want to share them with the rest of the world?

My guess is they are trying to stake out enough territory so they can still be around after competition is thriving and there is no obvious reason of them to exist. You think that can’t happen? The Interstate Commerce Commission (who had regulated the U.S. railroads so well in their competitive environment that virtually all of them went broke) survived for nearly twenty years after the Staggers Act removed much of their need and responsibility to regulate—but they continued to do it anyway.

U.S. Regulatory entities do not die. In their mind no market is ever sufficiently competitive to not need their guidance/direction.

My second observation.

How big is the accounting rate problem anyway?

It can’t seriously be considered a trade problem. Since when do trade people expect that sub-market by sub-market in each bi-lateral that there will be an equivalency of money flows. It just does not happen—and in trade circles is not expected to happen.

How much a part of the total of U.S. Accounting rate outpayments result from country direct services? U.S. International carriers have aggressively promoted these services. Their customers like them and everytime anyone uses them, the outpayments increase. Who created this “problem”—the U.S. Carriers. It is probably a very good business so they should not bitch about the cost of goods sold.
Third, there seems to be an implicit assumption that as accounting rates are reduced—collection rates will follow.

I am aware of not just a few international cases where accounting rates have been reduced while customer prices have increased – and that is from the U.S. end.

Another example comes from the U.S. Domestic scene. U.S. Local exchange carriers have reduced their per minute call origination/completion charges to interexchange carriers for five years in a row by over 9 billion dollars. Yet the major interexchange carriers increased basic long distance rates -- in lock step --six times for a total increase of 35%.

Where is the plan to assure delivery of public benefit if accounting rates are reduced?

A fourth observation—whatever happened to the idea of externalities? Remember the idea about telecom service becoming more valuable as more people become connected to the network, thereby, justifying some level of subsidy to encourage more people to hook up.

Do economic externalities stop when one gets to a national boundary?

A fifth and last observation—in its interconnection order the FCC said that it costs two-tenths of a cent for call termination. Yet in the accounting rate order it indicates a 19-cent settlement rate? What happens to the 18.8 cents difference? What the Accounting Rate Order is all about is the FCC using its powers to reduce the cost of business for U.S. based international carriers. The FCC does not care about the consequences on the other end.

My conclusions

- Government policy makers like the “idea” of economically efficient telecom prices not the reality.
- Economically efficient prices are necessary for a real competitive market to operate.
- Economically efficient prices are a result of a real competitive market if the market is allowed by government regulators to function.
- Government regulators want to sustain the results of a fully regulated market (i.e. An inefficient price structure with artificially low prices for voters and hidden subsidies) but have a market that they can claim is competitive due to the existence of a number of competitors but one that requires their continued guidance.

We all deserve better than that.