

# International Settlements: A Time for Change<sup>#,+</sup>

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**Abstract:** In the late 1970's, when competition was introduced in the United States, competitive forces pushed international telephone prices down. Lower prices resulted, *inter alia*, in an increase in international calls (and minutes) from the U.S. to countries whose prices were high relative to U.S. prices. This increase in minute volume in turn resulted in a significant increase in settlement payments out-flow from the U.S.

The U.S. is not the only country to experience settlement deficit. Several other countries, including Sweden, Australia and Japan, have growing deficits on settlement payments.

Three issues are involved in Settlements: The “correctness” of the procedure from the perspective of:

- Public policy
- Balance of payments and
- The operating companies.

The effects of call-back and/or resale business on the settlement process are addressed. The paper, then, examines alternative settlement policies: first-best pricing, bill-and-keep, benchmark and cost-based pricing. The modelling demonstrates that: a) call-back does not necessarily force lower accounting rates on monopoly carriers, indeed, call-back can exacerbate the settlement problem; b) cost-based pricing is the preferred approach to settlements; c) bill-and-keep and the fifty-fifty split of the accounting rate are both inappropriate on efficiency grounds; and d) settlements rates are set at monopoly prices under certain market structures.

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