



**Response**

**on**

**" Toward Universal Service/Access Obligation For  
Telecommunication Services in Jamaica"**

**to**

**Office of Utilities Regulations**

**By**

**Digicel**

**March 7, 2003**

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## **1 Introduction**

Digicel welcomes the opportunity to respond to the OUR's consultation document "Toward Universal Service/Access Obligation for Telecommunication Services in Jamaica". Telecommunications services have become an integral part of the Jamaican society especially with the de-monopolisation of the Telecoms sector. The introduction of competition in fixed and mobile services has seen a greater cross-section of the population having access to these types of services and the issue of the digital divide will now become more pronounced. Universal Service/Access initiatives will ensure that people, irrespective of socio-economic background will have access to at least some basic level of telecommunications service.

These policies while addressing the social issues, will also have to be cognisant of costing and funding of Universal Service. The implementation should not place an unfair burden on those designated to provide the service.

## **2 Legal framework**

The consultation document refers to the Telecommunications Policy of 1998 as well as the Telecommunications Act 2000. These however are currently under review for change by the Ministry of Commerce, Science and Technology. It is possible that the existing Act will be amended but more likely that a new Act will be passed.

Though Digicel is not aware of the specific timetable for completion of the new Policy or Act, we understand that these will be completed certainly before the OUR's Advisory is published in November. The new Telecoms Act in particular could contain provisions that relate to Universal Service. Though the general social policy objectives of Jamaica's Universality programme may remain unaffected, the implementation mechanism may be changed. For example, Digicel notes that the OUR explores 4 funding mechanisms in chapter 9. In our response to this section another mechanism will be put forward as a viable option for funding the provision of Universal Services.

### **3 Macroeconomic analysis, market efficiency and access gaps**

According to the OUR's own analysis there are approximately 77,238 fixed lines and 3,607 payphones which should have been in place since 2000. Digicel concurs with the Market Efficiency Gap assessment that these should be closed without any public financial subsidies. We note that there is no mention made of the obligation placed on C&WJ to install 217, 000 fixed lines. Digicel seeks clarification from the OUR on the status of these installations. i.e. Have these lines been installed? If they have not, does the 77,238 fixed lines represent the balance left to be installed. These should be addressed before any further assessment is done for the USO purposes.

***Q: The Office finds the concepts of Market Efficiency Gap and Access Gap to be useful tools for defining the nature of universal service/access objectives and obligations. The Office hereby invites comments on these concepts and their application in the Jamaican environment***

Based on the information presented in the consultation document, both the Market Efficiency Gap and Access Gap analysis seem to be useful tools. The Market Efficiency Gap analysis should provide a comparison between the effects of monopoly and competition on fixed line penetration. While the Access Gap analysis results should be useful in zoning in on the requirements for a Universal Service program.

Both are however dependent on the accuracy of the data gathered and the assumptions used. For example, in para 3.10 the OUR refers to “households....being served by fixed line.”, then goes on to say that “ the number of households being served may increase significantly given the current trend in the mobile market”. The last sentence is confusing as it is our understanding that telephone penetration referred to fixed line access per household and not mobile access. Including the latter in the analysis will no doubt change its outcome.

#### **4 Basic Voice Telephony services and Payphones**

In para 4.4 the OUR has given various statistics related to the use of mobile phones and the impact on the Jamaican market. However the source of this data is not given. Could the OUR list the source so that respondents can incorporate it the analysis of the industry.

*Q. The Office seeks comments on the functional level of service that should be provided and the implications this may have for the type of service provider and nature of the Universal Service/Access obligation.*

Mobile Carriers already have Universal Service obligations placed on them - “ *the licensee shall provide 90% geographic coverage of Jamaica within five (5) years of the grant of these licence*”. Based on the OUR’s own assessment of the uptake of mobile service, the mobile operators are well on their way to fulfilling this obligation. Digicel it self has over 400 sites island wide which enables it to offer the most comprehensive coverage of Jamaica currently.

The fulfilment of the Universal Service obligations can also be seen in the types of packages offered by Digicel. In addition to the Prepaid scheme, all of the other options to address affordability are also offered – i.e. Call Baring, limited minutes (through our Bundled Minutes package) and our version of a Low user package (offered through our Access plan).

Mobile operators are currently working on addressing its Universal Service coverage obligation, and have created various plans to facilitate uptake by a cross-section of the population. Any new Universal Service obligations should therefore relate to wireline operators and access to wireline service. At a minimum, the obligations should speak to the provision of a telephone line to obtain basic services. Special tariff packages should also be created to assist certain segments of the society.

*Q. The Office’s review indicates that “affordability” may be an increasing problem as rates for basic residential voice services are “rebalanced”, i.e as these rates rise to their*

*economic cost. The office seeks comments on how concepts of affordability can and should be defined and applied to the circumstances in Jamaica*

The Office needs to undertake a study of what it will cost to institute a Universal Service program, specifically what it will cost to service the uneconomic areas of the country. Once this is done then participants will have a better idea of what the affordability issues are likely to be and suitable mechanisms for addressing these issues.

Those mentioned in the consultation document (namely Call Baring, Limited Minutes, prepaid scheme and Low User Package) have their own merits and no doubt will be incorporated into the schemes instituted by the USO provider. The assessment of Universal Service costs may not be a static event as uneconomic areas could become economic over time due to changes in technology and usage patterns of customers. Therefore there may be hybrid schemes that are created that better service the needs of customers.

**Q. What criteria should be used to establish a sufficient number of payphones?**

Two factors that could be used are community population and demography. Oftel in its document “ Review of Universal Telecommunication Services” September 2000, cited similar criteria being used by BT to install payphones. The specific criteria used were:

- ❑ The size of the community in the local area that was not currently served by an existing payphone.
- ❑ The type of accommodation in the area ( rented, owner occupied etc)
- ❑ The walking distance to an existing payphone

A similar assessment could be used in Jamaica.

**Q. What are the factors that have inhibited the necessary or needed number of payphones from being provided?**

The advent of mobile phones, which more efficiently provide the functionality of ‘out of home/office’ access, has reduced the attractiveness of using payphones. The increase in mobile phone penetration, allied to problems of vandalism and fraud, reduces the number of payphones required to be in service.

**Q. What can be done to promote the use of payphones as a means of public access?**

A public education program is one way of making the public aware of the existence of pay phones in their area, also placing the units in safe and easily accessible areas. If vandalism and fraud were factors working against payphones, then communities would have to be encouraged to adopt and care for the units.

## **5 The Universal Service/Access provider**

*Q. The Office seeks comments on how and who may be designated as a universal service/access provider bearing in mind that the current legislation limits the role of the OUR to merely recommending “other licensees”.*

Digicel has already partially answered this question in its response to chapter four’s questions. Currently Mobile Carriers already have in effect, Universal Service obligations placed on them in terms of geographic coverage obligations contained in their licence. Additionally these Carriers have various tariff plans that address access by different categories of subscribers. Given this situation, the focus of the OUR should be on Universal Service provision by wireline carriers. This situation is borne out by the OUR’s own analysis of the number of applications for fixed service that have still not been satisfied.

*Q. The Office also seeks comments on potential options for choosing providers for single line voice, telephony, public payphones and Internet access.*

In looking at the methodologies for selecting a Universal Service Provider, both the competitive bidding and “Pay or Play” approaches have merits. The main factor that will underpin the selection of either methodology is the willingness of the carriers to participate in the process. Under the competitive bidding process, the presumption is that the availability of subsidies will be an incentive for carriers to submit bids. The intangible benefits that accrue to the Universal Service Provider will need to be communicated as a further incentive for participation in the process. These benefits include improved brand image along with various ubiquity and lifecycle benefits. (see Chapter 6 for further explanation).

Where as under the Pay or Play system, these intangible benefits seem to be more at the forefront as incentives for Carriers to participate. Perhaps the selection of the methodology will be heavily dependent on how the Universal Service scheme will be funded as competitive bidding seems linked to the existence of a US fund, while the pay or play method would respond well to a Net cost/ Net benefit type approach. (see Chapter 6 for further explanation)

## **6 Funding Universal Service/Access**

*Q. The Office seeks comments on the type of approach and funding options that would best serve the needs for funding universal service/access plan*

*Q. Specific comments are requested on the methods of contributing to a fund, who should contribute to a fund, who should contribute and how funds should be sources and administered.*

The OUR in the consultation document lists four mechanism used to fund Universal Service; General taxation, Interconnect charges, Cross-subsidies, and a Universal Service fund. Whilst each has its merits Digicel would like to propose a 5<sup>th</sup> mechanism to handle the funding issue of US.



Digicel is proposing that the Net Benefit approach adopted by OFTEL in the UK be considered by the OUR in Jamaica. It advocates that there are overall net-benefits to be obtained by the Universal Service Provider that exceed the cost of providing Universal Service. As such the contributions to a USO fund is zero. (If the net costs are greater than the net benefits then contributions to the fund will be sought i.e an unfair burden exists because of the Universal Service Obligations.) This was seen in 1997 when OfTel concluded that there was a net benefit accruing to BT through its Universal Service Obligations and therefore funding issues did not arise.

European Law requires that there must be a net cost that imposes an unfair burden on the operator with the obligation before a Fund can be established.<sup>1</sup> The OfTel consultation identified four benefits to be gained by the USO provider, these are sometimes referred to as ‘intangible’ benefits:

- Lifecycle – The USO provider has a better chance of retaining uneconomic customers when they become economic.
- Brand image – The image of the USO provider is enhanced by serving uneconomic customers and areas.
- Payphones – The uneconomic payphones may become economic over time making it beneficial to retain these payphones.
- Ubiquity – Customers who move areas will tend to retain their service provider in the new area.

Clearly some of these would need to be expanded or redefined in the Jamaican context, but the important factor is that an analysis must be undertaken to quantify these benefits and measure them against the cost of providing Universal Service. If the USO operator’s benefits exceeds the net cost of providing a service then no USO fund should be established.

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<sup>1</sup> OfTel Universal Service Obligation “ A statement issued by the Director General of Telecommunications” August 30, 2001 para 3.1

In the context of the obligations vis-a-vis the provisions in the Telecoms Act – the contributions towards the provision of Universal Service should be therefore set at zero unless a net cost is demonstrated.

Oftel in arriving at a net cost/net benefit figure commissioned numerous studies examining the cost of providing of US in the UK. Digicel recommends that the OUR adopt a similar approach. If in the case of Mobile Carriers and its existing Universal Service obligations, a net cost is identified, then these carriers would be entitled to a subsidy for the areas already served.

The main advantages of the Net Benefit system are:

- ❑ No need to create either a physical or virtual fund and incur the administration costs.
- ❑ Is a more transparent mechanism to monitor than a Universal Service Fund.
- ❑ Removes the question of who should contribute. (issues of surplus contributions if the Universal Service requires less than the budget amount as in the Chilean and Peruvian cases are eliminated)

Clearly these advantages are predicated on proper studies being undertaken by the OUR in conjunction with the industry players. A proper study of the costs involved in providing Universal Service would have to be undertaken by the OUR as well as a study of the benefits to be derived by the USO provider.

## **7 Mobile Operators already provider Universal Service**

The successful introduction of competition in Jamaica has resulted in a very rapid increase in the percentage of the population that now has access to a telecommunications network (through either a fixed or Mobile operator) and thereby has gone a long way to satisfy the key objectives of Universal Service.

These gains and especially the nature of the development of the market means that the traditional view of Universal Service provision must be modified. For example, a household with no fixed line but with a mobile phone satisfies the objective of Universal Service. The growth in the number of the population using mobile phones as a primary means of access to telecommunications networks implies that mobile networks are already fulfilling a role in Universal Service provision. Through geographic coverage obligations mobile operators must provide access to uneconomic areas and therefore are already funding the provision of Universal Service.

Mobile operators should not be expected to contribute to any other (Fixed line) Universal Service program. This would amount to a double funding of Universal Service. If a contribution is sought then a corresponding fund must be created to cover the existing Universal Service provided by Mobile operators. The OUR already recognises this principle in relation to the Pay or Play approach.

## **8 Conclusion**

- ❑ Need for proper costing studies to be undertaken to evaluate the costs involved in implementing a Universal Service Program
- ❑ Costing studies also need to be done on the benefits that accrue to those Carriers who are and will be providing Universal Service
- ❑ As the market evolves and more of the population get access to basic telecoms services, the definition of what constitutes Universal Service will need to be changed.
- ❑ Likewise the assessment of the Net benefits or Net Costs involved will have to be revisited at intervals to accurately reflect the status of the market
- ❑ Mobile operators already provide Universal Service and should not be expected to contribute towards the provision of any other form of Universal Service without corresponding compensation.