Telecommunications Reform *in the OECS*

Impacts on Prices and Services

A joint report of the Eastern Caribbean Telecommunications Authority and the World Bank Group

In 1998, five members of the Organisation of Eastern Caribbean States (OECS)—Dominica, St. Kitts & Nevis, Grenada, St. Lucia, and St. Vincent—established a common regulatory framework for the telecommunications sector. They created the Eastern Caribbean Telecommunications Authority (ECTEL)—the first regional telecommunications regulatory authority in the world—to facilitate the harmonization of the regulatory regime. The authority was established under treaty with the support of the OECS Telecommunications Reform Project, financed by the World Bank.

The Reform Agenda

The 1998 agreement committed the five governments to implement a wide-ranging telecommunications reform agenda including a pro-competitive legal and regulatory environment, harmonization of laws, negotiations with the incumbent monopoly provider to terminate exclusive agreements, and the establishment of a regional regulatory body. Fulfilling this last obligation, ECTEL was established under treaty in 2000.

ECTELs primary roles were to design a transparent, objective, competitive, and investor-friendly licensing and regulatory regime to be implemented at the national level, support number and frequency allocations in each of the member states, and act as a forum for the coordination of OECS telecommunications policies and regulations. At the state level, national telecommunications regulatory commissions were responsible for implementation of regulations and policies with the technical assistance of ECTEL.

As a result of the reform agenda coordinated at the regional level by ECTEL and its council made up of telecommunications Ministers, expanded competition included the licensing of ISPs in 2002 and additional mobile licenses in 2003. In Dominica, for example, there are now four mobile, three fixed, and two ISP licensees as well as a competing fiber optic provider.

New Competitors and Expanded Services

An early success of the project was renegotiation of existing exclusivity arrangements with the incumbent, which were due to run only until 2000 in St. Lucia but as long as 2024 in St. Kitts and Nevis. The ECTEL treaty itself was signed in 2000, and new telecommunications acts were announced beginning with St. Kitts in June of that year. In 2001, the termination of monopoly rights was agreed in the ECTEL region, with new licenses issued to the first competitors in 2002. The first cellular competitor started offering services in 2003.

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Reform has been successful in increasing access to telecommunications services. It has promoted growth in the mobile market as well as competition in other services including fixed and Internet. Fourteen entrants were granted licenses to provide fixed and mobile services, with an additional 114 licenses issued in other areas.

The regional cellular penetration rate has increased from 2.3 percent in 2000 to an estimated 63 percent by the first quarter of 2004.[1] As a result, by the end of 2003, St. Lucia and St. Vincent were among the countries with the highest penetration levels in the Caribbean, with 88.9 and 61.4 percent respectively, surpassing the regional average of 53.1 percent.

The increase in network capacity and competition among operators has caused prices to drop for most services. According to the Eastern Caribbean Information and Communication Technology (ECICT) Impact Assessment report produced by CARANA/USAID, average prices for calls from the region to the United States have been reduced by more that 70 percent since that start of the liberalization process.

An Estimate of Consumer Benefits from Lower Fixed Line Prices

Detailed data from St. Vincent and the Grenadines on prices, revenues, and subscribers provides an approximation of the value to fixed line consumers of lower prices that have resulted from competition and regulation in the sector. Tariffs to the U.S. dropped from EC$4.90 to EC$1.65 (US$0.61) over the 1998-2003 period, while domestic tariffs fell from EC$0.17/minute to EC$0.09/minute over the same period. In 2003, declines in call charges were accompanied by a rise in business and residential line rental. However, the savings in domestic call costs added to the consumer surplus in international calls is estimated to be worth considerably more. The weighted average fall in tariffs was approximately 34 percent.

The net savings and surplus to consumers from tariff changes allowing for increased rental over the 1998-2003 period is estimated at EC$9.5 million/year for St. Vincent and the Grenadines. Estimating similar benefits as a percentage of GDP for the other islands, this suggests ECTEL-wide benefits of EC$54 million (approximately US$20 million) per year, in the fixed-line segment alone. Given the considerable consumer benefits from competitive provision of mobile and Internet services, it is safe to assume that overall benefits related to the project up to the 2003 period are substantially larger.

In order to consolidate and extend lower prices across the sector, ECTEL recently negotiated a price cap agreement with the dominant operator. A price cap plan sets the maximum level of prices for certain services offered by a telecommunications company where it has dominant or monopoly advantage. It does this by imposing constraints on how much the rates for a group of services (or “basket”) can change. The constraints may limit the amount by which the services in a basket can increase in any given year, or the amount by which the rates for a group of services are expected to be reduced in any given year. Under a price cap plan, the company is expected to make annual efficiency gains which are then passed on to customers in the form of rate reductions. Under a price cap plan, the company has an incentive to operate as efficiently as possible, and is given more flexibility to set its rates provided that it complies with the caps and any required reductions. The price cap process involves calculating the incumbent’s current financial picture and ensuring that surpluses in excess of a reasonable return are recognized and appropriately allocated to consumers in the form of lower prices.

Under the negotiated price cap plan, residential access line rates are specified and can neither go up nor down during the four years of the plan. Business access line rates can only increase by inflation in any given year. The remaining regulated services must be reduced, on average, by an amount representing expected productivity improvements (in this case 2.5 percent per year), less inflation. International and mobile services are not included in the price cap plan as they are sufficiently competitive that they do not require regulation.

Under the terms of this agreement, Cable & Wireless fixed line customers in the ECTEL Member States should pay as much as 22 percent less for their fixed-to-fixed local calls from 1 January 2005, with a further 20 percent reduction for fixed-to-fixed local calls coming in December 2005. Local calls on the fixed network will decrease from EC9 cents (peak period), EC8 cents (off-peak period) and EC6 cents (weekends) to EC7 cents, EC5 cents, and EC5 cents respectively on 1 January 2005. Off-peak and Weekend rates will further decrease to EC4 cents and EC4 cents respectively on 1 December 2005.

The agreement also makes provision for additional benefits to consumers – average reductions will amount to 10 cents per minute for fixed-to-mobile calls by 1 December 2005. Residential fixed customers will also receive 60 free minutes of local fixed-to-fixed calls in the evenings and on weekends with effect from 1 December 2004.

The plan includes concessions of an estimated US$7.5 million over the first two years of the Price Caps Plan ("PCP"). The concessions are in the form of phased reductions in fixed-to-fixed national calling rates, reductions to fixed-to-mobile national calling rates and the inclusion a significant number of free fixed-to-fixed national calling minutes with fixed C&W residential monthly metered rentals.

Table 1: Prices Under the Cap

Service	Current Rate	New Rate
Residential Access Lines (EC$/month)		Frozen at existing rates.
Dominica	24.00	
Grenada	24.00	
St Kitts & Nevis	26.40	
St Lucia	26.40	
St Vincent & the Grenadines	20.40	
Business Access Lines (EC$/month)		Allowed to increase by inflation.
Dominica	48.00	
Grenada	48.00	
St Kitts & Nevis	48.00	
St Lucia	48.00	
St Vincent & the Grenadines	48.00	
Fixed to Fixed Calling	Day: 0.09 Evening: 0.08 Weekend: 0.06	*Year 1* Day: 0.07 Evening: 0.05 Weekend: 0.05 *Years 2-4* Day: 0.07 Evening: 0.04 Weekend: 0.04
Fixed to Mobile Calling	Day: 0.81 Evening: 0.80 Weekend: 0.78	*Year 1* Day: 0.76 Evening: 0.75 Weekend: 0.75 *Years 2-4* Day: 0.71 Evening: 0.69 Weekend: 0.69
Free Evening and Weekend Minutes	None	*Year 1*: 60 *Years 2-4*: 80

In terms of public return on invested resources, the initial US$10 million World Bank-financed project can take significant credit for an annual consumer benefit of approximately US$20 million in terms of lower fixed line prices delivered to date, as well as the considerable rollout and price reductions seen in other market segments including mobile and Internet. Both the initial project and additional consulting support valued at US$0.55 million were instrumental in negotiating the recent price cap agreement which is scheduled to deliver US$7.5 million in additional price reductions over the next two years alone.

Macroeconomic Impact

Beyond the impact on telecommunications prices and services, the project has also stimulated macroeconomic growth by contributing to increases in foreign direct investment and employment in the telecommunications and ICT sector. The CARANA report indicates that direct investment in the sector has increased from EC$108 million in 2001, to more than EC$234 million in 2003. The investment flow was expected to reach EC$251 million (US$94 million) in 2004.[2]

An expansion in employment opportunities has also begun as a result of opening up the sector, as newly licensed competitor companies start operations. Direct employment by new service providers has increased from 377 in 2001 to an expected 693 at the end of 2004. Direct employment in telecommunications companies in the sector as a whole has increased from 1,392 employees in 2001 to approximately 1,426 reported in 2003. In addition, it is estimated that over 500 new jobs were created in the region in the areas of Internet services and customer premises equipment services, along with additional jobs in companies that gained from Cable and Wireless outsourcing a number of operations. This suggests that the overall impact of reform and development of the ICT sector on labor growth within the sector alone was positive. It is to be expected that more competitive ICT service pricing also created significant new opportunities for businesses in the economy as a whole.

It should be noted that this narrow economic approach to benefits does not include the significant social benefits of connectivity in terms of building communities and standards, as well as improving the delivery of services and the quality of governance in the region. Including such benefits would only magnify the overall impact of the project.

Further Progress

There remains some way to go in the OECS telecommunications and policy regulatory agenda. High speed Internet access is only available in some parts of the islands, and prices average perhaps 45 percent higher than other parts of the Caribbean according to recent World Bank estimates. Domestic leased line prices are as much as 148 percent higher per Mbps/month than in regional comparators, and international leased line prices are 61 percent higher. Termination rates as part of interconnect are twice the Jamaican and EU averages. Overall, there is still evidence that incumbent power is forcing up prices (through currently unregulated interconnect pricing to international fiber capacity and wholesale prices, for example) although it should be noted that these prices would likely remain higher than global averages because of the lack of scale economies in the small markets of the OECS countries. A new regulatory project, supported by the World Bank, seeks to address these issues as well as to create greater demand for broadband services by stimulating SME broadband applications and use in government services under a universal access fund.

Nonetheless, the initial treaty and project provides strong evidence of the benefits of a regional approach to telecommunications reform, especially for small countries that can benefit from sharing the fixed costs of regulatory institutions. The regional approach—dependent on participatory engagement from member governments and with the support of the project—has promoted regional and national capacity building in order to tackle a complex set of policy, legal, technical, and financial issues. ECTEL, growing daily in technical capacity and backed by political leaders across the region, has proven a powerful tool for lowering prices and improving the quality and extent of telecommunications services in the OECS.

Notes

[1] EMC World Cellular Database

[2] These figures are corrected from the original CARANA numbers which appeared to double-count investment and employment in Cable and Wireless St. Vincent.