ALEXIS de TOCQUEVILLE INSTITUTION

A Telecom Scorecard 1999-2000: Consumer Costs for Basic Services in the Americas

by

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February 2000

Executive Summary

A family in Washington, DC will pay only $44.94 a month, less than their counterparts in 21 other Western hemisphere countries, for a high usage telecom scenario that finds them making nearly 2000 minutes of local, domestic and international long distance calls and with unlimited internet access. In Jamaica, the next lowest country, the same family would pay $80.22 a month, while other families would face prices as high as $302.18 in Bolivia, $245.81 in Trinidad and Tobago and $171.72 in Argentina for the same set of calls and services.

This market basket comparison, as well as several other scenarios for local, domestic long distance, international long distance, internet and wireless services in 22 Western Hemisphere countries compiled by AdTI, helps illustrate the ways that consumers can benefit from liberalized telecom markets, and how lack of competition stifles commerce and communication.

It's clear from our research that many countries are still playing telecom catch up and must adapt outdated regulatory regimes to the new realities of an increasingly connected world. However, those countries that have opened up telecommunications services to greater competition offer consumers better and cheaper access to the communications tools necessary for the rapidly changing electronic economy.

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Introduction

Much has changed and much is still the same in the year since the Alexis de Tocqueville Institution first surveyed basic telecom costs in the Americas. We initially set out to give readers a snapshot of markets in the process of liberalization, to find out where competition was improving customer cost and service and where stagnant monopolies were stifling communication and commerce. This year, we decided to take another look, and to include a number of other telecom services, and see what happened.

In Latin America, telecom liberalization is proceeding slowly but surely. A number of countries we surveyed are still characterized by monopolies in basic telecom services. However, the new prevalence of internet access and wireless phones has opened unique opportunities for competition that has more or less bypassed the monopolies. For example, even though Argentina just began long distance competition in November 1999, wireless users have had several choices for their carriers and anybody looking for internet access can choose from hundreds of internet service providers (ISPs). The result in Argentina, and other places, is a strong increase in wireless users, many of whom have even decided to forgo a traditional phone, and decreasing internet access costs.

Indeed, the exponential expansion of the internet and all things associated with it -- ISPs, website development and e-commerce -- has proven to be a competitive boon. ISP competition in most Latin American countries is robust, and even many countries faced with longstanding telephone monopolies are permitting a handful of ISPs to compete for customers. The rapidly developing information economy has made efficient access to the internet crucial for consumers and businesses alike. In the U.S. alone, E-Commerce now comprises 5% of total sales, a figure likely to rise to 10% by 2002. While the actual cost of connectivity has gotten lower in many cases, the cost of not being connected has become a lot higher.

In many countries, like Uruguay and Costa Rica, it's unlikely that customers will see telephone competition anytime soon. In these countries, the basic assumption is that the monopoly carrier does a good enough job. Other countries have agreed to liberalize, but at a slow pace. For example, Jamaican customers will finally see full competition in 2013, as the country phases in its WTO basic telecommunications commitments. However, customers in some countries are already benefitting from liberalization. Sixty minutes of international calling to London and the U.S. from Trinidad and Tobago dropped 26% to $47.70 after restructuring in January 2000. Similarly, Argentine consumers also stand to benefit significantly from new competition. Prior to November 1999, a Buenos Aires customer would pay $28.50 to make 50 minutes of long distance calls to Tierra del Fuego. Now, that same customer would pay $16.50, 42% less.

The challenges of adapting to a new telecom reality are many -- dominant carriers are reluctant to give up market power, many countries must improve their physical and regulatory infrastructure, and technological advancement is constantly outrunning governments and regulators frantically trying to catch up. However, the movement towards competition and greater choice is the best way of ensuring that consumers, commerce and countries take part in and benefit from the communications revolution.

Methodology

We attempted to duplicate to the greatest extent possible, the methodology employed in last year's Telecom Scorecard.

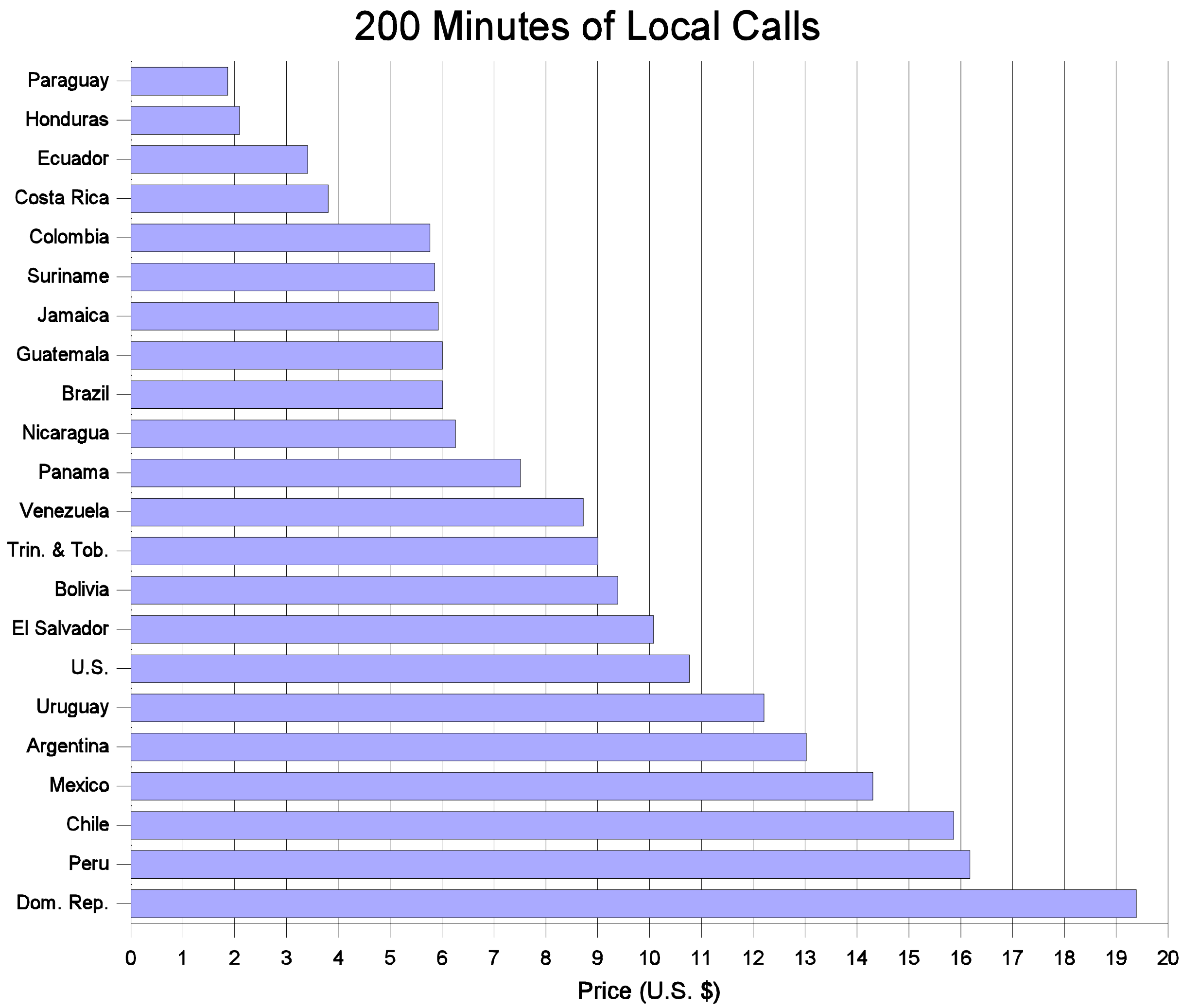
In order to compare the diverse markets and pricing structures in Latin America, we set up several market basket scenarios: 200 Minutes of local calls (or 100 two minute calls), 50 minutes of domestic long distance calls (to the furthest distance if pricing was determined by "zones" or distance), 30 minutes (or five six minute calls) to London and 30 minutes (or five six minute calls) to the United States (for the U.S., we substituted Chile), unlimited internet access, 60 minutes of wireless calling and 200 minutes of wireless calling.

We also compared two usage scenarios. A "Low Use" consumer made 200 minutes of local calls and 50 minutes of domestic calls while a "high use" consumer made 1500 minutes of local calls, 200 minutes of domestic long distance calls, 60 minutes of international calls to London and the U.S. and had unlimited internet access.

The results reflect the costs of these services as reported in August through October 1999. All calls reflect peak period pricing and the lowest cost available.

In the appendix, we've included two reference charts. The first lists each country's ranking and charges for every market basket scenario. The second provides an overview of basic telecom statistics and the state of competition in the countries surveyed.

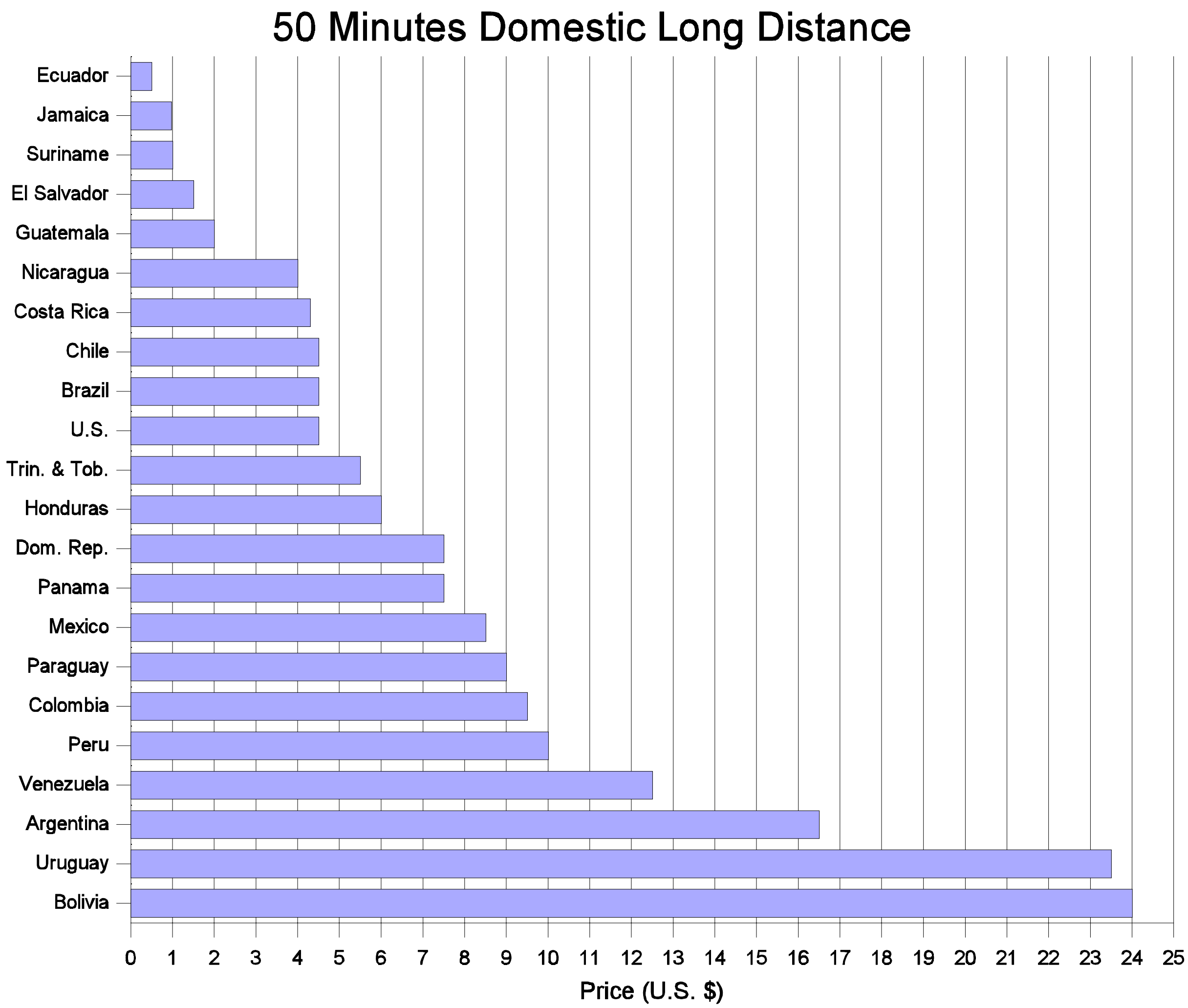
It's possible that prices have since changed (we've accounted for countries in the midst of transitions, such as Argentina and Trinidad and Tobago), or that we may have missed a lower cost operator. However all costs reflect the charges as reported by telecom company and ISP websites as well as personal discussions and correspondence with their staff, and with embassy and regulator personnel. Any additional questions about the methodology employed or the results obtained should be directed to Margalit Edelman (e-mail: adtitelecom@hotmail.com).



Relatively small countries lead the way in this particular market basket, offering comparatively inexpensive rates for a minimal amount of local calling.

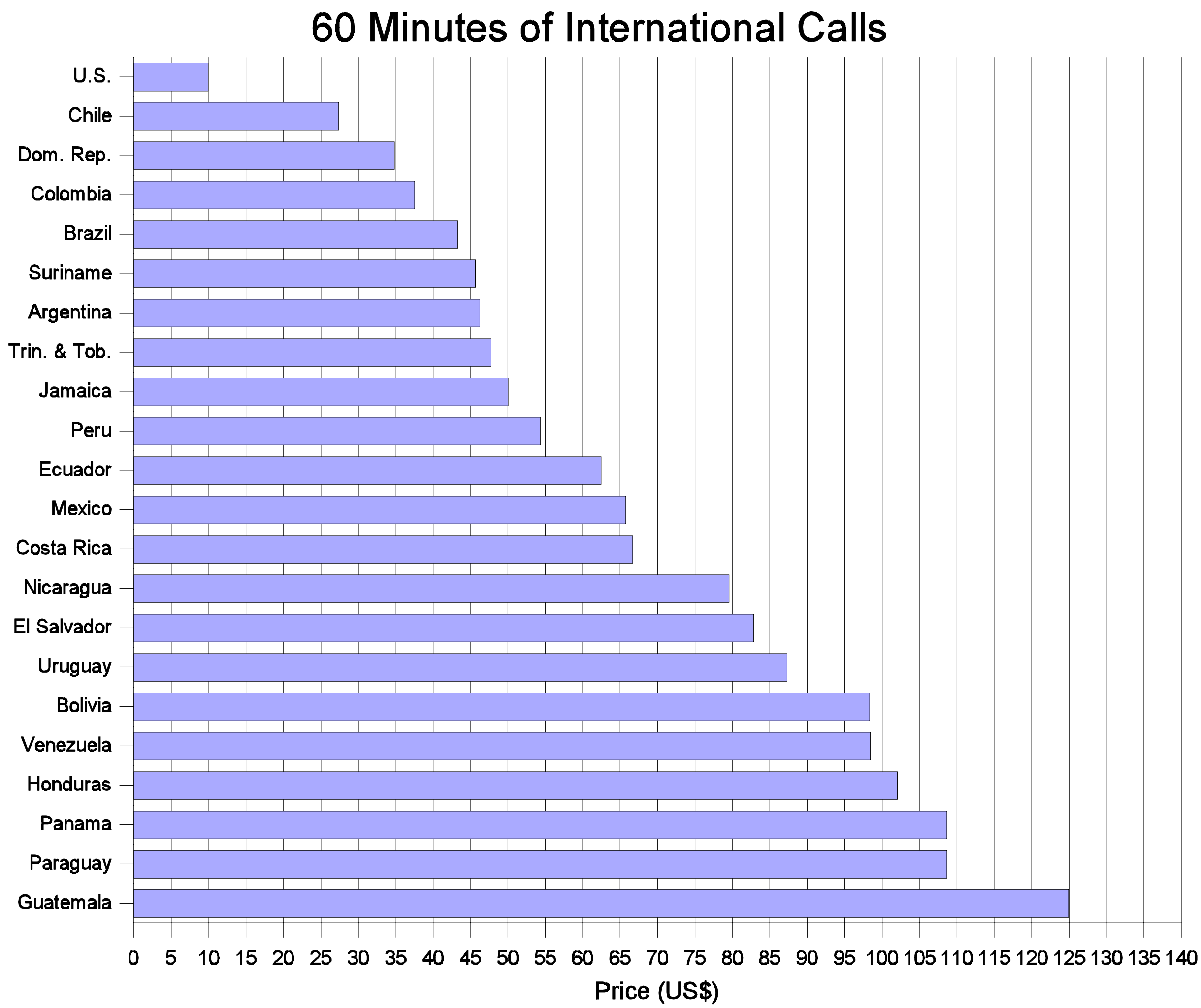
A Washington, DC customer would pay $10.76 for 200 minutes of local calling, about 9% higher than the average cost of $9.84 for the other 21 countries surveyed. However, it's important to note that many local services providers are able to provide low cost local calling by subsidizing from other areas.

Additionally, that same U.S. customer could purchase an "unlimited local calling package," paying only $3.00 more. A similar package is available in the Dominican Republic, but not in many other countries. Unlimited calling is particularly relevant to internet usage, since customers must pay the regular costs of a local phone call for the time that they are "online."



Once again, we find a number of small countries that offer low cost domestic long distance. A U.S. customer might pay as little as $4.50, 42% less than the average cost of $7.77 that customers in the other 21 countries pay.

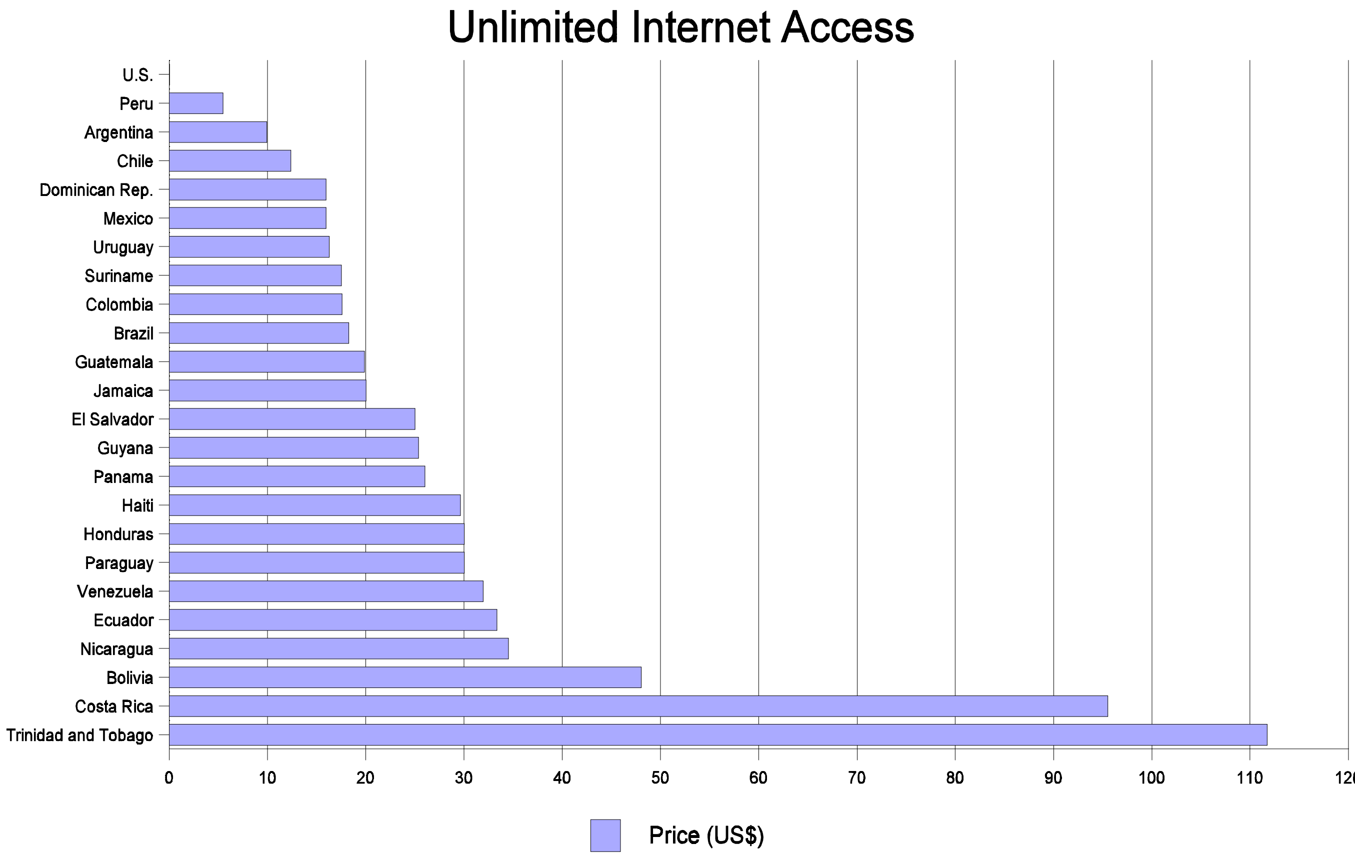
Comparing our results with the 1998 Telecom Scorecard, we find that the average cost for this scenario in Latin America and the Caribbean decreased slightly from $8.35 last year. U.S. consumers now pay 25% less than last year's $6.00 charge. Bolivia maintained its position as the most expensive domestic long distance carrier in the Americas (prices increased from $22.17 in 1998 to $24.00 in 1999) while neighbor Argentina stayed in the bottom three but experienced significant price reductions (from $33.18 in 1998 to $16.50 in 1999) when competition was introduced in November. Chile and Brazil came in near the bottom last year (charging $12.50 and $10.50 respectively), but tied for 8th place this year, charging only $4.50 each. Chile has one of the most competitive telecommunications markets in the world while Brazil has also opened up to greater competition in the past year.



The greatest telecom price gaps between the United States and the other countries surveyed are most visible in the international long distance costs we calculated. A U.S. customer pays only $9.90 for an hour of international phone calls, thirty minutes each to Chile and England, while her counterparts in the rest of the Americas pay an average of $69.93, 600% more, to make the same calls to England and the U.S.

This large discrepancy is due in part to the accounting rates fixed between countries. The reasonable accounting rates set between the US and Chile (between $.38 and $1.00, depending on the Chilean carrier) and the US and England ($.10) help explain the U.S.'s extremely low rates compared to the rest of the Americas.

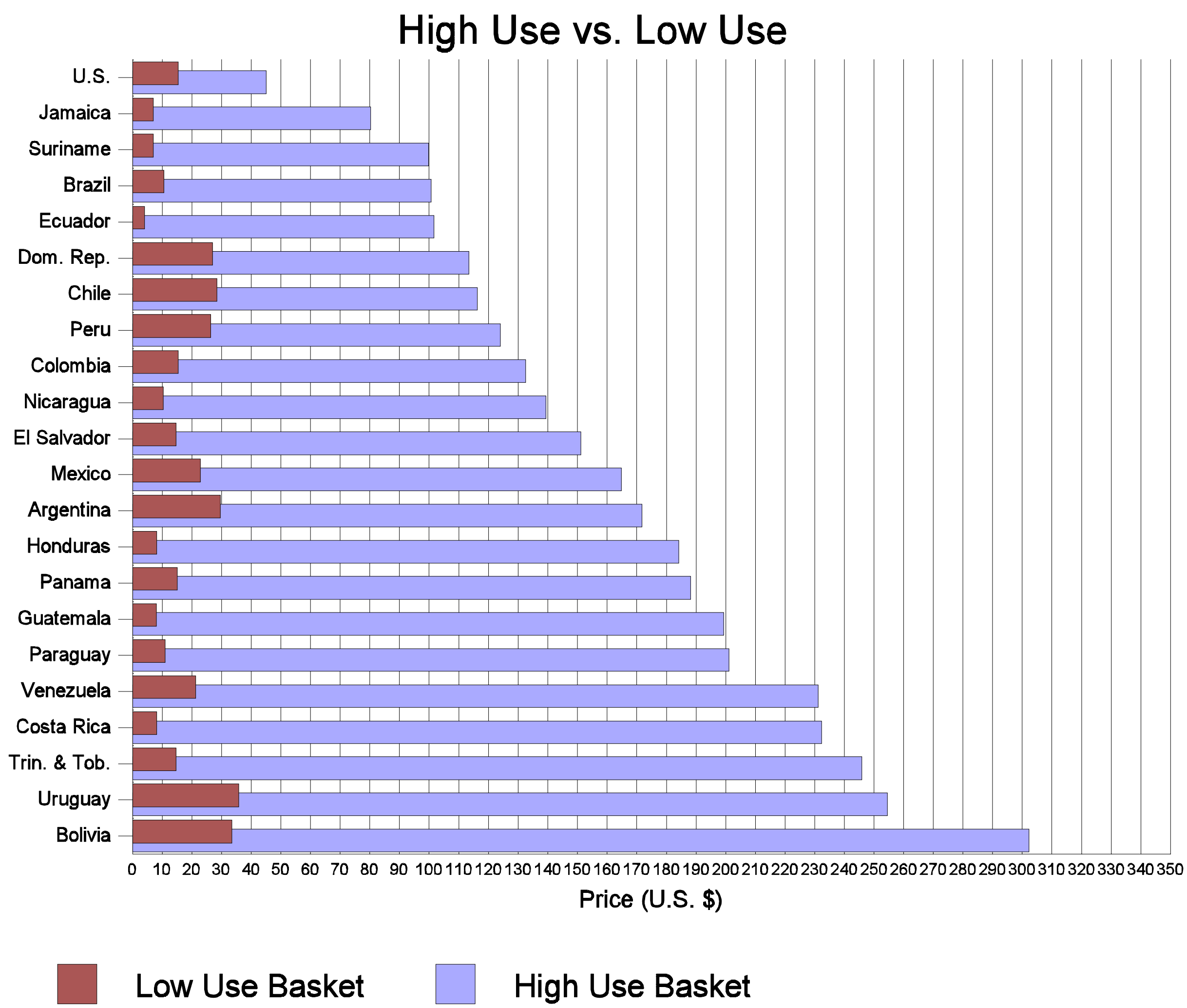
In 1996, the FCC set new accounting rate benchmarks. Scheduled to take effect over 7 years, most countries were due to implement the new rates in 1999 or 2000, though some least developed countries have until 2003. As a result, some progress has already been made in reducing rates and it is hoped that continued reform of this system will help bring charges closer to cost for consumers in every country.



It's no surprise that the U.S. tops the chart for cheapest internet access. The age of free (if not necessarily flawless) internet access is upon us and it's highly likely that this trend will eventually make its way south. The U.S. companies offering free dialup access work like free e-mail services, recouping their costs through advertising (consumers who choose to access many of these site are forced to use a particular browser that remains on their screen at all times, displaying sponsors' advertising).

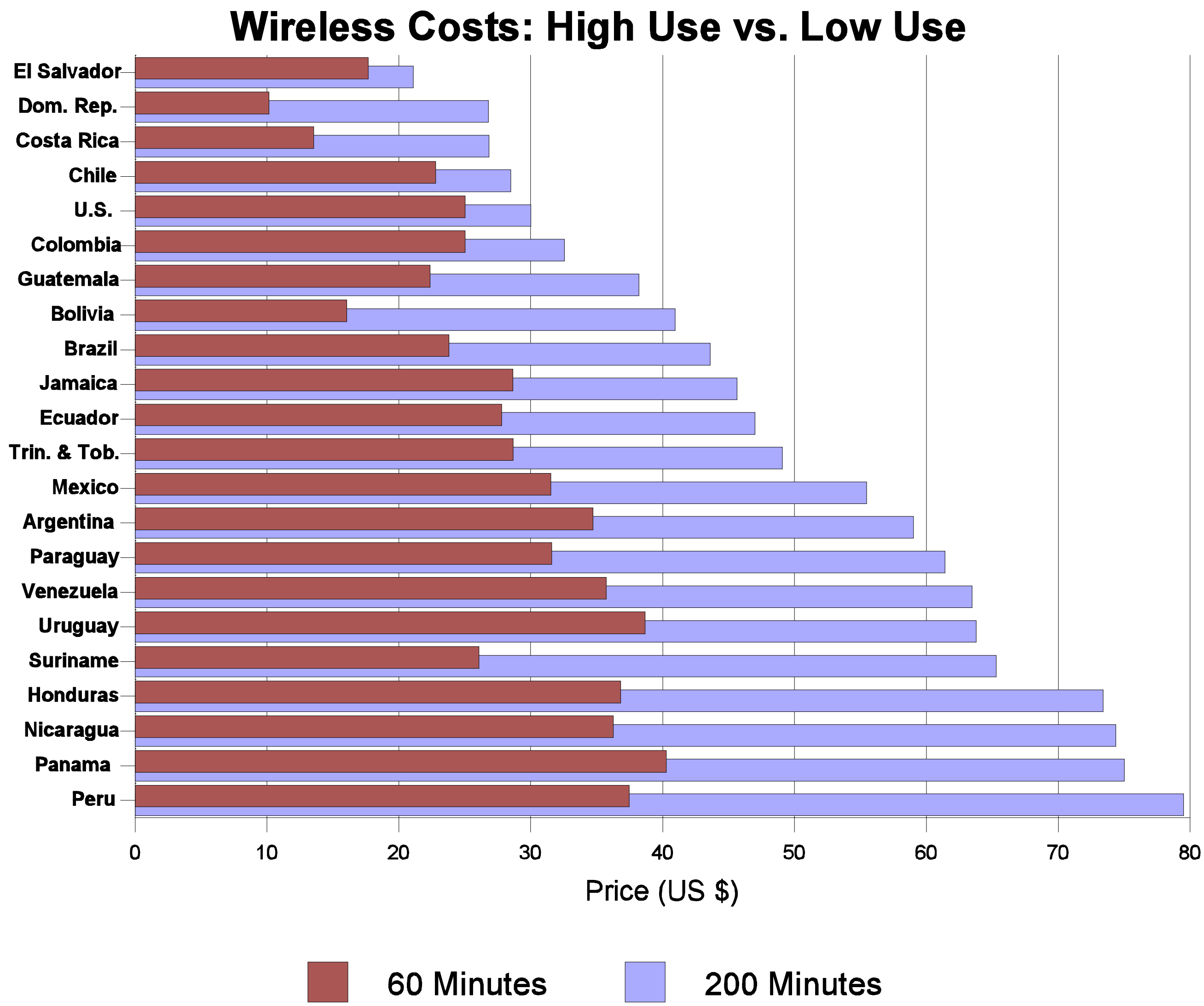
On average, Latin Americans will pay about $30 for unlimited internet access. However, remove the sample skewing countries of Costa Rica (which has a government run ISP monopoly) and Trinidad and Tobago, and the average drops to $22.51. Many of the top ten countries offering the lowest cost internet access were also characterized by numerous internet service provider options. The U.S., Brazil, and Mexico each offered hundreds of providers to choose from. Argentina, until fairly recently, still charged relatively high prices ($25 on average) despite a plentitude of ISP options. However, one ISP started offering access at the very low price of $9.90 per month and several others have since followed suit.

Internet access is notable in the sense that most countries have sanctioned competition for dial up service since it became available. Many countries with powerful telephony monopolies offer substantial competition in internet access and other services, including wireless, paging, call waiting, etc.



Whether you are an entrepreneur or a well connected family, the best place to be a high end telecom user is the United States. The low cost of internet service and international long distance, as well as moderately priced local and long distance charges help propel the U.S. to the head of the class. Chile and Brazil, which have similar cost structures and fairly high levels of competition, are also near the top. The Dominican Republic's reasonable internet and domestic long distance costs (and relatively low international charges) ensure that it also represents a high usage leader.

Jamaica, Suriname and Ecuador make the top ten of both lists, mainly as a result of extremely low cost local and domestic long distance cost structures, and reasonable internet access costs. The low use average is $18.18, about 20 % higher than the U.S. cost of $15.26. The high use average is $175.87, about 291% higher than the U.S. average, $44.94.



While a relatively low use wireless phone user does well in most Latin American countries, the costs rise precipitously in some countries with the minutes. Many countries are still reliant on analog technologies which charge a monthly fee and an additional cost per minute. For the low use consumers, this generally works out well enough. However, when the minutes increase, these consumers lose out to other countries that offer plans for high use consumers which discount the cost per minute. So, for example, a caller in Suriname pays $9.26 per month and $.28 per minute regardless of how many minutes of calls she makes. In the U.S. or Chile however, a consumer can pay $24.99 for 60 minutes, and $29.99 for 200, thereby changing the per minute rate from $.41 per minute to $.15 per minute.

In Latin America and the Caribbean, the low usage scenario averages out to about $27.87 per month, just 12% more than the U.S. cost of $24.99 per month. While people in the U.S. can expect to pay about $29.99 for 200 minutes worth of wireless calling, their Latin American counterparts pay $50.98 on average, about 70% more.

Conclusion

In the year since we published our first telecom scorecard, many countries have begun to implement full or partial competition, giving consumers more choices at cheaper prices. Argentina and Brazil saw significant declines in the cost of domestic long distance as a result of market openings in 1999. The Dominican Republic's 1998 telecommunications law has also paved the way for new competitors and price reductions. Chileans continued to benefit from their country's diverse telecommunications sector. And many countries who signed onto the WTO Telecommunications agreement will be following through on their commitments to competition in the next few years.

The U.S., which had its share of difficulties in the transition to competition, offers a unique model and encouraging results for countries in the process of liberalization. According to the U.S. Federal Communications Commission (FCC):

• Since long distance telephone service was opened to competition in the early 1980s, 600 long-distance companies have emerged and rates have dropped 56 percent in real terms.

• In the 1990s, PCS auctions paved the way for new entrants into the cellular market (formerly a duopoly), resulting in five to seven competitors in many markets and real wireless price reductions of 40 percent.

A competitive telecommunications sector also has a direct impact on the internet economy. As FCC Chairman William Kennard recently told a French telecommunications industry group,
"It has been our experience in the United States that the fastest way to expand access to the Internet is to create the conditions for a robust, competitive telecommunications market. An essential element to ensuring that such a competitive environment is created is to have a strong independent telecommunications regulator." Indeed, the statistics bear out his comments:

• In 1996 there were 27 million Internet users in the United States. Today there are roughly 80 million, a nearly 200 percent increase.

• In 1998, the U.S. Internet economy generated an estimated $300 billion in revenues, and accounted for 1.2 million jobs. The communications and information sectors, coupled with the Internet, now account for about 15 percent of U.S. gross domestic product.

The internet, and the market forces surrounding it, will likely act as catalysts for telecommunications liberalization, perhaps even in those markets still deeply gripped by longstanding monopolies. However, many countries will face a difficult, but not impossible, path towards achieving true competition. While governments themselves must commit to creating or improving a regulatory structure that helps open markets in a fair and efficient manner, we hope that this study and future editions of it will promote public awareness of the tangible benefits of competition.

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Note: This report does not necessarily reflect the views of the Alexis de Tocqueville Institution and its directors nor is it to be understood as an attempt to aid or hinder the passage of any legislation before Congress.