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Rate-Rebalancing Dilemmas in Telecoms

Nimai M. Mehta
Visiting Research Fellow

Center for Integrative and
Development Studies
University of the Philippines

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Nimai M. Mehta
Visiting Research Fellow

Center for Integrative and Development Studies
University of the Philippines
Basement, Bahay ng Alumni
Magsaysay Avenue, UP Campus, Diliman
Quezon City 1101, Philippines
Telefaxes: (632)-929-3540; 928-9691
email: cidslib@cids.org.ph

Abstract

The paper argues that concerns about fiscal fairness, and not welfare-theoretical standards of efficient pricing, inform the rebalancing of rates for telecommunication services. The fiscal dilemma in pricing is identified with reference to the presence of common costs, and the regulators' concerns over how their burden is distributed between domestic and international users of the telecom network. Here, the paper suggests potentially contrary effects of globalization. On the one hand, globalization, with increased competition in international services, makes these services cheaper. On the other hand, it undermines the multilateral regulation of cost-sharing agreements across national carriers. As a consequence, the burden of common cost is shifted almost entirely onto the domestic network. This creates an acute fiscal dilemma especially for countries with low and uneven levels of network access across the population, which is typically the case for developing countries. The regulator in these countries will be expected to ensure that fiscal standards of fairness, as conventionally applied to taxes and subsidies, are met in any proposed restructuring of telecom rates. In this context, the regulator may employ usage-based pricing as an instrument to achieve fiscal fairness while allowing a "reasonable" return to the service provider. This analysis is used to evaluate the ongoing controversy over the introduction of usage-based pricing, or metering, by the Philippine carrier.

1. Introduction and Summary

Telecommunications, the great vanguard of globalization, carries with it definite fiscal constraints to a global market's reach over developing economies. Paradoxical? Yes. Implausible? No. Ask the international group of internet provider-investors who came calling on the Philippines last year. Their dreams for a booming internet market in the Philippines risk being brought down to ground reality, specifically, the price of a telephone call. This year, the Philippine Long Distance Telephone Company (PLDT), the country's dominant carrier, with a provisional endorsement by the national regulatory authority, proposes to meter local calls as part of its plan to rebalance telephone tariffs. Faced with increased competition and declining prices for its international transactions, PLDT proposes to increase its domestic tariffs and introduce metering in an attempt to shore up revenues. Local calls have so far been subject to a flat rate irrespective of number and duration. Metering would instead penalize frequent and extended use of telecom facilities. Under its proposal, residential subscribers will pay a flat rate of P512 for 800 free call minutes per month, while business subscribers will pay P1,042 for 1,000 free call minutes. Calls in excess of the free minutes will be charged P0.40 per minute.

As expected, PLDT's proposal has whipped up a storm of protests and counterpetitions from consumer groups, businesses, and internet providers. The National Telecommunications Commission (NTC)—the regulatory agency—has been criticized for granting provisional authority to PLDT for the metering scheme. The expected political costs of PLDT's rate restructuring has predictably unnerved legislators, as well as the Estrada administration which has called for a reconsideration of NTC's decision on the carrier's proposal.¹

In an attempt to clarify the debate over telephone pricing, I shall put forward two main arguments: one, that metering or usage-based pricing ought to be evaluated independently of the telecom carrier's

¹ As of this paper's writing, the PLDT metering proposal has been suspended until further public hearings and studies to be conducted by both the regulator and the relevant government departments.

revenue claims for rebalancing tariffs;² and two, that the controversy over rate-rebalancing, including usage-based pricing, is essentially a *fiscal dilemma* and ought to be interpreted by conventional *standards of fairness and equity* as is normally done for taxes and subsidies—such as, the *ability to pay*, the *benefit principle*, and *merit-good considerations*.

The fiscal dilemma in pricing telecommunication services is identified in *Section 2*, with reference to the presence of common costs, and the regulators' concerns over how their burden is distributed between domestic and international users of the telecom network. For international telecommunication services, the fiscal dilemma until recently has been addressed through multilateral regulation of price and cost-sharing arrangements across national carriers. Globalization, in the form of increased competition and declining prices in the international calls market, however, has significantly undermined the existing multilateral framework, and shifted the fiscal burden almost entirely onto the domestic half of telecom networks. The burden is especially acute for developing countries, such as the Philippines, with poor network development and uneven access to basic telecom facilities across the population. That fiscal concerns, and not welfare-theoretical standards of efficient pricing, inform rebalancing of telecom rates (in both developed and developing countries), is illustrated in *Section 3*, which discusses PLDT's proposal. In particular, I argue that the regulator is expected to ensure that conventional standards of fairness and equity in the pricing of domestic network usage are met in any restructuring of telecom rates. *Section 4*, therefore, reconsiders PLDT's metering or usage-based pricing proposal in the light of such standards. Conclusions are provided in *Section 5*.

2. Fiscal Dilemmas in Telecom Pricing

Arguments both for and against PLDT's rate-restructuring plan have been couched, almost exclusively, in standard cost-efficiency terms (see, for example, Chua 1998; Abrenica 1999; and Hipolito 1997). Both the rebalancing of rates between PLDT's international and domestic telephone services and the proposed metering scheme are argued by its

² In its application to NTC (Case No.97-039), PLDT presents metering as an integral part of its rate-rebalancing proposal. Similarly, the NTC Order (November 10, 1997) granting PLDT provisional authority, employs hypothetical metered rates to evaluate the carrier's revenue requirements.

proponents to enhance efficiency: rebalancing ends cross-subsidization of local calls; metering would account for usage-related costs. In a similar, cost-efficiency, vein, opponents of the metering scheme point to the almost zero marginal costs of an additional local call under existing capacity and (increasingly digital) technology, and argue flat access charges to be the more appropriate pricing system.³ The problem faced by the regulator, I shall argue instead, is not primarily one of cost accounting or of discovering the actual incremental cost of a telephone call. It is, rather, one of *fair costing*: the regulator is less concerned with the production or consumption of an appropriate, in standard efficiency terms, quantity of telephone calls, than with issues of *access and distribution of common, or network, costs* across the concerned population.⁴ These latter issues are typically fiscal in nature.

The fiscal dilemma emerges with regard to the distribution of *common costs* across different consumer groups. These are costs of a shared facility which cannot be attributed to individual (or group) consumption. The presence of common facilities or networks in utilities is often inaccurately associated in the literature with the category of fixed costs in production. Common costs, instead, are to be associated with *shared consumption* of an indivisible facility or network, e.g., a piped water facility or a telecom network. Fixed costs, on the other hand, relate to investment decisions, taken over time, for *production* of goods that are privately consumed, e.g., investment in a plant producing bottled water.⁵ Furthermore, unlike consumption of private goods and services, the presence of shared facilities

³ That defining MC for a telephone call is subject to serious conceptual difficulties is well recognized in the efficient pricing literature: "[the] problem is that, in telecommunications, shortrun marginal cost at less than full capacity utilization is close to zero. At the capacity limit it quickly moves to infinity. Of course, an infinite price is not achievable; rather in times of capacity shortage, the price cannot exceed the one that rations demand at the capacity limit. Thus, pricing at shortrun marginal costs may lead to wildly fluctuating prices." (Mitchell and Vogelsang 1991: page 39)

⁴ Thus, Richard Schmalensee (1979) observes,

"To the extent that utility regulators in the United States have been concerned with rate structures, they have tended to focus on prices paid by different classes of users. But this focus has typically been motivated and informed by considerations of equity or fairness than efficiency."

⁵ Thus, the existence of common costs need not be bound by any short term "fixity" as it is the case for fixed costs. For example, a bridge of stones put together to enable an immediate, one-time river crossing implies common, but no fixed costs.

or networks makes pricing individual consumption or usage predominantly a matter of *fairness*, rather than simply of efficiency. That is, pricing individual access to common facilities—in water, road, telecoms, power, etc.—is inescapably a matter of determining relative rights, in property or to income.

The inherently distributive issue of relative access to common facilities is overlooked in the literature's focus on fixed costs of production and the efficient pricing concerns related to the problem of natural monopolies. The theory of public utility pricing, for example, concerns itself with "efficient price rules" meant to achieve marginal optimality conditions in an industry characterized by declining average production costs. In such an industry, the fixed cost dilemma is, for instance, thought to be ideally resolved through infra-marginal pricing above marginal costs that allows full recovery of fixed costs, while still achieving the marginal conditions for optimal consumption.⁶ The possibility of obtaining "first" or "second-best" optimality in private consumption through some form of above-marginal cost pricing, thus, underlies the various pricing schemes⁷—two-part pricing, multipart pricing, declining block rates, Ramsey prices, etc.—proposed by the literature for public utilities.⁸

However, while these pricing rules are intended to secure an optimum consumption of *private goods*,⁹ they do not, by themselves, offer a welfare maximizing structure of relative access prices—i.e., cost shares—to a *shared or common facility*. Thus, as clearly argued in Coase (1946), an unambiguous, Pareto-welfare outcome is assured, in the case of a multipart tariff, *only* if the access, or fixed, component of the tariff corresponds to a share of fixed costs attributable to a consumer's use of the facility.¹⁰ Such an unambiguous welfare outcome is not forthcoming for common

⁶ That is, provided no consumer willing to pay the marginal production cost of the private good is priced out due to the firm's desire to fully cover its fixed costs.

⁷ For a relatively non-technical discussion of standard welfare properties of the various price rules, see Train (1991).

⁸ Of course, achieving the first or second best economic-welfare outcomes through any of these is considered the responsibility of the regulator.

⁹ Ignoring, the almost impossible information requirements the various price rules impose on the regulator in any actual attempt to obtain standard welfare optima in consumption.

¹⁰ Remarkably, this important qualification in Coase (1946) is overlooked in subsequent literature on first-best properties of the so-called "Coase Tariff." See, for example, the discussion in Mitchell and Vogelsang (1991), and in Train (1991).

facilities: the presence of a common facility whose costs cannot unambiguously be imputed to individual (or group) consumption implies that the resulting share in common costs through any of the above pricing rules would be arbitrary and generate redistributive outcomes, including *cross-subsidization of access* to the common facility.

In the absence of suitable alternatives to the dominant network, and the fact that individual users of a common facility may be unable/unwilling to bear the full, or “stand-alone,” cost of the facility, the allocation of common costs inescapably generates equity concerns for the regulator.¹¹ These concerns continue to inform much of actual regulatory practice in telecoms: including universal access, cross-subsidies, creation of competition, interconnection, access fees, etc.¹² And the regulator’s preference for a particular price structure has historically been guided by the same principles of fairness as applied to conventional taxation: *ability to pay*, the *benefit principle*, and *merit-good considerations*.¹³ These, unlike standard efficiency criteria, inescapably vary across countries. Unfortunately, an increasingly competitive and global telecom market is less in a position to resolve what is obviously a “public” dilemma, and

¹¹ The dominance of issues of equity in the allocation of common costs was argued by Professor Wiseman (1957) in a significant though much neglected critique of standard public utility pricing theories. A fuller analysis of equity dilemmas associated with common costs, and its implications for regulatory practice is provided in Mehta (1998, 1999).

¹² See, for example, the 1998 International Telecommunication Union Report on Universal Service for the various ways regulators in both developed and developing countries have addressed the issue of relative access across different groups of network consumers.

¹³ Richard Posner (1971), in *Taxation by Regulation*, provides the most sympathetic view, to-date, on the use of regulation as a legitimate instrument of taxation. The emphasis on efficient price rules based on an inaccurate identification of common costs with fixed costs in production was, nevertheless, maintained by Posner (1971), and is thus found in the most recent study on “taxation by regulation” by Hausman (1998):

“A potentially important application of public-finance analysis to telecommunications regulation is the financing by regulation of telephone companies’ fixed and common costs. Because of significant economies of scale and scope, the first best prescription of setting price equal to marginal cost would require government subsidies or would lead to bankruptcy of local telephone companies. In the U.S. government subsidies have not been used, and regulators have set prices in excess of marginal cost for some services to allow regulated telephone companies to cover their fixed and common costs and to provide a subsidy to basic residential service. Here Ramsey optimal theory would suggest how prices should exceed marginal costs to minimize the efficiency losses to the economy.” (emphasis added)

that is not limited to the particular anguish of the internet provider described above. Instead, globalization has shifted the fiscal burden almost entirely to the domestic part of telecom networks.

3. Fiscal Constraints to Globalization: The PLDT Case

The dilemma is particularly acute for developing countries with low levels of network penetration and uneven access across the population, as in the Philippines. In these countries, public concern over network access and allocation of common costs through cross-subsidies was, *de facto*, met by a multilateral accounting rate system that allowed developing countries to employ the international part of their network as a vehicle for resolving the common cost dilemma. A relatively high call termination charge, paid by international carriers from developed countries and protected by monopoly safeguards extended to national carriers on both ends, allowed a significant portion of common network costs to be recovered through international transactions.¹⁴ However, increased competition in the international calls market based on new technologies has significantly undermined the existing multilateral regulation of price and common-cost sharing arrangements across national carriers.¹⁵ Thus, competitive forces played an important part in the United States Federal Communications Commission (Landes and Blake 1997) decision to unilaterally reduce the international accounting rate payable by its telecom carriers. The drastic lowering of international accounting rates has shifted the dilemma of cost allocation almost entirely to the domestic part of the telecom network in these countries.

The dilemma is obviously not restricted to the developing world. That proposed reforms in the international accounting rate system have less to do with the efficient price for an international call than with

¹⁴ Net accounting rate revenues, earned from U.S. carriers alone, have accounted for a substantial portion of annual total telecommunication revenues in the developing world - between one-fourth to two-thirds of total annual revenue earnings in individual countries. In 1994, the Philippines received \$157.8 million, or 19% of its annual total telecom revenues, as net settlement payment from the U.S. (International Telecommunication Union, 1996). See also Panos (1998).

¹⁵ See International Telecommunication Union (1997), and Panos (1997).

allocation of common network costs across consumers is well illustrated in the case of the European Union (EU). EU countries that bypass the accounting rate system have instead employed a system of access or interconnection charges that will allocate common costs across the concerned carriers.¹⁶ For developing countries, however, with wide income disparities and unequal access to basic telecom facilities, the regulator will, in addition, be expected to ensure that standards of fairness and equity are met in the allocation of common costs within the domestic network.

It is clear from the evidence and arguments submitted,¹⁷ in PLDT's case for rate restructuring, that efficient pricing is not the primary concern—both, with regard to metering and the requested increase in domestic tariffs. Instead, the focus is on the expected loss in net international payments toward the carrier's common costs:

“Para 10. With the reduction of PLDT's international toll service rates, however, necessarily comes the reduction in the available subsidy for PLDT's local exchange services. Funds for PLDT's roll-out of much needed new local exchange service facilities and for maintenance of existing ones must be sourced elsewhere.

Para 11. To make up for the shortfall in revenues brought about by the necessary reduction in international toll service rates and to make funds available for expansion, improvement of local exchange services, PLDT's rates for domestic toll and local exchange service must be restructured.”

(PLDT Application, January 11, 1997)

The revenue shortfall referred to is almost entirely due to the expected decrease in total in-payments received as access or call-completion charges from foreign carriers as evident from PLDT's revenue projections submitted to the regulator (table 1). That is, a smaller share of PLDT's common costs is expected to be met by international users of its domestic facilities, while the contribution of

¹⁶ See Kiessling and Blondeel (1998) for a discussion of the EU regulator's role in setting interconnection charges.

¹⁷ The list of relevant documents, pertaining to the PLDT rate-rebalancing case is provided in the reference section of this paper.

Table 1

PLDT, Breakdown of Main Operating Revenues
(without rate-rebalancing), 1997-2001 (In Million Pesos)

	1997	1998	1999	2000	2001
Local Network	7,717.5	7,717.5	7,717.5	7,717.5	7,717.5
Long Distance					
International	14,637.3	12,940.3	11,518.0	10,316.8	9,327.8
Billed RP	4,797.8	4,992.2	5,072.6	5,065.6	4,941.6
Billed FA	9,211.6	7,320.2	5,817.4	4,623.4	3,758.3
National	3,960.5	3,426.0	3,104.3	2,890.7	2,714.2

Source: PLDT *Supplemental Affidavit*, June 8, 1997, *In re: NTC Case No.97-039*, Annex "B"

Notes:

1. Billed Philippines (RP) Revenue = Gross Collection (outgoing calls) - Out-payments to Foreign Administrators (1/2 Accounting Rate) where Gross Collections are retail earnings on outgoing international calls made by PLDT subscribers.
2. Billed Foreign Administrator (FA) Revenue = In-payment from Foreign Administrator (1/2 Accounting Rate) where in-payments are for completion of incoming international calls to PLDT subscribers.
3. For its revenue projections from local calls, PLDT assumes no significant station gain.
4. The fall in the contribution of international calls to PLDT's total revenue is mainly the result of declining foreign in-payments.

domestic consumers is to be increased through the proposed restructuring of tariffs.

In its application to the NTC, PLDT proposes a two-part tariff for local calls. The subsequent affidavits¹⁸ it submitted, however, suggest that the variable or usage-based charge is not intended to approximate the marginal cost of theory. Instead, it is derived by PLDT, and evaluated as such by the regulator, as an average revenue charge—that is, based

¹⁸ PLDT *Affidavit*, April 11, 1997 and PLDT *Supplemental Affidavit*, June 18, 1997, especially Schedules 3 - 7 as attached to the latter.

upon estimates of number and type of subscribers and existing traffic distribution (average monthly usage in pulse-seconds) across residential and business subscribers.¹⁹ Furthermore, the expected revenue target for the proposed tariff is meant to both compensate for the decline in international revenues and meet an overall rate of return requirement of 12 percent on the carrier's asset base.²⁰ Both considerations are thus admitted in the NTC's evaluation of the revenue impact of different combinations of flat and variable charges for residential and business subscribers.²¹ That is, determining relative access across consumer groups and a fair return for the carrier to finance its common facilities seems to be the more relevant issues for the regulator in evaluating any rebalancing of telephone tariffs. PLDT's metering proposal ought, therefore, to be judged on similar terms.

4. Usage-Based Pricing Reconsidered

The regulator's preference for metering or usage-based pricing is not, as in the standard efficiency view, based on a recognition of usage-related costs. Individual usage—e.g., number and duration of telephone calls—may simply serve as a fair and convenient unit of account towards the recovery of common costs. That is, both the ability to pay criterion and the benefit principle are expected to be better met in the allocation of common costs, if based on usage than through a flat-rate charge. Consider, for example the issue of affordable access. Monthly flat-rate subscription charges (both residential and business) in the Philippines—

¹⁹ Schedules 3 - 5, 7A & B of PLDT Supplemental Affidavit, June 18, 1997 - *Forecasting Methodology; Sample Computation; Number of Lines to Derive the Local Network Revenue; Local Measured Service Traffic Distribution - Residential and Business.*

²⁰ Annex "A" & "B" of PLDT Affidavit, April 11, 1997 - *Calculation of Return on Rate Base for the Years 1997-2001, and Breakdown of Operating Revenues for the Years 1997-2001.*

²¹ Thus, based upon estimates of total operating costs and a "reasonable" allocation of these across the carrier's international, domestic toll, and local exchange services, the following pertinent "findings," among others, are reported in the NTC Order (November 10, 1997) granting PLDT provisional authority to restructure its rates:

- f. The resulting required revenue per line per month using 12% rate of return on plant accounts of P43,000 per line as presented in the cost manual is P979.23....
- j. The metering of local calls will increase the average rate (revenue) per subscriber per month. The increase varies depending on the number of free minutes and the rate per minute in excess of free minutes..

one of only few countries in ASEAN without a usage charge for telephones—are already the highest (table 2) in the region. In addition, the residential telephone subscription charge as a percentage of national per capita GDP remains, at 11 percent, one of the highest among the East Asian economies (table 2). Metering would clearly improve access to the network within a population with wide income disparities by increasing the burden of common costs recovery on high use-high income consumers of the telecom facility, and lowering it on less frequent users.

In addition, metering—with a constant (or increasing) per minute charge—avoids the regressive structure of pricing contained in flat or declining block-rates. Such rate structures—employed, for example, by local internet providers—benefit large volume purchasers with declining hourly costs of communication, while small volume consumers bear a higher average price per hour. Justifying this form of price discrimination by an economies-of-scale argument is specious. *Once a certain sized facility is in place, and total capacity use is stable, price discounted over increasing use has little cost justification.* Using the facility for 10 hours a week versus 50 hours does not imply higher incurred costs to justify the de facto higher hourly charge for the less frequent user. Outside any significant overall cost justification, a declining block rate would be hard to legitimize by any reasonable standard of fairness, market or otherwise.

The regulator is also expected to consider a merit-goods argument in evaluating the introduction of metering for local calls. And as with

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- k. As the accounting rates decline and the market share of the carriers other than PLDT increases to 40% as projected by AT&T, PLDT would require an average rate per subscriber per month of P656.25 for plant account of P43,000 per line. .. To realize at least an average rate of P656.25 per subscriber per month, the free minutes should be 500/800 for residential/business subscribers and at P 0.50 per minute in excess of the free minutes and the increase in the minimum rate should be P 120/180 for residential/business subscribers...."

After considering different possible mix of flat and variable charges, and their respective impact on the carrier's subscriber base, the Commission limited PLDT to the following rate structure:

1. ..that the maximum increase in the (flat) rate should be P60 for residential subscribers and P90 for business subscribers..
2. On the metering of the local calls, applicant is hereby authorized to charge a minimum of P0.10 per minute and a maximum of P0.40 per minute in excess of the free minutes. The minimum free minutes should be 800 minutes.. "

Table 2
 Tariff Structure in Selected East Asian Countries, 1996 & Teledensity, 1996

Tariff Structure (US \$)	Philippines	Thailand	Indonesia	Malaysia	Hong Kong	Taiwan	Singapore
Local Usage Charge	...	0.12	0.05	0.04	...	0.04	0.03
Monthly Subscription :							
Residential	10.1	3.9	9.1	8.0	8.7	2.3	6.0
Business	23.1	3.9	13.8	13.9	13.5	15.1	9.1
Residential subscription							
as % of GDP per capita, 1996	11.0	1.7	10.5	2.2	0.4	0.2	0.2
Teledensity, 1996	2.49	7.0	2.13	18.32	54.69	46.62	51.33

Source: *International Telecommunications Union, 1998*

the above two criteria, the definition of a merit good remains specific to each country: while metering of local calls in the Philippines will restrain the demand for internet services, the recent United States Telecommunications Act of 1996 seeks to subsidize access to the internet of selected groups such as schools and libraries through higher charges on interstate telephone users. In 1996, less than 1 per 100 inhabitants owned a personal computer in the Philippines, compared to 36 per 100 in the United States. Internet users, in the same period, numbered only 5.5 per 10,000 inhabitants in the Philippines, versus 787.8 per 10,000 in the United States. The Philippines had only 2.49 main telephone lines per 100 inhabitants in 1996,²² while the United States had approximately 64 lines per 100. In the Philippines, yearly average growth of basic telephone network was only 27 percent, as against a growth of 105 percent in the number of internet hosts for 1996.²³ The regulator would have to evaluate such and other relative needs for any decision to further subsidize the growth of internet facilities.

Finally, it is feared that the introduction of metering will afford extra-normal profits to the dominant carrier. Though a legitimate concern for the regulator, however, this should be considered independently of the metering proposal. It is more appropriately addressed with regard to PLDT's claim for rebalancing, i.e., increasing domestic tariff levels. In considering proposals for a rate increase, regulators seem, again, to be less concerned with issues of allocative efficiency. Instead regulators have, typically, sought to both prevent the dominant carrier from obtaining undue advantage of its monopoly privilege and ensure consumers a fair share of cost savings. Regulators have often done one, or both, in determining the extent of competition and rate-rebalancing in the telecommunications market. Thus, for example, Japan's national regulatory authorities in the mid-1980s subjected the recently privatized Nippon Telegraph and Telephone (NTT) company to increased competition in long-distance services *without* allowing it to rebalance its domestic rates, which included usage-based pricing. The resulting squeeze

²² By 1998, teledensity in the Philippines had increased to approximately 9.5 as a result of universal service obligations imposed on the incumbent and new entrants in the cellular and international gateway facilities. Regional disparities remain marked, however. Thus, while the national capital region had obtained a teledensity of 28.6 by end-1997, teledensity for the rest of the country was 4.8 (1997 NTC Annual Report).

²³ 1998 International Telecommunication Union Report.

on NTT's profits was to be countered by firm-level productivity improvements expected with privatization and increased competitive pressures in international services (Nambu 1997). In 1994, having exhausted the potential productivity gains of global competition, the Japanese Ministry of Ports and Telecoms allowed NTT to start collecting access charges from its competitors. The regulatory intention in both cases was a just resolution of the price dilemma. The means changed over time, along with the perceived operational efficiency of the NTT.

Similarly, Hong Kong authorities sought to introduce competition in the local call market prior to opening the international call market to competitors in early 1998, in an effort to effect a fair price across various consumer groups. Thus, in its agreement to end the exclusive license given to Hong Kong Telecommunications International Ltd. for long-distance services, the government capped the rate increase for residential subscribers until 2002. In addition, permitted price increases were made conditional on Hong Kong Telephone Company Ltd. (the local exchange subsidiary) expanding the number of lines for access to the domestic network by competing operators. On the other hand, the price cap on business line rentals was removed by July 1998.²⁴

Conclusion

This paper suggests potentially contrary effects of an increasingly global telecommunications sector. On the one hand, increased competition, based on new technologies in communication, has resulted in rapidly declining prices for international services. On the other hand, it undermines existing multilateral regulation of price and cost-sharing agreements between national carriers. As a consequence, globalization has shifted the burden of common costs and its accompanying regulatory concerns onto the domestic networks. The dilemma is especially significant for developing countries, with low per capita incomes and unequal access to basic facilities. I have suggested that fiscal standards of fairness as traditionally applied to taxes and subsidies will, or rather should, play an important part in regulatory choices with regard to pricing of the domestic network. Thus, for the Philippines, these standards may better explain the regulator's provisional endorsement of the dominant

²⁴ Hong Kong Telecom Press Release, 20 January 1998.

carrier's proposal for usage-based pricing. The regulator is expected to similarly weigh the carrier's revenue claims for rebalancing domestic tariffs, and in determining the extent and price of competitive entry for the network.

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- Relevant Documents Pertaining to the PLDT Rate-Rebalancing Case:
NTC Order, November 10, 1997, granting Provisional Authority, Re:
Case No. 97-039, Application for Rate-Rebalancing with a further

request for the immediate issuance of a Provisional Authority,
Applicant: PLDT.

PLDT Application with Prayer for Issuance of Provisional Authority, January 11, 1997: Application for Rate-Rebalancing with a further request for the immediate issuance of a Provisional Authority, Applicant, PLDT, which includes the following Annexes:

Annex "D": Schedule of Existing and Proposed Local Telephone Service Rates.

Annex "E": Schedule of Existing and Proposed Local Measured Telephone Service Rates.

PLDT Affidavit, April 11, 1997, In re: NTC Case No.97-039, which includes the following Annexes:

Annex "A": Calculation of Return on Rate Base for the Years 1997-2001

Annex "B": Breakdown of Operating Revenues for the Years 1997-2001

Annex "C": Breakdown of Operating Expenses for the Years 1997-2001

PLDT Supplemental Affidavit, June 18, 1997, In re: NTC Case No. 97-039, which includes the following Annexes and Schedules:

Annex "A": Calculation of Return on Rate Base - without Rate Rebalancing for the years 1997 - 2001

Annex "B": Breakdown of Operating Revenues (1997-2001) - without Rate Rebalancing

Schedule 1: Historical Return on Rate Base, 1986-1996

Schedule 3: Forecasting Methodology - for Local Service Revenues, Long Distance Revenues, Expenses

Schedule 4: Sample Computation of # 3

Schedule 5: Number of Lines to Derive the Local Network Revenue

Schedules 7A&B: Local Measured Service Traffic Distribution - Residential Subscribers & Business Subscribers Traffic Distribution

Schedules 9B: U.S.A. Total Accounting Rate, 1993-2001

PLDT 1996 Cost Manual, submitted to National Telecommunications Commission, July 31, 1996.