



*Inter-American Telecommunication
Commission*

ORGANIZATION OF AMERICAN STATES

WORKSHOP IIRSA / CITEL

Round Table 1

Critical taxation aspects applied to International roaming services.

FINAL REPORT

1. Objective

The final objective of this report is to present and comment on the most important aspects that emerged from the discussion on the panel of taxation on international roaming in the Americas.

These points will be useful therefore as the basis for establishing the guidelines of the study on challenges and barriers to international roaming that will be conducted by the initiative of IIRSA.

2. Limitations

The findings presented here should be considered neither exhaustive nor limited due to the time available for debate and the model adopted of free participation. So as participation in the discussions was open to anyone who wanted to take the word, it is possible that some of the records reflect the concerns and views of only one side.

3. Conclusions

The discussions that occurred at the taxation panel were deep and broad but it was possible to aggregate the main discussed topics into some fundamental ideas that are presented below:

3.1. The impact of tax burden on the international roaming services

In the debate, it became clear to all participants, the central role developed by taxation on the costs of the international roaming services.

But, on the other hand, it was not possible to conclude if the taxation issue would be enough to explain the huge differences existent between the tariffs of mobile telephony services in local and in international roaming services.

According to an operator, besides taxation, other important aspect that can affect cost is fraud.

Another operator questioned the high tax burden incident on telecommunications services and the discrimination from taxation on roaming services when compared to the taxation on other goods and services purchased abroad where, in many countries, these taxes can be returned to the consumer.

Another point raised by one of the participants was that the problem involves not only the payment of taxes, but also the administration of the taxation process that is, in general, very complex and time consuming.

It has been reinforced by more than one of the operators present on the panel that the cost of the taxes is included directly on tariffs and therefore the customer pays for these costs.

Another point raised was that tax reforms are occurring in many countries in the Americas. And so the question is to evaluate which impacts could bring these reforms on the taxation of telecommunications services.

3.2. The importance of the costs framework involved in an international roaming service

There was a consensus of all participants that the tariffs on international roaming are very high.

In this context, it was highlighted the importance to know the structure of costs involved in the provision of international roaming service. This is necessary to precisely assess the tax impact and other possible major causes that could explain these prices.

In addition to taxes, the representatives of carriers cited other kinds of costs such as losses for fraud and provision of other services such as identification of calls.

Another point raised was that the mobile operators are not, in many cases, long distance service providers, and therefore they have to contract this service from a third part, increasing their costs.

According to one of the participants, in order to make a proper study on roaming costs some aspects should be considered. The main aspects to be analyzed are the segmentation of the carriers, including assessment of their target markets and the different rules applied to the service depending on the country, such as "calling party pays".

This same participant said that this study should also consider the differences between the countries related to the percentage of pre-paid and post-paid services. In Latin America the pre-paid service represents the majority of mobile telephony's market, while in other markets it is just the opposite.

Another aspect to be considered is the destination of phone calls when a traveler is using an international roaming service. Generally the biggest percentage will be to his own country (home or office), in second place local calls and only a reduced number will be to other countries.

Regarding the question of the service's price, despite the consensus that the tariffs are high, there were different views on the pricing policies used by the operators.

On one side a representative of the operators said that in the market of international roaming, the price is not the most important aspect for the user. According to him, the most important one would be the possibility to call home and to talk to their loved ones. Thus, in this case, the roaming service could be considered inelastic.

In contrast, another participant said that this reality applies only to today's situation, where the international roaming service is restricted to a niche market where the companies and not the individuals are who support the high costs of the bills. Thus, there would be the possibility of the growth in international roaming if the prices were lower and therefore more attractive to individuals. Thus, in this view, the price of the international roaming service could be considered elastic.

3.3. The issue of double taxation and the existent agreements

There was consensus among the participants that the double taxation is a problem for the telecommunications industry, especially in the case of international roaming services.

However the number of bilateral agreements against double taxation is very low between the Latin American countries.

One of the operators said that even in cases where there is an agreement to prevent double taxation between the countries, in practice, it is very difficult to apply it. This fact is many times a consequence of the ignorance, of the tax authorities and the companies, about the agreements conditions and the bureaucracy involved for compensation of the tax paid in one country in the other one.

A participant said that the problem of double taxation does not occur in the countries of the European Union, where VAT is charged only on the consumer.

In the opinion of this participant, the issue of double taxation is a matter that should be managed by the tax authorities of the countries to align the structure of taxation.

3.4. The taxation's structure on telecommunications services in the Americas

One of the points that emerged from the discussions was the importance to know the structure of taxation on telecommunications services in the Americas.

The motivation to obtain this kind of information is the fact that there are different taxation mechanisms applied by the countries. For instance, in the Brazilian's case there is a taxation incident on payments made to foreign operators in the situation of outbound traffic. In Panama's case, according to one representative of this country, taxation occurs only on the services provided within the country.

3.5. The International Telecommunication Regulations of Melbourne, 1988

There was discussion about the clause concerning the taxation of telecommunications in the ITR - International Telecommunication Regulations approved in Melbourne in 1988.

One of the questions was to discover the reasons why, in practice, in several signatory countries, this clause is not being observed for the taxation of international roaming.

One of the hypotheses raised was that the wording of this clause is obsolete for the current reality of mobile telephony, which generates different interpretations by tax authorities. Thus, one of the possibilities for improving the issue of taxation would be to review this clause.

4. Final Comments

It is important to highlight that not all the questions that were proposed in the paper prepared to facilitate the panel were addressed.

Thus, it is recommended that the study which will be conducted by the IIRSA initiative, in addition to the considerations that emerged from the debate, may also include those aspects, in order to enable a better approach to the problem.

Also CITEL could take in account the conclusions of this panel in future studies about improvement the telecommunications services in the Americas.

5. Recommendations Summary

In brief, the main recommendations that appeared as a result of the discussions held on the taxation panel were:

- To develop a study in the Americas to evaluate:
 - the tax burden on telecommunications services;
 - if a reduction in the tax burden on telecommunication services will lead to the loss of revenue for countries or on the contrary, if it will increase revenue due to the consumption of services growth;
- To lead a survey in the Americas telecommunication industry in order to assess the structure of costs involved in the provision of international roaming service;
- To compare the taxation's structure incident on international roaming services in the Americas countries to identify the main differences and distortions;
- To analyze the existing agreements against double taxation among countries of the Americas and to verify if they can be applied to the taxation of international roaming services;
- To identify the reasons or difficulties why the existing agreements against double taxation among countries in the Americas eventually have not been used effectively for telecommunications services;
- To study the application of the tax clause of the Melbourne's ITR – International Telecommunications Regulations by the countries of the Americas in order to answer:
 - Which countries signed this convention?
 - If this clause have been used by the signatories on international roaming taxation;
 - If it would be necessary to review the wording of this clause to become more effective its use by countries in the Americas.

ROUND TABLE 2

Importance of anti-fraud measures to enhance the international roaming services market

CONCLUSIONS DOCUMENT

The present document is aimed at bringing together the principal conclusions drawn from the round table entitled "Importance of anti-fraud measures to enhance the international roaming services market," held on March 11, 2008 in the framework of the international roaming services workshop organized jointly by IIRSA and CITEL.

The workshop consisted first of all of a brief presentation of the problem and motivation for the dialogue on the workshop's subject, and then gave way to a debate among the various attending stakeholders, that is, operators, regulators, service providers and international organizations, representing both the public and private sectors. The principal conclusions drawn from the debate are indicated below:

1. Roaming fraud is a decisive risk factor that adversely affects the development of roaming business. On the one hand, it inspires caution on the part of the operators when considering the decision to enter into bilateral roaming contracts. On the other hand, the risks stemming from roaming ultimately lead to an increase in the final price offered to subscribers.
2. To facilitate the development of roaming business in the Americas, it is necessary to find a solution to the problem of fraud in this type of environment. Therefore, it is necessary to examine a series of measures or possible solutions that might be adequate to reduce fraud or else mitigate its impacts.
3. The different measures to solve the problem of roaming that have been proposed by the various participants are as follows:

- ***Promoting legislation and regulation against fraud:***

It is advisable to facilitate the creation of legislation/regulation that effectively penalizes the perpetration of roaming fraud. The experience of a country like Colombia shows that the establishment of this type of measure has substantially reduced the percentage of fraud. This legislation/regulation must be drawn up in all countries, so that the operator that exports subscribers and is therefore liable to suffer from fraud can feel protected.

In this regard, it has been observed that there is an inherent difficulty in prescribing the breach of contract in the private sector as a criminal offense in the case of roaming fraud perpetrated by subscribers. It is therefore necessary to identify effective formulas in both regional and international legislation/regulation.

- ***Improve technical and organization training of operators for the evolution toward next generation networks:***

It is necessary to upgrade the evolution of networks to next generation systems where voice systems are totally integrated into data networks, and this evolution should bear in mind security and fraud. It has been observed that, as a rule, operators have not evolved much in this area, and therefore it is necessary to promote the start-up of a learning curve of the voice world toward data environments.

In this field, certain possible measures have been pointed out:

- Upgrade the rollout of safety measures that are already known to be applied in data environments.
 - Improve the training of operators in these technologies.
 - Draw up a study on the adaptation of corporate organizational structures to consider the interaction between the voice world and the data world. In this regard, there are experiences in the establishment of departments that jointly address topics such as income earning assurance, fraud, and security systems.
- ***Developing coordinated technical measures to combat fraud:***

It is necessary to take advantage of regional synergies to set up coordinated measures that would lead to better solutions. In this regard, the following measures have been proposed.

 - Promote the common implementation of fraud alerts.
 - Joint drafting of black lists and fraud sponsors.
 - Establishment of a registry of stolen equipment that all regional operators can gain access to, continuing the work begun by CITEL.
 - Drafting research programs (I+D+I) in fraud protection. These programs must be aimed at upgrading existing fraud detection technologies.
 - ***Upgrading financial measures to reduce the risk of fraud:***

In this field, a proposal has been made to promote an insurance against fraud risk that would enable operators to consider fixed costs, associated to the payment of the insurance, instead of variable costs, calculated on the basis of risk of suffering from fraud. This type of insurance could be partially and temporarily funded by certain international organizations.
 - ***Fostering support coming from key associations in the elaboration of procedures:***

In this regard, the need to draft standards in the area of fraud that would enable operators to simplify processes and improve fraud prevention has been observed. CITEL and GSMA have been highlighted as key organizations in this type of activity.

All of these measures could be considered for further study and implementation in the framework of the IIRSA initiative and also in the CITEL Committee.

ROUND TABLE 3

Interoperability and quality of service in international roaming

CONCLUSIONS

The present document brings together the main conclusions drawn from the third round table entitled "Quality and interoperability of roaming service: keys for the business model," developed in the framework of the IIRSA/CITEL Workshop.

INFRASTRUCTURE AND INTEROPERABILITY

a) Interoperability

Interoperability is not a critical topic. Operators interconnect through a third-party player that acts as intermediary for interconnection and interoperability between home networks and visited networks.

This interconnection model is why there is no relationship between operators who sign agreements. This is also why coordination and cooperation between operators are sparse, they do not establish contact, and they do not follow up on agreements or traffic. This situation may enhance the risk of fraud.

A recommendation is made to examine how to prevent this situation and how to build up coordination and cooperation among operators, following the work being conducted by CITEL..

b) Technology

At present, the GSM operators are especially focusing on "attracting" roamers by providing greater signal power, taking advantage of the fact that terminals select networks on the basis of available power. The participants felt that the technology shall evolve to make it possible to simplify the choice of the roaming provider on the basis of other criteria established by the users, such as better price or quality, which should enhance competition.

ON SERVICE QUALITY AND CUSTOMER SATISFACTION

It is agreed that there is a very large market for roaming. Today, however, it is a small niche market that does not grow, that is price inelastic, and that is aimed at corporations. This prevents segmentation in roaming because it is a small and focused niche. The potential of roaming depends on the final price for the customer and the elasticity-price ratio.

In this regard, a recommendation is made to examine the current elasticity of the roaming services market and the rate level that would make the market become as dynamic as possible.

The study must identify the conditions that would make it possible to maximize or optimize the benefits of all the players involved: users, that is, those who would receive quality service at a price they would be willing to accept; operators, that is, those who will see their benefits enhanced thanks to increased demand; and the State, which would receive higher revenues through the taxes it collects.

MARKET MODEL AND OPERATOR STRATEGY

a) Differences with Europe

It was felt that the social demands being made on the operators of Latin America are putting pressure on the region to reach very quickly the level that Europe attained in 20 years, despite this market's obvious differences with other regions, in particular with Latin America, where there are other market and development conditions, longer distances, trips over longer periods, smaller population that is geographically more scattered, with disparities and lags in terms of penetration, different currencies, and many different laws.

A recommendation is made to keep in mind the specific characteristics of the Americas when conducting the study.

b) Impact of tourism on the market

The region's tourism industry is growing quickly. In cities noted for their influx of tourists, such as Cuzco and Playa del Carmen, there is a large number of travelers with cell phones. Nevertheless, the profusion of phone shops and cybercafés make it clear that their international calls are being made there, not by their own cell phones (roaming).

This fact highlights the huge demand for international communications. The gap between price and value received for roaming makes this service impossible, fostering the emergence of low-quality alternatives that take away users from roaming.

A recommendation is made to examine which factors would make this market interesting for operators.

c) Roamer behavior patterns

It is estimated that, in roaming, most phone calls are calls back home, a small proportion are local calls, and the rest are calls to third countries. The rate structure is based on taking advantage of the distribution of outgoing calls to obtain the maximum benefit for the roamer.

A recommendation is made to examine the behavior of users when identifying the rate structure that better adapts to the users' price-quality requirements

d) Changes in the context of the operators

Over the past few years, several changes have been made in the context of the region's operators, and this has changed some operating costs:

- International long-distance prices have declined substantially, not only in VoIP but also in traditional telephony.
- There is a high concentration of operators in the region, which has led to a decline in IOT prices.
- The use of VoIP has increased, which has reduced the costs not only of the wholesaler chain but also at the international level.

A recommendation is made to examine why these changes are not reflected in final customer prices for roaming.

ROLE OF GOVERNMENT AND THE REGULATOR

a) The role of the State with respect to the sector's structure

At present, because of mergers and the natural dynamics of the sector, the monopolistic operations that governed the telecommunication market in the past are returning.

b) Regulators and integration

On the borders of the countries of Latin America, there is intense border trade that has led to growing economic and social integration. If the government wishes to achieve greater integration with border countries, it will have to resort to providing facilities for roaming, in the framework of its possibilities as a country.

In this regard, coordination between the regulators of the countries is required because currently a regulator can only issue domestic standards inside its own country.

c) Joint action

Joint action is needed to overcome the constraints in terms of the capacity to make laws exclusively in the confines of each country's borders.

A recommendation is made to examine how to propose the regulation of roaming in the context of the regional integration initiatives and free trade agreements existing in the Americas, evaluating whether tools are available for the States to tackle the current context.

For example, if the States had the power to oblige operators to draw up roaming agreements on the basis of certain principles and conditions, it could probably lead to greater competition, which would in turn bring prices down and raise quality of service.

All of these recommendations and analysis factors that have been highlighted could be considered for study and implementation in the framework of the IIRSA initiative and also in the CITEL committee.

SUMMARY OF RECOMMENDATIONS

Infrastructure and interoperability

Interoperability: *Examine how to prevent this situation and how to build up coordination and cooperation among operators.*

Quality of service and customer satisfaction

Quality-price variables: *Examine the current elasticity of the roaming services market and the rate level that would make the market become as dynamic as possible.*

Market model and operator strategy

Differences with Europe: *Keep in mind the specific characteristics of Latin America when conducting the study.*

Impact of tourism on the market: *Examine which factors would make this market interesting for operators.*

Roamer behavior patterns: *A recommendation is made to examine the behavior of users when identifying the best rate structure that better adapts to the users' price-quality requirements.*

Changes in the context of the operators: *A recommendation is made to examine why changes in the context of operators are not reflected in final customer prices for roaming.*

Role of government and the regulator

A recommendation is made to examine how to propose the regulation of roaming in the context of the regional integration initiatives and free trade agreements existing in the Americas, evaluating whether tools are available for the States to tackle the current context.