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Increasing rate above the ICH level

US' FCC disables payments to local LDI operators

By Abrar Hamza

KARACHI: The Federal Communications Commission (FCC), regulator telecommunications body in USA, has given its order to disable payments to long distance international (LDI) calls operators in Pakistan as they have increased their rates above the International Clearing House (ICH) level, which are above $0.02 per minute.

In their order, FCC has said that the new $0.088 per minute rate (post-ICH rate) is significantly above the previous level of approximately $0.02 per minute (pre-ICH rate) in October 2012. Since the increase is not cost-based they have deemed this practice as anti-competitive and have prohibited US telecommunication providers from paying above the pre-ICH rates ($0.02 per minute) for calls to Pakistan.

This order is directed from an earlier petition filed by Vonage Holdings Corp (VHC), which is a provider of international communications services from the US using third party US and international carriers, to terminate its traffic overseas, filed on October 3, 2012. The VHC argued that Pakistani LDI operators formed an ICH arrangement to create a monopoly situation with a 400 percent increase in termination rates (adversely impacting number of outgoing calls to Pakistan) had resulted encouraging anti-competitive environment.

As per 2011 figures mentioned in the Memorandum Opinion and Order issued on March 5, 2013 by the FCC, Washington, DC USA with respect to a petition lodged by a US LDI operator, the inbound LDI traffic from the US constituted an estimated 2.9 percent or 261 million minutes during 2012 (2011: 1.7 percent or 261 million minutes at actual) of the total inbound LDI traffic per minute to Pakistan from the world. On the other hand, the rates being charged before the ICH arrangement stood around 2 cents per minute against the current 8.8 cents per minute.

In this regard analyst at JS research said that the current circumstances make the outlook on international incoming rates somewhat unclear. Key risk is that the FCC decision may lead to other countries following suit and applying pressure for a broad-based reduction in rates, he added.

He further said that if the local LDI operators agreed to the pre-ICH level call rates than outbound calls are also expected to

have increased because of the higher incoming call rates. This should provide local LDI operators a leverage to deal with any such reactions from international LDI operators like holding back payments etc, set aside any bilateral agreements between local and foreign LDI operators on telecom services enforcing necessary actions by and for the parties involved, he further added.

According to JS research analyst, LDI operators are still adamant that termination rates on international incoming will stay at the post-ICH level. LDI operators said that incoming minutes from the US constitute approximately less than 10 percent of the total international incoming calls - 50 percent of incoming from US is pre-paid, it's not a significant enough share to warrant a change in industry rates.

As per JS discussion with telecom operators the bulk of international incoming minutes to Pakistan are from the Middle East (ME) countries.

Analysts suggested that investors to stay cautious on the telecom sector as the uncertainty may increase further given Competition Commission of Pakistan's (CCP) investigation and any unfavourable findings thereof, alongside US competition authority's attention towards the calling rates being charged, even though the impact seems marginal as far as actual numbers are concerned.

Analyst at Arif Habib Limited (AHL) said in this regard that although impact of payment freeze from the US seems marginal, but the sword is hanging on LDI operators.

As per AHL estimates based on the given figures, any reversal in LDI rates, from the US only, should have an initial negative per share impact in the range of Rs 0.04-0.10, he added. AHL assumed a significantly decreased margin of 0.58 cents per minute as compared to post-ICH-based margin of 5.85 cents per minute.