

**THE LIBERALIZATION OF THE  
TELECOMMUNICATIONS SECTOR IN THE BAHAMAS:  
CHALLENGES, IMPACTS & BENEFITS**

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## **INTRODUCTION**

Telecommunications is considered essential for our basic survival in this 21<sup>st</sup> century. Technology has enabled the convergence of information technology, communications and broadcasting to change the way we live and work. Gone are the days when we could survive without our cellular phones, personal computers, emails, laptops, personal data assistants and the likes, seamlessly moving across country borders. Traditionally, the telecommunications companies were state/government owned monopolies, a few of which had regulatory responsibilities. However, there is global recognition of the benefits of the “liberalization” of the telecommunications sector through the introduction of competition and the privatization of the state owned telecommunications operators. The main objective of the liberalization is to increase the availability, accessibility, quality and affordability of telecommunications services for all. Greater benefits to society from liberalization include the opportunities for investment, lower prices, more choices for consumers and lifelong educational opportunities as preconditions for economic and human development.

## **LIBERALIZATION – BEST PRACTICES AND THE BAHAMIAN EXPERIENCE**

There are three (3) key elements involved in the regulatory reform of traditional monopolies and/or state owned telecommunications operators which should preferably be in the following order:

1. Establishment of an effective independent regulator
2. Introduction of competition
3. Privatization of state owned monopolies.

### **Establishment of an effective independent regulator**

Best practice determines that the government should not be the provider of telecommunications services, policymaker and regulator in a competitive environment. These three (3) distinct roles should be clearly separated. Once governments started to divest their investments in the telecommunications monopolies and liberalize the sector, it became apparent that a new regulatory framework had to be developed and

implemented. By and large this led to the establishment of the independent economic regulators. A transparent and predictable regulatory framework is a prerequisite to attracting investment and assists the government in its privatization efforts.

Therefore, the government should create a regulatory body with the responsibility of granting licences, enforcing competition and protecting the public's interest. The primary objective of regulation should be the enforcement and promotion of sustainable competition. Best practice includes that the regulatory body encompass the following traits:

1. Independence – The regulator should be insulated from the pressures of the government, the regulated companies and other interest groups. The regulator must also be perceived to be insulated from pressure by any group in its decision making process.
2. Technical Competence – The regulator must be able to acquire its own staff, professional and support, to effectively perform its functions. Thus the need to recruit and retain highly motivated and qualified staff. The technical expertise developed by the professional staff in combination with independence from the government leads to improved decision making and enhances the regulator's credibility and authority.
3. Access to sufficient funding – The regulator must have adequate and reliable funding to carry out its mandate and facilitate the recruitment of qualified professional staff.

The Public Utilities Commission (PUC) Act, 1993 and the Amendment Act, 1999, as well as the Telecommunications Act, 1999 (Tel Act) created the legal framework for the establishment of the regulatory agency in The Bahamas. The country established a multisector regulator on March 25, 2000, the PUC, with the purview of telecommunications, electricity and water and sewerage.

Section 6(1) of the Tel Act outlines the functions of the Commission which include the following:

- To issue, modify... licences in a manner consistent with sector policy

- To regulate the interconnection of telecommunications systems and the management of numbers
- To facilitate, maintain and promote effective and sustainable competition in telecommunications services in The Bahamas.

The PUC is independent of the government, licensees and other interest groups in its operations and decision making. Like other regional utility regulators, the PUC is challenged in recruiting and retaining suitably qualified and experienced professional staff. In its efforts to develop and train qualified regulatory economists, the PUC is currently offering scholarships to study for a M.Sc.in Economics with concentration in utility regulation and competition. However, unlike other regional utility regulators that rely very heavily on the government for funding, the PUC has been able to generate and derive approximately 86% and 14% of its annual budget from licence fees and government grants, respectively, for the past two (2) fiscal years.

### **Introduction of competition**

The introduction of competition in the telecommunications sector is a result of significant advances in technology and the failure of state owned telecommunications monopolies to satisfy the growing telecommunications needs of economies and users. Competition prods incumbents to improve their efficiency and invest in infrastructure. The introduction of competition does not mean de-regulation. The introduction of competition must be accompanied by the creation of an independent regulator charged with the responsibility of facilitating market entry by new entrants, guarding against anti-competitive practices of incumbent operators and ensuring that the benefits of competition are passed on to consumers.

The 1997 WTO Reference Paper sets out basic rules for ensuring competition in the telecommunications sector. The major points are summarized as follows:

1. **Enforcement of competition** - Measures must be taken to ensure that major suppliers do not engage in anticompetitive practices.

2. **Interconnection** – Governments must assure that new entrants have a right to interconnect with a major supplier at any technically feasible point in the network.
3. **Universal Service** – Governments can maintain Universal Service policies that are administered in a transparent, nondiscriminatory and competitively neutral way.
4. **Independent regulator** – The regulatory body must be separate for the actual suppliers and must employ procedures ensuring objectivity for all market participants.
5. **Resource Management** – Governments must use procedures for the allocation and use of scarce resources that are timely, objective, transparent and nondiscriminatory.

Full competition in areas such as satellite, microwave and other wireless means of telecommunications, value added services, customer premises equipment (CPE) and Internet access, but not voice over IP, was introduced with the implementation of the Telecommunications Sector Policy (TSP) on July 2001.

The PUC, in carrying out its duty of implementing the TSP, issued a call for applications to operate a Public Fixed Radiocommunications Systems and provide Telecommunications Services in September 2001. The PUC used the beauty contest method and Systems Resource Group Limited (SRG) was judged the successful bidder. The PUC issued SRG a licence in October 2002, with the restriction that it could not offer voice services until January 1, 2004, in keeping with the TSP issued in July 2001. SRG launched operations with fixed line service for business customers and prepaid calling cards in August 2004. In October 2002, the government revised the TSP limiting any further competition in the fixed line and voice telephony service areas.

### **Privatization of state owned monopolies**

Governments should not be providers of telecommunications services which are run more efficiently by private companies. Some of the reasons for the privatization of state

owned telecommunications monopolies include a. obtaining much needed revenue to reduce national debt, as was the case in Argentina; b. improve the quality and penetration of telecommunications service, e.g. Venezuela; and c. the implementation of new general political and economic agendas as in New Zealand and Britain. The privatization of state owned monopolies has included private sales to strategic investors, as the Bahamas' method of choice, or public stock offerings, as was the case in Britain.

Bahamas Telecommunications Corporation (Batelco) was incorporated in 1966 as the government owned telecommunications operator. Batelco enjoyed a monopoly on the provision of all telecommunications services in The Bahamas up to the mid to late 1990s, when very limited competition was introduced in areas such as paging, trunking and Internet service. The government commissioned a review of the telecommunications sector in 1998 by its consultants, Deutsche Bank (London) and other experts. It was determined that the best course of action was to first establish the legal framework for the sector (Tel Act and TSP) and establish an independent regulator (PUC); secondly privatize the incumbent telecommunications provider by selling 49% of the shares to a strategic investor; and finally to liberalize the sector in phases. Section 4.1 of the TSP outlines the government's policy objectives which include (j) enhancement of the value of Batelco by measures that are consistent with other sector policy objectives; and (k) reduction of the National Debt by utilizing the proceeds of the sale of shares in Batelco.

About nine hundred (900) employees of Batelco were disengaged and paid severance packages in 1999, in an effort to restructure the company for privatization. The Tel Act brought into effect in 2000 allowed for a new limited company, Bahamas Telecommunications Company (BTC), to be incorporated. Batelco's regulatory responsibilities were also transferred to the Commission as a result of the Act. The government started the privatization process in 2003 by using the beauty contest method. Bidders submitted proposals and three (3) bidders were then short listed to submit final proposals. The government's first attempt to privatize BTC was unsuccessful and the government made its announcement to that effect in December 2003. Currently, the government is in direct negotiations with only one bidder for the privatization of BTC.

During this second round attempt of privatization, the government is accepting only one bid at a time, will review the bidder's proposal and negotiate with that bidder. If the negotiations with that bidder are unsuccessful, then only after the negotiations have failed will another bidder be allowed to submit a proposal. The government is currently reviewing a bid from Bluewaters Communications Holdings Ltd.

## **CURRENT STATE OF VARIOUS TELECOMMUNICATIONS MARKETS**

### **Fixed Line**

There are currently two (2) fixed line operators in the country, BTC, the incumbent and SRG, the new entrant. The market is closed to any further competition until the expiration of a period of twenty four (24) months from the date of completion of the sale of shares in BTC to a strategic investor as stated in Section 5.6.2 of the TSP. Due to the need to rebalance prices in line with the cost of the provision of service, BTC's prices for the monthly rental of a telephone line increased, the first price increase in thirty (30) years, in January 2006.

The table below illustrates the price changes for BTC's fixed line service:

**Table 1 – BTC's monthly prices for a telephone line**

	<b>Prices</b>	<b>Prices</b>	<b>Increase</b>	<b>Increase</b>
<b>Service Type</b>	<b>April 1, 1975 to Dec. 31, 2005</b>	<b>Jan. 1, 2006</b>	<b>Amount - \$</b>	<b>%</b>
Residential	\$9.50	\$15.00	\$5.50	58%
Business	\$20.00	\$36.00	\$16.00	80%

### **Cellular Mobile**

BTC, the incumbent, is the only cellular mobile provider in The Bahamas. BTC offers service using both the TDMA and GSM technologies. The government's policy as stated in section 5.6.2 of the TSP reads "competition in the provision of cellular mobile services will be deferred until the expiration of a period of twelve (12) months from the date of



completion of the sale of shares in BTC to a strategic investor.” It is worth noting that Dominica, an ECTEL member, with a population of approximately 69,000, a GDP of approximately US\$5,500 (2003 estimate), currently has three (3) cellular mobile operators (Cable & Wireless, Digicel and Orange).

Table 2 provides an overview of BTC’s prices for GSM and TDMA services:

**Table 2 – BTC’s prices for cellular mobile services**

Cellular service	TDMA	
	Post-paid	Prepaid
Monthly Access Fee	\$10.00	N/A
Airtime: 7:00am - 6:59 pm (peak)	\$0.20/minute	\$0.40/minute
Airtime: 7:00pm - 6:59 am (off-peak)	\$0.10/minute	\$0.20/minute
	GSM	
	Post-paid	Prepaid
<b>Time</b>		
Weekdays: 7:00 am - 6:59 pm Mon. - Fri.	\$0.14 - \$0.20/minute	\$0.33 - \$0.35/minute
Evenings: 7:00 pm - 6:59 am daily	\$0.10 - \$0.16/minute	\$0.15/minute
Weekends: 7:00 am - 6:59 am Sat. - Sun.	\$0.14 - \$0.16/minute	\$0.15 - \$0.20/minute
Note: GSM postpaid service is only offered by packages that include specific numbers of minutes and prices listed are for overage of included minutes.		

### **International Long Distance (ILD) and Domestic Long Distance (DLD)**

The two (2) licensed fixed line operators are the only operators authorized to provide ILD and DLD services in The Bahamas. The government’s policy on competition in the ILD and DLD markets are the same as fixed line service, no further competition until the expiration of twenty four (24) months from the date of completion of the sale of shares in BTC to a strategic investor. There have been significant decreases in the ILD and DLD prices since the introduction of limited competition in this market. Prior to October 2004, BTC charged \$2.25 for the first minute and \$2.00 for each minute thereafter for a call to Jamaica. BTC now charges \$0.66 per minute for a call to Jamaica, which is a decrease of \$1.59 or 70.6%. Table 3 illustrates the current ILD prices in The Bahamas.

**Table 3 - ILD Prices**

<b>Country</b>	<b>SRG's Prices \$/Minute</b>	<b>BTC's Prices \$/Minute</b>
United States of America	0.49	0.47
Canada	0.49	0.50
Caribbean (Except Cuba)	0.49	0.66
Cuba	0.79	0.85
All Other Countries	0.79	0.85

Sources: [www.indigonetworks.com](http://www.indigonetworks.com) and BTC's modification of licence, May 2006

### **Internet**

There are nineteen (19) licensed ISPs in The Bahamas. The Internet market is fully liberalized and there are no current policy restrictions on market entry. Unlimited dial-up Internet service cost as much as \$100/month for residential customers in March 2000. Residential customers can now enjoy unlimited broadband Internet service via cable modem or DSL, starting at \$34.95 per month.

## **CHALLENGES, IMPACTS AND BENEFITS**

### **Challenges**

The reform of the telecommunications sector in The Bahamas has not been an easy or uneventful one to say the least. Some of the challenges of the reform process include:

- Delayed privatization process – The government commissioned a review of the sector in 1998 by its consultants, Deutsche Bank (London) and other experts. The government's first attempt to privatize BTC in 2003 was unsuccessful. Currently, the government is reviewing a bid from Bluewaters Communications Holdings Ltd. and that process is still ongoing. In a recent interview with The Bahama Journal, Minister of State for Finance James Smith explained that there is no timeline for the company to be sold.

He also described the present privatization process, saying, “It’s slow and laborious, but it’s very focused.”

- Dissatisfied bidder for the new licence – In 2002, the PUC issued a call for applications to issue a Fixed Radiocommunications Licence. The PUC awarded the licence to SRG. However, one unsuccessful bidder, Bahamas General Communications Ltd. (BGC) took out an injunction against the PUC’s decision to award the licence to SRG and challenged the PUC’s decision in the Supreme Court. BGC was unsuccessful in its challenge, the injunction was lifted and the PUC was awarded costs.
- Change in the Telecommunications Sector Policy – The Government of The Bahamas issued its Telecommunications Sector Policy in July 2001. There were specific dates for the liberalization of fixed line and cellular mobile services, namely, January 1, 2004 and March 31, 2003, respectively. In October 2002, the government amended the TSP and the new liberalization dates were directly connected to the completion of the sale of shares in BTC. The new dates for the liberalization of fixed line and cellular mobile service are twenty four (24) months and twelve (12) months from the date of completion of the sale of shares in BTC to a strategic investor, respectively. Hence, with no confirmed sale of shares in BTC to a strategic investor at the moment, the liberalization process is at a standstill.
- Interconnection – In order for competition to work, there must be interconnection between operators. Interconnection proves to be one of the most contentious issues between operators. BTC & SRG are no different. After much negotiation, the two (2) operators signed an Interconnection Agreement in 2004. However, the agreement calls for any of the two parties to refer matters that are not resolved to the PUC. The PUC has been very involved in settling disputes and other matters with respect to interconnection between the two operators.
- Enforcement and compliance of licence conditions – Notwithstanding the PUC’s encouragement of the operators to introduce new products and prices, the PUC must also ensure that the incumbent, BTC, is not using anti-competitive measures

to hinder the new entrant, SRG. Once SRG, launched its service in 2004, BTC responded with a promotion which significantly reduced its ILD and DLD prices, in some cases up to 69% lower than its standard prices. BTC was of the opinion that it could make the price changes without the PUC's approval. After some discussion with BTC, the PUC issued a written notice to BTC on its intent to issue a Section 34 Notice for failure to comply with its licence. After further discussions and negotiations, the PUC and BTC reached an understanding whereby the PUC would allow BTC's "promotional" prices to remain in effect until such time that the PUC had conducted a public consultation on the reduced prices. The public consultation was launched in January 2005 and the Statement of Results with the approval for the price changes was issued in March 2005. Needless to say, the PUC is encountering a similar challenge from BTC with the introduction of VoIP services. However, BTC has agreed to seek approval for the prices of its VoIP service.

- BTC's interim licence – The licence issued by the PUC to BTC in 2002 was anticipated to be in effect for about a six (6) to twelve (12) month period. This was allowed so that the strategic investor would be able to have some input in the permanent licence to be issued to a privatized BTC. As the government's first attempt to privatize BTC failed, the new entrant deployed service and new technologies were being developed, it became evident that BTC's interim licence was inadequate to handle the new environment. Some four (4) years later, after the issue of that interim licence in September 2002, the PUC has been unable to issue a permanent licence to BTC.

### **Impacts**

The reform process in the telecommunications sector has certainly impacted all stakeholders. While some of the impacts will be and have been positive, other impacts will not be or have not been as positive. Some of the impacts of the reform process include the following:

- The Government may realize lower proceeds from the sale of shares in BTC due to the prolonged privatization process. The government having already rejected

an offer of \$150 million in 2003 is expected to be under pressure to not accept any offer lower than the 2003 offer.

- The prices for the monthly telephone line have increased as a result of the rebalancing of prices.
- There are those of the philosophy that we are “giving away” one of our bejeweled national assets and are frustrating the reform of the telecommunications sector.

### **Benefits**

It is evident that the introduction of competition provides both consumers and operators with measurable benefits including the following:

- Greater choice of service providers – Consumers are not limited to only one service provider for all their telecommunications needs. Consumers in The Bahamas now have a choice of providers for the following services:
  - Fixed Line Service – BTC and SRG
  - Internet – Cable Bahamas, BTC, Future-Net, Satellite Bahamas, Abacom Wireless, Bahamas General Communications, Out Island Inter.Net Ltd., etc.
  - Leased circuits (data) – BTC and Caribbean Crossings Ltd.
  - Public Paging – BTC, Forthsythe Communications, Pathcomm
  - Public Trunking (SMR) – BTC, Forthsythe Communications, Telepoint Communications, Hi-Technology, Alton Rahming, etc.
- Significantly improved service quality - Because the incumbent now has to compete for business, there is an emphasis on improved service quality and customer service. BTC has recently introduced the “EZPay” system that allows customers to pay their bills online as well add minutes to their prepaid “Hello” card.
- Wider variety of services – Incumbents once forced to compete need to create new revenue streams therefore allowing faster deployment of new services. In BTC’s case, there has been the recent launch of new services such as “Vibe”, BTC’s VoIP service, and the Blackberry, which provides cellular mobile and data services.

- Lower prices - One of the greatest benefits that consumers look forward to as a result of the introduction of competition are lower prices for ILD and other services. The prices for various telecommunications services have decreased significantly since the introduction of competition in The Bahamas. See Table 3 above for details on current ILD prices.
- Increased investment opportunities to build, upgrade, and operate telecommunications networks and services for the new entrants.
- Enhancement of the overall efficiency of the telecommunications sector thereby facilitating economic benefits.
- Better quality of life for consumers as a result of lower prices for telecommunications and related services. The internet has promoted the use of ecommerce and even the government of The Bahamas recently launched its egovernment initiative including public access terminals.

## **CONCLUSION**

Telecommunications is an important sector in the development of societies on a global scale. We are no longer confined to POTS (plain old telephone systems) but now enjoy new technologies such as roaming cellular mobile phones, IP telephony, etc. The floodgates have been opened and there is no turning or holding back. Therefore, there must be reform in the telecommunications sector in those countries where monopolies and state owned operators still exist. While reform in the telecommunications sector is not an easy process, it is clear that with all of the considerable benefits that liberalization of the sector can deliver to consumers and other stakeholders, it is worth the challenges encountered along the way.

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