Policy Brief

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Broadband in Latin America: Opportunities to reduce tariffs, improve quality and expand service

A new study reveals that prices in Latin America are almost three times as high as those in more developed countries. A 10 percent tariff reduction would result in a nearly 19 percent increase in penetration, equivalent to 4.7 million additional connections in the region.

The level of prices for a service is a key variable that affects households' ability to purchase and reveals the degree of competition among service providers. This paper analyzes tariffs for access to fixed broadband Internet service in the residential segment in Latin America and the Caribbean and seeks to estimate the accessibility of the service for various households and the effect of potential price variations on adoption of broadband in the region.

Various indicators can be used to compare broadband tariffs in the region. First, we consider the average cost of a monthly subscription for broadband Internet connection. The analysis shows high dispersion of tariffs in the region, even in markets with similar characteristics, suggesting that there are opportunities for regulatory measures aimed at strengthening competition and addressing possible bottlenecks in the various segments of the access market.

The results also show that Latin American households, on average, must make a greater effort to connect to the Internet than households in developed countries. Nevertheless, it should be noted that in countries such as Uruguay, Jamaica, Mexico and Chile, the average tariffs are comparable to those of OECD countries.

The megabit-per-second (Mbps) price is an indicator that allows us to measure the value obtained for each dollar spent on broadband. Here we find that the prices per Mbps in the region are 15.5 times as high as those in the OECD.

On average, prices in Latin America and the Caribbean are nearly 3 times as high as those in the OECD

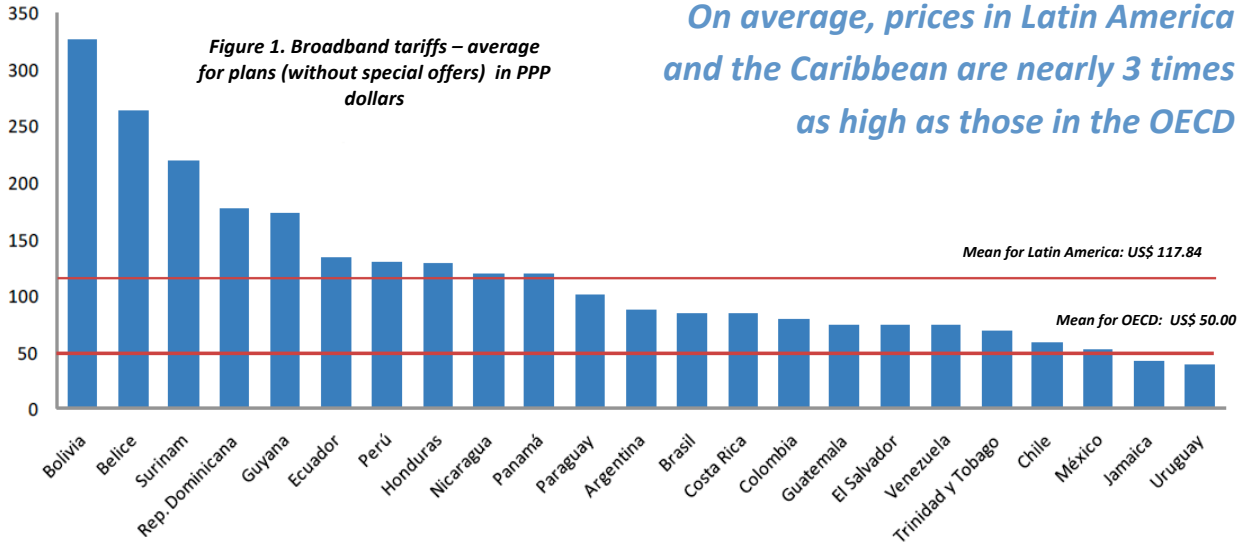

Figure 1. Broadband tariffs – average for plans (without special offers) in PPP dollars

Text based on Galperin, Hernan and Christian Ruzzier. *Las tarifas de banda ancha en América Latina y el Caribe: Benchmarking y análisis*. Buenos Aires: DIRSI, 2010.

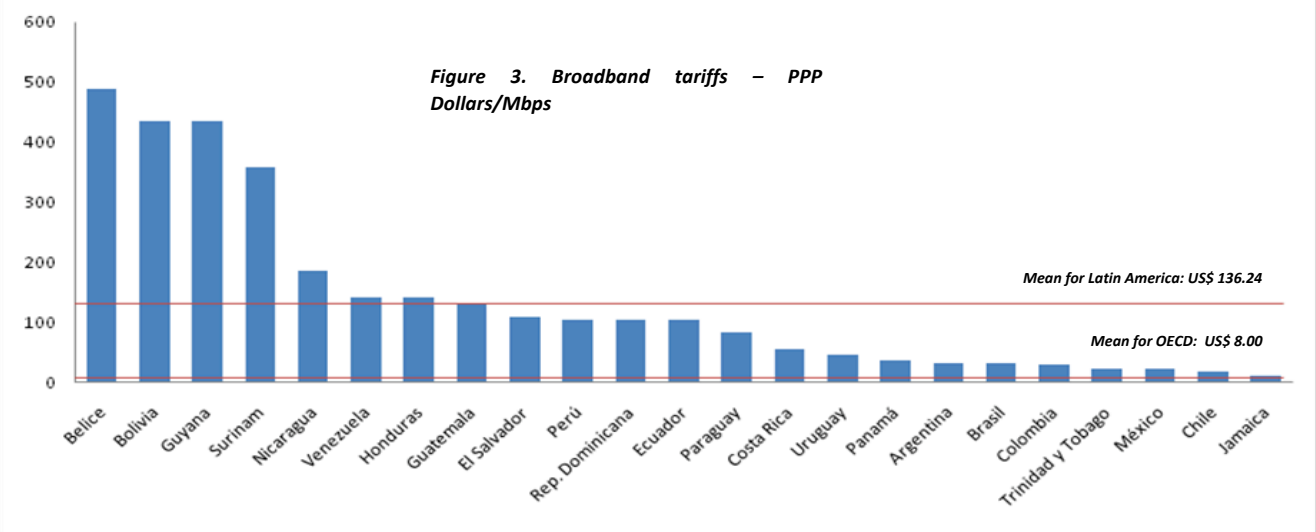

Figure 3. Broadband tariffs – PPP Dollars/Mbps

Finally, we consider the price of the least expensive monthly broadband access plan in each country. This is an important indicator, because it establishes the minimum level of expenditure required for access to the service.

In this case, the countries that perform best are Uruguay and Venezuela, where government control of the main telecommunications operator allows it to offer social tariffs for connectivity. The same is true in Brazil, where "Popular Broadband" in the state of São Paulo offers tax benefits to operators participating in the initiative. At the other extreme are Bolivia, Nicaragua, Guyana, Suriname, Honduras and Belize, where high prices are reflected in poor penetration indicators.

Our analysis brings us to the following conclusions: (i) there is a wide margin for reducing tariffs for and improving the quality of fixed broadband in Latin America and the Caribbean, and (ii) at current penetration, levels, demand for broadband in the region is relatively elastic to price: our calculations indicate that a 10 percent reduction in tariffs would result in an increase of nearly 19 percent in the penetration rate, equivalent to 4.7 million additional connections.

Finally, it is recommended that initiatives aimed at encouraging tariff reductions be supplemented with policies that affect other demand-related variables, such as financing programs for the purchase of computers, initiatives for equipment in schools and digital literacy programs.

The countries with the best performance are Uruguay & Venezuela, where the government offers social tariffs for connectivity.

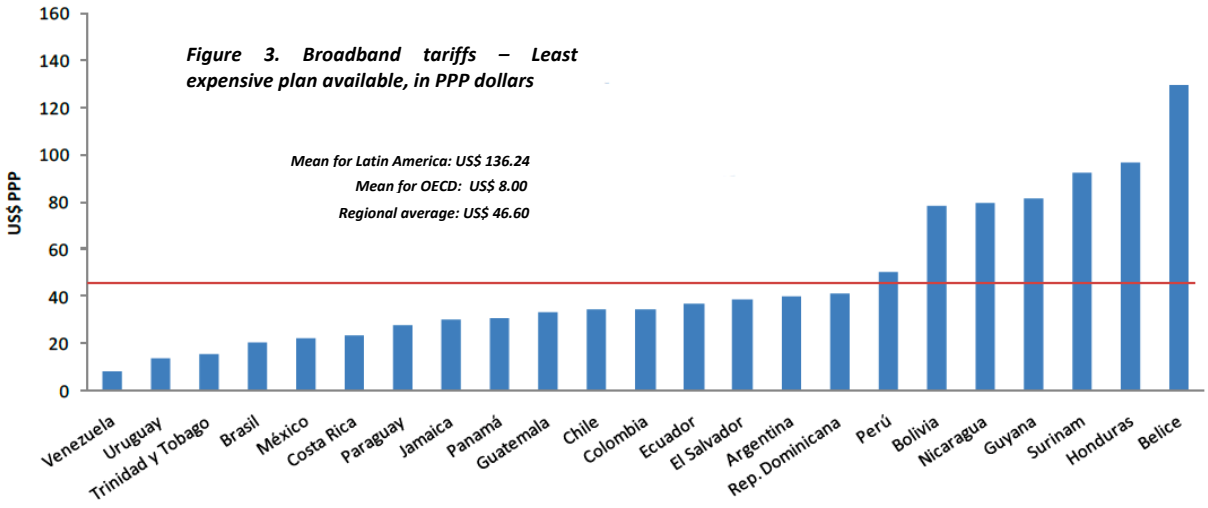

Figure 3. Broadband tariffs – Least expensive plan available, in PPP dollars