



Pursuitex/2019-20/10

25th Feb .2020

To

**The Chairperson
Telecom Regulatory Authority of India
Mahanagar Door Sanchar Bhawan
Jawahar Lal Nehru Marg
New Delhi-11002**

**Kind Attn. Advisor (Finance & Economic Analysis), TRAI
(advfea2@traigov.in)**

**Sub: Consultation Paper on Tariff Issues of Telecom Services (CP No.: 22/2019)-
Submission of Comments reg.**

Dear Sir,

We take this opportunity to introduce **Pursuitex Advisory Services**, a recently registered LLP. Pursuitex is an emerging Think Tank on Policy and Governance matters, led by experts across multiple Industry verticals and policy domains. We are a group of professionals who gained varied experience from Industry, Academics, PSUs, Government, and Regulatory Institutions. We are working actively towards high-quality research on Policy formulation, Advocacy, Infrastructure development, Industry research etc. Our mission is to develop Pursuitex as a center of Research, Analysis and Engagement Institution that generates Policy recommendations and advice on domestic and international issues enabling both Policymakers and other stakeholders to make informed decisions.

We will be happy to engage with TRAI to support its endeavor in all the areas mentioned above. We shall highly appreciate if TRAI keeps us in its mailing list so that we could get the information/invitation etc. for any consultation/discussion as and when takes place.

Our comments on the consultation paper on “**Consultation Paper on Tariff Issues of Telecom Services (CP No.: 22/2019)**” are attached herewith. We thank TRAI in giving this opportunity to respond to this consultation paper. We hope our suggestions will be

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taken into account while finalizing the issue. We will be happy to provide any further clarification /information, if required, in this regard.

We look forward to the opportunities in working with TRAI and assure our continuing co-operation and support.

Thanking you,

Yours faithfully,

For Pursuitex Advisory Services.LLP

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Encl: Comments on Consultation Paper.

**COMMENTS BY PURSUITEX ADVISORY SERVICES, LLP ON
TRAI CONSULTATION PAPER ON TARIFF ISSUES OF TELECOM SERVICES (CP NO.22/2019)**

A. Preamble

At the outset, we applaud TRAI for issuing this consultation paper suo-moto at an appropriate time.

The Telecom Sector is in deep stress today. The sector has witnessed hyper competition during the last few years resulting tariff below cost and unsustainable. Aggressive pricing had sapped the Sector of its viability over the last 3 years. Since then, many operators shut down their operations, and two leading players consolidated their operations for the quest of survival. The recent Supreme Court ruling on AGR cast a block on the industry, and in the absence of an amicable resolution to the imbroglio, the future looks bleak for the sector. If Vodafone Idea closes operations, the risk of which is high, with the resultant duopoly, competition will suffer badly and the Authorities will find it very difficult to manage the sector. India can also forget any fresh FDI in the sector for a very long time.

Regulatory intervention is the only answer to undo these conditions and put the sector back on the path of recovery and growth. Improvement in price realizations can play a big role in reviving the sector, and Tariff regulation falls in the exclusive domain of TRAI. We are of the view that it is an opportune time for the Regulator to come forward and regulate the Telecom tariffs which are currently under forbearance.

Recently, all the three private sector telecom operators increased tariffs by 25-40%, the impact of which will be visible in the financial results of Jan-Mar 2020 quarter. However, the real question is - should the Regulator step in by fixing the tariff? Or in present situation, let telecom operators continue to review their tariffs based on market dynamics? Regulators are mandated to protect consumer interest and that, hitherto, has loosely translated to nudging the tariffs to fall continually. There has been lot of concern raised by consumers about constantly falling quality of service. However, the financial



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challenges, the operators have to face in reinvesting in network up-gradation or expansions are mostly ignored.

One by one, several telecom operators have disappeared from the scene in last two years. Generally, the response to operator's financial woes, and going out of business are not seriously viewed. Assessment of systemic implications of number of operators falling to two or three, and a strategic response thereto is missing. We seem to be contented in the glory of the benefits of rock bottom prices and mammoth growth in internet reach and usage. The focus is on low tariff as being the dominant parameter, no matter whether the Service providers make reasonable returns on their investment or not. The competition is on lowering tariff. This has led to the situation where survival of telecom operators is in question. In this grave situation, if everything is left to the market to decide and letting the tariff to continue in forbearance, the Telecom Industry cannot sustain their business and will perish.

The ultimate sufferers will be the consumers, if the situation continues like this. The sector has already witnessed it due to the closure of Reliance Communications, Telenor India, Aircel, Tata Teleservices, and Videocon, resulting in not only large-scale employment retrenchment, but also severe financial loss to the Exchequer. A conducive policy environment must be ensured such that the telecom operators can sustain viability as well as continue to attract investments to the sector.

It is important to examine and understand that why so many telecom operators had to shut down their business operations and land up in the Bankruptcy Court, causing great stress to Banks and foreign investors too.

The Regulator must take charge and be equipped with domain experts to do a complete assessment of cost, price, quality, profitability, investment, technology up gradation and overall conduct of the business by the regulated entities. Rigorous examination of all these aspects is essential to ensure a healthy competition in the market and sustainable

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business for all players which will create a business environment which will be win-win for all stakeholders. In the absence of meaningful interventions, disruption can happen even to the profit-making operators, which will have serious impact on the consumers. All these justifies that it is time for regulatory intervention in the sector to protect the interest of both the operators and consumers.

B. Our responses to specific questions are furnished below.

Issues for Consultation

Q1. Do you foresee any requirement of regulatory intervention at this stage in tariff fixation to protect the interest of telecom service providers as well as the consumers? Please support your comments with justification.

Ans. Yes, we are of the view that it is a right time for the Regulator to intervene and take necessary actions for tariff fixation. We are of the view that such a step is essential to ease rapidly increasing financial burden on the telecom operators and create enabling environment for them to provide much better quality of service to the consumers.

Further, while deciding on the issue, it is important to examine whether competitive tariff should have a floor level of cost-plus tariff? Whether the tariff offered is absorbing the cost of product/services? Are the prices in the market is artificially low? How effective is forbearance policy in the present market conditions?etc.

In order to ensure a win-win situation for Consumers, Operators and the Government, one of the important responsibilities of the Regulator is to prevent predatory pricing. This is where a regulator should fix a minimum price, below which pricing should be deemed as predatory. This floor price could be reviewed periodically to adjust for the market and cost changes. The minimum price fixed should be cost plus for a moderately efficient operator.

Q2. Do you foresee any need for change in TRAI policy of forbearance in tariffs? Please give reasons for your response.



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Ans. Yes, as mentioned in the preamble, tariff policy of forbearance should not be a permanent feature. Rather, tariff should be directly related to the market situation. If the market is not behaving well in equilibrium, the policy of forbearance needs to change to discipline the market. Regulator cannot use a light touch in the market, when there is a total collapse. Once the sector is put to the right track, the Regulator can think of moving again to light touch regulation.

Q3. If the answer to Q1 is in affirmative, is fixing a floor price, i.e. a standing prohibition on TSPs not to offer services below a predetermined price level, the answer? Please give detailed reasons for your response.

Ans. Every product/service has a cost. Consumers are willing to pay for it when availing the better quality of service. Today's consumers want high speed data and uninterrupted voice calls and for this, consumers are more than willing to pay appropriate tariff. Considering this aspect, Regulator should fix the floor price as a benchmark. If any telecom operator wants to offer below the floor price fixed by the Regulator, such telecom operator should demonstrate to the Regulator prior to offering such tariffs in the market - that the price offered is not in violation of tariff principles including non - discriminatory and non- predatory and moreover, operator is still make a reasonable return on it.

Q 4. Do you perceive a need to fix floor price despite the fact that the TSPs have increased their tariff recently? Please support your response with detailed justification.

Ans. Yes, the floor price indicates about the level of price offered by the telecom operator. As highlighted earlier in our response, considering the present situation ,it appears that the existing tariffs even after recent hike are at unsustainable level for Operators. There could be a tendency to increase the tariff further. Therefore, it is imperative for the Regulator to intervene and work towards determination of floor price of telecom retail tariffs. Further the floor price gives a clear message to the consumers about the level of price offered by the Telecom Operators whether it is high or low. It will also help all

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stake holders immensely for a sector outlook and help in improving the health of the Sector.

Q5(a). What methodology should be used to fix floor price by the Authority and why? Please give detailed methodology with calculations and supporting justification.

Ans.The key principle for fixation of floor price should be followed is “cost plus”. TRAI should assess the efficient cost of providing the telecom services. In addition to this efficient cost, a reasonable return must be allowed for the stability and sustainable growth of the sector. Regulator should undertake a comprehensive study to understand the cost components for producing various telecom services under different technologies and to determine what is efficient cost .

Q5(b). If a floor price is considered, what should be the mark up over the relevant costs for arriving at a floor price? Please give detailed calculations and justification for your response.

Ans. TRAI should commission a detailed study to understand the level of markup over the relevant cost for arriving the floor price. TRAI has in earlier occasions determined the WACC on the capital investment for telecom sector. This WACC should be adjusted for the present-day risk level. International experience should be taken into account. How much return the other infrastructure sectors in India allow etc. should also be studied to arrive at a reasonable return on the Capital invested in Telecom Sector.

Q6: Considering that cost of delivery of telecom services is likely to be different for different TSPs, what parameters should be considered to decide floor price and why? How can it be ensured that such a floor price fixation exercise does not result in windfall profits to few TSPs? Please give your response with detailed reasoning.

Ans.In a multi-operator multi-technology system, the cost of products/services cannot be uniform across all telecom operators. TRAI should take various costs from all operators (both private and PSUs) into account and a normative process should be applied after excluding the outliers to arrive at the normalized cost. The cost of a moderately efficient operator could be the norm for comparison and will be instrumental in fixing a floor tariff.

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Q7. Is there a need to fix floor price for mobile data service? If yes, can such floor price be applied uniformly to different categories of subscribers such as retail consumer, corporate, tendered or otherwise contracts, segmented and any other including one on one? If it cannot be applied uniformly, will it not result in discrimination between various categories of subscribers? Please give your answer with detailed reasons and justification.

Ans. Yes, Floor price for mobile data-service should also be fixed along with other telecom access services. Options like selling to different categories of customers must be left to the operators.

Q8. What should be the basis and methodology for floor tariff fixation for mobile data service? Give detailed justification and calculations for your response.

Ans. The key principle for fixation of floor price to be followed is “cost plus”. TRAI should assess the efficient cost of providing the Mobile data-services. In addition to this efficient cost, a reasonable return must be allowed for the stability and sustainable growth of the sector. Regulator should undertake a comprehensive analysis to determine the efficient cost.

Q9. What should be the representative cost for fixing a floor price for mobile data service? Give detailed calculations and justification for your response.

Ans. Costs of all relevant network elements including Fixed and only relevant common and joint costs, should be taken into account in an incremental manner.

Q10. Should fixation of floor price be considered for voice calls also? Please give your comments with detailed justification.

Ans. We are of the view that all services must be considered for fixing floor price. Voice calls are particularly important because of the reason that the tariff of voice calls have

now increased by most of the operators. Moreover, 2G services are still relevant in the market especially rural and remote markets.

Q11. If the answer to Q10 is affirmative, given that different technologies are being used to provide voice services (2G, 3G and 4G), what should be the methodology used to arrive at a floor price for voice services? Please give detailed calculations and justification for your response.

Ans. Although, In a technology neutral era and availability of latest technology like 4G which is very popular, should have the tariff. However, tariff fixing is required for both 2G and 4G. There is no requirement to fix tariff for outgoing technology like 3G.

Q12: Should there be any limit on TSPs to offer free off-net calls? Please explain your response with justification.

Q13. If your answer to Q12 is affirmative, how should unlimited voice calls be defined? Please give your comments with detailed justification.

Ans to Q 12 & Q 13. These are commercial and marketing options of the TSPs. These options should purely be left to the telecom operators. It is important satisfaction parameter for operators to serve their subscribers in a more efficient and better manner.

Q14. If a floor price is considered, should there be any floor price prescribed for bundled offers, including those having unlimited voice calls and data? Please give your comments with methodology and detailed justification.

Ans. Any bundled or promotional offer must not be predatory. However, discounted tariff (below the floor price) for a limited period on 90 days may continue to be allowed.

Q15. If a floor price is considered, should there be a price ceiling also to safeguard consumer interest? Please give your comments with detailed justification.

Ans. Price ceiling in any manner is not required as Indian telecom market is driven mainly by highly intensive competition which has immensely benefited the end customer.



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Q16. If your answer to Q15 is in affirmative, what should be the methodology used for fixing a price ceiling for mobile data service, voice services and bundled offers. Please give detailed calculations and justification for your response.

Ans.Not applicable in view of our response to Q 15

Q17. Should all the tariff plans (retail consumer, corporate, tendered or otherwise contracts, segmented and any other including one on one) offered by the TSPs be subject to floor price tariff orders? Please give detailed justifications for your answer.

Ans. Only tariff plans related to retail consumers should be governed by floor price. The tariffs offered to corporate customers are customized tariffs designed to meet the specific requirements hence should continue to govern by 42nd amendment of Telecom Tariff Order 1999

Q18. How can it be ensured that all the tariff plans of TSPs (retail consumer, corporate, tendered or otherwise contracts, segmented and any other including one on one), comply with the floor tariff orders? Please give you response with detailed justification.

Ans.TRAI should closely monitor the tariff filings being done by the telecom operators for retail tariffs and check the consistency with tariff principles.

Q19. Any other relevant issue that you would like to highlight in relation to the above issues

Ans. Over the years, the Government has opened up the economy through liberalization to attract both domestic and foreign investments. This has resulted into putting a lot of burden of governance on the Sectoral Regulatory entities. Telecom Regulator has been established as expert body to deal with regulatory issues in the Telecom Sector ,such as compliance of licensing, terms and condition for operation and offering services, quality of service, tariff regulation, consumer protection, abuse of market power and prevention of anti-competitive conduct in the sector which require application of Competition Law

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etc. This signifies the role of TRAI. However, ensuring viability of the operators is not explicit in their agenda. The sector regulator should be mandated to ensure that the n^{th} operator (n being the minimum desirable number of operators) is also able to make reasonable return and sustain their business. They have to ensure a larger sustainable, monitored and managed growth of the sector which they regulate. Protection of consumer interest lies in ensuring viable and sustainable Telecom Sector. Fixing a Floor price now could be an action in the right direction to protect the interest of all the stakeholders including the consumers. TRAI should go ahead in fixing the floor price for tariff without any further delay.

Yours faithfully,
For Pursuitex Advisory Services.LLP



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