

CONSULTATION PAPER ON **REVIEW OF TARIFF FOR NATIONAL ROAMING**

1. Introduction

We welcome the invitation to give comments and proposals on the above subject that is of major importance to the principle of consumer welfare and efficient utilization of nationwide networks. Roaming services and tariffs have traditionally been priced at a significantly higher level than services provided on own networks despite the actual cost of providing such services not being significantly higher than that associated with delivery on own network.

Consumer welfare is best achieved through a careful balance between regulations and a competitive environment conducive to investments and innovation. The main objective should be to lower overall operational costs through efficient and innovative utilization of resources enabled by competitive wholesale products, services and provisions that remove competitive barriers and facilitate efficient and sustainable markets. In light of this, we would like to point out that regulatory oversight and intervention in the inter-operator wholesale market is of much greater importance for the sector than only selective retail interventions.

Affordability of telecommunication services relies on efficient and cost effective networks, operations and not least competition. India has come a long way in relation to embrace the concept of shared services be it Towers, IT systems/platforms and other elements thus taking a great step forward and lowering entry barriers for new and innovative competitive forces. Further, the introduction of a Unified Licensing framework further sets the stage for the introduction of an efficient and competitive wholesale market for network access and telecommunication products and services.

2. Market scenario then and now.

National Roaming Tariffs were last revised and restructured in January 2007 by the 44th amendment to the TTO, as a sequel to the downward revision of underlying cost components since the 18th amendment of 2002. Flexibility was also provided to the operators by leaving the wholesale inter operator settlements to market forces and regulating only retail roaming tariffs, as a ceiling rate.

However in the years since then, the industry has seen a progressive disparity in the sizes of various operators with the onset and growth of new entrants in the market place. The situation in 2013 is such that while the leading incumbent operators have pan-India operations, there are also pure regional players in the market. Furthermore, even within a service area there is a substantial difference in the market share of the leading versus smaller operators. Meanwhile, with developments on the consumer side, the roaming revenues have moved from a comparatively low percentage to as much as 8-9 % of total revenues. This has set the stage for having a fresh look on the Regulation of National Roaming structures.

As previously outlined, the regulation of retail tariffs in itself is not the only mechanism to enhance consumer welfare. In order to enhance competition and to create an environment where barriers to entry are lowered or removed we would argue that the issue of National or Domestic Roaming services be simultaneously dealt with through wholesale services as well, while TRAI undertakes a review of the retail tariffs. Else the price interventions would ultimately only serve the large pan India operators and not create the overall consumer benefit which flows from a truly competitive sector on both the wholesale and retail level. We see no reasons why networks and spectra built and utilized over many years should not be opened on a wholesale level taking due account of right of the network and spectrum owner to reasonable returns.

As highlighted in our response to the pre-consultation, the fundamental issue in the Indian market place with respect to national roaming is the lack of sufficient wholesale regulation, ensuring fair and transparent competition in the retail market to the benefit of the Indian consumer. We will further elaborate on these points below.

3. Detailed comments.

A) Access to cost oriented wholesale services critical for smaller operators;

An efficient telecommunication sector should aim for an optimum utilization of networks and avoid duplication of costs that will ultimately be passed on to the end consumers.

In this regard, cost effective interconnection and domestic roaming services are essential elements for any small operator and could accordingly be used as an effective competitive barrier by larger and older incumbent operators.

B) Cost elements summing up to current tariff ceiling significantly overstating actual costs;

Table 1.3 in the consultation document relating to the then prevailing cost structures, provides the cost elements making up the tariff ceiling for national roaming, which is continuing; while as mentioned in the consultation document, the termination charge has since then been reduced to Rs. 0.20 in 2009. In our opinion, as we submitted during the last consultation on IUC charges, the current marginal/incremental cost for termination is likely to be in the range of Rs. 0.10 estimated on the Pure LRIC / Avoidable cost basis. The origination charge can be assumed similar to the termination charge..

However, our key point is the incremental cost for roaming which is estimated at Rs. 0.75. From the various diagrams throughout the consultation document, it is evident that providing a roaming service in essence is no different from providing any other voice service e.g. to own subscribers. Hence, there is no justification for such excessive cost of providing roaming, and the excessive profit is captured by the operator (typically the incumbent) providing the national roaming service and not the home network.

Adjusting for the cost elements to reflect actual costs will lead to a total cost closer to the sum of origination and termination, taking due account of the fact that cost of carriage should in an IP world be very low. We are confident that any cost model will clearly demonstrate this point.

C) Incumbent operators capturing the profit

The current ceilings gives the incentive to incumbent operators to set the commercially negotiated wholesale national roaming rates as high as possible (but below the ceiling) in order to capture the full profit of the artificially high roaming prices in the Indian market. Smaller operators will have no opportunity to provide cheaper and better services to consumers, unless providing such services at a loss.

Further, pan-Indian incumbent operators themselves do not have to rely on national roaming agreements with other operators. Instead they are able to provide such services to their own customers without incurring the same costs as the smaller operators. This point is brought forward in the consultation document paragraph 2.45 in the context of the Home Price Rule regime, but is in fact applicable to any of the pricing regimes presented – i.e. without sufficient wholesale regulation the incumbent operators will benefit at the expense of the smaller operators and ultimately the Indian consumer.

D) Stricter retail regulation is only a partial solution

Imposing stricter retail regulation on roaming, while not addressing the wholesale rates, is likely to further limit competition in the national roaming market.

There is a clear risk that by reducing the smaller operators' ability to effectively compete with the incumbent operators in this market the incentive and appetite for national roaming agreements will diminish, leaving the market in the hand of the incumbent operators.

E) Wholesale regulation, along with review of retail level ceilings, is essential to achieve a fully competitive market

Hence, in order to make this pan-Indian market efficient it is important that the focus is also aimed at the inter operator wholesale market while the retail level ceilings are brought to actual current cost levels.

It is of paramount importance that the inter operator charges and settlements are at a level where margin squeeze practices are prevented. Only by regulating the wholesale market can such practices be eliminated.

Hence, two points are of extreme importance. Firstly, it should be ensured that provision of national roaming made mandatory for dominant/incumbent operators within each circle.

Secondly, it should be ensured that the wholesale rates for such agreements are set at cost oriented rates.

A careful examination of current on-net retail tariffs, including benefits given through STV's should be conducted among all the operators, as this tariff level is most likely to give a benchmark of where the roaming tariffs should be set. Any level significantly above this would in essence be a clear indication of either below cost pricing on on-net or a case of margin squeeze, both of which are issues under the general competition law.

The responses to the specific questions outlined in the consultation will reflect our fundamental viewpoint that effective wholesale regulation is also essential while reviewing retail level tariffs.

Issues for Consultation

[\(Q1\) Is competition in national roaming service in India robust enough for leaving the tariff for national roaming service under forbearance? Please support your viewpoint with reasons.](#)

Answer:

As evident from our preliminary comments, we believe the fundamental issue with respect to national roaming is the lack of wholesale regulation. Looking at the market scenario then and now, the national roaming service market is not robust enough to be left for forbearance, despite stricter retail regulation.

[\(Q2\) Would it be appropriate to implement the home price rule \(HPR\) in national roaming service? What is the likely impact of such a regime on fair competition in telecom sector? Please support your viewpoint with reasons.](#)

And

[\(Q3\) Would it be appropriate to implement the Home Price Rule \(HPR\) in national roaming service with the provision of recovery of carriage charge on account of incoming call from the calling party? Please support your viewpoint with reasons.](#)

Answer:

The calculations provided in the consultation paper (Table 2.6) indicate that HPR implementation would impact annual revenues of PAN India operators to the extent of about 1.36%. However, the regional & small operators would be very adversely affected, as in a number of service areas they would depend upon other service providers for providing national roaming service, for which they would have to face market determined inter-operator roaming settlement rates.

HPR regime for national roaming service, if free of charge, would also result in mass scale misuse by cost sensitive subscribers as brought out in the consultation paper.

In case the carriage charges are recovered from the calling party it will require (a) prior intimation to the calling party about the status of the called party in respect of each and every call and (b) the wholesale change in the rating engines because of new principle of charging.

Therefore making suitable provisions in their networks and revision of rating engines to settle the additional charges, will be a very costly affair and not worth the effort.

(Q4) Would it be appropriate to rationalize the tariff for national roaming service on the basis of present costs? Please support your view with reasons.

Answer:

It is most appropriate to regulate the tariff for national roaming based on actual costs. However, while regulating at retail level, the rates at wholesale level should also be regulated in accordance with this principle.

(Q5) Would it be appropriate to revise ceiling tariff for national roaming service in such a manner that incoming calls while roaming are made free of charge while the cost of incoming calls is recovered through outgoing roaming calls?

And

(Q6) In case your response to Q5 is in affirmative, which of the following approaches would be more appropriate?

- (i) With Immediate Effect: viz. by fixing zero tariff for incoming calls and ceilings for outgoing calls while on national roaming allowing recovery of additional cost on account of free incoming calls, from the outgoing calls while on national roaming
- (ii) Through a Glide Path: viz. approaching zero tariff for incoming calls in a phased manner (over a period of say three years) and fixing year-wise tariff ceilings for outgoing calls while on national roaming allowing recovery of additional costs on account of progressively cheaper incoming calls, from the outgoing calls while on national roaming.

Answer:

Both the above approaches are prone to misuse as cost conscious subscribers will tend to use local SIMs in the majority of cases for making outgoing calls while being in the roaming network.

In our opinion, a rationalization of both the wholesale and retail roaming tariffs so that they reflect actual cost of origination and termination, coupled with the fact that cost of carriage should in an IP world be very low, would be the most optimum approach.

(Q7) Do you agree that there is no need to prescribe a tariff for video calls while on national roaming?

And

(Q8) In case your response to Q7 is in the negative, please support your viewpoint with a detailed methodology to determine the tariff for video calls.

Answer:

This service has started being offered recently with the commissioning of 3G networks by few operators, that too in limited no of cities.

It is therefore too early to regulate tariffs for video calls, while roaming. Perhaps it will be prudent to leave it to market forces and only after commissioning of few Broad Band networks and also more 3G/4G networks, when such services become Universal that TRAI should intervene and regulate the tariffs.

(Q9) In case the tariff for national roaming service is set, would it be appropriate to prescribe that the tariff for an outgoing SMS while national roaming should not be more than that for an outgoing from home service area?

And

(Q10) In case your response to Q9 is in the negative, please support your viewpoint with reasons. In case you favour prescribing separate ceiling tariff for outgoing SMS while on national roaming, please support your viewpoint with a detailed costing methodology.

Answer:

As for voice calls, the principle should be that incoming SMSs to roaming customers are treated equal to SMSs received by the visited networks own customers. Hence, the roaming charge for incoming SMSs should continue to be fixed at nil as long as this is the principle for ordinary SMS interconnect.

In terms of outgoing SMSs while roaming, the effective cost for the visited network consist of an origination cost as well as – in case of inter-circle calls – a carriage charge. However, the actual costs are significantly lower than the prevailing rates charged today and future rates should only reflect the actual costs of providing such services.

A simple evaluation of the present SMS rate level in the market should be conducted as it will give a reasonable overview of the ballpark cost figures as calculate by the networks own pricing experts. There is currently a parallel consultation ongoing regarding the SMS market and we refer to our input to that consultation for more details and principles.

[\(Q11\) Should Special Tariff Vouchers \(STVs\) with roaming benefits be allowed? Please support your viewpoint with reasons.](#)

And

[\(Q12\) In case your response to Q11 is in the affirmative, what regulatory restrictions should be imposed on such STVs?](#)

Answer:

In the current scenario of Telecom Services Sector, where operators are a mix of pan-India, Regional, or even single circle with extremely varying market shares, STV's for roaming subscribers will become an alternate approach to add to on-net/off-net tariff imbalance. Therefore in the interest of not further vitiating competitiveness in the market place this should not be permitted.

[\(Q13\) Is there any other relevant issue which should be considered in the present exercise of review of the tariff for national roaming service?](#)

Answer:

As stated initially in our response to the consultation, we strongly believe that regulation of the wholesale market is essential to establish a proper functioning national roaming market in India. Regulation of retail rates without addressing the issues at wholesale level will fail to achieve the desired objectives and probably contribute to less competition at the expense of smaller operators and ultimately the Indian consumer.