ANNEXURE-1

COAI response to the TRAI "The Draft Telecommunication Tariff (Sixtieth Amendment) Order, 2015"

A. Preamble:

1) At the outset we would like to submit that in the last one year there have been some important interventions made by the TRAI in regulating various legs/elements of the tariffs for the telecom services being provided by our member operators, at both wholesale and retail levels.

2) The review of the IUC charges, prescription of the origination charge for calling cards and now reduction in the ceiling tariff for the domestic Roaming charges have a big impact on the overall economic /marketing structure of the telecom industry. These Regulations should not be viewed by the Regulator in isolation but with respect to its impact on the overall economic structure of the telecom Industry.

3) It is a well-recognized fact that the Indian Telecom Industry is financially stressed. There is an environment wherein the telecom operators are under huge financial stress and are burdened with high payouts on account of acquisition of spectrum and stringent network rollout obligations. With an ARPU of Rs. 115 per subscriber per month, the Indian telecom sector has one of the lowest tariffs in the world, i.e. on an average 1/4th of the global average.This fact has also been recognized by TRAI at various forums.

4) One of the objectives as highlighted by TRAI in bringing about these Regulations has been the lack of competition. In this regard, we would like to submit that the Indian telecom market is a highly competitive market with 12 operators; as compared to a global average of 3 to 4.There are as many as 7 to 8 operators in each service area. The competition in voice and SMS segments are intense, which, coupled with the availability of MNP further adds to increased competition and customer choice. India has the lowest HHI index in the world. Thus, we most respectfully submit that the objective of the DoT to ensure adequate competition has been met long before the advent of these Regulations.

5) Further, India contributes to nearly 11% of the global mobility subscribers yet its share in the global telecom revenue is less than 3%. This shows how reasonable the tariffs in the country are and the extent of competition present in this sector. In such a hyper competitive market scenario, the intervention of the government to control the prices is completely unnecessary. The forces of demand and supply should be allowed to determine the equilibrium tariffs for various telecom services.

6) Also, Consumer interest can hardly be served by increasing competition to a level where the prices become lower, but industry players are either making losses or making meagre profits not enough to cover even the cost of capital. **Thus, in an environment wherein the telecom operators are under huge financial stress and are burdened with high pay-outs, we respectfully submit that this Regulatory intervention is not at all desirable.**

7) These reductions, be it on IUC and now domestic roaming, will not help the industry. We believe that the Authority is just looking at the short term and are not paying attention to the bigger picture. Digitizing India and building Smart Cities are some of the major objectives of the government and the telecom operators are going to play a major role in achieving that goal. **The Government/Regulator needs to make sure that there are enough incentives available for the telecom operators to keep investing in infrastructure and provide quality service.**

B. COAI Detailed Response:

We believe that the following issues should be kept in mind while reviewing tariffs for domestic roaming:

1) <u>There should not be cost based ceiling for the Roaming Tariffs:</u>

a) With regard to the determination of the ceilings for the domestic roaming , we would like to make the following submissions:

i) The **Ceiling tariff for roaming should not be lower than the prevailing rack rate of Home Service Area** plus the incremental cost of roaming (as prescribed by TRAI).

ii) TRAI should **not set the tariffs**, either on the basis of average revenue realization of an individual TSP or the industry, given that the current tariffs are already at unsustainable levels.

b) Tariff is fixed based on market competition, cost of business and company's short-term and long-term strategy. Due to fierce competition, there might be a possibility that the prevailing tariffs are set by some TSPs at unsustainable levels due to competition. In fact, as a normal business strategy**, new entrants generally offer services at a price lower than the prevailing tariffs to acquire market share quickly**. In a tariff forbearance regime, TSPs adopt this strategy as they always have the opportunity to increase their tariffs once they stabilize the business**. Hence, using the cost based approach to fix the tariff ceiling would lead to absurd results.**

c) Moreover, the use of Industry average tariff for ceiling pushes the TSPs, who are above average into a disadvantageous position. They will not be able to command higher/premium tariff despite having much better network coverage and services. **In such a scenario, no operator would like to provide good quality service.**

2) <u>Impact on Home zone Tariffs:</u>

a) In case the celling is prescribed as suggested by TRAI, operators will have to bring down their Home Zone Tariffs as well.

b) A cap on outgoing roaming calls at 65p/min (local) and 100p/min (STD) would effectively put a cap on normal (non-roaming) calls too (the arbitrage of lower roaming tariffs and higher home tariffs would not be sustainable). TSPs will lose money (prices will be below costs) on all types of calls, and these losses will multiply over time as customers learn how to 'play-the-system' and save money through turning STD/roaming calls into local calls, for example, by giving SIM cards purchased in home markets to friends and family in distant locations. Any attempt by TSPs to increase the home prices to recover their losses would fuel this behaviour and hence will be unsustainable.

c) **Therefore, TSPs will be forced to necessarily keep their home tariffs below the national roaming tariff, which will not only take away the entire flexibility of fixation of tariffs but will <u>also end tariff forbearance regime</u> in a competitive market.**

3) **<u>Objective behind Reduction of the Ceiling Tariffs NOT clear:</u>**

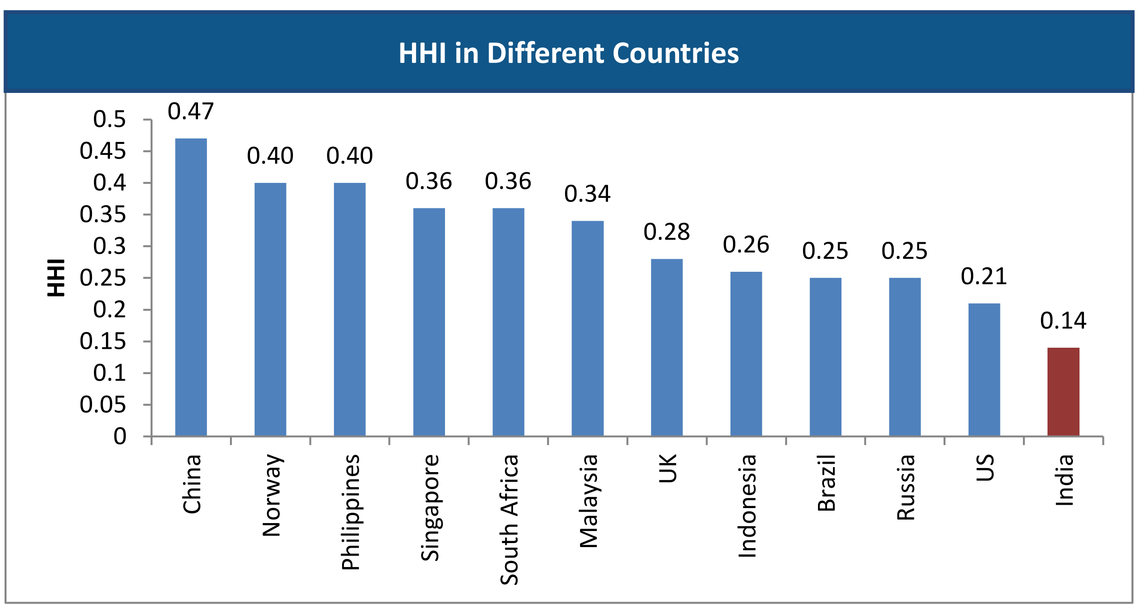
a) We are unable to understand the objective that the Authority is trying to achieve by lowering the ceiling on Roaming Charges.

b) **Competition:** One of the objectives which have been highlighted in the draft TTO is the lack of competition in the present National Roaming service Market. In this regard, we would like to make the following submissions:

i) The level of competition is determined by the number of independent service providers who make independent decisions on service offerings and prices in the market. The Indian telecom market is highly competitive with as many as **7 to 13 licensees** in each service area, as compared to a global average of 3 to 4.

ii) The competition in the market is intense and subscribers also enjoy the facility of MNP, which further adds to increased competition and customer choice.

iii) The HHI index of Indian access (mobile) market is one of the lowest in the world, signifying a very fragmented yet excessively competitive market.



Sources: BMI country telecommunications reports, 1Q14:EY analysis

iv) Further, TRAI itself has consistently maintained that there is stiff competition in India as a result of which tariffs in India are one of the lowest in the world.

v) In view of the above, we most respectfully submit that <u>the objective of the TRAI to ensure adequate competition has already been met.</u>

c) **One nation free roaming:**

i) The "One nation free roaming" objective enshrined in the National Telecom Policy of 2012 has already been achieved vide the tariff order of 2013, where Telecom Service Providers (TSPs) have been mandated to offer a roaming tariff pack identical to the home tariff pack (including free incoming on roaming) in lieu of fixed charges (as TRAI rejected the possibility of uniform rate for home and roaming due to its potential negative consequences). **Any intervention to regulate roaming tariffs, to levels equal to or lower than home tariffs, tantamount to a regulation of home tariffs. We believe that such a tariff control is neither a requirement of the National Telecom Policy nor can it be the intent of TRAI.**

ii) We are of the view that this draft TTO is a step backwards, and exposes the industry to pre-reform regime of price regulation. During the last decade, the industry has witnessed robust growth in an era of Tariff Forbearance. Denying TSPs this flexibility, will prevent them from carrying out their business independently and will thereby adversely impact their business model and their ability to attract future investments.

d) **Outcome of Reduction in IUC charges:**

i) TRAI has initiated this draft TTO immediately after the issuance of new IUC Regime with a belief that the reduction in termination and carriage charge should lead to the reduction of roaming retail tariff by prescribing the lower ceiling. In this regard, we would like to submit that the IUC regime would in no way reduce the cost of the Industry and at the most would change the revenue share among various TSPs. **Therefore, it cannot be a basis for reduction of tariff ceiling.**

In view of the above we believe that there is no major objective for TRAI to review the ceiling of the domestic Roaming Charges. Hence, we are of the view that no intervention is required from TRAI on the issue, at this stage.

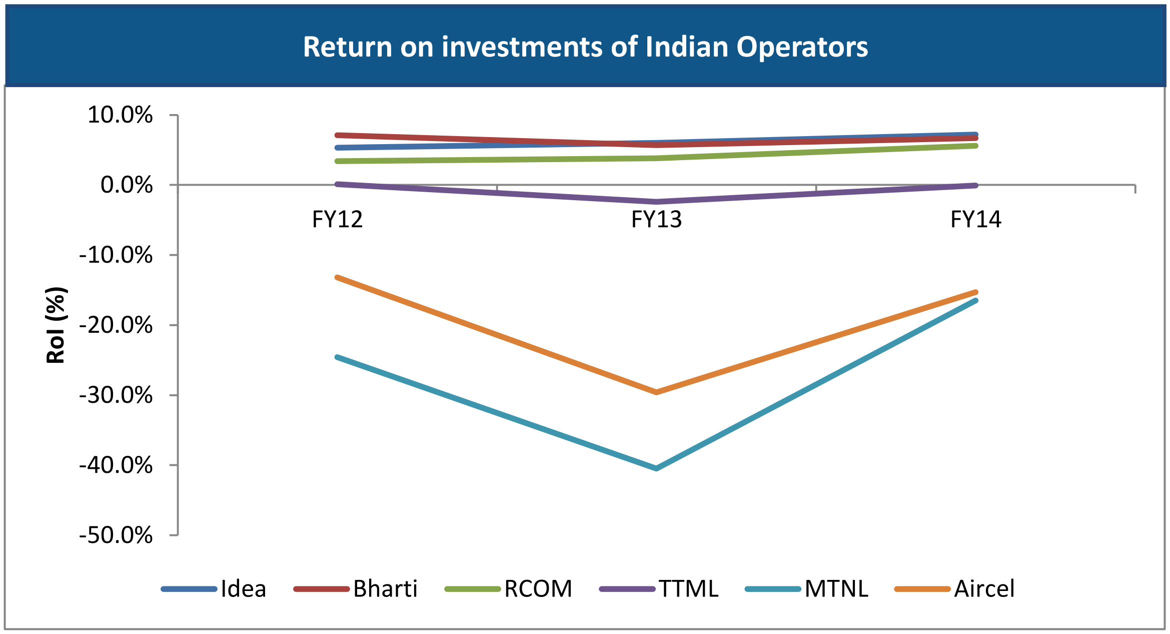
4) <u>Financial Health of the sector:</u>

a) The financial condition of the sector poses several challenges. The cumulative debt burden of telecom companies has increased from INR 82,726 crores in FY09 to INR 240,533 crores in FY13.

b) Indian Telecom Industry is financially stressed, which is reflected in following data points on ROI and Net debt of the Indian telecom operators:

Operator Category	Consolidated Figures		Consol. Gross Block	ROI*
	Annual EBIT	Net Debt		
	Rs. Crores	Rs. Crores	Rs. Crores	%
COAI	15,383	153,559	376,637	6.6%
Others**	(11,186)	86,974	358,169	-6.4%
Total	4,197	240,533	734,805	1.0%

* RoI = EBIT/Net Block
Calculated only for those operators for whom both EBIT and Net Block is available.
*** Others include public sector operators*
Source: *Based on latest annual financial information filed by listed operators on the stock exchange and other operators with RoC*



Source:Annual Report/Calculated based on financial results filed with RoC

e) It can be seen from the above that there are only 3 operators out of those listed above who are making positive ROCE. Although, even these 3 operators are not being able to recover their cost of capital, with the best ROCE for FY14 being at 7.2%.

f) Further, the regulator has just recently slashed the IUC termination charges by 30% to 14 paise per minute in case of wireless to wireless communication. This move will further impact the operating profit of the wireless business of top operators.

g) Now, in case the regulator slashes the prices of national roaming, the same would lead to ~34% hit to roaming revenues, if the above mentioned drop in tariffs is not compensated by an increase in usage/volume. This impact may be mitigated by rise in volume, but the resultant situation will still be a negative impact on EBITDA versus the currently prevailing regulations.

h) **Thus, we would like to submit that in an environment wherein the telecom operators are in high financial stress, this Regulatory intervention of reduction in the ceiling of the domestic Roaming Charges is not at all desirable.**

5) <u>Price elasticity of demand for incoming calls</u>

a) TRAI in its Draft Telecommunication Tariff (Sixtieth Amendment) Order, 2015 has highlighted the trend in the usage profile of the national out roamers for GSM subscribers.

Quarter ending	No. of incoming minutes per out roamer per month	No. of outgoing minutes per out roamer per month	No. of total minutes per out roamer per month
	(a)	(b)	(c)=(a)+(b)
June, 2013	31	44	75
September, 2013	34	45	79
December, 2013	33	43	76
March, 2014	36	45	81
June, 2014	37	44	81
September, 2014	39	44	83

b) Price elasticity of demand (Ed) for incoming calls while on national roaming comes out to 1.05 considering the period from June, 2013 to September, 2014.

c) We believe that if price is such a determinant factor in influencing the people's decision to receive calls while roaming, the effect of reduction in the tariff for incoming calls should have been significant within the first 6 months itself. Let us calculate the price elasticity of demand for the first six month.

d) Price elasticity of demand (Ed) for incoming calls while on national roaming

$$= \frac{\Delta D/D}{\Delta P/P} = \frac{(33-31)/31}{(0.75-1.00)/1.00} = \frac{-6.45\%}{25\%} = -0.258$$

e) We see that the Price elasticity of demand (Ed) for incoming calls while on national roaming is inelastic when calculated for a shorter duration. In the longer duration, a lot of other factors can influence the price elasticity. <u>We believe that greater research may be required in this area before arriving at a conclusion.</u>

f) Further, it is claimed by TRAI that the number of incoming minutes per out roamer per month has increased due to the reduction in the ceiling tariff prescribed in 2013. In this regard it is submitted that <u>the major reason for the same is the introduction of the STV's and the Roaming tariff plan fixed. (RTP-FR).</u>

6) **<u>Choice of the Consumers:</u>**

a) It has been observed that tariff for voice calls and SMS in the home service area constitutes about 58% of the total expenses of an individual mobile subscriber. On the other hand, expenses from roaming service, which includes both national and international roaming services, constitute only about 6% of the total expense.

b) The afore-mentioned illustration supports the anecdotal evidence that tariff for calls and SMS in the home service area are amongst the most important factors that influence an individual mobile subscriber while choosing a tariff plan or a service provider. <u>It may also be inferred that not many mobile subscribers would have national roaming charges foremost in their minds while choosing a service provider.</u>

c) TRAI in its TTO (55th Amendment), 2013 has already permitted the use of Special Tariff Vouchers (STVs) and Combo Vouchers (CVs) for national roaming to provide flexibility and convenience to the consumers. It has also mandated the TSPs to offer special roaming tariff plans (RTP and RTP-FR) in which subscribers can avail either partially-free national roaming or fully-free national roaming (on payment of certain fixed charges).

d) The STVs designed for national roaming service can take care of the short term needs of roamers and also allow more choices. Availability of a wide range of STVs allows the subscriber to buy tailor-made tariff for any occasion and thus gives him an opportunity to minimize his bill and maximize the benefits. It can also bring in a particular call type into the competitive arena, making it a commodity which is fiercely contested by all the service providers in the marketplace.

e) TRAI has itself supported the view that fully-free national roaming is not practicable. So based on the fact that roaming is not the foremost priority for most consumers and that there are sufficient plans and offers available to make roaming cheaper for those who want to reduce their roaming tariffs**, it is safe to conclude that there is no need for the regulator to further influence the pricing regime for national roaming.**

<u>In light of the issues listed above, we believe there is no need for TRAI to further reduce the ceiling for national roaming tariffs.</u>

***