

**Bharti Airtel's response to TRAI Consultation Paper on Review of Policy of Forbearance in Telecom Tariff**

**1. Do you perceive any need for a change in present regulatory framework for telecom tariff fixation?**

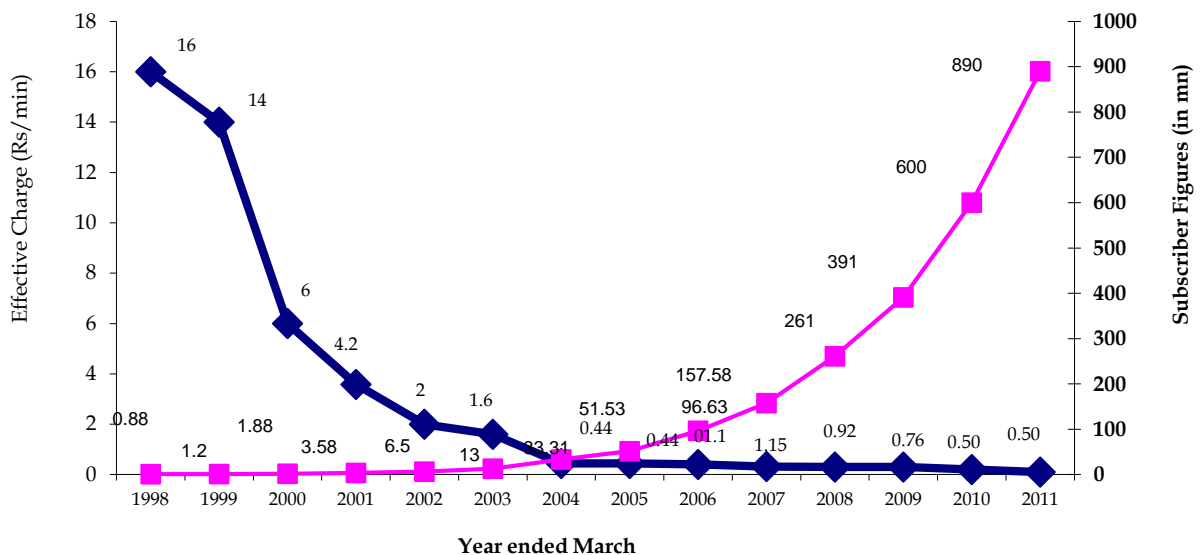
**Bharti Airtel's Response:**

No, we do not see any need for a change in present regulatory framework for telecom tariff fixation.

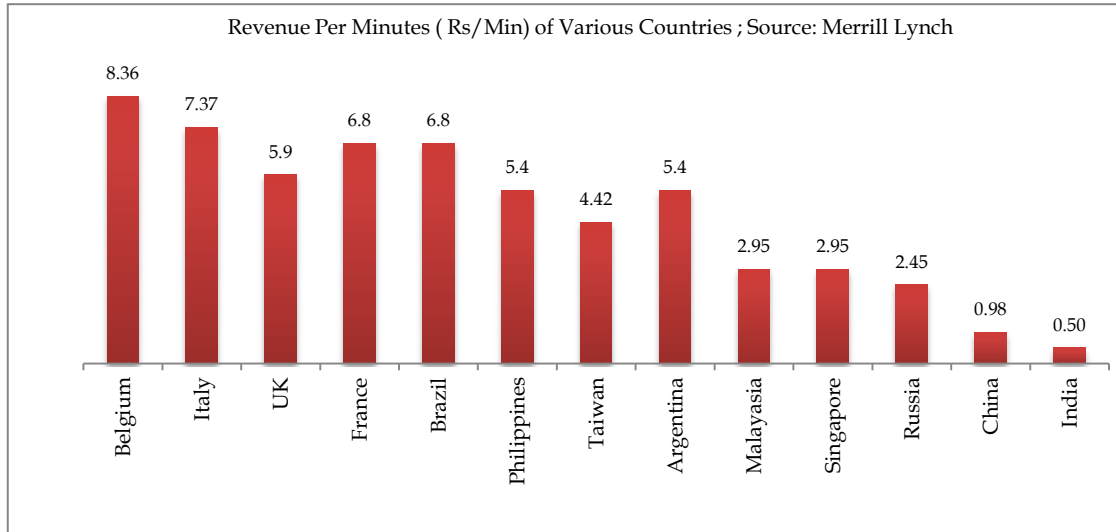
Telecom sector in India has witnessed the exponential growth during last 12 years where number of subscribers have increased from 1.2 million in 1999 to over 890 million by end of Dec 2011. One of the key factor responsible for this growth is the policy of forbearance of tariffs adopted by TRAI , where the operators are free to fix their tariff. This policy has resulted into sharp decline in tariffs (Rs 15-16/min in 1999 to Rs 0.50/min in 2011) which in turn has contributed in achieving the high growth rate of telecommunication subscriber base.

Below is a graphical representations of the decline in tariffs in the Indian telecom market and that tariffs in India are lowest in the World:

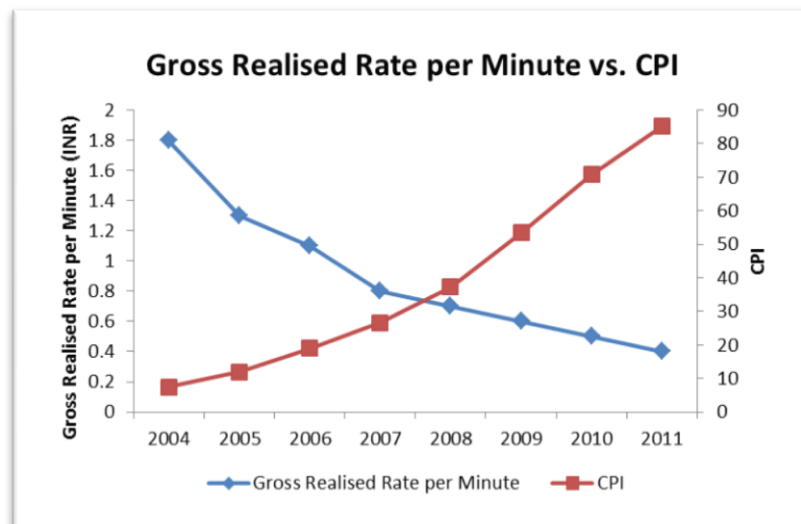
**Decline in Tariffs and over since 1998.**



### India's Tariffs are Lowest in the World

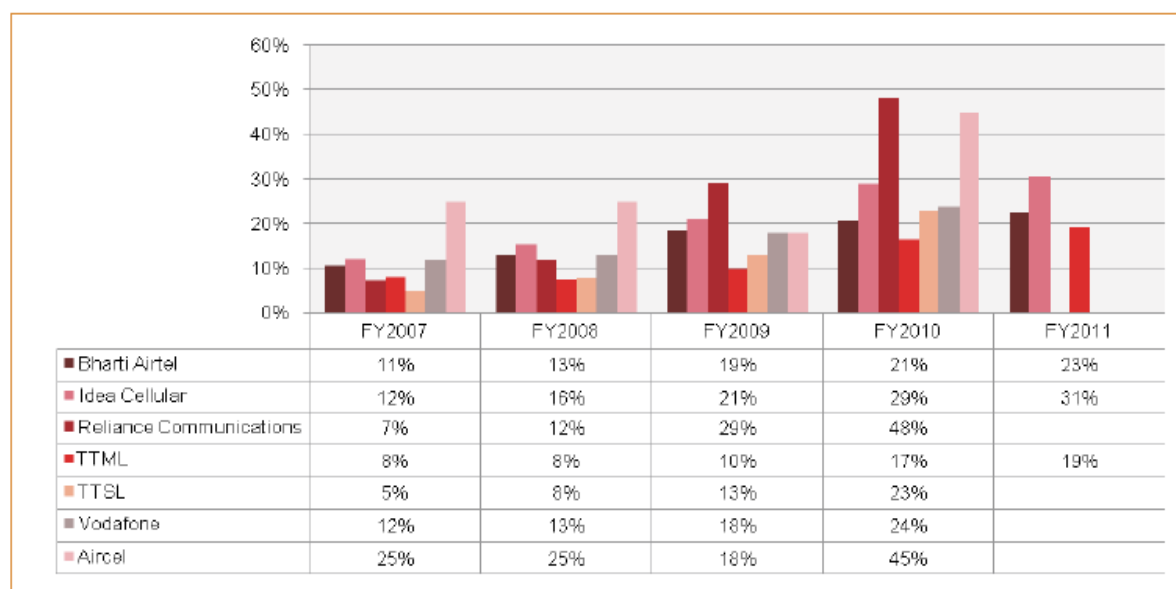


In recent past, inflation has resulted in a significant price hike in every other sector of economy in India. The petroleum sector has seen one of the sharpest increases, which cuts across various sectors of the economy and affects the common man directly. Even companies in utility sectors such as Electricity, Water, Public Transport etc. had to increase their tariffs. However, Telecom is probably the only industry, where despite the increase in inflation, the tariff rates have continued to drop unabated. As can be seen from the graph below, while the CPI (consumer price index) has been on a constant rise, the tariffs or the gross realized rate per minute for operators has been on a constant downward trend.



While the tariffs continued to drop but the operators are continuously required to make significant investments to upgrade their networks and meet the compliance requirements. Some of these costs are:

- a. **Upgradation of existing infrastructure:** Operators have made significant investments for acquiring 3G /BWA spectrum and roll-out of these services.
- b. **Replacement costs:** Operators have to incur significant costs, for replacement of existing equipment completing its serviceable life or changes in technology, on an ongoing basis for providing of continuous, uninterrupted services while maintaining the quality of service.
- c. **Regulatory and security requirements:** High regulatory costs such as spectrum prices, cost of implementing security measures, MNP, huge penalties arising due to operational or interpretational issues.
- d. **Network Operating Costs:** The operating expenses of the service providers had been increasing due to inflationary pressure. The following graph shows the rise in network operating expense as % of revenue for some key players in India:



[Source: COAI - PWC report]

As a result of being squeezed from all sides, the financial position of operators is under significant stress. The PAT margins of operators (as shown in the table below) have decreased significantly and in fact, are negative (FY 2010) for a large number of operators.

PAT Margins of key Operators, FY 2007-2011

	FY2007	FY2008	FY2009	FY2010	FY2011
<b>Vodafone</b>	17%	11%	0%	-3%	0.01%
<b>Idea</b>	11%	16%	10%	9%	5%
<b>Aircel</b>	35%	9%	-8%	66%	
<b>Reliance</b>	21%	18%	30%	4%	-6%
<b>Bharti</b>	23%	24%	23%	26%	20%
<b>TTSL</b>	-46%	-35%	-33%	-21%	
<b>TTML</b>	-22%	-7%	-8%	-14%	2%
<b>Sistema Shyam</b>	-53%	-158%	-620%	-616%	
<b>HFCL</b>	-42%	-57%	-96%	-11%	-93%
<b>Uninor</b>				-286%	
<b>MTNL</b>	14%	12%		-68%	-76%
<b>BSNL</b>	20%	8%	2%	-6%	

[Source: COAI - PWC report]

Moreover, RoCE (Return on Capital Employed) has been decreasing continuously, thus making it unattractive to justify investment in the sector. The table below shows the Pre- Tax return on capital employed of selected Indian mobile operators for FY 2007-2011.

	FY2007	FY2008	FY2009	FY2010	Fy2011
<b>Vodafone</b>	11%	13%	8%	7%	
<b>Idea</b>	13%	16%	10%	10%	9%
<b>Aircel</b>	6%	14%	3%	-11%	
<b>Reliance</b>	8%	8%	7%	2%	
<b>Bharti</b>	29%	29%	30%	25%	19%
<b>TTSL</b>	-20%	-14%	-4%	-2%	
<b>TTML</b>	-8%	2%	5%	1%	-93%
<b>Sistema Shyam</b>	-7%	-6%	-10%	-29%	
<b>HFCL</b>	-8%	-14%	-41%	-5%	-5%
<b>Uninor</b>				-113%	
<b>MTNL</b>	9%	7%	3%	0%	

[Source: COAI - PWC report]

In spite of the above-mentioned constraints, the tariffs have fallen continuously only due to hyper competition in the market and the subscribers have been benefitted with the affordable tariffs. This clearly establishes the proper functioning of the market forces and therefore we would recommend the continuation of the policy of forbearance in telecom tariff.

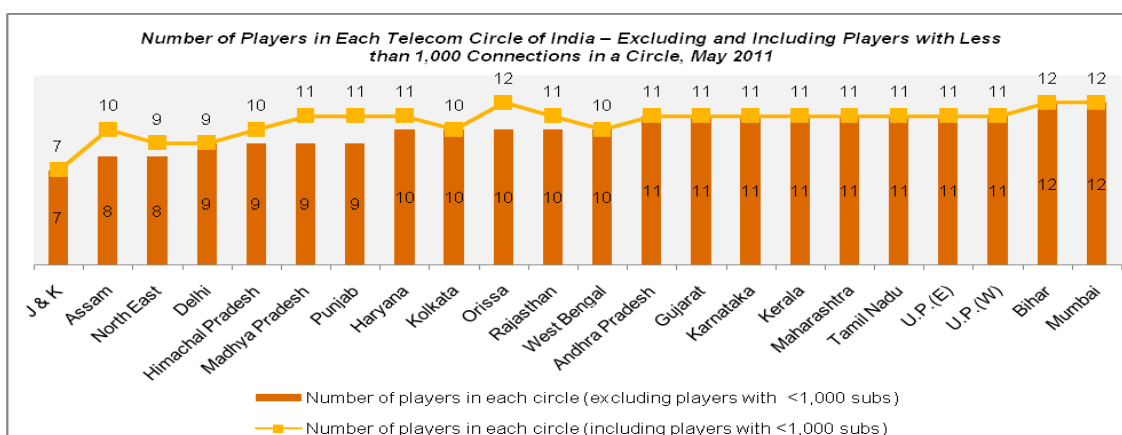
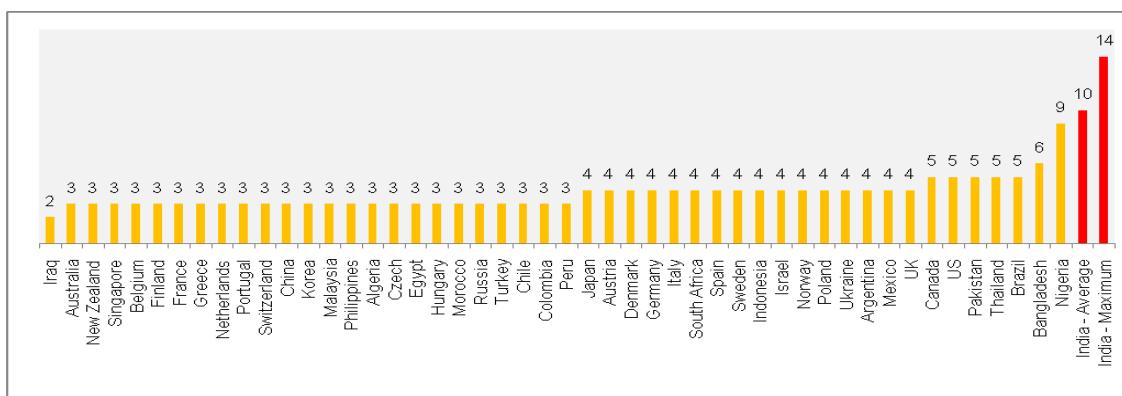
2. Should TRAI withdraw from the policy of forbearance?  
AND
3. If yes, what should be the basis of tariff regulation? Should it be by way of specifying a standard tariff package or by way of fixing tariff as a ceiling for individual charging components such as calls, SMS, etc? Please also suggest the methodology.

**Bharti Airtel's Response:**

No, we do not see any need to withdraw the policy of forbearance .

We believe that the TRAI should bring in the policies that can ensure good financial health and sustainability of the Industry, which in turn will ensure the consumer interests. The regulation of tariff will result in micro management of the sector and will only put more pressure on operator's profitability but also blocks the free flow of investment in the telecom sector.

The regulation of tariffs can only serve the consumer's interests if there is not enough competition. However, it is not true for the Indian market. The following figures clearly shows the status of competition in the mobile telecom space in India which is three to four times higher as compared with other countries in the world.



[Source: COAI - PWC report]

Even after cancellation of 122 licenses by Hon'ble Supreme Court of India, there will be sufficient competition with 7-8 operators per circle as compared to an international benchmark of maximum of 3-6 players. Therefore, we do not perceive any need of regulatory intervention in the tariff.

Further, in a scenario where spectrum costs are decided by open market mechanism (auction) having a regulated end consumer price would be anachronistic. We strongly opined that when the inputs prices are decided by market forces, end prices should be decided by open market mechanism.

The Authority at various occasions in past has also recognized that the tariff forbearance/market based pricing is the **best method of managing the telecom tariffs** which has resulted in increasing competition and affordable tariff for the consumers. Some of such instances are;

TRAI Annual Report 2009-10:

*"TRAI through appropriate regulatory policies and measures facilitating competition, has succeeded in achieving affordable tariffs .....The policy has succeeded in providing financial sustainability to regulated operators, promoting efficiency in the sector and meeting social objectives. The results are evident from the phenomenal growth in subscriber base and the decline in tariffs.*

In fact, the retail tariff for DTH has been kept under forbearance on the ground that the presence of 6 DTH operators had ensured enough competition in the market and regulatory intervention was not required. Similarly, in case of Telecom sector the competition is much more with 7-8 operators per circle even after cancellation of 122 licenses.

Hon'ble TDSAT in its judgment dated September 26, 2011 (TUGI Vs TRAI) has made the following observations:

*"The market conditions in a developed country and India may be different. The rate of growth of telecom sector in India is the second largest in the world. The rates are not only competitive but also cheapest in the world. Market force has, thus, been playing its own role".*

*"It is difficult for this Tribunal to comprehend that the Regulator in framing tariffs for the telecom sector should be directed to carry out any other exercise on the premise **that there is a possibility of cartelisation amongst the new operators resulting in high tariffs.** If market forces, by and large, have taken care of the ground realities and a strict competition amongst the operators is in place, it is difficult to comprehend that the operators may take recourse to cartelisation resulting in high tariffs".*

Thus, the TDSAT has also appreciated that the industry has succeeded in providing the affordable services to the consumers, and the policy of forbearance/market based pricing adopted by the Authority has well served the interests of the consumers.

**In light of the above highlighted facts, we recommend against any change in present policy and the retail tariffs should continue under forbearance.**

**4. Would tariff regulation affect the ability of the telecom service providers to introduce innovative tariff plans?**

**Bharti Airtel's Response:**

India is a vast country comprising of remarkably diverse demographics covering its age, sex, literacy, economy, linguistic preferences and travel habits. To cater to the various segments of the market, wide range of tariff plans providing the maximum value to the consumer are required.

In a hyper competitive market like India, the existence of a large number of tariff plans and offers in the market provides ample choice and flexibility to the customers/market segments. However, any regulation or cap on the tariff would not only adversely affect the operators' ability to introduce innovative tariff plans to cater to the need of various segments but will also result in limited choices to the consumer. Therefore, we suggest to continue with the policy of forbearance for telecom tariff. We would also suggest the Authority to do away with the cap on roaming tariffs, which is deterrent in providing innovative tariffs plans to the roaming customers.

**5. What would be the best method of managing the telecom tariffs so as to protect consumer interest even while affording the telecom service providers the necessary flexibility?**

**Bharti Airtel's Response:**

The unprecedented growth in the telecom market due to adoption of policy of forbearance has not only resulted in the wider economic growth of the country<sup>1</sup> but has also contributed significantly towards the Government finances in form of license fees, spectrum charges, service tax etc. However, even after seeing the stupendous growth, the profitability and sustainability of the Industry is at stake.

Presently, the industry is characterized by falling ARPUs, reducing MoUs versus significant increase in the operating and compliance costs, duties and levies etc. The operators are under financial stress due to high regulatory costs such as very high spectrum prices, cost of implementing security measures, MNP, huge penalties arising

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<sup>1</sup> The present contribution of telecom to the overall GDP of the country is nearly 2-3%.

under modification of Contract terms and unreasonable expectations of the Government from the Operators.

Further, the rising interest rates, depreciating currency rates etc have resulted in increase in debt servicing costs for operators, coupled with the impacts of adverse changes in foreign exchange rates. Operators are still struggling to achieve profitability despite the fact that the initial 20-year license terms will come up for extension in the next 3 years. Low profitability is also likely to impact critical investments in rural areas.

The high prices of 3G spectrum in the country; intense and grueling price wars and the fact that the returns on the investments have not been adequate till date has resulted in a situation where the operators are finding it difficult to receive funds from the FII's and Banks who are shying away from the industry due to policy uncertainty.

The entrepreneurs who have made huge investments in creating the world class telecom network in the country are the best placed to decide about the tariff strategy which ensures the growth of industry and sustainability in a hyper competitive market. Any kind of regulatory intervention may prove to be catastrophic for the very sustenance of the Industry.

**Thus, in order to ensure sustainable and affordable telecom environment, TRAI should use a light touch regulatory approach and continue with the time tested policy of keeping the tariffs under forbearance.**

## **6. Is tariff for data services offered by the service providers competitive and reasonable?**

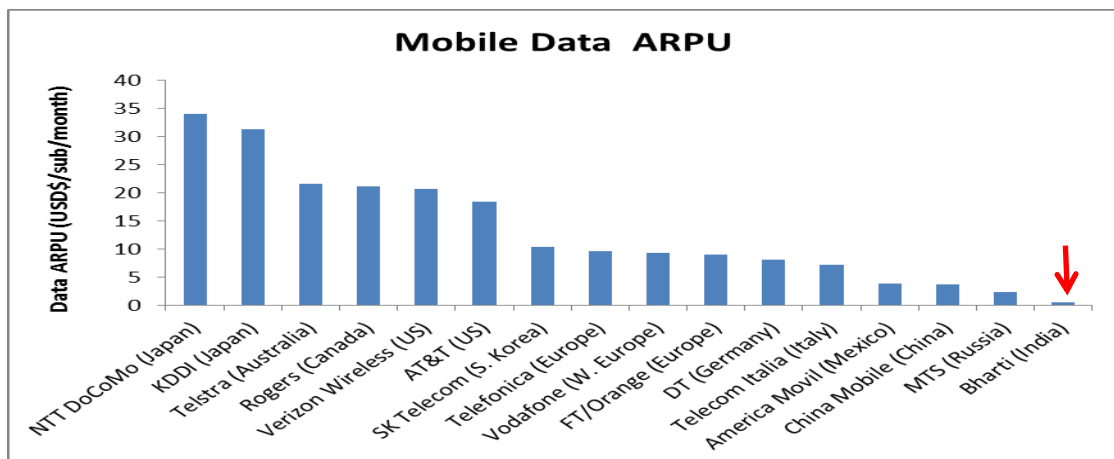
### **Bharti Airtel's Response:**

The data services are not only provided by the mobile operators but also by a large number of ISPs and basic operators. UASL Licensees have deployed GPRS, EDGE, 3G, HSPA etc network to provide basic and high speed data services. Data services are also widely available through USB data dongles / modems and other access devices like tablets. All this is also complemented by high speed Internet through ADSL technologies which is primarily meant for non-mobile / home or enterprise usage.

Therefore, there is enough competition in the market as far as the data services are concerned and the tariffs offered are highly competitive and reasonable. In fact, India has lowest data pricing already with prices as low Rs 100 for 1 GB as against the \$50 for 5 GB in western countries.

The Authority would appreciate that the telecom operators had paid Rs 1.06 lakh crore for 3G and Broadband Wireless Access spectrum, despite this the services are affordable and the tariffs are much lower than many developed nations. The following figure shows that the mobile data ARPU for India is the lowest in the world:





Source: Global Wireless Matrix 3Q11; BofA Merrill Lynch

It should also be noted that India till recently has been a very “voice” centric market and data based services have started picking up the momentum. This will certainly lead to operators deploying more and more networks which may further lead to reduction in tariffs.

## 7. What are the factors that impact competition in data service in the market?

### Bharti Airtel’s Response:

There is sufficient competition and low tariffs in data services with the presence of 2G and ISP operators providing data services. After the auction of BWA spectrum two operators are likely to launch BWA services in addition to BSNL/MTNL. In addition, these operators have extensive Wi-Fi network across the commercial places. We therefore feel that there is sufficient competition in the market and the question of any factor impacting the competition in negative sense does not arise. In fact, there is a hyper competition in the market.

## 8. What can be the possible measures by the regulator for facilitating enhanced competition for availability of data services at affordable tariff?

### Bharti Airtel’s Response:

In spite of the sufficient competition, the off take of data services is not very high. We believe that it is not only the competition, which can bring in affordability but the investments and the sustainability is important. Some of the measures which can result in affordable data services are:

- The availability of the sufficient spectrum;
- Allocation of spectrum in 700 MHz band for IMT applications.

- RoW for towers needs to be simplified: Data traffic management involves deployment of IP infrastructure, fibre etc. Large scale deployment of this is hampered due to exorbitant RoW costs. TRAI could help in regulating these to cost based models rather than opportunity based pricing models.
  - Spectrum sharing to be allowed
  - Support through USO to Mobile operators in order to provide cheaper 3G dongles and CPEs.
  - DoT/TRAI should not impose any kind of restrictions on the roaming arrangement already allowed under UASL. This not only helps in increasing the competition but also brings in affordability.
  - Uniform License fee @ 6% of the AGR and the spectrum usage charge to a uniform rate of 2% of AGR.
  - Any kind of License fee on IP-1 revenue would also result in additional cost and hence will impact the affordability.
  - Row regarding laying of fibre to be simplified.
  - Subsidizing Optical fibre connectivity through NOFA
  - Promote **lower cost availability** of internet access through policy initiatives such as tax holidays, availability of optical fibre, unbundling of copper, computer, CPE etc.
  - Increase the awareness about the local content and applications and the benefits arising out of the same.
  - Subsidizing the cost of CPE/PC.
  - Subsidy for Setting of Hot Spots in Public Places
  - Removal of License fee from the wireline connections.
9. **Should TRAI regulate tariff for data services by way of fixing ceiling tariff to protect the interest of the consumers? If yes, what should be the basis and justification for tariff fixation?**

#### **Bharti Airtel's Response:**

This question pre-supposes that the data tariffs are higher without giving showing any comparison with international data tariffs. As explained in the response to previous questions, there is sufficient competition in the Indian telecom market with the customers enjoying the benefits of affordable/lowest tariffs.

The tariff fixation is the heart of the telecom business and has to be done keeping in mind:

- Status of competition
- Investments and expected rate of return
- Network rollout and QoS.

Since tariff fixation is a complex exercise which every operator does for its running its business. Any kind of fixation of tariff ceiling would result in micro management of the business and may result in various disputes over determination of the ceiling tariffs.

It is also ironical when on one side the resources such as spectrum are proposed to be sold through the market based mechanism and on the other side the retail tariffs are being proposed to be regulated. **Therefore, we propose the continuance of the policy of forbearance in telecom tariff.**