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**REsponses to issues raised in the consultation paper-reg**

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**From :** Shanmugam K. R  
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 1 attachment

**Subject :** REsponses to issues raised in the  
consultation paper-reg

**To :** advfea2@traigov.in

Dear Mr. Amit Sharma

Thank for sending the copy of the consultation paper on Tariff Issues of Telecom Services (Ref: Your letter D.O No. 312-3/2019-F&EA dated 21.01.2020). As required I read the report and discussed with one of my colleagues about the queries raised. Due to time constraint and as certain questions are too technical, I am sending the responses for first four questions in the attachment.

Thanks and regards  
Shanmugam

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 **TRAI Answers from Shanmugam.docx**  
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From Dr. K.R. Shanmugam, Madras School of Economics

## **TRAI: Responses**

**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, as one of the firms has definitely done predatory pricing. The objective of that specific firm is to drive out as many firms/competitors as possible from the market, such that it can get a higher profit in the future (though it may suffer loss initially for price cut). This is because this specific firm is an entrant (relatively new in the market in comparison to the other service providers) and wants a larger and permanent market share in the future.

There must be a healthy competition in the market. If the number of firms reduces, it is very likely that the firm or firms those who will remain will charge higher prices in the future. This will negatively affect the consumer surplus as well as the welfare of the economy. Moreover, the quality of the service is very important and hence if the firms get very low profit or incur a loss, in the future, the firms are less likely to invest in upgrading the products. More Competition results in product diversification, as well as improvement of the quality of the services/products, such that the firms get higher profit in the future as well as the consumers are satisfied with the best quality product.

As in the Digital world, much of the transactions and business dealings are online, the up-gradation of the quality of the service is very essential for the growth of the economy. Hence, this will require more competition in the market not only in the present period but also in the future. Closing down of firms is a very bad signal for the industry as well as for the entire economy. This reduces competition, reduces investment in the economy and significantly affects the macroeconomic stability of the economy as it results in a drastic increase in the size of the NPAs of the banks.

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

**Ans:** Yes. As explained in answer 1. To add a few words, the TRAI has tried to explain in the report why the price floor is harmful. The reasons mentioned are true in a competitive market (where they talk about Adam Smith and invisible hand), however, the Telecom Service market is

an oligopoly and not a competitive market. The basic assumption of a competitive market is that there are a large number of firms in the market and free entry of new firms. However, this is not true for the Telecom Service market, as in the present situation we just have 4 firms including BSNL. Moreover, day by day the number of firms is decreasing. This shows that the competition between the firms is also declining and new firms have stopped entering into this industry. If this trend continues, then it will harm the economy in the future as the firms will either shut down its production or will not be inclined to invest more in the future for quality up-gradation say 5G and a **distortionary monopoly situation may develop**.

**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:** Yes. This will technically prevent predatory pricing. At least this strategy of floor price could be set for some months to see the improvement and to observe the reaction of the firms to invest in 5G which is also one of the prime concerns for TRAI.

TRAI can also think in this way: At least assure price floor to the firms who will invest in 5G, before the 5G auction. At that very moment kindly make it clear that what rules are to be followed in terms of a price floor. If this is the case, then it is likely that firms will invest more for 5G. This will not only ensure higher revenue for the government but also higher profits for the firms in the future. The objective should be to give some breathing space to the firms. It is very obvious that a sick firm is less likely to invest. Given that upgrading to 5G is very urgent for the growth of the economy, the floor price should be taken into considerations.

**Q4. 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. This is done just for their survival, however, it should be clearly understood that the market disruption done by one specific firm is very severe and there is always a potential threat that this will be repeated by any firm in the future if not checked now. Opinions of the Competition Commission of India (CCI) are equally important and they should clearly try to control the Telecom industry such that it does not collapse hand in hand with TRAI.

Moreover, in general, people care also about the quality of the service and not just about the price. There is a serious concern against that specific firm about the quality of the service (network coverage) that they provide and will provide in the future. Customers are also skeptical if they observe some usual behavior of any form. It disturbs the entire trust of the market, not only on the firm that disrupts the market but also from whom they buy the service. Trust of the consumers is also what matters for the growth of the industry, e.g., whether the service provider

will stay in the market for a long time or not. If this is not the case then it adversely affects the entire growth of the economy. If a service provider shutdowns, its operation, then the entire economy will be affected as the entire net banking/online transactions depends on the OTP received in SMS. Secondly, as this is a necessary good this case is not of the same genre of the shutdown operation of Jet Airways, even though the effects via competition are more or less the same.