

For Immediate release

## Telecom Regulatory Authority of India

### Information note to the Press (Press Release No. 29/2008)

Tel. No.:011-23216930  
Fax: 011-23235270  
E-mail:lavgupta@traf.gov.in  
Website: [www.traf.gov.in](http://www.traf.gov.in)

### **TRAI DETERMINES FINAL PHASING OUT OF ADC**

New Delhi, 27<sup>th</sup> of March, 2008. The Telecom Regulatory Authority of India today issued the ninth amendment to the Interconnection Usage Charges(IUC) regulation which deals, among other things, with the Access Deficit Charge(ADC) payable by private service providers to BSNL. The process of review and consequent amendment has lead to simultaneous issue of a set of recommendations to DOT for continuation of support to BSNL's rural wireline network through Universal Service Obligation Fund(USOF). These steps are expected to address issues like promoting competition, removing market distortions, minimizing grey market in international calls and providing comprehensive benefit to all consumers,.

The issue of the regulation and the recommendations mentioned above marks the culmination of the process that commenced with the issue of the consultation paper on ADC on 21.1.2008. The main issues on which the comments were invited and subsequent discussions were held can be grouped into 3 categories:

Issue 1: Operationalizing phasing out of ADC from 1.4.2008

Issue 2: Providing support for BSNL wireline rural network from USOF

Issue 3: Induction of positive features including possible reduction in charges for rural mobile subscribers

The ADC regime was first introduced by the Authority with its regulation on the Interconnection Usage Charges (IUC) dated 24<sup>th</sup> January, 2003. This was reviewed and superseded by the regulation issued on 29<sup>th</sup> October, 2003. ADC was critical in the early stages of transition smoothly from government monopoly to a liberalized competitive environment. The primary purpose of the ADC regime has been to facilitate the incumbent to transit from monopoly to competitive regime and give adequate time for tariff rebalancing. In keeping with the worldwide trend and sound economic principles, the Authority established a time bound ADC regime that would eventually be merged with USOF. To reflect the evolving telecom scenario this regulation has been amended annually with the last amendment being carried out on 21.3.2007. The Principal Regulation and its amendments established a regime for institution, continuation and phasing out of ADC. In this framework ADC was meant to be a time-limited, depleting regime that will be phased out in 2008-09 and any resultant responsibility of sustaining incumbents rural wireline network transferring on USOF.

The present consultation was meant to be a decisive review of the regime. Views of the stakeholders were discussed and analysed. While standing by its earlier stipulation of phasing out ADC by 31.3.2008, the Authority is conscious of the critical need to promote effective telecommunication services in rural areas. In earlier regulations the Authority had instituted the policy of exclusion of rural fixed line revenue from calculation of ADC. The Authority feels that the current state of rural telephony still demands special attention and is of the opinion that benefit of abolition of ADC should largely go towards improvement of telecommunications in rural areas.

The ADC as it exists today has two parts. One, the service providers pay 0.75% of their Adjusted Gross Revenue(AGR) to BSNL and second, International Long Distance Service Providers pay Re 1 per minute on international incoming calls to BSNL. Through the instant amendment the Authority has decided to phase out ADC as a percentage of AGR from 1.4.2008. Thus the ADC will no longer be applicable

in the domestic sector and all domestic calls will be free from the incidence of ADC from 1.4.2008. The component on the international incoming calls would be payable at a reduced rate of Rs 0.50 (paise fifty only) for the period from 1.4.2008 to 30.9.2008 after this component of ADC would also stand phased out. Thus from 30.9.2008 there would be no ADC.

On the second issue the Authority has been of the view that ADC was instituted for a limited purpose of supporting incumbent at the time of transition from monopoly to competitive environment and allow them to rebalance tariff. ADC puts unfair burden on new entrants and distorts market conditions. It is also a source of arbitrage and thereby results in grey market operations in international incoming calls. The Authority had therefore communicated to the Government in February 2006 and a couple of time thereafter that ADC would be phased out at the end of 2007-08 and further support may be considered from USO. Support to the incumbent may be necessary for their rural wireline operations as about 99.87% rural lines belong to BSNL and this legacy fixed wireline network is an important national asset that offers a number of advantages. Digital Subscriber Line (DSL), the current dominant broadband technology, works on copper and would also ultimately be key to pushing forward broadband penetration. Though proliferation of broadband in rural areas will take some time to build-up but when it does, BSNL may be able to increase ARPU by offering value added services like IPTV, telemedicine, e-learning etc and make these line self sustaining. To make this happen it needs to be ensured that wireline connections are supported and their maintenance is taken care of through an appropriate subsidy. The Authority has therefore decided to recommend to the Government that from 1.4.2008 an amount of Rs 2000 crore per annum may be given to BSNL from USOF as subsidy for sustaining wirelines installed before 1.4.2002 for a period of 3 years.

On the third issue the Authority noted that it is difficult to establish a direct and transparent nexus between the savings on account of ADC and reduction of tariff. For instance, it is not possible to establish a correlation between reduction of ADC

on incoming international calls and the direct and immediate benefits to telecom consumers in India, as this is paid by users in other countries calling Indian consumers. Increasingly it is seen that while mobile operators have contributed to enhanced levels of competition in the local call segment, as far as long distance calls are concerned competition does not appear to be very effective despite several favourable regulatory and policy measures. However, the Authority expects that the service providers shall utilize whatever savings accrue from phasing out of ADC for the overall growth of telecom sector especially for rural areas that are still awaiting concrete steps from the service providers.

It has been the endeavour of the Authority to evolve a framework which would ensure positive gains to consumers once the ADC is removed from the domestic sector. On the issue of induction of positive features including possible reduction in entry charges for rural mobile subscribers, the Authority organized a series of consultations with the telecom associations i.e. AUSPI, COAI and also with the service providers. The concern of the Authority in this regard as also poor penetration in rural areas was conveyed effectively. One of the options actively considered by the Authority was for lowering of start-up expenses of the new rural subscribers. The two telecom associations have assured that they are actively consulting their members and would come up, within a week, with constructive proposals for the consumers. Therefore, the Authority has decided that any pro-active measure from the Authority should be deferred and the Authority would prefer to evaluate the proposals of the telecom companies. Nevertheless, the Authority entreats the service providers that suitable measures may in any case be introduced for the telecom customers to make the year 2008-09 **‘the year for rural telecom access’**.

Full text of the “The Telecommunications Interconnection Usage Charges(Ninth Amendment) Regulations, 2008” and “Recommendation On Support for Rural Wireline Connections, Installed Before 1.4.2002 From USOF, On Phasing Out Of ADC” are available on TRAI’s website: [www.trai.gov.in](http://www.trai.gov.in)

---

**Contact Address in case of any clarification:**

**Lav Gupta**

**Principal Advisor (FN)**

**Telecom Regulatory Authority of India**

Mahanagar Door Sanchar Bhawan

(Next to Zakir Hussian College)

Jawahar Lal Nehru Marg (Old Minto Road)

New Delhi-110002

Telephone: 011-23216930, Fax: 011-23235270

Email:lavgupta@trai.gov.in, lavgupta@gmail.com

Authorised for Issue

**Pr. Advisor (FN)**