

IAMAI Counter Comments to TRAI Consultation Paper on Tariff Issues of Telecom Services

The Internet and Mobile Association of India [IAMAI] as a representative of the digital sector in India, would like to thank the office of TRAI for initiating this stakeholder's consultation on tariff issues of Telecom Services.

The Indian telecom sector has witnessed a swing of fortunes in recent times, leading to market consolidation between 3 major private service providers, along with a PSU service provider that is yet to make any considerable mark as far as mobile internet connectivity is concerned. Further, telecom companies have recently revised tariffs for telecom services for the first time since 2016. Any policy for price determination above and beyond market dynamics, therefore should be assessed on grounds of whether it is necessary or relevant from the perspective of consumer welfare and the future of competition in the sector.

India presently has approximately 500 Mn internet users driven mainly via mobile internet services. Despite the high numbers of users, internet penetration is barely 36% in the country with Rural India still having a low 22% internet penetration. The entire vision of Digital India hinges on affordable internet connectivity for the marginalized sections of the country. The Indian market is extremely price sensitive in nature, and therefore, any policy affecting tariff rates has the potential of significant consequences on usage and onboarding of new subscribers to internet services.

Our counter comments to the consultation process is based on the concern for affordable internet services and the future of internet adoption in the country.

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.

IAMAI Submission:

IAMAI would suggest TRAI to continue its present position of forbearance and not actively intervene in tariff fixation, especially in the form of floor pricing for the following reasons:

Floor prices have market-distortionary effects and have no place in a healthy, competitive market. It has been found that a regulated price may enable retailers to set a very similar market price without active collusion. Further, floor prices are very likely to benefit financially incumbent and high cost sellers due to reduced price competition and higher prices, at least in the short to intermediate run.

Floor prices will have an adverse effect on the dynamic telecom market in India. Currently TSPs have the freedom to set their own prices and this pricing arrangement has led to the incredible penetration of telecom services, especially data services, in India. It has facilitated innovation and efficiency in the delivery of services by TSPs at affordable and competitive rates. The fixation of tariffs will reduce the

flexibility of the sector to provide services to a large segment of the Indian population based on their differential needs and purchasing power.

A floor price will also adversely affect consumers, by creating barriers to the usage of telecom services by existing and new subscribers. In this context, it must be noted that low price offerings often target new, low income, or underserved markets where buyers are quite price-sensitive. The fixation of tariffs may create a disruption to the goal of Digital India and other projects that are dependent on the access to data.

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

IAMA Submission:

No, we do not foresee any need for change in TRAI's policy of forbearance in tariffs for the following reasons:

- The existing policy of forbearance has resulted in a telecom market that has delivered affordable and innovative services to consumers, making India one of the best markets for data usage in the world. It should also be noted that mature markets do not rely on tariff fixation, and regulators around the world have noted the importance of an unrestricted pricing regime. For instance, a European Union report found that in competitive markets, there should not be ex-ante price control regulations.¹ Similarly, Canada's primary telecom regulator has also maintained a policy of forbearance in relation to pricing.
- The very foundation of floor prices in the current scenario is concerning as it has been found that the short run financial benefits (if any) of implementing a floor price are not sustainable, and will be erased as the market adjusts. It has been suggested by certain stakeholders for a minimum pricing with periodic overview of the policy depending on market developments. This in turn will require TRAI to continuously introduce more intrusive regulations and constant price adjustment which in turn risks distorting the market in the long run. As further and more intrusive regulation is not the goal of the TRAI, floor prices should be steered away from.

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.

Not applicable.

¹ Commission Staff Working Document Explanatory Note, Available at:
<https://ec.europa.eu/newsroom/dae/document.cfm?doc_id=7056>

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.

IAMA Submission:

We do not perceive a need to fix floor price based on the impacts of floor prices as elaborated above under question 1. Contrary to some submissions favouring floor pricing, we believe the recent increase of the tariffs by telecom service providers (**TSPs**) is a sufficient and noteworthy indication of the competition in the market and evidence that the TSPs are responsive to market realities and there exists no evidence of market failure based on which any tariff regulation by way of floor price may be justified.

Moreover, we disagree with some submissions favouring a floor price on the grounds that foundation of a floor price is fraught with complications and impossible considerations. The floor price will need to be based on the cost of provision of service. As different TSPs have different cost structures and different cost of delivery of services, the question as to the selection of a representative cost remains unanswered. No methodology can lead to an accurate floor price that will factor in each TSP's costs as well as ensure that no adverse impacts take place on the market.

Q5(a). What methodology should be used to fix floor price by the Authority and why? Please give detailed methodology with calculations and supporting justification.

Not applicable.

Q5(b). If a floor price is considered, what should be the mark up over the relevant costs for arriving at a floor price? Please give detailed calculations and justification for your response.

Not applicable.

Q6: Considering that cost of delivery of telecom services is likely to be different for different TSPs, what parameters should be considered to decide floor price and why? How can it be ensured that such a floor price fixation exercise does not result in windfall profits to few TSPs? Please give your response with detailed reasoning.

IAMAI Submission:

Any floor price, to have any meaningful impact, must be based on the operating cost of the least profitable service provider whom the policy is supposed to protect. Contrary to certain suggestions, it would be impractical to choose the highest or second highest cost in a market with barely 3 service providers of consequence. Thus, the fixation of a floor price is very likely to result in windfall profits for a few TSPs and this effect cannot be prevented through any methodology of arriving at a floor price. In fact, this should be considered as a valid ground for distancing away from any efforts to fix floor prices.

Q7. Is there a need to fix floor price for mobile data service? If yes, can such floor price be applied uniformly to different categories of subscribers such as retail consumer, corporate, tendered or otherwise contracts, segmented and any other including one on one? If it cannot be applied uniformly, will it not result in discrimination between various categories of subscribers? Please give your answer with detailed reasons and justification.

IAMAI Submission:

While IAMAI does not support the proposal of floor price fixing as explained in our previous responses, we would like to particularly respond to certain suggestions for fixing prices for internet services while not affecting voice calls. Such a suggestion reflects cherry-picking by TSPs targeting potential high revenue services while ignoring low revenue services on the garb of voice services being 'essential services'. We would like to highlight that presently voice services are the more predominant service and mobile internet services have restricted market, which is far more price sensitive given the target of on-boarding new users. In any case, we do not believe that there is a need for price fixation in either segment.

Q8. What should be the basis and methodology for floor tariff fixation for mobile data service? Give detailed justification and calculations for your response.

IAMAI Submission:

We are of the view that there is no sound methodology that can lead any regulator to a fair and comprehensive floor tariff, as this is based on the different cost structures of various TSPs.

Q9. What should be the representative cost for fixing a floor price for mobile data service? Give detailed calculations and justification for your response.

IAMAI Submission:

Based on market trends, it is not possible to accurately fix a representative cost that will consider the different cost structures of TSPs. In this context, the exercise of fixing a price is not only fraught with concerns of market distortion, but is also arbitrary.

Q10. Should fixation of floor price be considered for voice calls also? Please give your comments with detailed justification.

IAMAI Submission:

We have previously discussed how the concept of floor prices is contradictory to the health of the market as well as consumer welfare. Further, as noted by TRAI, voice calls are now part of the data services provided by TSPs. Accordingly, we do not believe there is any ground to fix floor prices for voice calls.

Q19: Any other relevant issue you would like to highlight in relation to the above issues?

IAMAI Submission:

Any regulatory intervention made by the TRAI is likely to reduce efficiency, and deviate from the competitive equilibrium that the current market conditions have led to. It remains evident that the telecom sector does face some challenges which have caused a huge financial burden and affected their investments. In order to correct this, regulators must identify and remove unfair cost advantages such as spectrum fees, interconnection charges, etc. However, the fixation of tariffs is unlikely to aid this, in light of its impacts on the economy.