RJIL/TRAI/2019-20/500
09th December 2019

To,

Sh. S.K. Singhal
Advisor (Broadband & Policy Analysis)
Telecom Regulatory Authority of India
Mahanagar Doorsanchar Bhawan
Jawahar Lal Nehru Marg, New Delhi 110002

Subject: Comments on Consultation Paper dated 08th November 2019 on 'Review of Interconnection Usage Charges'.

Dear Sir,

Please find enclosed comments of Reliance Jio Infocomm Ltd. on the issues raised in the Consultation Paper dated 08th November 2019 on 'Review of Interconnection Usage Charges'.

Thanking You,
For **Reliance Jio Infocomm Limited,**

Kapoor Singh Guliani
Authorised Signatory

RELIANCE JIO INFOCOMM LIMITED

Enclosure: As above.

RELIANCE JIO INFOCOMM LTD'S COMMENTS ON TRAI'S CONSULTATION PAPER ON "REVIEW OF INTERCONNECTION USAGE CHARGES" (Consultation Paper Dated 8th November 2019)

1. We thank the Authority for issuing this consultation Paper to take stakeholders views on fixing the International termination charges (ITC), in view of the changed telecom landscape. We submit that this review is much needed as the previous fixation of the ITC in January 2018 has not yielded desired results.

2. Reliance Jio Infocomm Limited (RJIL) agrees with the Authority that numerous changes in the telecom landscape like massive increase in data services adoption, major movement towards data centric networks, prevalence of bundled tariff plans, rapidly increasing OTT penetration and unrelenting trend of decline of international incoming voice traffic through carrier route with an emerging trend of fall in outgoing ILD traffic from India, implies that the timing is apt for a review of the ITC.

3. We submit that the review of the ITC is also important from the perspective that the Authority's good intentions behind the reduction of ITC in 2018 have been defied by various players in the International traffic value chain. We submit that the substantial reduction of over 43% in ITC was never passed onto the end-users. We understand that the call charges to India remained static or increased despite this reduction, thereby undoing the intention of addressing OTT substitution and eradicating the Grey market operations.

4. Therefore, a holistic review of the ITC is imperative. RJIL is in favor of implementing a reasonable and predictable regime for determination of ITC. We submit that the current regime of fixed and reasonable ITC for all international traffic terminating in India is most appropriate for the country. Further, the ITC should also be fixed considering the geo-commercial issues, interests of Indian subscribers as well as domestic service providers and to ensure overall growth of traffic on legitimate carrier mode.

5. The Authority is aware that the ITC in India is probably the lowest in the world at 30p/min. Even neighboring SAARC countries like Bangladesh, Pakistan, Nepal, Sri Lanka have an average blended rate of nearly Rs.4 – Rs.6.5 per min. Similarly, the termination rates in middle east are much higher with average blended rate of Rs 8/9 per min. As per the data published by the Authority in 2018, only North America and Europe have comparable ITC rates, though still much higher than India.

6. Thus, clearly the current ITC in India needs an upward revision. However, there is a need to base this upward revision on principles of reasonableness so that the end cost for the

RELIANCE JIO INFOCOMM LIMITED

consumers calling to India is not impacted. We submit that an important reference point for the same would be to ascertain whether the previous reduction in ITC was passed on to the consumers by foreign operators.

7. As per our understanding, the foreign operators have not passed on the benefits of 23p/min reduction in ITC to their subscribers and have only increased their profit margins. Further scope of increase in ITC can be inferred from the traffic ratio and difference in prices with major operators sending traffic to India. We have analyzed the calling rates of leading service providers to India with reciprocal tariffs charges by RJIL in the below table.

Description (Rates in Rs / min)	UAE		USA		Saudi Arabia		UK		Nepal		Australia	
	Etisalat	Du	AT&T	Verizon	STC	Mobily	BT	Vodafone	NT	Ncell	Telstra	Optus
Foreign End Retail rates for calls to India (prepaid plans) (against India wholesale termination rate of ~ Rs 0.34 / min)	7.42	7.42	20.07	20.79	10.52	10.52	1.85	2.77	2.33	2.33	28.17	23.80
Foreign end average termination rates offered by Foreign Carriers to Indian ILDOs	8.96	9.32	0.32	0.25	7.17	7.17	0.49	0.49	10.75	10.75	1.94	1.94

8. Clearly, there is a significant difference in the tariffs and even in the most favorable of the cases like US, against the cost of around Rs 0.32/ the retail rate for outbound ILD call is Rs 0.5 whereas the converse is Rs 20 and Rs 0.34 thus US operators gain Rs 19 as pure margin. Thus, even in the most favorable of cases there is ample margin available with international service providers to bear the increased ITC without impacting the outgoing tariff for their own customers.

9. We submit that the blended analysis of the retail tariff in these countries, as well as the traffic pattern of the service providers and the increase in dollar rate vis-à-vis Rupee, implies that there is scope for increasing the ITC by 35-45 paise per minute. In view of the same, **we suggest that the ITC should be fixed in the range of 65-75 paise per minute.**

10. We further submit that while we have always supported the liberalizing of the regulatory regime and policy of light touch regulations, however, the same will not be suitable as far as ITC is concerned. We submit that with forbearance in ITC, a service provider might be tempted to keep high ITC tariffs leading to protracted negotiations with foreign carriers and emergence of on-net only traffic. Similarly, for another alternative of reciprocal termination rates regime has the potential of leading to a price-hiking race, which can lead to traffic

routing through the countries having favorable termination rates. Thus evidently, fixed ITC is the optimum approach.

11. Conclusions

1. **Authority should continue with the current regulatory regime of Regulator specified ITC charges for all international calls terminating in India.**
2. **The ITC should be rationalized considering various changes in the telecom landscape and should be increased to the range of <u>65p-75p per minute</u>.**
3. **The other possible regulatory regimes for ITC are not suitable and should be avoided.**

Issue wise response:

Q1. Keeping in view the changes happening in the international telephony market structure, is there a need for change in the regulatory regime for International Termination Charge (ITC) i.e. change the existing regulatory regime from fixing uniform rate of ITC to an alternate approach? Kindly justify your comments with supporting arguments.

RJIL Response:

1. As discussed in the General Comments, RJIL does not favor any modifications in the current regulatory regime, wherein a fixed termination rate is fixed by the Authority, post consideration of various factors, including but not limited to ensuring the best interests of the sector.

2. We submit that the current regulatory regime for fixing uniform rate for International Termination Charge (ITC) is working very well as it ensures ease of operations and also prevents operational and reconciliation related complexities caused by multiplicity of rates as well as different rates by different operators.

3. However, as highlighted in the General Comments, we feel that the time is apt for upward revision of the ITC rate on urgent basis. The Authority has itself noted that the current lack of parity in the international termination rates and relatively much lower ITC in India has made Indian Operators into price takers, which is not an ideal scenario as the benefits of the lower ITC cannot be transferred to lower price for the end-users. Consequently, it neither serves the purpose of increasing the incoming traffic to India, nor does it provide sufficient pricing impetus on both sides to arrest OTT substitution.

RELIANCE JIO INFOCOMM LIMITED

4. We also submit that the previous reduction in the ITC has not provided the desired benefits, While the impact on the Grey Market could not be quantified, we can definitely state that the impact of reduction of ITC on the OTT substitution is non-existent. From the data available from TeleGeography 2019 Edition of 'The State of the Network' it is evident that the minutes on the carrier route for International traffic is in a continuous decline globally since 2015, with the parallel rise of OTT communication apps. A new generation of smartphone-based communications applications such as WhatsApp, Facebook Messenger, WeChat (Weixin), Viber, Line, KakaoTalk, Apple Facetime, etc. act as a functional substitute of the voice services offered by service providers. TeleGeography estimated that just seven communications apps—WhatsApp, Facebook Messenger, WeChat, QQ, Viber, Line, and KakaoTalk—combined had over 5 billion monthly users in September 2018. These estimates exclude apps for which directly comparable data is unavailable, including Apple's FaceTime, Google Hangouts, and Skype. **The below numbers clearly indicate that the OTT substitution has not reduced due to lower ITC.**

Table: Total traffic carried by TSPs vs OTTs in billions of minutes

Year	Carrier Traffic	OTT Traffic	% increase in Carrier Traffic
2015	553.3	418.5	
2016	527.9	570.3	-4.6%
2017	483.8	757.2	-8.4%
2018*	449.9	952.4	-7.0%

** 2018 numbers are projected numbers; source: TeleGeography 2019 Edition of 'The State of the Network'*

5. The Authority is also aware that the international incoming voice traffic through carrier route is continuously declining in absolute minutes. Thus, clearly the approach of reducing the ITC needs to be revised.

6. It is submitted that while deciding the ITC, the Authority in the past has considered various objectives viz. (a) do not create arbitrage opportunity and give rise to grey market; (b) prevent the diversion of traffic towards OTT players; (c) encourage TSPs to reduce tariffs on outgoing international calls and prevent any pass-through to domestic tariffs of revenue losses arising from the calling card Regulation; (d) neutralize the effect of the foreign exchange rate variations.

7. While suggesting the revised ITC rates, we have also taken into account all these objectives. We submit that while the temptation can be to suggest much higher ITC, however, we are

RELIANCE JIO INFOCOMM LIMITED

cautious that too high ITC will create arbitrage opportunities thereby give rise to Grey Market. Further, we have also noted that the termination charge is not the complete cost of the calls. The grey market operations are not free of cost. The legitimate route will be bypassed only if the arbitrage is significantly high. A prudent and reasonable ITC should be in the range of Rs. 0.65/min to Rs. 0.75/min. As this will be corresponding to surplus margin retained by the foreign carriers post the previous ITC reduction, will be marginal enough to be absorbed in current outgoing tariffs for calls to India while also accounting for increase in rate of Dollar vis-à-vis Rupee. Thus, at one hand it will be not a departure from the existing policy, on the other hand it will ensure no serious impact of end-user tariffs. **This end-user tariff at international end is also an important factor, since traffic substitution by OTT services will be linked with retail tariffs at the far end rather than termination rate at India end.** Further, as mentioned earlier, the International service providers have not factored in the previous reduction in their tariffs and the **suggested increase would be marginal, considering the increase in exchange rate**, thus would be reasonable for them as well.

8. The increase in ITC would also have positive impact on the operator revenue as well as on the exchequer revenue, as the previous decrease had not corresponded to increase in traffic thereby reducing the overall industry revenue. Further, even in case there is an unlikely drop in the incoming international voice traffic due to the increase in tariff, the impact on the revenue will not be substantial with the reasonable increase in ITC proposed by RJIL.

Q2. If your response to the Q1 is affirmative, then what should be the alternate approach? Kindly elucidate the alternate approach and benefits of the same vis-à-vis the present approach.

RJIL Response:

1. We submit that alternative arrangements suggested in the Consultation Paper are not suitable in the current scenario and the fixed termination rate is the only feasible option.

2. The Authority has accurately ascertained that the reciprocal arrangements i.e. mandate the same termination rate for calls from a country as the country applies to calls from India, may not be feasible. It is not due to only exchange rate fluctuations leading to uncertainty in business transactions, but this regime has several complexities, inter-alia, including the following:

RELIANCE JIO INFOCOMM LIMITED

(i) Even within a same country, there are code wise/operator wise different termination rates. Accordingly, reciprocal arrangements will lead to large number of termination rates for calls terminating in India, which may increase settlement disputes.

(ii) This arrangement may also lead to hubbing of international traffic in a country that has low termination rate arrangement with India. This would not only lead to dependence on bandwidth on some routes and inefficient utilization of bandwidth on other routes but may also encourage the operators to alter CLI to show that the calls are from a country that enjoys low termination charges for calls to India.

(iii) It has the potential of being anti-consumer, especially in case of the countries where the termination rate is already high, as this might trigger a never-ending reciprocal price hike chain-reaction making the services out of reach of normal consumers and thereby giving leverage to grey market operations.

3. Similarly, with regards to another option of forbearance regime, we submit that termination market is a monopoly market with each domestic service provider holding a monopoly over his own subscriber base. Therefore, forbearance would imply each service provider setting termination rates as per its own convenience, which can lead to various issues leading to various settlement issues with international providers thereby disrupting the customer service due to an unsettled pricing issues. Further, the flaws of the reciprocal ITC will also flow into this arrangement and can lead to market failure therefore this option is also not recommended.

4. Similarly, the option of forbearance with ceiling would eventually metamorphose into the regime with fixed ITC, as all service providers, in order to maximize profits, will fix the ITC at ceiling rates. Thus, is preferable to have a fixed ITC which provides complete transparency and predictability.

Q3. If your response to the Q1 is negative, then in the changing international telephony market structure, what other regulatory measures are required to be taken by the regulator for protecting the interests of Indian consumers and service providers? Kindly justify your comments with supporting arguments.

RJIL Response:

1. We submit that the current transparency and other measures are sufficient to protect the interests of the Indian customers. In the ever-evolving international telephony market structure, the best measure is to provide the dependable service, which will be assured by the consistent and predictable regulatory policies and reasonable tariff structures. Fixed and rational ITC charge will go a long way in ensuring the same.

RELIANCE JIO INFOCOMM LIMITED

Q4. Your comments on any other issue related with the international termination charges may also be given.

RJIL Response: None

RELIANCE JIO INFOCOMM LIMITED