TELECOM REGULATORY AUTHORITY OF INDIA

Comments received on

Consultation Paper no. 2/2008 dated 21st January 2008

on

Access Deficit Charge (ADC)

Updated on 15.2.2008

Comments have been received from the following stakeholders on Consultation Paper on "Access Deficit Charge (ADC)" no. 2/2008 dated 21st January 2008

1. Cellular Operators Association of India (COAI)
2. Association of Unified Telecom Service Providers of India (AUSPI)
3. M/s BPL
4. M/s Reliance
5. M/s AT&T
6. M/s Power Grid Corporation
7. M/s HCL
8. M/s Bharti Airtel
9. M/s BT Telecom
10. BSNL
11. M/s Tata Teleservices Ltd. and Tata Teleservices (Mah) Ltd.
12. M/s VSNL
13. MTNL
14. M/s Pacnet
15. LIRNE*asia*
16. Kerala Consumers Service Society (Dr.T.Balachandran)
17. Consumer Unity & Trust Society (CUTS)
18. Shri Bharat Jyoti (Consumer Advocacy)
19. M/s Verizon Communication India Private Ltd
20. M/s Asia Pacific Carriers' Coalition (APCC)
21. Shri A.Govind Raj (Telecom & Technology Professional)
22. Shri Keshawmurthy
23. Upbhokta Sanrakshan & Kalyan Samiti
24. M/s Telecomportal.in
25. VOICE

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Comments of various stakeholders on the issues raised by TRAI in its consultation paper no. 2/2008 dated 21st January 2008 on ‘‘Access Deficit Charge (ADC)’’

Q1. As envisaged in the IUC/ADC regulations, TRAI is operationalizing the phasing out of ADC from 1.4.2008. If you have a contrary view kindly explain.

<u>COAI</u>

- COAI fully supports the phasing-out of ADC regime and with effect from April 01, 2008. We are of the view that going forward all financial support for expansion of telecom infrastructure in rural areas should now be made available only through USOF. The Authority has correctly noted that a prolonged ADC regime puts avoidable burden on the customers, creates market distortion, gives rise to grey market for international calls and is a hurdle for innovation.

- The Authority in its consultation paper has acknowledged that ADC framework was put in place so as to provide temporary support to incumbent operators to allow them time for adjustment during the period of transition from monopolistic environment to competitive business environment. The concept of ADC was mooted to support networks in bucolic areas **and NOT to make incumbents perpetually dependent on support.**

- **The framework for phasing out of ADC is already in place and TRAI in its various Regulations pertaining to ADC has acknowledged that ADC should be phased out with effect from April 01, 2008.**

- Based on above stated philosophy ADC had been made as a depleting regime and hence the total ADC amount has been gradually reduced every year to ensure smooth transition towards the phasing out of ADC.

- Moreover, we would like to submit that a **reduction in ADC has been one of the reasons for fall in tariffs over the years and the subscribers have been the prime beneficiaries of the same**. Benefits of a reduction in ADC have been passed on to the subscribers. The same has also been noted by the Authority in its consultation paper.

  *For example, in the last amendment of ADC regime, the Authority had abolished the ADC of 80 paise per minute on ILD outgoing calls and also reduced ADC on AGR from 1.5% to 0.75 %. **Though nexus between reduction of ADC on AGR and the tariff plans cannot be established in general, the benefits of reduction of per minute ADC on ILD outgoing calls has been passed on to the subscribers as reflected** in the tariff plans submitted by the service providers to TRAI*.

  \- ***TRAI Consultation paper on ADC, 21 January 2008***

- In light of the above, **it is reiterated that ADC should be phased out with effect from April 01, 2008**. The same would further enhance affordability of services as benefits accruing from reduction in ADC would eventually be passed-on to the subscribers.

<u>AUSPI</u>

We fully agree with phasing out of ADC from 1.4.2008.

- The ADC was introduced in 2003 for a clear purpose of tariff rebalancing which had to be achieved within a certain time frame work. **The ADC by its characteristic is a depleting regime and cannot be continued in perpetuity**.

- The ADC is highly inefficient mechanism for distribution of subsides. It distorts market, puts unwanted burden on consumers, creates arbitrage and thereby resulting in grey market for international calls.

- **ADC does not put any obligation on receiver to use it for rural telephony.**

- **Does not promote investment in rural areas as no obligation on recipient to make investments in the rural areas**

- **BSNL is not using ADC to rebalance tariffs but using it to launch predatory tariffs which only scuttle competition. The Authority has also noted this in its IUC Regulation dated 22.2.2007 which is reproduced below:**

  "7.9.5 The Authority has also noted that BSNL has not actively responded to the key purpose for which ADC was given. It may be recalled that ADC had specific purpose to be fulfilled in a time frame (i.e. tariff rebalancing). Further, BSNL is now offering tariff regime for bundled services which appear to be having some element of cross subsidy."

- The ADC regime has already been depleted for the private fixed line operators and they do not receive any ADC. For BSNL, the Authority laid down a clear timeframe to phase out ADC w.e.f 1.4.2008. There has been no change /development in the Telecom Sector to justify any change in the declared policy and **<u>it therefore suggested that ADC may be phased out from 1.4.2008.</u>**

<u>M/s BPL</u>

We wholeheartedly support phasing out of the ADC from 1.4.2008 as envisaged in the IUC/ADC Regulations issued by the TRAI from time to time since 2003.

<u>M/s Reliance</u>

- The ADC was introduced in 2003 for a clear purpose of tariff rebalancing which had to be achieved within a certain time frame work. **The ADC by its characteristic is a depleting regime and cannot be continued in perpetuity**.

- The Authority from the very inception of the ADC indicated that it is a 'Depleting Regime'. In fact, as far back as in 2002, in its Consultation Paper dated 23.09.2002 on Tariffs for Basic Services i.e. **even before inception of the ADC regime, it was clearly enunciated by TRAI that ADC will be an interim arrangement**. Relevant portion of para 2.31 of the Consultation Paper is as below:

> *".... it appears that there will continue to be a need to regulate Basic Service tariffs for some more time and that complete rebalancing of PSTN tariff i.e. introduction of cost based rates for both local and long distance services can be achieved only in phases. In the interim, the charges payable for long distance origination and termination may have to provide for what may be called `Access Deficit Charge' (ADC), which in effect will be a means to subsidize the below cost tariffs, i.e. rental/local call charges"*

- The ADC is an inefficient means of distributing subsidy and has number of ill effects on competition and growth of telecom services. Some of the drawbacks of ADC regime are:

    - It provides competitive advantage to the subsidised service (Wireline).
    - Subsidies as ADC result in unfair competitive advantage to a particular service and distort the market;
    - It is as an unwanted burden on the consumers;
    - It is a disproportionate enrichment of the incumbent at the cost of the competing operators;
    - It creates arbitrage and thereby resulting in grey market in international calls;
    - Does not promote investment in rural areas as no obligation on recipient to make investments in the rural areas

- Though ADC is given to the BSNL to rebalance its tariffs but it is using this subsidy for anti-competitive measures like charging rentals at rock bottom rates that are predatory in nature and scuttle competition. There are even schemes where cellular service is offered free with wireline service i.e subsidy is being used to bundle cellular service. The Authority has also noted this in its IUC Regulation dated 22.2.2007 which is reproduced below:

> *"7.9.5 The Authority has also noted that BSNL has not actively responded to the key purpose for which ADC was given. It may be recalled that ADC had specific purpose to be fulfilled in a time frame (i.e. tariff rebalancing). Further, BSNL is now offering tariff regime for bundled services which appear to be having some element of cross subsidy."*

- The Authority started depleting ADC regime much faster for the private operators and MTNL then for the BSNL. In 2005 itself, the Authority stopped ADC receipt from other operators for MTNL and other fixed line operators. The TRAI has also stopped regulating wireline tariff for urban/semi-urban subscribers.

- The TRAI has clear timeframe to phase out ADC w.e.f. 1.4.2008. There has been no change /development in the Telecom Sector to justify any change in the declared policy and **it therefore suggested that ADC may be phased out from 1.4.2008.**

M/s AT & T Global Network Services India Private Limited

The ADC was established in 2003 as a transitional mechanism to facilitate tariff rebalancing during India's introduction of competition. Since then, the TRAI has consistently emphasized that the ADC regime is a temporary program that is to be phased out by 2008 and merged with the USOF program. In January 2005, for example, the TRAI stated that "the ADC will be progressively decreased to be phased out in a few years time." Similarly, in February 2006, the TRAI stressed that the ADC regime "is a depleting regime and should be replaced by or merged with USO regime from 2008-2009 onwards. As envisioned by this framework, the TRAI has reduced ADC per minute rates in its annual reviews of the ADC program and replaced those rates on most telecommunications services with a percentage revenue share approach. Consequently, international incoming calls are the only telecommunications service now subject to per minute ADC charges.

The proposed transition from the ADC program to the universal service obligation fund program on April 1,2008 would remove the significant burden and inefficiencies caused by the discriminatory treatment of inbound international calls under the ADC regime. The Consultation Paper acknowledges that it "is undisputed that prolonged ADC puts avoidable burden on the customers, creates market distortion, gives rise to grey market for international calls and is a hurdle for innovation of services. The ADC charges on inbound international calling inflate India's termination rates above those of many of its neighbours and trading partners, which now obtain major benefits from lower inbound calling rates and lower costs for business and consumer users in the form of increased inbound calling volumes. The abolition of ADC will allow business and consumer users in India to receive similar benefits.

The ADC charges on inbound calls also encourage "grey market" bypass of the public switched telephone network, thus depriving incumbent carriers of interconnection revenues. As the Consultation Paper recognizes, these charges have "always been considered to be a source of arbitrage which sustained grey market operations," and their removal could therefore increase inbound international traffic and the associated termination revenues. The Consultation Paper also cites evidence suggesting that incoming international traffic volumes have "increased consequent on every reduction in the Access Deficit Charges applicable on such calls. The removal of ADC charges on this traffic is therefore likely to encourage the further growth of international telecommunications services in India and the resulting benefits to India's economy.

For these reasons, AT&T India supports the TRAI's proposal to abolish the ADC effective April 1,2008 and anticipates that the phase-out of ADC will provide significant benefits to users and carriers in India.

M/s Power Grid Coperation of India

No, we don't have a contrary view. We fully agree to TRAI's point of view of phasing out ADC completely from 1.4.08

M/s HCL
Yes IUC/ADC should be phased out w.e.f. 01.04.2008.

IUC/ADC should not be payable particularly by the ISPs who were permitted to offer IP-VPN services under their ISP Licence but later on they were asked to obtain NLD licence under the relaxed conditions and to migrate their IP-VPN services to the NLD licence thus obtained. Such NLDOs who are solely offering non-Voice traffic service such as IP-VPN, to their customers and not having any interconnectivity with the Networks of any other service providers for offering IP-VPN services, should not be liable to pay ADC in any form.

M/s Bharti

Bharti fully supports and welcome the phasing out of ADC regime with effect from 1st April 2008 and we are of the view that the decision of phasing out of ADC regime should not be revisited as:-

i. The decision of phasing out of ADC regime is in line with the policy envisaged while bringing ADC regime;

ii. The Hon'ble Authority has itself admitted that the ADC regime cannot be allowed to run to perpetuity otherwise tariff rebalancing would never take place;

iii. Internationally, ADC regime has always been introduced as a depleting regime, which is relevant for India as well

iv. The phasing out of ADC regime will enhance affordability of services.

Thus, we applaud the decision of phasing out of ADC regime with effect from 1st April 2008 and believe that all financial support for rural telecom services, if any, should now be made available through USOF only, which have adequate funds to support rural initiatives, to all eligible operators while maintaining the principle of transparency as well as level playing field.

M/s BT Telecom Ltd.

As highlighted in the consultation paper, a decision to phase out the ADC by 31.03.2008 has already been taken following a comprehensive consultation by TRAI vide its Regulation dated 23 Feb 2006. The decision of the Authority that ADC is a depleting regime and can not be continued in perpetuity has been well known to the industry and has been taken into account while preparing the business plans. Therefore, BT submits that there no justification for continuing the ADC regime which has already served its purpose.

Although not directly under consideration in this consultation, BT would also flag that to continue the ADC regime would have a negative impact on competition in the market and unduly favours incumbent operators. BT would like to mention in particular that the method of calculating Adjusted Gross Revenue (AGR) already favours those integrated operators who provide their own infrastructure over the new entrants in the NLD/ILD market who are dependent on procuring access from the existing integrated operators. This is because when an ILD or NLD operator procures input resources, the cost due to the revenue share for ADC (as well as the USO contribution) has already been incorporated into the selling price by the access provider. The ILD/NLD operator must then pay a revenue share on both the procured access services as well as any additional service – effectively paying revenue share twice on the same component. This makes it very difficult to compete for the new entrants on a cost perspective with the existing integrated operators who need to pay revenue share only once.

BSNL

ADC is an integral part of cost based IUC regime as prescribed in the IUC Regulations at the time of introduction of this concept. ADC, therefore, cannot be abolished in isolation. Our detailed comments in this regard, submitted hereinabove in the main letter , are reiterated. *(Include in general comments)*

M/s Tata Teleservices Limited and Tata Teleservices (Maharashtra) Limited

We agree with TRAI for phasing out ADC with effect from 1.4.2008.

- The ADC was introduced in 2003 for a clear purpose of tariff rebalancing which had to be achieved within a certain time frame work. The ADC by its characteristic is a depleting regime and cannot be continued in perpetuity.

- The ADC is highly inefficient mechanism for distribution of subsidies. It distorts market, puts unwanted burden on consumers, and creates arbitrage and thereby resulting in grey market for international calls.

- The ADC regime has already been depleted for the private fixed line operators and they do not receive any ADC. For BSNL, the Authority laid down a clear timeframe to phase out ADC w.e.f 1.4.2008. There has been no change /development in the Telecom Sector to justify any change in the declared policy and it, therefore, suggested that ADC should be phased out from 1.4.2008.

M/s VSNL

The ADC regime was put in place vide IUC Regulation dated 24th January, 2003 to compensate deficit in cost based rental for the Basic Services, free calls and below cost local call charges.(ref para 17 of Explanatory Memorandum of the IUC Regulation dated 24-01-03) giving adequate time for tariff rebalancing. The principle of annual review of the ADC regime was established in the IUC Regulation dated 29th October, 2003 and it was stipulated that ADC is a depleting regime which cannot be continued in perpetuity. ADC collection has dropped substantially from Rs.13,518 crores in 2002-03 to Rs.2,050 crores in 2007-08. We agree with TRAI proposal for operationalizing the phasing out ADC with effect from 1.4.2008.

M/s LIRNEasia

We agree with phasing out of the ADC. Our work on the subject in 2004-05 led us to advocate this same position by questioning if the ADC was merely 'a politically motivated tax on private operators to protect the incumbent, its employees and its copper-wire access network during a very long transition to competition.' 1 Today, in 2008, the need for the phasing out the ADC is much greater as there is no need for every new mobile customer getting connected to a network; who is more rural and less affluent, subsidizing a legacy wireline customer; who by virtue of having got connected early on is less rural and more affluent.

Kerala Consumers Service Society (Dr.T.Balachandran)

Operationalisation of the phasing out of ADC regulations from 01/04/08 is the need of the hour. A thorough reading of chapter 1 can easily convince anyone to agree with your decision. There cannot be a contrary view. Only BSNL will challenge this.

Consumer Unity & Trust Society (CUTS)

We agree with the Authority's view. Given the high growth in the subscriber base and existence of reasonable degree of competition among the all service providers including publicly owned (BSNL), ADC should be phased out and merged with Universal Service Obligation Fund (USOF) from 01.04.2008.

Shri Bharat Jyoti (Consumer Advocacy)

We agree with the view of TRAI to phase out ADC with effect from 01- 04-2008 ,as it was meant to give support to incumbent service provider BSNL for a limited period, to rebalance tariff and adjust to competition

Shri A.Govind Raj (Telecom & Technology Professional)

I agree.

Shri Keshawmurthy

I second the proposal to abolish ADC regime from 1.4.2008. The following are the benefits which I see from service providers and customers perspective

1) Pave the path for all international calls coming through legitimate route and thereby increase the revenue of service providers

2) Customers could be able to see the proper presentation of international numbers in their incoming clip

3) Removal of redundant instrument of service obligation levy

4) Make incumbents to increase the quality of service offered since their philanthropists are removed

5) Reduction of call charges if operators pass on the benefit to customers

M/s Upbhokta Sanrakshan & Kalyan Samiti

Basically IUC/ADC was developed for network in the bucolic areas and more importantly one that was focused on important social objectives through access charges are below cost in the telecom sector. This is best idea of TRAI to phasing out ADC w.e.f. 01.04.08, but it will be most effective if it preserve full interest of their customers through applicability of USOF. It can be affordable by the common man to promote both universal services and access.

Q2. Is there a case for providing support to BSNL from USOF for their fixed wireline operations in rural areas? If no, give reasons.

COAI

The ADC regime and the USOF regime were set up with different objectives in mind. While Universal Service Obligation Fund (USOF) was created through a statute to provide financial support for network expansion in rural and remote areas, the aim of Access Deficit Charge (ADC), was to compensate mainly the fixed line incumbent for rental/local call charges and any other below cost tariffs to make the basic telecom services affordable to the common man, especially in the rural areas.

The ADC regime has now been in place for the last five years and BSNL has received significant amount of funding, to the tune of Rs 12,700 crs, on account of the same. Further BSNL has also been granted ample time so as to rebalance its tariffs.

Moreover, it has to be kept in mind that Mobile services are now very affordable and are also very easily accessible. With low cost handsets and micro prepaid options, there are now no entry barriers and mobile has become a service for the masses. Within telecom, Mobile infrastructure has demonstrated itself to be the most conducive medium to rapidly deliver the benefits of connectivity to the rural areas.

Because Mobile networks are cheaper and easier to deploy, Mobile networks have overtaken Fixed networks in many countries, including India, and represent the maximum growth opportunity.

Similarly, in the case of India as well, going forward mobile would continue to dominate rural markets as the subscribers would continue to opt for wireless services over wire line. The private sector service providers are expanding coverage at a rapid pace and are increasingly reaching out to the rural areas. Consumers are also increasingly showing preference towards wireless because of prompt availability, portability, personalization and flexibility of use offered by wireless technology with respect to both voice and data communication. Therefore it is unlikely that wireline teledensity will increase in rural areas, despite availability of the same.

It is also pertinent to mention here that the benefits of broadband in rural areas can be delivered more efficiently and at a much faster rate through the wireless technology as compared to wireline technology. Also, cost of delivery of broadband through wireless is much lower than wireline technology.

Further, the Authority in its recommendations on growth of telecom services in rural areas (Oct 2005) had suggested that USO policy should shift from subsidy based on individual connections (DELs, VPTs etc.) towards a network infrastructure expansion approach.

Therefore, while considering support from the USOF, a technology neutral approach should be adopted which is equally beneficial for all service providers and encourages them to deploy newer and efficient technologies. In a technology neutral environment, there is no need to support any specific technology, particularly the wireline technology, which is more expensive and time consuming to set-up and maintain.

However, incase a need is felt for extending support to BSNL from the USOF, the same may be extended by way of a transparent mechanism wherein:

a. The amount of subsidy to be provided to BSNL should be decided transparently. Over the years the ADC funding has been gradually reduced and the same trend may be maintained with a sunset clause.
b. The funding should be available to all other service providers on equal terms in a non-discriminatory and transparent manner. Thus the aspect of level playing field vis-à-vis other operators must be kept in mind.
c. The funding should NOT provide incentives for incurring losses but should promote improved performance of service providers.
d. It must be ensured that there is no duplication of support between what BSNL is currently getting from USOF under various schemes and the subsidy support to be considered.

<u>AUSPI</u>

No. USO Fund is meant for meeting the requirement of all service providers in a non-discriminatory manner. Activities undertaken by USOF are made open to all service providers without any discrimination. Contribution to USOF is being provided by all service providers and any undue advantage given to BSNL at the cost of its competitors will distort the level playing field between competing service providers.

- BSNL is a profit making PSU which is already getting various supports from the government. BSNL is immensely cost rich company. As per BSNL's financial statements for 2006-07, the company had cash reserves amounting to Rs 37542 crores During previous financial year, BSNL made profit of Rs 7805 crores.

- BSNL has been getting financial support in form of ADC, License fee reimbursement, exemption from payment of entry fee etc. The Authority has estimated a financial support of Rs 32,000 crores app to BSNL since its inception. Additionally, BSNL has huge competitive advantage over its competitors as it does not pay ADC to other operators. This benefit has not been accounted in TRAI's estimate and if added the total support offered to BSNL would be around **Rs 46,000 crores.**

- Though BSNL received a financial support amounting to Rs 46,000 crores but it miserably failed to increase the rural wire line growth. Last year it registered a negative growth.

- Now there are number of new revenue streams available on wire line service including broadband, dial up internet, termination charges, other value added services like CLIP, leased lines, local lead for leased line. In case revenue from all these services is considered then it is unlikely that BSNL shall be incurring any loss. Also, if BSNL considers their willingness as a burden needing support, then the same can be considered to be unbundled by BSNL.

- BSNL is also a preferred service provider to implement government supported rural projects. It has been noted in the consultation paper that BSNL is implementing broadband services on 20000 lines using financial support given by DIT. Such supports have never been accounted by the Authority to assess profit/loss incurred by BSNL for rural telephony.

- The reimbursement of license fee was in nature of capital grant. The reimbursement of over Rs 9000 crores license fee is sufficient to setup around 4 million lines in rural areas. Since BSNL has already received capital grant for 4 million lines, the rental component on such lines should not be admissible to BSNL.

- **In view of our submissions above, we do not feel BSNL is incurring any loss on its wire line rural telephony projects. It is therefore suggested that no USOF support be recommended** unless it is transparently proved that BSNL is actually incurring any loss. While estimating loss, proper adjustments be made for all capital grants on account of reimbursement of license fee, USF etc.

- We also do not believe with the stipulation in para 2.4.6 of the consultation paper as it is contrary to open competition in the telecom market economy. It would amount to micromanage the market at the cost of competitive forces.

Therefore, AUSPI is of the view that BSNL should not be provided support from USOF for their fixed wire line operations in rural areas as this support like ADC would distort market conditions.

BPL

In our view there is no case for providing support to any specific operator like BSNL for their fixed line operations in rural areas. In a technology neutral regime envisaged as per the UASL and other licenses issued by the DoT, support should be provided for expansion of any network/technology and to all operators for encouraging expansion of telecom networks in the rural areas, in accordance with the objectives of USO Fund. In our opinion the Government has rightly amended the provision in the Indian Telegraph Act relating to USO Fund for providing support even to mobile infrastructure in these areas instead of limiting it to the fixed line networks only.

M/s Reliance

- BSNL’s financial statements for 2006-07 do not suggest in any manner that it is making any losses on account of access deficit. BSNL is immensely cash rich and as per its audited balance sheet it was maintaining Rs. 37542 crores as cash and bank balance as on 31.3.2007. Such a large amount of money lying in banks is more than networth of number of private telecom companies which are made to pay ADC to BSNL. The financial highlights for the year 2006-07 are given below:

- Profit after tax: Rs 7805 crores
- Cash and Bank Balance Rs 37452 Crores

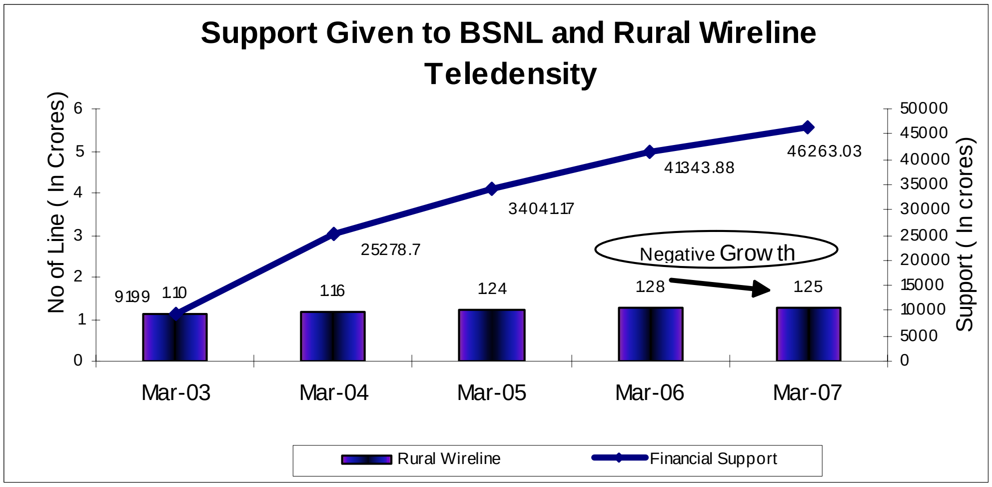
- BSNL has been getting financial support in form of ADC, License fee reimbursement, exemption from payment of entry fee etc. The Authority has estimated a financial support of Rs 32,000 crores app to BSNL since its inception. Additionally, BSNL has huge competitive advantage over its competitors as it does not pay ADC to other operators. This benefit has not been accounted in TRAI's estimate and if added the total support offered to BSNL would be around Rs 46,000 crores. An estimate of this support is given in the following table:

Particular	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Total
Revenue Receipts				Rs Crores				
Reimbursement of License Fee	-	2300	2300	2300	1765.9	582.96	-	**9249**
Reimbursements from USO	-	-	230.2	310.25	1117.07	1765.75	1719.15	**5142**
ADC from other operators	-	-		2298	2528	3304	2805	**10935**
Cost Savings								
Moratorium on payment of interest	543.75	1087.5	1087.5	1087.5	1087.5	-	-	**4894**
Exemption from payment of entry fee	-	-	1650	-	-	-	-	**1650**
Self generated ADC	-	-	-	10084	2264	1650	395	**14393**
							Total	**46263**

Not considered in Consultation Paper

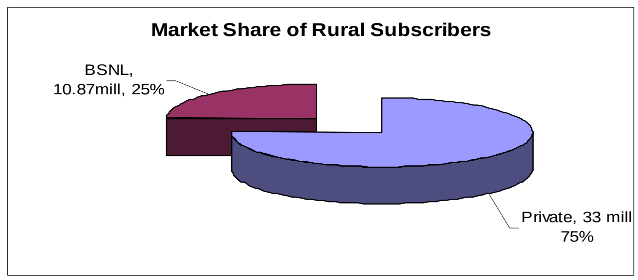
Source: TRAI Consultation Paper

- Notwithstanding massive financial support amounting to Rs 46263 Crores, BSNL has miserably failed in achieving any significant results. The financial support continuously increased but the rural wireline teledensity remained stagnant and in the previous year a negative growth was registered. The cumulative financial benefit accruing to BSNL vis-à-vis wireline rural teledensity is illustrated in the following chart:



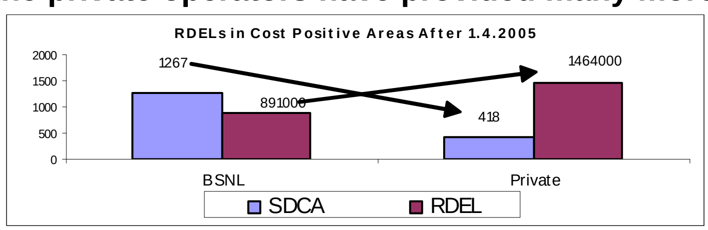
Source: TRAI Consultation Paper

- The general perception that BSNL is only provider of rural telephony is no more correct. Lately **private sector has contributed tremendously for growth of rural telephony.** What BSNL could not achieve with enormous financial support, the private sector achieved with only a fractional of that support. **Today almost 75% rural subscribes are being served by the private sector**.



Source: TRAI Consultation paper

- In the cost –positive SDCAs (1685) , **the private operators have provided many more lines then BSNL although they were allocated only 418 SDCAs against 1267 to the BSNL.** It is on record that private sector has offered to provide services even in SDCAs offered to the BSNL.



Source: TRAI Consultation paper

- Though BSNL maintains that it incurs losses for providing wireline services in rural areas but **it has never been proved on basis of any documents or records.** Therefore all its claims are based on unverifiable assumptions.

- The copper wireline network has number of **new revenue streams like broadband, dialup internet access, termination charge, STD/ISD calls, leased lines, local lead for leased line and other value added services.** In case revenue from these new revenue streams is added to the rural revenue then it is unlikely that there shall be any loss.

- BSNL is a **preferred operator for providing** rural telephony. It has obtained a huge contract from the Department of IT to deploy broadband through DSL over copper wires in 20,000 villages where fixed exchanges and fibre connectivity exists. The subsidy received from DIT and revenues it shall be getting from this project has never been accounted in its rural revenues.

- BSNL can generate additional revenue by unbundling its copper local loop but decided against doing that and continues to retain complete monopoly over wire line network. The copper local access network was rolled out over a significant period of time using public money and protected by exclusive rights and therefore is national asset. However BSNL continues to exploit it exclusively and claim subsidies and other governmental support to run this network. **The potential to bear notional loss of revenue by BSNL by not unbundling local loop also proves and establishes that it is not incurring any access deficit.**

- The Government over last 5 years has reimbursed license fee amounting to Rs 9248.86 crores. The Authority while estimating ADC treated such reimbursement as capital grant for providing additional DELs in rural areas (*refer para 30 of the IUC Regulation dated 29.10.2003*). As per the estimate 1 million lines could be provided using reimbursed Rs 2300 crore license fee. Going by this estimate the total reimbursed license fee can be used to setup over 4 million rural lines. Therefore, BSNL has already received capital expenditure for 1/3rd of its rural lines and does not have any claim to recover rentals on such lines.

- BSNL additionally received an ADC of Rs 10935 crores from other operators. The USO receipts of Rs 5142 crores and other financial benefits like moratorium on interest payment, self generated ADC, exemption from payment of Entry fee etc are sufficient to replicate BSNL's remaining copper network. Therefore, after receiving financial support from government, receipt of ADC from competitors and USF reimbursement, BSNL cannot claim any deficit on account of below cost rentals. Further, BSNL has largely depreciated its copper network using accelerated WDV method, there does not have any additional claim for rental over what has been provided in TTO'99.

- The Authority had estimated 23 paise per minute cost for wireline copper access networks. Considering an average holding time of 2 minutes, the rate of 80 paise prescribed for a local call for rural subscribers is sufficient to recover all operating costs.

- BSNL's is offering number of alternative rural tariff besides the regulated standard tariff package prescribed by the TRAI. Some tariff plans have rental component of Rs 2450 and such plans cannot be called below cost tariff.

- There does not seem to be any loss to BSNL for providing wireline rural telephony and therefore there is not justification for providing any additional support under USF. To correctly estimate ADC following information is needed:

  (i) Revenue: from rental, local calls, STD/ISD Calls, Termination of calls, Broadband, other value added services, revenues from Port Charges apportioned to wireline rural subscribers.

  (ii) Cost for providing services to wireline access rural network as adjusted for capital grants like reimbursements of license fee, USF reimbursements, ADC receipts etc.

(iii) Since there is no apparent loss, there does not seem to be a case for providing support from USOF to BSNL for its rural wireline operations. No recommendations on USO support may be considered unless loss is transparently established by the BSNL

M/s AT & T Global Network Services India Private Limited

In accordance with the TRAI's longstanding intent to transition the ADC regime to the universal service obligation fund program, AT&T India considers that future support for access to telecommunications networks should be provided through the Universal Service Obligation Fund (USOF) rather than through service-specific subsidies. The TRAI stated in February 2006 that "by March 2008, i.e., next two years time frame any lines in rural segment having justification for funding access networks will be required to be considered through USO and ADC will be phased out. TRAI further explained that "since this is a depleting regime, therefore, the earlier calculated value of ADC has to gradually come down so that it becomes zero in the year 2008-09 and if at that time the Authority feels that some support is required then that can be given from the universal service fund.

Reliance on the USOF is also necessary to "transition from a monopolistic environment, where cross-subsidization was possible, to a competitive business environment. It is widely agreed that universal service obligation funds are the appropriate mechanism to promote universal service and universal access in competitive telecommunications markets. Universal service obligation funds that comply with the requirements of the World Trade Organization Reference Paper and international best practice of being administered in a transparent, non-discriminatory and competitively neutral manner by treating all services alike provide necessary subsidies for universal service or universal access while avoiding competitive distortions and inefficiencies that impede the development of competition. The funding of the USOF follows this approach i.e., through a fixed percentage levy on the adjusted gross revenues which is a part of the licence fee percentage paid by all telecom service providers as per the terms and conditions of their respective licenses.

The Consultation Paper notes the continuing need for improved tele-density and rural broadband deployment in India and suggests that these concerns should in part be addressed outside the USOF by requiring mobile service providers to reduce entry charges for rural subscribers. AT&T India is concerned that such requirements would cause further inefficiencies and inequities that would be more likely to hinder than assist the further development of competition in India. Instead, the appropriate mechanism to address teledensity concerns without distorting the continued development of competition is the USOF, which is funded by all telecom service providers on an equitable and non-discriminatory basis. Support for the rural fixed wireline operations (addressed in Question 2 above) and for reduced entry-level charges for rural mobile subscribers (addressed in Question 4) should therefore be provided on a competitively-neutral basis though the USOF.

AT&T India also considers that in order to encourage the more timely and efficient expansion of services in rural areas the TRAI should place greater reliance on different funding approaches than the payment of subsidies to the incumbent operator. In particular, the TRAI should explore the use of reverse auction competitive bidding mechanisms to encourage more aggressive, cost-effective efforts to increase rural teledensity and ensure that USOF support is targeted to operators able to build infrastructure and provide services with the lowest amount of subsidy. The objective should be to identify the least-cost operator willing to provide particular services at required rates within particular geographic areas.

Under a properly-structured reverse auction, the geographic scope of each area should be the same for all bidders who will be telecom access service providers and winning bidders should be required to commit to serve the entire geographic area with a stipulated roll out coverage for the entire area. The subsidy out of the universal service obligation fund will be paid for a specified term that should be sufficient to allow recovery of costs. Thereafter the concerned operator will be running the operations without any subsidy support from the USOF. To encourage continued new market entry and competition, other operators serving the geographic areas subject to the bidding process (including the incumbent operator if it is not the successful bidder) should have no obligation to serve the entire geographic area. And incumbents should be subject to restrictions preventing them from using the reverse auction to increase existing subsidies. Auctions could be held separately for fixed wireline and mobile services or a single auction could be held on a technologically neutral basis not favoring either technology. A technologically neutral approach, allowing universal service to be met though either fixed wireline or mobile service, would best encourage innovation and ensure that support is targeted to the most efficient technology for serving each area.

AT&T India therefore considers that to avoid further competitive distortions and inefficiencies that may impede the development of competition, the TRAI should address continuing access and teledensity concerns in rural areas through the USOF and should consider the use of reverse auction bidding mechanisms to encourage the more rapid, cost-effective expansion of services in those areas.

M/s Power Grid Coperation of India

Yes there's case for providing support to BSNL from the USOF for their fixed wireline operations due to reluctance of other operators's to set up infrastructure in rural and remote areas considering these areas as un -lucrative for now. However, providing support to BSNL from the USOF for their fixed wire line operations from the USOF should not result into any increased burden on any of the Telecom licensees by way of any increase in the revenue share/license fee payable to DoT.

M/s HCL

NO. It is the duty /obligation of the Government to facilitate whole of the citizens of the country, with the essential services (interalia Communication/IT services) even at the cost of the Govt. without seeking/considering remunerations from such obligatory services. In view of this, BSNL being a Government of India Enterprise, there should be no need for providing support to BSNL from USOF for their fixed wire line, operations in rural areas.

M/s Bharti

1. Bharti welcomes any consideration of the Hon'ble Authority, which enables the

operators to provide telecom services in rural areas with subsidy support through USOF. Presently, all operators are contributing to USOF and thus, it is imperative that the opportunity of subsidy is equally made available to all telecom operators and a technology neutral approach is adopted. For achieving the national objectives, a technology, which has lower cost, faster deployment, greater flexibility and better reliability, will be a key to enhance rural teledensity.

Due to its distinctive benefits, the mobile services are now very affordable and are also very easily accessible. With low cost handsets and micro prepaid options, there are now no entry barriers and mobile has become a service for the masses. Within telecom, mobile infrastructure has demonstrated itself to be the most conducive medium to rapidly deliver the benefits of connectivity to the rural areas.

Because mobile networks are cheaper and easier to deploy, mobile networks have overtaken fixed networks in many countries, including India, and represent the maximum growth opportunity. Similarly, in the case of India as well, going forward mobile would continue to dominate rural markets as the subscribers would continue to opt for wireless services over wire line. The private service providers are expanding coverage at a rapid pace and are increasingly reaching out to the rural areas.

Thus, we are of the view that in a technology neutral approach, to supplement the rural proliferation of telecom services, all operators / technologies should be given support.

2. The available statistics indicates that even after taking various initiatives to increase the growth of broadband, the expected growth of broadband did not take place. In order to fuel the growth of Broadband in the country especially in rural areas, the Hon'ble Authority has recognized the importance of wireless technology, Some of the relevant extracts are as under:-

Consultation Paper on Allocation and pricing of spectrum for 3G services and Broadband Wireless Access – June 2007

*…….One of the reasons for slow progress could be that the focus of various service providers till now has been on Wired Broadband Access ……………. Amongst the various technologies …., **wireless has a great potential because of ease of its installation, operation & maintenance, flexibility for the service providers and convenience to the end users.***

*TRAI in its recommendations dated October 3, 2005 on "Growth of Telecom Services in Rural India –The way forward" had recognized the importance of wireless stating that ……. WiMAX systems are suited for the provision of Broadband access, especially in **remote & rural areas** in combination of WiFi systems.*

In the same paper, the Hon'ble Authority has also stated that "………….*almost the entire additions have been in urban areas and unless the mobile and wireless services penetrate in rural areas, this gap will widen. We have to adopt policies that make business case for rural connectivity. This is now possible due to reducing costs of wireless connectivity both **for telephony and broadband**.*

Thus, wireless based access is one of the ideal solutions for last mile connectivity through a combination of different technologies.

3. We have also noted that USO Fund administrator has already initiated discussions to provide broadband in all blocks. All options to provide broadband (DSL, cable, wireless etc.) are being considered.

Moreover, with USO fund assistance, 10000 towers are being established for provisioning of mobile services. Three service providers have already been identified to ride in 81 selected clusters to provide 2G services. These towers can be effectively utilized to provide broadband services **in 212304 villages, which will be covered in 1st scheme**. Moreover, the 2nd scheme of USO for providing the mobile services in **242866 villages** is also in public domain for discussions. Once both the schemes are implemented, the mobile operators will be able to cover **71% of total villages for voice as well as data services.**

Thus, we believe that once the wireless technology is fully exploited with adequate spectrum, it will enable the Government to achieve broadband targets. Even internationally, the countries such as Thiland, South Africa etc. have successfully exploited the wireless technology for broadband evolution.

Keeping in view that (i) the benefits of broadband in rural areas can be delivered more efficiently and at a much faster rate through the wireless technology as compared to wireline technology and (ii) the upcoming USO scheme for broadband services which will cover all types of technologies including DSL for subsidy support, a requirement of separate subsidy scheme for wireline alone with a consideration to boost broadband services, may not be appropriate.

4. The financial data given by the Hon'ble Authority in its Consultation Paper indicates that the total subsidy / financial assistance, which has been granted to the Incumbent Operator through various sources is Rs.31,870 crores. We believe that the massive grants, which have been extended to the Incumbent Operator, was to meet their rural commitments. The Consultation Paper also indicates that as on September 2007, the total rural wirelines of the Incumbent Operator is approx. 1.19 crores.

The said data gives an impression that an average subsidy / financial assistance, granted to the Incumbent Operator for each rural DELs, is approx. Rs.27,000.

As per our understanding, 2-3 years back, during an open USO bidding process, an average CAPEX cost quoted by the Incumbent Operator, on per rural DELs basis, was approx. Rs.9,000. In case, we consider the same amount to meet the OPEX expenses as well, the approx. cost of CAPEX and OPEX arrives around Rs.18,000 for each rural DELs.

In such a scenario where the average subsidy / financial assistance granted to the Incumbent Operator for each rural DELs is much more than the amount, which had been quoted by the Incumbent operator in an open USO bidding process, the Hon'ble Authority may like to consider that whether a requirement of further subsidy / financial assistance for existing rural DELs of the Incumbent Operator still arises?

5. Since the inception of USO regime, the USO has launched various schemes wherein the subsidy has been disbursed to operators for wireline technology. As per the USO agreement, the amount of subsidy is arrived after a transparent process and is only disbursed for a limited period say 5 or 7 years.

After this period, the operators are expected to run these connections as per their business model. Even, under the USO scheme, the financial support is not allowed to continue in perpetuity, as rightly observed by Hon'ble Authority that "any financial scheme should not provide for incurring losses but also promote improved performance of the service provider."

Under such circumstances where (i) the Incumbent Operators has been granted massive grants through various sources and (ii) the USO subsidy is also granted for a limited period; whether the subsidy support is still a need to run rural wireline services?

After considering the above, if the Hon'ble Authority feels that there is still a case to support the Incumbent Operator for running their rural wireline then the same may be extended with a transparent mechanism wherein:-

i. The amount of subsidy to be provided to Incumbent operator should be decided transparently. After inception of ADC regime, the amount of subsidy had always been gradually reduced. Since, the USO subsidy is being considered for the same rural wirelines (*which till date obtained the subsidy through ADC regime)*; we believe that the Hon'ble Authority will continue with the trend of reduction;

ii. Being a PSU, the Incumbent Operator gets various Government grants. Before quantifying the amount of subsidy, such grants should be taken into consideration.

iii. The funding should not provide incentives for incurring losses and thus, the sunset clause should be specified

iv. The Incumbent operator should not be allowed to offer the lower tariffs than the prescribed rural standard tariff in rural areas as well as in other areas for wireline services. This will ensure that the subsidy is not used as an incentive to drop the tariffs, which is below cost and other competitors cannot match.

v. There should not be any duplication of support between what BSNL is currently getting from USOF under various schemes and the subsidy support to be considered.

vi. The funding should be available to all other service providers on equal terms in a non-discriminatory and transparent manner

M/s BT Telecom Ltd.

Regarding providing support to BSNL from USOF for their fixed wire line operation it will depend whether they are mandated to provide such services below cost through some government or regulatory directive. In such case USOF is supposed to be utilized. In case there is a regulatory forbearance for wire line based rural tariff there is no need for such subsidy as the underlined cost can be recovered by the service provider. BT would highlight that there is going to be a large surplus (of the order of Rs.15,000 crore) in USOF at the end of March 2008[1] and hence there should be no problem for providing such support to BSNL in case it is required. Of course the rural wire line operations of all the service providers should be treated at par from the point of view of level playing field.

BSNL

BSNL needs Rs. 8774 crores per annum for sustaining the operation of its basic services in rural areas. The details in this regard have already been submitted to TRAI.

Even, in the urban areas, there is a need for payment of ADC for wireline services of BSNL. As per our calculations, there is a requirement of ADC amount of approximately Rs 14000 crores for the year 2008-09 for the wireline services of BSNL in urban and rural areas.

It is, further, submitted that this support should continue in the form of ADC as an integral part of cost based IUC as envisaged in the IUC framework prescribed by the TRAI. Our detailed comments in this regard, submitted hereinabove in the main letter, are reiterated. *(Include in general comments)*

M/s Tata Teleservices Limited and Tata Teleservices (Maharashtra) Limited

No. We see no reason for proving support to BSNL from USOF for their fixed wireline operations in rural areas. USO Fund is meant for meeting the requirement of all service providers in a non-discriminatory manner. Activities undertaken by USOF are designed keeping in mind the interest of all the service providers without any discrimination. All service providers are providing contribution to USOF and any undue advantage given to any individual Service Provider (BSNL) at the cost of its competitors will distort the level playing field between competing service providers.

It is also pertinent to note that:

- BSNL is a profit making PSU, which is already getting various supports from the government.
- BSNL has been getting financial support in form of ADC, License fee reimbursement, exemption from payment of entry fee etc.

- Now there are number of new revenue streams available on wireline service including broadband, dial up internet, termination charges, other value added services like CLIP, leased lines, local lead for leased line. In case revenue from all these services is considered then it is unlikely that BSNL shall be incurring any loss.

- BSNL can also unbundle the last mile for the other Service Providers and can generate a new revenue stream.

In view of the above, TTSL strongly submits that BSNL should not be provided support from USOF for their fixed wire line operations in rural areas; as this support, like ADC, would distort market conditions.

M/s VSNL

No. It is submitted that USO Fund is meant for meeting the requirement of all service providers in a non-discriminatory manner. Activities undertaken by USOF are designed keeping in mind the interest of all the service providers without any discrimination. All service providers are providing contribution to USOF and any undue advantage given to any individual Service Provider (BSNL) at the cost of its competitors will distort the level playing field between competing service providers. We would also like to submit that as a NLD service provider, VSNL is also rolling out its network in the rural areas without any subsidy/support.

It is also pertinent to point out that there are number of new revenue streams available on wireline service including broadband, dial up internet, termination charges, other value added services like CLIP, leased lines, local lead for leased line. In case revenue from all these services is considered then it is unlikely that BSNL shall be incurring any loss. Additionally, BSNL can leverage its last mile infrastructure by also unbundling the last mile for the other Service Providers and can generate a new revenue stream.

M/s LIRNEasia

The answer is No. The reason is three-fold. First, the market preference for rural connectivity, both on the supply side and demand side, is wireless; second, the ADC was time-bound until BSNL completed its transition and that has now been achieved; and third, TRAI should follow the market instead of conjecturing that rural broadband is reliant on wireline technology. Besides these specific reasons, subsidizing one among a number of players in a competitive market will most certainly distort the market.

These are explained below.

In our 2004-05 work on ADC we posed the question if inefficient technology of BSNL was being subsidized at the expense of cheaper and more efficient technology of its competitors. That question has now been answered in the affirmative at what seem to be at very high opportunity costs. The Consultation Paper notes that the number of rural wireline subscribers in India is actually declining and that they belong entirely to BSNL [99.9%]. The Paper reveals that, notwithstanding BSNL's favoured wireline position, private operators had aggressively pursued their wireless strategy over the last few years resulting in them obtaining three times as many rural wireless customers [33.1 million] as BSNL's total rural wireline customers [11.9m] as at September 2007. In fact, these numbers are not surprising. The supply-side of the business case behind these numbers was continuously being revealed by the fierce competition at the newly-improved USOF auctions to obtain the right to deploy in rural India. While the demand side of the business case was not publicly observed mobile service providers would have certainly been fully aware of the latent demand. For instance, a 2006 LIRNE*asia* study at the bottom of the pyramid [BOP] in India found that 37% of rural Indians [age 18-60] planned to purchase a telephone in the succeeding two years; 60% mobile phones and 40% [what according to the Consultation Paper would be wireless] fixed phones. The above scenario clearly points to the market preference for wireless operations in rural India. Therefore, in our opinion, TRAI should follow the market dynamics and facilitate further growth in services in rural India by removing whatever remaining obstacles on wireless technology instead of inhibiting its growth in an attempt to compel the use of wireline technology that obviously lacks a business case.

Throughout the last five years, TRAI continuously mentioned that the objective of ADC was 'not to make the incumbent perpetually dependent on support but allow them time for an adjustment during the period of transition from a monopolitistic environment'. Now the ADC is to be folded. Inherent in that decision is BSNL has completed its transition. If that is the case, the question of whether BSNL should continue to be 'supported' is irrelevant in the ADC discussion.

Finally, the Consultation Paper attempts to justify an almost exclusive link between wireline connections and broadband services in rural areas. It is our view that with rapidly advancing technological solutions that are already providing fairly good quality wireless broadband, the day that rural broadband will become yet another service offering by next generation wireless providers is not too far.3 In fact, it was none other than BSNL that recently announced the world's largest WiMax based wireless broadband service covering some 200 million people over three states.4 Thus, TRAI should take a technology neutral stand and let the market decide on most appropriate technology to meet the growing rural broadband demand.
Notwithstanding all of the above, the issue of subsidizing only BSNL in a market where number of service providers operate is a recipe for creating grave market distortions. Helping BSNL to artificially sustain its competitiveness in spite of its choice of technology that has been revealed by the market as being inappropriate along with its other internal inefficiencies will certainly reduce the allocative efficiency of resources, including the subsidy itself. Simply put the cost of each 'forced' wireline BSNL connection will continue to increase in terms of mobile connections not obtained; something that should be avoided, not encouraged, in present day rural India.

<u>Kerala Consumers Service Society (Dr.T.Balachandran)</u>

There is no case for providing support to BSNL from ADC/USO funds for their fixed wireline operations in the rural areas. It is regretted that the present incombent has miserably failed in utilising ADC funds for rebalancing its tariffs during the transition period. The ultimate result of entrusting the funds to BSNL will result in a monopolistic regime. This can easily be challenged as and when competition commission becomes operational. Even the services provided by BSNL is not satisfactory even in urban areas. The only way to bridge the communication divide between the rural and urban needs and entire country intergrated for effective functioning of Indian democracy, is to extend this task to a new public private partnership enterprise, which only can provide competition to benefit consumers. Also foreign direct investment can be thought of.

Consumer Unity & Trust Society (CUTS)

No. Liberalization of Indian telecom sector has witnessed intense competition leading to unprecedented growth of subscribers and reduction in tariff to a level, which is the lowest in the world. Having Access Deficit Charge in place in such a highly competitive market is not the right move as it is private operators who would be funding operations of the incumbent.

It is true as a result of introduction of ADC in year 2003; many of the rural consumers were able to have an access to the service. But at the same time, the quality of service provided by the fixed line operator (BSNL) was very poor. Consumers have suffered a lot and have remained without an option to change the operator.

In the present scenario, in most of the rural area, consumers are opting for mobile phones (wireless phones) because of lower rates and good quality of service. As a result teledensity has increased sharply from 1.86 in March 2006 to 7.03 in September, 2007. People in rural areas prefer mobile phones than landline. That is also reported by the Authority in this consultation paper *"It has also been noticed that wire-line connections in rural areas are decreasing despite support for new rural household lines through USO*" (page 25).

Consumers (rural as well as urban) expect reliable quality at affordable prices from the service providers. They are neutral to the technology opted (wire line or wireless) by service providers.

Hence, there is no rationality in continuing the financial support to BSNL or favoring the Wire Line Technology

Further, it is not necessary that subsidised service should be provided only by BSNL. On the basis of competitive bidding process this contract can be assigned to any of the existing operators.

Shri Bharat Jyoti (Consumer Advocacy)

Yes; the percentage share of rural wirelines(RDELs) of BSNL is 99.87% or practically all. Since BSNL suffers losses to maintain and operate these rural DELs, they should be given support from USOF for a period of 3 to 5 years.

Shri A.Govind Raj (Telecom & Technology Professional)

The impact of ADC so far is discussed in the following section.

Market Distortion

The past has been evidence to the fact ADC acted as a subsidy or a form of cess. It resulted in a grey market for international calls leading to deadweight loss. A service specific charge led to substitution effect in international calls leading to lesser realized revenues from ADC. Though it can not be proved through quantitative analysis ADC could have led to a) Other service providers opting for FMS – Fixed Mobile Substitution

b) It acted as a negative incentive for BSNL defeating the second purpose of allowing the incumbent to rebalance the tariffs. The following analysis reveals a few statistics

c) BSNL subsidizing its other operations using the money received from ADC. This would mean the non-BSNL service providers ended up funding competition.

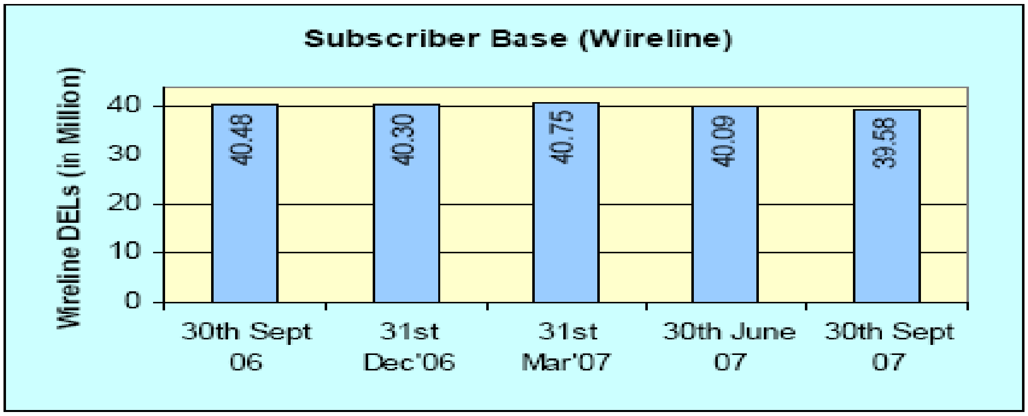
The initial principles behind the original ADC stood revised over period of time due to inherent limitations. The ADC factored in the historical costs, did not account for inefficient technological choices or suboptimal O&M costs by the incumbent. The table below shows that a q-o-q comparison of rural wireline subscriber base reveals an erosion of the base even in the case of BSNL (2.33% reduction)

Subscriber Base of Wireline Services

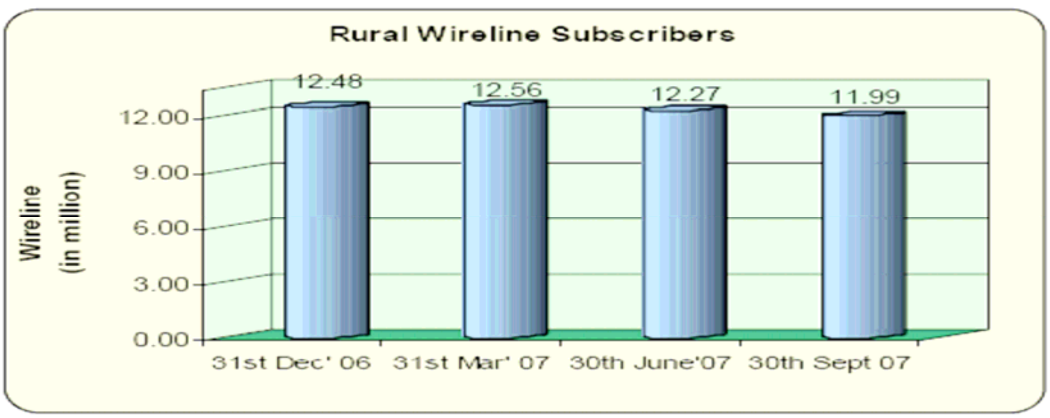
Sl.	FSO	Area of Operation	30th June 2007			30th September 2007		
			Urban	Rural	Total	Urban	Rural	Total
1	BSNL	All India	20654169	12258190	32912359	20253365	11972897	32226262
2	MTNL	Delhi & Mumbai	3669172	0	3669172	3627092	0	3627092
3	Bharti Airtel Ltd	Andhra Pradesh, Delhi, Gujarat, Haryana, Karnataka, Kerala, Kolkata, Madhya Pradesh, Maharashtra, Mumbai, Punjab, Rajasthan, Tamilnadu (included Chennai circle), UP-East, UP-West (including Uttaranchal) and West Bengal.	1972259	0	1972259	2075037	0	2075037
4	Tata Teleservices (Maharashtra) Ltd.	Maharashtra & Mumbai	314678	30	314708	338806	208	339014
5	Tata Teleservices Ltd	AP, TN, Chennai, Karnataka, Gujarat, Delhi, Bihar, Orissa, Rajasthan, Punjab, Haryana, Himachal Pradesh, Kerala, Madhya Pradesh, U.P. (E), U.P (W) including Uttaranchal, West Bengal and Kolkata	261083	0	261083	290154	0	290154
6	HFCL Infotel Ltd	Punjab	164058	0	164058	161439	0	161439
7	Shyam Telelink Ltd	Rajasthan	142079	13095	155174	143697	14384	158081
8	Reliance Communication Ltd	AP, Bihar, Delhi,Gujarat, Haryana, HP, KN, Kerala, MP, MH,Mumbai, Orissa, Punjab, Rajasthan,TN Chennai UP(E), UP(W), West Bengal, Kolkata	638947	287	639234	699593	458	700051
Grand Total			27816445	12271602	40088047	27589183	11987947	39577130

The emphasis in the consultation paper on fixed wireline as the service of choice for increasing rural teledensity is questionable. A look at the market statistics facts helps understand this better.

a) Decreasing wireline subscriber base and rural wireline subscriber base

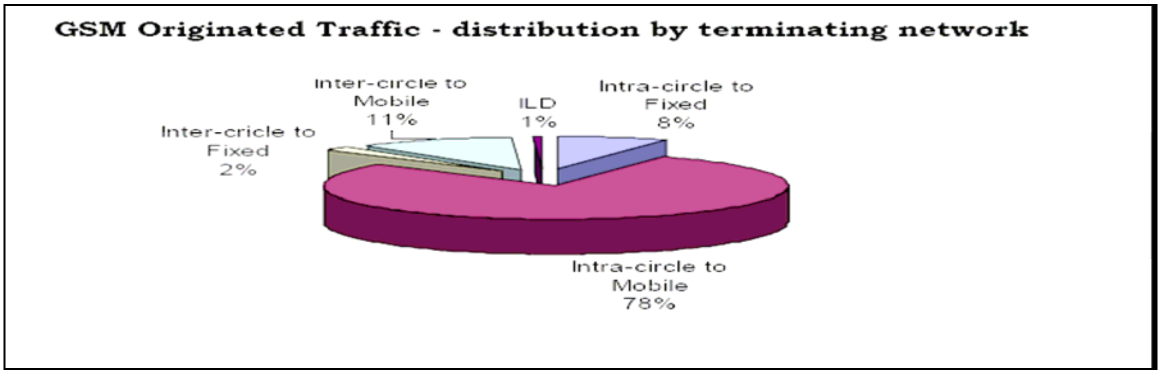


Declining wireline subscriber base (Source: TRAI report)

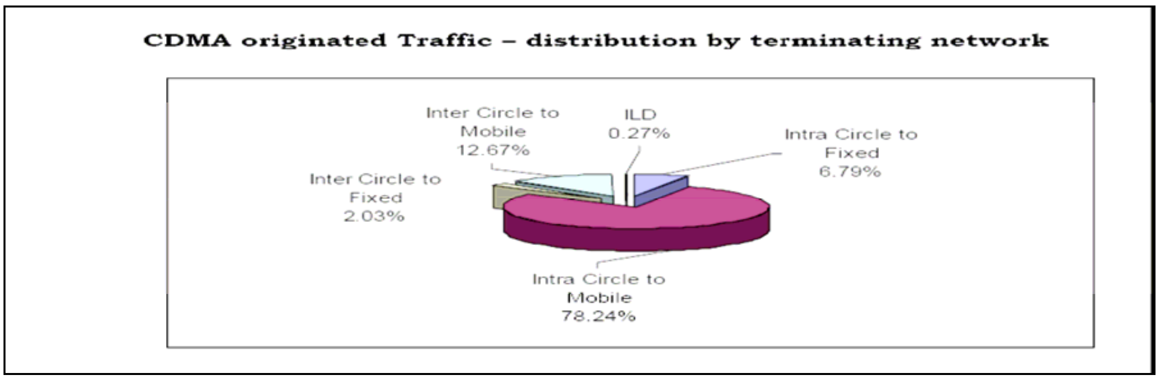


Source: TRAI report
Declining rural wireline subscriber base

b) Fixed Mobile Substitution
The growth figures of subscriber base is an indication that mobile is driving the Indian growth story. Though BSNL commands 81% of wireline (rural+urban) market share the growth has been declining q-o-q. Growth for wireline is only positive though insignificant for Bharti, Reliance and Tata/Hughes. The traffic patterns on mobile and fixed networks indicate the same.



Source: TRAI report



Source: TRAI report

From the above charts on network traffic it is clear that the terminating traffic on fixed networks is about 10% in case of GSM and 8.82% in case of CDMA. This is a pointer to trend of FMS.

c) Comments to few observations made in paper

"1) The number of wireline DELs is declining in rural areas and without appropriate subsidy there is a risk of further decline.

2) To increase teledensity and rural broadband; wireline connections need to be sustained and increased."

Action suggested in point no.1 is not advisable as the subsidies without any service obligations have not yielded the desired results. Point 2) is a forced conclusion while the trends are clearly pointing towards Mobile and wireless as the solution for increasing rural teledensity. It is in this context that the funds from USO should be service neutral. The choice of technology or service should be left to the service provider.

> ***"The situation is likely to further deteriorate when focus of USO shifts from RDEL to infrastructure. Support from USO fund for new RDEL has been extended for a period up to31.3.2008 at much reduced rate."***

There is no evidence to this effect that focus of USO on mobile infrastructure is not going to result in increase in teledensity.

d) Contribution of other service providers

The table of Rural subscriber base across operators shows that private operators are contributing significantly to the rural penetration and increase in teledensity through mobile services. The contribution of private operators to rural subscriber base is significant at about 75.3%.

Conclusion

The above arguments make the writer conclude that BSNL should not be funded for rural wireline services from USO. BSNL has been a beneficiary of both ADC and USO (table 2.2 and Annexure II). The performance so far based on the data made available in the paper with regard to rural DELs and wireline penetration is short of being dismal. Does this money ADC regime has failed to meet the objectives of i) allowing incumbent time and monies to stand up to competition and ii) increase rural teledensity?

Neither ADC nor USO fund towards wireline services acted as a positive incentive for any of the service providers. In this context the USO fund should be nondiscriminatory towards type of services and should lay down the service obligations in terms of penetration. The tariffs for rural services anyway have been regulated already. There is a strong case for supporting mobile infrastructure from USO funds there by increasing rural teledensity and meeting the overall objectives laid in NTP 99, relevant ones of which are recollected below.

- Make available affordable and effective communications for the citizens;
- Strive to provide a balance between the provision of universal service to all uncovered areas, including the rural areas, and the provision of high-level services capable of meeting the needs of the country's economy;
- Encourage development of telecommunication facilities in remote, hilly and tribal areas of the country.

There is no directive towards rural wireline as the service of choice in the policy.

<u>Shri Keshawmurthy</u>

NO.
To understand the reasons for my blunt "NO" we can traverse life of a rural farmer for a month and understand what are his requirements and needs from the telecom sector.

I would rate him as more versatile multitasking socializing mobile manager than any of the high profile city-dweller.

If we can break the activities of his monthly life, it could be enumerated as below.

1) Bill_Payments::

Electricity, Telephone, Cable and School fees of his children

Current Mode ::

Has to travel around minimum cumulative distance of 60 KM to accomplish all the activities. Time consumed depends on the queue at different locations.

Requirements ::

Mobile/Fixed broadband access with content in regional language. Some micro bank account to transact electronically.

Or

CSC which can do it for him by just collecting the money from him

2) Social Networking::

Attending marriages, funerals and functions of the fellow villagers/relatives who have almost spread over his entire revenue district and his neighboring districts

Current Mode ::

Has to travel around for about 100 KM /month with most of time not knowing the delay in the start of the function. Many times host were not able to remind all the guests a day before which may sometimes end up in non-attending which sometimes may ends up in broken relationship.

Requirements ::

An electronic scheduler preferably data stored in the network of the access provider so that it correctly intimates the users about the functions and delays thereof.

3) Buying Agro – Products ::

Buying seeds, fertilizers, fodders etc.,

Current Mode ::

Without knowledge of the prevailing rate across the district he would almost surrender to the price quoted by the local supplier/market.

Requirement::

Mobile/Fixed broadband information access to raw materials' price prevailing across the state in regional language. Mobile tool to compare and filter the markets based on location, price and availability.

4) Connecting with Rural Workforce::

Looking for efficient and cost effective workers for his field work. Looking and brining equipment handlers like tractor/truck owners, pesticide sprayers etc., on time to the field.

Current Mode ::

Most of the time farmer will not be able to remind his workers on the field day. It ends up in haphazard execution of his plan and waste of precious time.

Requiremets::

Cost of holding mobiles should be cheaper so that farmer can equip his work-force with mobiles and hence they can be reached on time.

5) Family Health-Care activities::

Typical rural family will minimum contain 2 senior citizens, 2 children in sub-immune age (between 0-5 years). Farmer has to buy appropriate medicine and take them to PHC(Primary health care center) in case of emergency. This may consume minimum 40 hrs of his monthly time and travel of about minimum 30 KM.

Requirements ::

Accessibility of doctors and assistants through mobile. Provide scheduling appointments through mobile internet for PHCs. e-prescription for follow-up medicine.

6) Selling Agri – Products ::

This has similar effect as case **3 but** in a reverse way.

7) Government related Works::

Getting birth certificate, death certificate, caste certificate, land transfer agreements etc., from government agencies for availing different concessions offered to him.

Current Mode ::

Has to travel to panchayat office, taluk office and collector office depending on the type of need. Minimum of 150 KM/month. Time consumed depends on bureaucracy of the respective state government agencies.

Requirements::

Complete e-governance and all certificates should be printed in CSCs.

8) Maintenance and Repair of transportation/agro-based vehicles::

Current Mode ::

Most of the time the farmer would have taken his vehicle for repair to be realized later that the repair shop is closed for the day.

Requirements ::

Reaching out to the repair centers and confirming the shop is opened before venturing out of his home. Mobile broadband access to know where to get the accessories required at better price if repairer suggest for updating accessory.

Above are the major activities and certainly not limited to what I've quoted. Every villager would have a bit different schedule than farmer depending on his work. But hard-working, multitasking, mobile and socializing will certainly form the core of characteristics.

If we look carefully we can understand the spine of rural broadband/mobile requirement.

1) Mobile

2) Regional Language
3) E-governance
4) Low cost handhelds for voice as well as broadband
5) Easy interface

Villager almost never stays at one place unlike fellow city-dweller (most stays either at their house or at their office place). Mobility is villager’s forte and we should support it and hence there’s absolutely no necessity to sustain rural fixed lines.

<u>M/s Upbhokta Sanrakshan & Kalyan Samiti</u>

Mostly 60% of total population of our country is living in rural and urban areas and they also poor. So it is important to give support to BSNL though USOF for wireline operations in rural and urban areas. Because the public of rural areas have minimum resources of their communication.

Q3. If the answer to Q2 is yes, suggest a suitable framework, specifying the details of implementation like amount of subsidy, period of support etc.

<u>COAI</u>
Same as (2) above.

<u>AUSPI</u>

In response to Q2 above, we have opined that BSNL should not be provided support from USOF for their fixed wire line operations in rural areas as this would distort market conditions.

<u>BPL</u>
Same as (2) above.

<u>M/s Reliance</u>
Same as (2) above.

<u>M/s AT & T Global Network Services India Private Limited</u>
Same as (2) above.

<u>M/s Power Grid Coperation of India</u>

May be developed in consultation with other Telecom operators as POWERGRID is not in the Business of Switched voice minutes for NLD/ ILD.

<u>M/s HCL</u>

No comment in view of our comments under question No.2 above.

<u>M/s Bharti</u>
Same as (2) above.

<u>M/s BT Telecom Ltd.</u>
It is felt that existing provisions of USOF for rural DELs as well as the methodology for arriving at the subsidy requirement are already appropriate and relevant and hence can also be used as benchmark for this purpose in case of need.

<u>BSNL</u>

Without prejudice to our submissions that ADC is an integral part of IUC and it cannot be subsumpted with USO Fund, BSNL needs an annual payment of Rs. 8774 crores for just sustaining its basic services in rural areas. If it is to be funded from USO Fund, necessary amendments in the USO policy will be required to be carried out by the Government and it has to be ensured that payments of requisite amounts on the actual cost basis start flowing from the USO Fund to the BSNL before the phasing out of ADC.

M/s Tata Teleservices Limited and Tata Teleservices (Maharashtra) Limited

In response to Q2 above, we have opined that BSNL should not be provided support from USOF for their fixed wire line operations in rural areas, as this would distort level playing field, & market conditions.

M/s VSNL

Not applicable in view of answer to Q2 above.

M/s LIRNEasia

Same as (2) above.

Kerala Consumers Service Society (Dr.T.Balachandran)

Answer is no.

Consumer Unity & Trust Society (CUTS)

Not Applicable

Shri Bharat Jyoti (Consumer Advocacy)

The support may be based on the basis of capital recovery, operational expenses and the revenue from R-DELs..There should also be capex and opex support to RDELs of BSNL in net cost negative SDCAs.The period of support may initially be fixed as 3 years from 01-04-2008;It could be extended for another 2 years after review.

Shri A.Govind Raj (Telecom & Technology Professional)

Not Applicable.

M/s Upbhokta Sanrakshan & Kalyan Samiti

A suitable framework to support BSNL from USOF is that which can be fulfill the requirement of BSNL and their subscribers. In the absence of any support sustainability of existing wireline operations of the incumbent and new addition of R-DEL in rural areas could be hinddred. This can be used through internet (broadband connectivity), Mobile services/WLL and house hold telephones on low cost and fulfill their needs. Amount of subsidies should be determined on the basis of percentage i.e. it should be 25% of rural public and 75% from subsidy because the people of rural areas are poor they can not afford maximum amount. This is basically a long term plan, so this system required at least 10 years for support to develop.

Q4. Should the Authority, consequent upon abolition of ADC, mandate reduction of entry-level charges applicable for mobile subscribers in rural areas? If yes, suggest a suitable framework for implementation. If no, give reasons.

COAI

- It is a well acknowledged fact that the level of competition in the mobile market in India is far more intense as compared to other parts of the world. The licenses in India were granted state-wise and there are 6 to 7 service providers who compete for the market share in every state. **The dynamics of market forces are driving the expansion of service and the growth of the sector.**

- The Mobile Telecom industry is the only sector in India which has witnessed a continuous decline in tariffs over the last 10 years. Thus the mobile telecom sector has continuously absorbed inflation. There is no other sector in India where tariffs have been continuously falling. As against this, all other sectors such as insurance, aviation, power, water, hotels, have witnessed a significant increase in end-user tariffs. The fact that **mobile tariffs** in India are the lowest in the world and are continuously declining has also been acknowledged by TRAI in its various Consultation Papers:

  "It is also widely accepted that the per minute tariff for cellular services in India is perhaps amongst the lowest in the world."

  - ***TRAI Consultation paper on Review of license terms and conditions and capping of number of access providers, June 2007***

- **It is also pertinent to keep in mind that the CAPEX and OPEX requirement for providing service in rural areas is very high.** Some of the reasons for the same are backhaul requirements, non-availability of continuous power supply etc.. Inspite of the **high cost of service delivery in the rural areas, the tariffs which are offered by the service providers are the same** for both rural and urban areas – and as stated above, these tariffs have been falling continuously.

- **Mandating lower entry level charges for rural areas may be a disincentive for the service providers to roll-out service in rural areas.**

- **Thus any reduction in entry-level charges is not required and the tariffs should continue to be determined by competition/ market forces.**

- Further, it is submitted that reduction of entry-level charges for mobile subscribers in rural and remote areas would lead to administrative/operational difficulties and there could also be a misuse of the same. There are chances that an individual buys a connection at lower rates from rural market and uses the same in semi-urban or urban areas within a service area. There is no way that a Service Provider or the Licensor or the Regulator can exercise control over such subscribers.

- In light of the above, it is prudent that tariffs should be left to market forces. **Hence, the policy of tariff forbearance, which has worked well in the telecom sector, should be applied.**

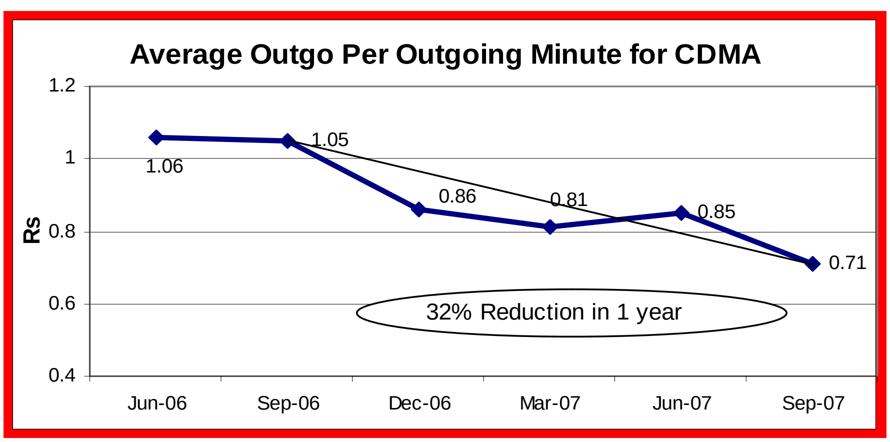
<u>AUSPI</u>

Consequent upon abolition of ADC, the Authority should not mandate any reduction of entry level charges applicable to mobile subscribers in rural areas rather, the Authority should facilitate competition through consumer friendly measures.

AUSPI suggests that forbearance in tariff should continue as there is fair competition in the market. It has been observed by the Authority that many of the private service providers are contributing a significant number of rural wireless subscribers.

Service providers are introducing tariff in a package format where one component of the tariff plan may be kept low and the other comparatively higher in order to achieve some balance. In this manner operators rationalize their offerings to the consumer. Therefore it may not be correct to analyse any single component like STD charges in a tariff package. Authority's analysis on tariffs is based on one particular component i.e STD, therefore we do not agree with the analysis.

The tariffs are consistently going down, especially local and intra-circle calls tariffs. It is evident from the "Average Outgo per minute" parameter given in the Authority's quarterly Performance Monitoring Reports that tariffs have consistently gone down and for CDMA services, these rates have come down by around 32% in one year which is illustrated in the following chart:



Rural wireless subscribers as on 30th September, 2007 are approximately 21% of total wireless subscribers. This situation will improve further and the digital divide will further reduce after the infrastructure being supported through USO gets fully exploited by the service providers. Mandating reduction of entry level charges will go against the policy of forbearance of tariff and open competition.

BPL

In a fully competitive environment which exists in India, the tariff should be left to the market forces and should not be mandated for any specific areas/class of subscribers. In case of mobile services, it will be practically impossible to have different tariffs for different areas in a circle. In case the Authority mandates lower tariff for rural areas either by way of entry cost or by way of lower rental/call charges, it is likely to be misused by the subscribers of the adjoining urban areas as they may buy new connections from the rural areas and use the same in urban areas.

Both the CAPEX as well as the OPEX for providing mobile/wireline services in rural areas with lower demand density, are considerably higher as compared to urban areas. The expansion of mobile networks in rural areas has so far been rather slow on account of genuine fears of the operators with regard to viability of providing services in these areas. That is why the USO Fund Administrator has decided to provide support for both passive and active mobile infrastructure for accelerating the growth of telecom services in the rural and remote areas. The operators while submitting their bids for support in response to the tender issued by the USO Fund Administrator, have taken into account certain tariffs which the market may bear in these areas. Any mandatory lower tariff/entry charges by the Authority now may upset the business case of the operators. This will be a great disincentive for the operators and may discourage them to roll out the services in these areas. This will, therefore, defeat the very objective of the Authority to accelerate the growth of telecom services in the rural and remote areas.

M/s Reliance

- Service providers are introducing tariff in a package format where one component of the tariff plan may be kept low and the other comparatively higher in order to achieve some balance. In this manner operators rationalize their offerings to the consumer. Therefore it may not be correct to analyse any single component like STD charges in a tariff package in isolation.

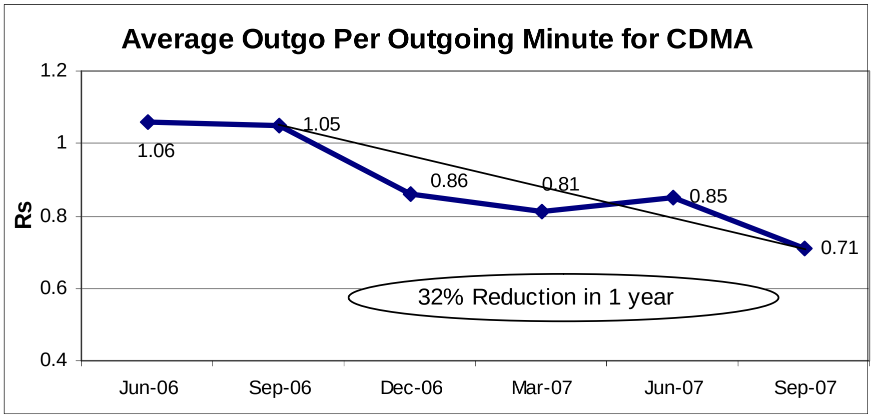
- The tariff offerings at a particular period of time depends upon the market dynamics. These decisions are taken by keeping in consideration the needs/ requirements of various segments like low income subscribers, high calling subscribers etc.

- An analysis of the Performance Indicator report for the Quarter Jul-Sept 07, the mobile originated Inter-circle minutes are only about 14% of the total outgoing minutes, 0.2% of minutes are only ISD minutes and remaining about 86% minutes are Intra circle and local minutes. Therefore, the STD/ILD tariffs are applicable only on a very small base of calling minutes.

- Earlier also there was a trend to keep the local and Intra circle call rates lower than the STD rates in the country. This was done to facilitate and encourage use of telecom resources as the common person's community of interest was confined to Local and Intra circle areas mainly. The cheaper local/intra circle calls promoted the usage and uptake of telecom services. Now that mobile services are becoming a substitute for Fixed line, the similar trend and demand is there for outgoing call from

Mobile as well. In case of Mobile originated calls, even intra circle call is charged as a local call only.

- The local and Intra-circle which constitute major portion of total calls are continuously going down. The trend of falling tariffs is also evident from the analysis carried out by the Authority in its performance monitoring reports. It may be seen that the total out go per minute has decreased by over 32% in last one year.



- Therefore we do not agree with the Authority that reduction in government levies/ADC has not been passed on to the subscribers. Service providers have consistently brought down tariff rates especially local and intra-circle call rates to make services more affordable.

- Our offering include products with Lifetime **Validity at just Rs 199 with special feature of all local calls at just 99p per minute. This plans would definitely increase affordability and provide a new benchmark for lowest entry level charges for cellular services.**

- Since marketing is largely competitive, we **<u>do not</u> suggest mandating reduction of entry-level charges applicable for mobile subscribers in rural areas.**

<u>M/s AT & T Global Network Services India Private Limited</u>
Same as (2) above.

<u>M/s Power Grid Coperation of India</u>
As POWERGRID is not in Business of Mobile telephony, we don’t have any comments to offer on this

<u>M/s HCL</u>
No Comments.

<u>M/s Bharti</u>

1. Bharti as a National Player is fully committed to play its significant role in the enhancement of rural teledensity. Bharti has aggressive plans to expand its telecom services as well as to create telecom infrastructure in rural areas.

2. The available statistics clearly state that the next growth of telecom services

will come from rural and semi-urban areas and all operators are working hard to arrest this untapped market. From time to time, innovative tariffs plans are being launched by all the operators to cater the low usage market. Moreover, the handset manufactures have also come out with low cost handsets.

3. We believe that any artificial restrictions on the operators in the name of rural areas may caution the operators to enter into rural market and / or to revisit their business plans, which may not be appropriate.

4. As the Hon'ble Authority is aware that the cost of providing a telecom service in rural areas is higher than the urban areas and thus, it would be more appropriate if suitable steps are taken to reduce the cost of providing the telecom service in rural areas, which will automatically be reflected in the tariffs.

5. We are also of the view that the reduction of entry-level charges for mobile subscribers in rural and remote areas would lead to administrative/operational difficulties and there could also be a misuse of the same. There are chances that an individual buys a connection at lower rates from rural market and uses the same in semi-urban or urban areas within a service area. There is no way that a Service Provider or the Licensor or the Regulator can exercise control over such subscribers.

6. If the Hon'ble Authority recall that when the operators requested for exclusion of revenue from mobile services in rural areas for ADC purpose, the Hon'ble Authority in its Notification no. 406-5-2005-FN dated March 10, 2006 stated that "*The definition of rural cellular subscriber based on the address may lead to confusion and uncertainty in the market as far as deduction of revenue from rural cellular subscribers is concerned*

Thus, we request the Hon'ble Authority that any reduction in entry-level charges may not be required and the tariffs should continue to be determined by competition/ market forces. The policy of tariff forbearance, which has worked well in the telecom sector, should continue.

M/s BT Telecom Ltd.

No comments.

BSNL

It may not be feasible to demarcate the urban and rural areas in case of wireless networks. The mobile subscribers may give an address of rural area while using the services in urban areas. Thus, any attempt to mandate reduction entry level charges for mobile subscribers in rural areas, may not result in any benefit to the actual rural customers.

M/s Tata Teleservices Limited and Tata Teleservices (Maharashtra) Limited

- Consequent upon abolition of ADC, the Authority should not mandate any reduction of entry-level charges applicable to mobile subscribers in rural areas rather, the Authority should facilitate competition through consumer friendly measures.

- TTSL also suggests that forbearance in tariff should continue, as there is fair competition in the market. It has been observed by the Authority also that many of the private service providers are contributing a significant number of rural wireless subscribers.

- The Authority may allocate USOF funds for constructing Towers, Shelters and other Infra-structure (active & passive) that can be shared by BSNL and Private Operators. Based on this provision, Service providers would deploy services on basis of common infra sharing, in turn that will reduce the initial cost of deployment. The Operators would be able to pass on the benefits to Subscribers by means of Reduced Rental and competitive Tariff plans.

M/s VSNL

It is observed that entry level charges for mobile customers are directly related to the level of competition. With more operators going in rural areas , it is felt that competition will take care of entry level charges. However, mandating reduction of entry level charges applicable for mobile subscribers in rural areas would spur growth of mobile services in rural areas and can be considered only in those cases wherever services are being provided in a particular rural area with subsidy support from USO Fund. For other cases where an operator is rolling out network on a commercial consideration, this should not be mandated as it would tantamount to regulation of tariffs in rural area for the mobile services and would be against the forbearance principle..

M/s LIRNEasia

No, in our view the TRAI should not interfere in pricing; instead it should perhaps expand the concept of tariff forbearance if at all possible. Our 2006-07 work on assessing the perceptions of telecom regulatory environment [TRE] in six emerging Asian countries found that India scored the highest in tariff regulation among all countries [3.5 out of a possible 5 for India, 2.6 for Pakistan, 2.9 for Indonesia, 2.9 for Sri Lanka and 2.9 for the Philippines]. It is well documented that this policy of forbearance significantly assisted the growth in the Indian mobile sector.

While the above environment is helpful in bringing down tariffs the problem of affordability is central to further expansion of the market which at the margin is more rural and less affluent. Our BOP research referred to above found that while over 90% of Indians [both BOP and above between the ages of 18-60] had used a phone in the 3 months preceding the survey only 9% actually owned a mobile phone; primarily due to affordability issues. Be that as it may, 37% of the BOP in India hoped to obtain a connection including a handset for under USD 25. Relevant in this finding however is that half of these aspiring owners were only able to afford less than USD 10.

It is therefore necessary to analyze what costs are involved in getting connected at the entry level? The Consultation Paper refers to activation charges, rental, call charges, SMS etc. But, India is predominantly a pre-paid market; our research shows the BOP to be 95% pre-paid. Thus, as per the Consultation Paper what are relevant in this case are only activation charges and an appropriate basket of services [calls, SMS etc.]. However, total cost of ownership [TCO] also includes cost of handset [to be depreciated over a period], taxes, duties and levies imposed by national, state and local governments. A recent study across 80 emerging markets by Nokia found India to be only second to Sri Lanka in TCO at under USD 5 per month using an OECD low-user basket.7 Another recent study by LIRNE*asia* using an adaptation of the OECD methodology but on an Indian low-user basket found that monthly usage cost based on the cheapest prepaid packages for the largest mobile operator was USD 6.35 and was slightly higher than Bangladesh, Sri Lanka and Pakistan. However it was found therein that activation charges [without refundable deposit] were among the lowest at USD 2.50. 8 Such findings provide evidence for the fact that India is among the most affordable in the world in terms TCO.

In this background it is not advisable to mandate a reduction in already very low entry level charges; which in fact would practically mean nothing but a drop in activation charges as call tariffs are anyway forborne with taxes and handset prices exogenous to the service provider. The fallout of such interference in the market by TRAI may overshadow any marginal gains that may arise from such action. It is most likely that competition will force service providers to pass on the maximum possible benefit from the removal of ADC to existing and new subscribers in terms of lower TCO leading to improved affordability at the entry level.

Notwithstanding the above it may be prudent for the authorities to take a re-look at the Government taxes, fees, levies etc pertaining to all cost elements involved in the use of mobile telephony, including handsets. Such an activity becomes important in the context of vast amount of funds collected through the Universal Service Fund primarily via mobile telephony [INR 201,180 million] is lying unspent in the Consolidated Fund of India [only 26.7% spent since 2003].

Kerala Consumers Service Society (Dr.T.Balachandran)

Yes, the authority, consequent upon abolision of ADC must mandate reduction of entry level charges applicable for mobile subscribers in rural areas. The objectives of below cost rural rental and low local charges within affordable limits can be met only through competition. With the expansion of broadband spectrum and 3G it will be wiser to opt for mobile phones in rural areas too. Abolision of ADC could pave the way to increase the revenue of service providers. This shall be utilised for the overall growth of telecom sector for rural areas by passing on this to the consumers in a visible and transparent manner. Prepaid plans can reduce activation charges and post paid plans can reduce entry level charges-registration, activation and security.

Consumer Unity & Trust Society (CUTS)

Yes, reduction in the connection charges (entry level charges) may be a better option for the rural consumers rather than remaining at the mercy of a monopolist such as BSNL.

Framework for implementation

In our view competition is the best way to reduce the entry fee as well as user charges in rural areas. Authority should ensure reasonable degree of competition in rural areas.

Presently, most of rural, especially remote, areas are not a part of the overall telecom market at the circle/national level. Because of high profitability, many of the operators have covered only cities and large size villages. This tendency of operators needs to be curbed.

TRAI should make it mandatory for all operators to ensure 100% coverage of the license area including remote area. Since, a licence is issued for the whole circle/zone, it is justified to ask them for full coverage.

When the networks of all operators are available in remote areas, consumers will have a choice to choose their service providers. At the same time 0perators will also find it profitable to increase their subscriber base in rural areas to exploit the market. As a result of competition, the tariff will come down to benefit the consumers in rural areas.

<u>This will also spur the growth of Internet Telephony in Rural Areas what Authority has desired.</u>

Shri Bharat Jyoti (Consumer Advocacy)

We agree with the views of the Authority; In order to make the service affordable, the Service providers may be mandated to reduce entry level charges. such as .registration, activation and security charges, which will go a long way in increasing the rural telephone density at a faster pace. But, in order to identify the bogus rural subscribers, the proof of identity and proof of residence has to be made compulsory.

Shri A.Govind Raj (Telecom & Technology Professional)

The market for rural services will turn into an competitive arena. In such situation the free market forces, laissez-faire, will result in price competition and thus drive adoption. Regulator should not interfere in controlling tariffs and plans. Once the case for choosing rural wireline as the service of choice is withdrawn the point about forced FMS by private service providers does not arise. The point about passing the benefits of withdrawal of ADC regime by service providers will definitely lead to a counter argument by BSNL. They could argue the loss of subsidy. The original objective was to give time for the incumbent to rebalance the tariffs and cope with competition. Withdrawal of ADC component from AGR for the other service providers should reduce the negative externality. The rural market will witness the price wars fought in the urban markets.

M/s Upbhokta Sanrakshan & Kalyan Samiti

No, it is not necessary mandate reduction of entry level charges applicable for mobile subscribers because this is the responsibility of every Indians to participate in National Saving through Entry Fees. So that our Govt. can use this fund in the interest of public without any extra burden.

Q5. Do you have any other proposal for making mobile services more affordable for rural subscribers?

<u>COAI</u>

- So as to reduce the **cost of delivery of services in rural areas, it is important to encourage infrastructure sharing.** Sharing of active and passive infrastructure should be encouraged and adequate thrust should be given to sharing of backhaul. **TRAI in its Recommendations to DoT on Infrastructure Sharing dated April 11, 2007** has made several important recommendations regarding sharing of both **active and passive infrastructure**. These **recommendations should be accepted by DoT and implemented at the earliest.**

- It is recognized that availability of continuous power is crucial for operation of telecom network. Non-availability of power substantially increases the cost of delivery of service. This is all the more relevant for rural and remote areas where there is little or no availability of power. Thus, it is imperative to **promote use of non-conventional sources of energy like solar-cell, bio-fuels etc, it is recommended that there should be full subsidy support USOF for use of these non-conventional sources of energy in telecom sites.**

- So as to reduce tariffs in rural areas for STD calls, more competition should be introduced in the long distance segment. Services in rural areas can be made more affordable when the private NLDO's are allowed to carry intra circle long distance calls on their network. Currently BSNL does not allow the private NLDOs to terminate the intra-circle traffic on its network, and as a result, Access Providers are not able to exercise the right to choose a private NLDO to handover such intra circle traffic which is meant for termination on BSNL's network. The **introduction of competition in the LDCA-SDCA segment** will result in a **reduction of Carriage Charge and hence would make the service more affordable.**

- In order to boost roll-out of services in rural and remote areas and to enhance affordability of services, enough incentives should be provided for Service providers. A framework may be developed to extend financial subsidy through USOF to the service providers who covers 70% to 75% of the development blocks/ DHQs within any service area. It is recommended that such **licensees should be required to pay a lower Universal Service Obligation Fund (USOF) fee as 3% of AGR as against existing 5% of AGR.**

<u>AUSPI</u>

❖ **For making mobile services more affordable to rural subscribers, AUSPI suggests the following.**

- Permission to share active infrastructure.
- Reduction of USOF contribution from the present level of 5% of AGR.

- Initiate measures to bring more competition in the rural segment.
- No continuance of ADC or any support from USOF to BSNL so as to have fair competition in the market.
- No revenue share licence fee for rural revenue.
- USO support required for rural mobile service including broadband as follows:

  - Early action for USO announced schemes like additional towers, infrastructure & services.
  - Provide USO scheme for OFC connectivity upto SDCCs.
  - OFC connectivity to rural BSCs and BTss from the nearest SDCCs/BHQs.
  - Setting up of Rural Pubic Broadband Office in rural areas.
  - Certain incentive measures for provision of wireless broadband services
  - Reduction in spectrum charges for rural areas.
  - Subsidy on content development
  - 100% subsidy to CPEs
  - Streamlining of Right of Way permission
  - Telecom satellite to cover in accessible remote and rural areas
  - Govt to promote usage of broadband facilities like e-Governance, e-Education, Telemedicine etc.

- The **R-DEL Scheme** should be **extended for another two year**s i.e till March 2010. This will help to extend the teledensity and at the same time **provide telephone service at affordable rates prescribed under TTO'99**. The same benefit of rural tariffs is not available under the USO supported infrastructure scheme. Therefore **R-DEL scheme and USO support for rural telecom infrastructure schemes are not overlapping** and should run parallely. The extension of scheme shall facilitate:

  - Faster rollout of telecom services in rural areas since the operators have reached a take-off stage and are in a position to roll out the services at faster pace;
  - Intended purpose of the USO scheme of increasing rural teledensity.
  - Fruitful and quick utilization of the available USO funds

- Main entry barrier is high customer premises equipment cost. TRAI may consider to recommend subsidy on FWPs for rural areas.

BPL

The mobile telecom services even in the urban area, are now primarily being subscribed by the lower strata of society. Therefore, in order to enable the operators to further lower the tariffs, which are even at present the cheapest in the world, it will be helpful if the Authority and the Government take appropriate steps to reduce taxes and levies being collected by the Government by way of License Fee, Spectrum Charges, Service Tax, Sales Tax etc amounting to a total of 25% to 30% of the gross revenue. In this context, it is disheartening to learn from the newspaper reports and the other sources that the DoT is considering to increase substantially the spectrum usages charges from the present level of 2-5 which itself is quite high as compared to other countries. The Authority should use its good offices and powers under the TRAI Act to discourage the Government from taking any such action which may result in increase in tariffs.

M/s Reliance

- The **R-DEL Scheme** should be **extended for another two year**s i.e. till March 2010. This will help to extend the teledensity and at the same time **provide telephone service at affordable rates as permitted under TTO'99**. The same benefit of rural tariffs is not available under the USO supported infrastructure scheme. Therefore **R-DEL scheme and USO support for rural telecom infrastructure schemes are not overlapping** and should run parallely. The extension of scheme shall facilitate:

    - Faster rollout of telecom services in rural areas since the operators have reached a take-off stage and are in a position to roll out the services at faster pace;
    - Intended purpose of the USO scheme of increasing rural teledensity.
    - Fruitful and quick utilization of the available USO funds
    - Faster settlement with USO Fund

- Permission to share active infrastructure.

- USO support for rural mobile service including broadband as follows:

    - Provide USO scheme for OFC connectivity upto SDCCs.
    - OFC connectivity to rural BSCs and BTSs from the nearest SDCCs/BHQs.
    - Reduction in spectrum charges for rural areas.
    - Telecom satellite to cover in accessible remote and rural areas
    - Subsidy for satellite bandwidth for connecting remote and inaccessible areas.
    - Non-conventional sources of power like solar cells.
    - Provide handset subsidy for fixed wireless terminal/fixed wireless phone in rural areas.

M/s AT & T Global Network Services India Private Limited

Same as (2) above.

M/s Power Grid Coperation of India

We feel for making mobile services more affordable to rural subscribers, Sharing of infrastructure between various service providers and also with the existing utilities such as POWERGRID, Other state electricity Boards and Railways etc. should be promoted by the Govt.

M/s HCL
No Comments.

M/s Bharti

In order to boost the telecom services in rural areas, from time to time, the Hon'ble Authority has made certain significant recommendations, which is yet to be accepted by the Government. We once again request the Hon'ble Authority to use its good office for implementation of the following significant recommendations as well as to bring more competition in those areas, where competition is still not available:-

1) **Pending Recommendations**

Recommendations on: "Review of License terms and conditions and capping of number of access providers"

A licensee who covers 75% of development blocks in any service area (excluding the four Metro service areas) should be eligible for a payment of Universal Service Obligation fee at a reduced scale. Such a licensee will be required to pay only 3% as against the existing level of 5%.

Recommendations on Growth of Broadband

Utilize USO fund to subsidize backhaul charges initially for a period of 3 years to support the broadband rollout efforts.

Recommendations on Infrastructure Sharing

In this paper, the Hon'ble Authority recommended that the subsidy support for erecting the tower should also be made available to service providers not beneficiary under USOF scheme to maintain level playing field.

2) Competition in the segment of "Termination of Intra-circle traffic"

Presently, there is no competition in the intra-circle segment and as a result, the Access Providers are constrained to handover such traffic to Incumbent Operator only. While, in order to bring more competition in this segment, in December 2005, the Department had allowed the NLDOs to terminate to terminate intra-circle traffic with the consent of **originating operator only**, however, till date, the private NLDOs are not allowed to terminate the intra-circle traffic on Incumbent's network.

We request the Hon'ble Authority to intervene and introduce the competition in the LDCA-SDCA segment, which will result in a reduction of carriage charge and would make the service more affordable.

M/s BT Telecom Ltd.

Although BT is not directly involved in the mobile market in India and as such, would make the following more general comments.

Firstly, BT would highlight that a key to reducing costs to consumers is to reduce costs for service providers. As is well known the total regulatory levies in India including contributions to USOF and ADC are among the highest in the world. This is an avoidable burden considering the USO fund has already accumulated a significant surplus which seems unlikely to be depleted in the near future. BT would suggest that there is a strong case for its downward reduction/ abolition as it forms a major part of annual license fee (revenue share). It is very likely that such a reduction would result in reduced costs to the consumer as a result of both the suppliers lowering their cost base and also because it will be beneficial for competition generally as effective competition has always demonstrated to have a direct impact on tariff reduction and hence improve the affordability to a great extent.

Secondly, BT would also submit that services based competition can reduce prices and improve customer services and innovation. The introduction of resale in mobile access through MVNO (Mobile Virtual Network Operator) concept could also have a positive impact on affordability of mobile services.. MVNO's enable competition in mobile access to be enhanced without putting a demand on scarce resources like spectrum which is already an area of concern in India. The entry of MVNO will result in enhanced competition and could lead to lower tariffs and better quality of service to the subscribers.

In summary, BT would submit that there is no case for continuing the ADC after 31.03.2008. Furthermore, in order to achieve the purpose of making telecommunication services more affordable, there is a strong justification for reduction of annual license fees especially the USO levy.

BSNL

In the mobile services, it is not possible to distinguish between a rural and urban subscriber as in the case of a wireline network. The termination charges of the mobile services may be prescribed as per their actual cost which is about 9 paise per minute at present. This will make mobile services cheaper.

Further, to really benefit the rural segment of the society, no termination charges should be payable by wireline subscribers of BSNL to other operators while making a call to latter's networks. This benefit can be transparently passed on to the rural customers and will help in rebalancing tariff to some extent and was existing prior to the IUC regime. It is pertinent to mention that more than 1/3rd of the BSNL's wireline customers are rural customers.

M/s Tata Teleservices Limited and Tata Teleservices (Maharashtra) Limited

- Schemes like Rural DELs **(R-DEL)**, which was quite successful in enhancing the telecom penetration in the rural areas, also should be offered for the mobile services as well.

- Along with passive infrastructure sharing which is already permitted, the Authority should also look at giving permissions for sharing of active elements for GSM / CDMA / WiMAX Technology; as this will further drive down the deployment costs for the operators.
- BSNL has good infrastructure in terms of space / power and transmission network in the rural areas, which should be allowed to be shared by other private operators.
- Exemption of revenue share license fee for rural revenue.
- BSNL should allow Local POI at LDCC TAX level for quick roll out.
- No continuance of ADC or any support from USOF to BSNL so as to have fair competition in the market.
- USOF should be used to develop Infrastructure – OFC ducts, MW Towers, Shelters, etc so as to utilize all Operators for penetration of Telecom in the remote and inaccessible areas of the country.
- Solar Energy equipment shall be subsided further to support reliable power supply requirements of the telecom equipment for mobile telephony.

M/s VSNL

We would believe that Carrier Access Code (CAC)/Carrier Pre-Selection (CPS), if implemented along with MNP as envisaged by the Regulator would certainly help both the rural as well as urban customers to make the long distance charges cheaper and affordable .

M/s LIRNEasia

TRAI and the Government of India can do more to sustain competitive conditions in the market. Two important areas for action could be in the allocation and faster disbursement of USO funds and in spectrum allocation. Our 2006 work on TRE referred earlier which saw stakeholders applauding tariff regulation in India saw it fit to position its universal service policy very low [1.9 of possible 5.0]. The anti-competitive nature of the design of the auctions that resulted in allocation of USO funds in the early period almost in entirety to BSNL was perhaps at the heart of the problem. However subsequent revisions to the design and eligibility are expected to change that perception. The introduction of USO funds for the establishment of passive infrastructure such as towers to be shared by access providers is a very positive step towards the reduction of wasteful expenditure in duplication of backbone and the obvious cost implications. Moving towards relaxing limits on sharing such passive infrastructure could perhaps help in making services even more affordable. The issue of slow allocation of USO funds has been earlier referred to. It is widely believed that if the allocation of the funds could be accelerated, the speed at which private operators could utilize the funds under the new criteria would improve and ultimately the problem of affordability in rural areas could be addressed sooner.

The other area for action is spectrum allocation, which could have been the reason for the low score of 2.2 out of a possible 5.0, received for the dimension titled ‘allocation of scarce resources’ in the TRE. A 2007 analysis by BDA framed the problem as follows “The purely administrative allocation of spectrum lacks procedural transparency and increases financial uncertainty for investors. Lack of spectrum is a real problem in India; most Indian GSM operators have exhausted their allocated spectrum well beyond benchmark levels, while CDMA operators are also close to reaching this point”.

Another area TRAI could consider is the second hand market for mobile handsets. Our BOP research earlier referred to found that only 28% of the Indian BOP purchased used mobile handsets as opposed to 40% in the Philippines, a much more penetrated market. We believe the creation of an efficient market for used handsets by minimizing the possibilities of transactions in stolen handsets could help to further reduce entry level TCO. This second-hand market could function independently at a lower price point but positively correlated with the falling prices of brand new entry level handsets entering the market.

Kerala Consumers Service Society (Dr.T.Balachandran)

Foreign direct investment and PPP along with spectrum availability with broadband at reduced charges can make mobile services more affordable for rural subscribers. We can conveniently forget FN landline services.

Consumer Unity & Trust Society (CUTS)

In our opinion, there is need to create awareness among rural consumers about the various tariff plans announced by operators from time to time. It will help them in making the service affordable.

Further, instead of providing direct and open ended subsidy or cross-subsidy to consumers, some sustainable system requires to be put in place. The Authority should seek some option within the existing market scenario rather than looking for an external support to ensure universal access.

For example, recently most of the operators have offered a life time plan to consumers paying charges in the range of Rs. 200 to Rs. 500 for getting a connection. Opting these plans, consumer will be able to get incoming calls without paying any additional rent over the life time (that is period of License).
Source: Daily News & Analysis
Web link: < http://www.dnaindia.com/report.asp?NewsID=1149159>

Since outgoing calls on such schemes are generally charged at higher rates, some steps should be taken to make the service affordable to the poor.

Authority may direct operators to offer a Basic Package of Outgoing Calls (BPOC) with these lifetime plans with minimum possible tariff in rural areas. This BPOC should include a reasonable number of outgoing call/minutes and SMS available per month to the subscribers at the lower rates.

The reasonable number of outgoing calls and rates for the same may be decided taking into account the capacity to pay and need of the target group. If the offer price declared by operators for this BPOC scheme is still too high preventing an access to service, support may be provided from the USOF to deserving consumers.

The rates for the calls above BPOC limit may be based on the market price or the cost of supply. It will help in promoting universal access without requiring the government or other consumers to pay for it.

Shri Bharat Jyoti (Consumer Advocacy)

There is a case for wider support from USOF ,for creating Telecom. Infrastructure i.e. Towers, installation of reliable media connecting rural BTSs to BSc/MSc of the service providers.

Shri A.Govind Raj (Telecom & Technology Professional)

The case for increasing rural teledensity and making communication services more affordable should be based on services such as mobile and wireless broadband (WiMax) rather than the wireline services. These technologies are more cost efficient and serve the purpose of NTP 99 to cover all terrains unlike wireline services. In fact the policy should be neutral to type of service and should let the free market operate through natural forces. The market is demonstrating innovation in rural mobile services. To quote example the rural information services launched by Reuters to empower farmer community and bridge the information asymmetry on crops, prices
& weather patterns. Other innovations include micro payment services, vernacular language messaging services, and money transfers. Operators too are evincing interest as the new subscriber addition will come from the rural areas. Reliance has announced a market contest for rural applications on mobiles. Even handset vendors have recognized the importance of innovation for rural consumers. Nokia based on its market research has incorporated certain pertinent features in handsets specifically customized for rural consumers. Rural infrastructure is the precondition for these innovations to succeed. Funding mobile infrastructure through USO should be the focus.

Shri Keshawmurthy

The following are my recommendations for the growth of rural broadband and teledensity.

The guiding principle should be **“Wired Backhaul and Wireless Last-Mile”**

1) Continue to support through USOF for building rural passive infrastructure
2) Give USOF support for operators who are ready for active infrastructure sharing in rural areas
3) Give USOF support for research/implementation of “software radio” or “cognitive radio” on rural passive infrastructure since it has potential to improve OPEX and spectrum efficiency by leap and bounds
4) Ensure 450 MHz band is auctioned and used in 3G implementation. It’s a key for unleashing rural broadband treasure with its ultimate low CAPEX requirement. Both mobile WiMax and CDMA can be deployed in this band.
5) Support CSC(Community Service Centres) through USOF
6) Prepare complete map of fiber optic network of the entire country(of all operators) and support the operators through USOF for sharing their fibers with competitors in rural areas
7) Synchronize different activities of different ministries/state governments of rural development programs to avoid wastage of cash-flow/time due to redundant works
8) Support regional language content in web(should be taken up by respective state governments on war footing)
9) Conduct rural mobile tool development competition yearly with USOF
10) Tax holiday for mobile/broadband related manufacturing units located in India
11) Support the information source (like meteorological departments, commodity exchanges, primary health centres, agricultural universities, forest departments etc.,) of rural importance with USOF for free distribution of information to all access providers.
12) Fix the upper-limit tariff for VAS subsidized in the previous case.

M/s Upbhokta Sanrakshan & Kalyan Samiti

Rural Subscribers want to remove the problems of networking. If the special scheme of lower price of their calls should be provided to rural subscribers that can be affordable on reasonable price with the help of extra minimum charges of Tariff. The rural subscribers can never mind if Govt. Charges Nominal as Extra Charges. So it necessary to provide satisfactory services to rural subscribers with the help of good networking.

General Comments

BPL Mobile Communications

We whole heartedly support the TRAI's proposal for phasing out the ADC w.e.f. 1.4.2008. When the ADC was introduced for the first time in 2003 by the Authority, it was clearly stated that this support to the incumbent will be provided for a limited period of 5 years so as to enable it to do tariff re-balancing and over come the loss in revenue on account of providing fixed line services below cost in rural and remote areas which was earlier being cross subsidized from NLD and ILD revenues.. The Authority has been reviewing the need for providing reduced support on account of ADC from time to time over the last 5 years and issuing necessary Regulations.

In a highly competitive environment that exists today in India for providing various telecom services, particularly the access services with 5 to 7 operators in each service area, there is absolutely no justification for cross subsidizing the incumbent any more by the other private operators either by way of ADC or by way of any special support from the USO Fund. In case it is considered necessary to provide incentive to the service providers for rolling out services in any specific area such as rural and remote areas, the support should be available to all operators across the board and not to the incumbent alone for any specific technology such as wireline. In a technology neutral regime, there is absolutely no justification in the regulator/licensor giving support to any specific technology to keep it alive. The Authority's line of reasoning for providing support to wireline networks in rural areas so as to promote Broadband penetration in these areas does not appear to be correct. It will be more expensive and difficult to maintain wireline Broadband connections in rural/remote areas. In our view Broadband Wireless Access (BWA) technologies will be more suited for such areas. Moreover, the demand for Broadband connections in rural areas over the next 5 years is not likely to be very high based on the rate of growth of Broadband for the last 3 years in the metro and urban areas.

The USO Fund has been created and is being administered in accordance with the provisions in the Indian Telegraph Act. As per the provisions in the statutes the fund can be used for supporting telecom networks expansion in rural and remote areas. The support is, therefore, being provided both for fixed wireline/Wireless as well as mobile infrastructure. The existing policy of support from USO Fund should be continued and there is no justification in extending any further support to the rural wireline DELS set up prior to 2002. The demand for new wireline connections both in rural and urban areas is going down. Because of the lower and affordable tariffs and better utility of mobile phones on account of their "Any Where Any Time Access", the wireline connections are being surrendered by the subscribers as is evident from the data given in the consultation paper. In fact the total number of wireline connections has actually gone down in the last 2/3 years in the rural areas.

Asia Pacific Carriers' Coalition (APCC)

The Asia Pacific Carriers' Coalition (APCC) welcomes the opportunity to respond to the TRAI's consultation on the Access Deficit Charge (ADC). It is an important issue for our members as it has a direct impact on competitive carriers.

The APCC is an industry association of global and regional telecommunications carriers operating in Asia Pacific, formed to work with governments, National Regulatory Authorities (NRAs) and consumers in promoting open market policies and best practice regulatory frameworks throughout the region that will support competition and encourage new and efficient investment in telecommunications market. This letter reflects the opinion of the majority of the APCC members.

As a number of the points raised in the consultation do not directly impact our members, we will limit our response to some general comments.

The APCC is very supportive of the TRAI's proposal to eliminate the ADC. The need for such a regime in India has passed and, like in other jurisdictions around the world, the ADC should be eliminated. As such, we welcome the TRAI's intention to phase out the ADC by 31 March 2008. As in other liberalizing telecommunications markets, an ADC regime is designed to provide some time for the relevant incumbents carriers to rebalance their tariffs but, due to inherent inefficiencies in an ADC regime, such a regime should only continue for a finite period. As highlighted in the consultation paper, it has been, for some time, the publicly stated intention of the TRAI to phase out the regime by March 2008. Any change to the deadline at this late stage would have a negative impact on the market in general and, in particular, on the business plans of competitive carriers.

The APCC however, would like to emphasize that the elimination of the ADC regime should not result in an even more excessive burden being place on competitive carriers through the Universal Service Obligation Fund. India currently has one of the highest USOF contribution schemes in the world and, APCC submits that this contribution percentage should be reduced over time, not increased. Although we agree that the objective of providing Universal Access is important and should be pursued, the USO fund currently has a high surplus of unspent funds which indicates that the current level of contribution is higher than that required to meet the objectives of the fund. Given the large growth in the telecoms market, brought about in part by recent liberalization, the USO fund will continue to grow. Furthermore, the recent tender for rural infrastructure and mobile service suggests that operators may not need funding from the USO Fund.

Furthermore, APCC believes that the current method of calculating AGR places new entrants at a competitive disadvantage with more established Indian operators. While operators relying on their own networks only have to pay the revenue share once, the services which competitive carriers buy in from other operations is subject to the USO revenue share twice – once when the service is sold from the network operator to the competitive carrier and again when the competitive carrier sells it to the end customer.

APCC therefore supports the TRAI proposal to eliminate the ADC regime by March 2008. The link between effective competition and reduced prices is long established. APCC also encourages the TRAI to consider the impact on new entrants of the USOF charges.

M/s AT & T Global Network Services India Private Limited

AT&T Global Network Services India Private Limited ("AT&T India") respectfully submits these comments on the Consultation Paper on Access Deficit Charge (ADC), dated January 21, 2008 ("Consultation Paper"). AT&T India is a wholly-owned subsidiary of AT&T Inc. ("AT&T") and is licensed to provide National Long Distance (NLD), International Long Distance (ILD) and Internet Service Provider (ISP) services in India. The company began providing NLD and ILD services in April 2007. AT&T, through its affiliates, is a leading U.S. provider of international private line and other business and consumer communications services on the U.S.-India route and exchanges large volumes of international telecommunications traffic with Indian carriers.

AT&T India welcomes the proposal by the TRAI to phase out the ADC program from April 1,2008 in accordance with the TRAI's long-stated objective of eliminating the ADC regime at this time and merging the ADC program with India's universal service obligation fund program. India is one of the world's most important telecommunications markets and has implemented major measures to expand competition and liberalization in recent years. As noted by the Consultation Paper, India's telecom sector "has become the centerpiece of Indian economic reforms. AT&T India supports TRAI's efforts to ensure the continued development of robust competition in the Indian telecommunications market and has a significant interest in this consultation proceeding on the ADC regime, which still continues to be funded in a large part by per minute charges on inbound international calls to India.

Although the ADC charges on inbound international calls have been reduced in recent years, these charges continue to raise India's international termination rates above the levels in other competitive markets, leading to higher price levels for international calling to India and encouraging "grey market" termination of those inbound calls. The phase-out of the ADC regime will remove the discrimination and inefficiencies caused by the ADC charges and will provide significant benefits to all sectors of the Indian economy that rely on reasonably priced international telecommunications services. AT&T India commends the TRAI for this important proposal, which will further assist the development of competitive telecommunications markets in India.

To avoid further competitive distortions and inefficiencies that may impede the development of competition in India, AT&T India considers that the TRAI should address continuing access and tele-density concerns in rural areas through the universal service obligation fund rather than through new subsidy obligations. AT&T

also suggests that the TRAI should explore the use of reverse auction bidding mechanisms to encourage the more rapid, cost-effective expansion of services in rural areas.

M/s Power Grid Coperation of India

Prima-facie, prior to commenting upon the Consultation Paper regarding phasing out of the ADC, we would like to comment upon the applicability of existing ADC to operators such as POWERGRID who are actually not in the business of carrying voice calls though possessing NLD License.

In this regard we would like to refer to our communications dated 2.7.2007,18.9.2007 and 19.11.07 to the Authority and regret to note that TRAI has not included/mentioned the points raised by us through stated communications in the Consultation paper brought out on ADC, though similar points would have also been made to TRAI by other NLD operators who were issued show cause notices along with us to pay ADC to BSNL though not actually carrying voice calls.

Nevertheless, we would take this opportunity to comment upon the applicability of the said ADC on POWERGRID and reiterate as under:

(1) POWERGRID is a Public Sector Undertaking and is essentially in the business of power transmission. POWERGRID also has optic fiber laid through out the country under IP-II licenses and was in the business of providing raw bandwidth to various Service Providers. Lately in the year 2006, when the conditions for NLD licenses were relaxed by the Govt. after which POWERGRID migrated to NLD license. However, the business of POWERGRID is primarily to supply of raw bandwidth to various Service Providers and retail customers.

(2) At this juncture, it is relevant to point out that POWERGRID till date is not caring any voice calls on its network and it only acting as an Infrastructure Provider to various Service Providers.

(3) In so far as ADC is concerned, it was developed as a concept by TRAI in order to recoup the deficit incurred by BSNL and other operators for providing below cost services in rural areas. Though BSNL as a Govt. Service Provider was always providing below cost services however, before opening of telecommunication sector to private sector, the deficit incurred by BSNL for providing below cost rural services was recouped by over cost NLD and ILD operations. Thus in other words, the NLD and ILD services provided by BSNL were over cost to subsidize below cost rural services provided by BSNL. This concept of ADC has in-fact been recognized and adopted by the authority in Interconnection Regulations dated 24.1.2003 which were subsequently amended on 29.10.2003.

(4) In regulations dated 29.10.2003, TRAI has defined interconnection Usage

charges which include Access Deficit Charge, meaning thereby that Access Deficit Charge is a component of Interconnection Usage Charges and is applicable only when there is an interconnection between two Service Providers. This is further born out of the fact that ADC till very recently i.e. till 1.3.2006 was applicable on actual interconnection and usage of network of Service Providers or in other words was based on number of calls and number of minutes of usage of the network. Meaning thereby that if a Service Provider has no usage of the network then that Service Provider need not pay ADC at all.

(5) On 23.2.2006, TRAI amended its IUC regulations wherein for the first time the concept of ADC on adjusted gross revenue (AGR) has been given effect to by TRAI. At the relevant point of time, POWERGRID only had IP-II license and was not falling in the category of NLD Service Provider and therefore did not have any objection to it and did not file its objections to ADC becoming applicable on the AGR.

(6) ***On 5.7.2006, POWERGRID migrated to an NLD license,*** however, its business was limited to providing raw bandwidth to various Service Providers and retail customers. Meaning thereby that POWERGRID was not carrying any voice data calls as a Service Provider on its network. Therefore, it was neither using and did not fall within the ambit of IUC charges.

(7) However, since other Service Provider who have taken bandwidth from POWERGRID for carriage of their traffic are liable to pay ADC for usage of the network of BSNL, there was never any occasion for POWERGRID to pay ADC again to BSNL.

(8) Further, we would like to add that since POWERGRID is not in the business of carriage of calls in its network, there was no ADC either retained by it or received by it from any operators and thus there was no occasion for POWERGRID to supply any information as contemplated in Regulation 5 (iv) of the IUC Regulations dated 29.10.2003 as amended on 23.2.2006. Nevertheless on enquiry made by the authority on 21.6.2007, we replied to the authority on 2.7.2007.

We once again reiterate our communications dated 2.7.2007 and 18.9.2007, wherein we have already communicated to you that we are not liable to pay any ADC amount to BSNL. However, as stated above, upon receipt of show cause notice dated Nov 7, 2007 from TRAI directing us to pay the ADC to BSNL ***we have, without prejudice to our right, made the payment of said ADC to BSNL vide our letter dated 16.11.07 addressed to Jt. DDG (Regulation).***

In view of the above, we feel that the authority will take reasonable stand during the Consultation process to exclude operators such as POWERGRID from the ambit of the ADC in case eventually ADC is carried on beyond 1.4.2008 in some form or the other.

We would also expect the Authority to provide us relief towards the ADC already paid by us to BSNL under direction of TRAI, though in actual terms we were never liable to pay the ADC on Domestic Leased Lines Business (Erstwhile IP-II) as stated beforehand.

M/s Verizon Communications India Private Limited

Verizon Communications India Private Limited (Verizon Business) welcomes the opportunity to provide input for this important consultation by the Telecom Regulatory Authority of India (TRAI) on Access Deficit Charge pursuant to its consultation Paper No. 2/2008 of January 21, 2008 (Consultation Paper).

Verizon Business commends the TRAI for taking another important step towards developing, implementing, and enforcing laws and regulations that provide new entrants the opportunity to compete on a fair and equitable basis in the telecommunications market in India.

In its Consultation Paper TRAI recommends that India abolish its Access Deficit Charge (ADC) by April 1, 2008 and establish in its place a Universal Services Obligation Fund (USOF) regime to support the improvement of telecommunications in rural areas.

Verizon Business fully supports action by TRAI to abolish the ADC. As Verizon Business, AT&T and other international telecom carriers have reiterated, India's ADC regime distorts commerce and traffic flows by artificially raising the cost of inbound international long-distance traffic. Elimination of the ADC will eliminate this inequitable and discriminatory impediment on international calling to India. The removal of this disproportionate and burdensome charge will provide significant benefits to all sectors of the Indian economy that rely on reasonably priced international telecommunications services. As the United States Trade Representative has repeatedly stated in its Section 1377 Report, this ADC regime is inconsistent with India's WTO Reference Paper commitment to administer universal service obligations in a transparent and nondiscriminatory manner.

To address the critical need to promote effective telecommunications services in rural areas of India, Verizon Business urges TRAI to carefully consider the replacement or merger of the ADC with an efficient and narrowly targeted Universal Services Obligation Fund (USOF) regime. In establishing this regime, TRAI should note the work of international organizations and experts in this area. A particularly helpful resource is a pair of Organization for Economic Co-operation and Development (OECD) reports prepared by Dr. Patrick Xavier, of Swinburne University in Australia. These reports include many examples from a wide range of economies around the world, including Chile, Columbia, Peru, Malaysia, and Uganda, in addition to the United States, Australia and Canada. Professor Xavier observes that, at a time of increasing competition and privatization, rapid technological change and convergence, it is important that universal service objectives be determined and achieved without distortions to competitive neutrality, not only among telecommunication operators but also between telecommunication and other communication suppliers. Arguments for an upgrade of universal service obligations (USOs) on behalf of uneconomic subscribers must be constrained by the need not to impose unreasonable costs on other telecommunication subscribers and create damaging uncertainty for operators and investors about the future scope of universal service. TRAI may also find the Telecommunications Regulation Handbook published by McCarthy Tétrault, a large telecommunications law firm in Canada, and the infoDEV program of The World Bank to be a practical reference source on methods used to address universal services issues.

In response to the specific concerns outlined in the Consultation Paper, Verizon Business believes that it is critically important that TRAI take the appropriate steps outlined below to ensure that the USOF it establishes is administered in a transparent, non-discriminatory and competitively-neutral manner.

Most importantly, TRAI should ensure that the methodology developed for the collection as well as the distribution of USOF funds avoids inefficiency and abuse of the system. In addition, TRAI should ensure that the fund is not implemented in a way that results in double taxation to any service provider. As a guide, TRAI may want to examine the excise tax approach adopted by the United States. TRAI should also consider the establishment of a fund administrator to conduct periodic reviews of the USOF mechanism in order to minimize fund surpluses and ensure that the rate of contribution is not disproportionately burdensome for any individual group of providers.

Lastly, Verizon Business recommends that TRAI not overlook the promise that other technologies might offer towards the realization of India's stated goal of promoting rural telephony. The Consultation Paper itself recognizes that the number of rural wireline customers has declined despite the universal support available, while rural wireless services are growing at a fast pace. Based on this trend, TRAI should consider devising a policy that is open to a wide range of technological alternatives, including fixed wireless. In this regard, TRAI should consider the use of auctions or competitive bidding process as an option for supporting the provision of service in rural areas. Should TRAI decide to choose this option, it would be important to ensure that this process is conducted in a transparent, non-discriminatory and competitively-neutral manner.

1) Universal Service Obligation Fund Collection Mechanism

According to the Consultation Paper, India's USOF is funded through a Universal Service Levy (USL) which is currently set at 5% of AGR of all Telecom Service Providers. Under this regime the USL operates as a multi-stage and cumulative tax. Operators relying on their own networks need only pay the USL once, while the services that operators buy from other operators are subject to the USL twice – once when they are sold from the first network owner to the second operator and then again when the second operator sells them to the end user. Thus, a telecom

operator who buys inputs from other licensed operators is placed at a competitive disadvantage with those who do not need to buy these inputs if the USL is levied at every sales point in the supply chain. In addition to creating this inequity, the USL may have the effect of frustrating the Consultation Paper's goal of reducing the sales price to consumers as a result of the elimination of the ADC.

Verizon Business urges TRAI to consider the adoption of one of the following two suggestions as part of its USOC regime to avoid this double taxation: the application of an excise tax or a value-added tax. Under an excise tax regime, the USOC applies only to transactions where the service is provided to an end user. Intermediate or wholesale transactions where the purchaser is another carrier are not counted. Under a value-added tax regime, all providers would contribute on the basis of all of their sales; however, each carrier would be able to deduct the value of any telecom services it has purchased.

Either of these two approaches would eliminate the double taxation problem; however, the excise tax approach is generally simpler to apply. In the United States, the Federal Communications Commission (FCC) has adopted the excise tax approach where each carrier reports only its retail sales to end users for purposes of USOF contribution. This system has been in place for about ten years and has worked well in the U.S. market.

2) Universal Service Obligation Fund Administration

According to the Consultation Paper, India's current USL has been set at 5% for a number of years. Under this rate of contribution, the amount of revenue collected by the USOF over the last few years has grown significantly. Currently, the fund shows a surplus.

In order to minimize fund surpluses and ensure that the rate of contribution is not disproportionately burdensome for any individual group of providers, TRAI should also consider the establishment of a fund administrator to conduct periodic reviews of its USOF mechanism. For example, in the United States, the USOF fund administrator, Universal Service Administrative Company (USAC), is required by the FCC to reset the contribution percentage each quarter, to ensure that what is collected from providers participating in the fund is no more than what is needed in each period. To achieve this, USAC uses a projection of fund disbursements and of the contribution base for the future period. Similarly, the OECD advocates the use of systematic monitoring and evaluation based on current and reliable data to ensure that targets are being achieved cost-effectively according to schedule. TRAI should consider the adoption of an audit procedure when determining its USOF contribution factor.

3) Efficiency of Universal Service Obligation Fund Expenditure

Finally, we suggest several ways in which efficiency of the expenditures from the fund can be enhanced: through the mechanism for awarding funds and the scope of services eligible for funds.

The Consultation Paper indicates that as the ADC is phased out and merged with USOF, support payments to providers of fixed line services in rural areas would continue under the USOF label. This raises the question of the mechanism for awarding funds for rural projects, and TRAI mentions the possible use of auctions or competitive bidding for awarding funds for such projects. Should TRAI decide to continue this support of rural fixed line providers, Verizon Business recommends the use of competitive bidding or auctions for these contracts to ensure that funds used for this purpose are structured as efficiently as possible and to minimize the burden on the fund.

India has already employed this approach in other aspects of universal service, most notably with respect to wireless service. This experience as well as examples from other countries could provide useful precedents for designing an appropriate auction methodology. Again, TRAI might find it useful to examine the work of the OECD and others in assessing the implementation of these auctions in Latin American countries. The OECD has found, as a general matter, that competitive auctions, properly designed, can generate incentives to contain costs, to innovate, and to reveal the true cost of delivering universal service thus minimizing the subsidy required. Further, the competitive bidding approach can reduce the arguments about the correct cost basis for setting subsidies as well as problems of identifying the cost of universal service.

The Consultation Paper also discusses the importance of maintaining copper infrastructure in rural areas as a basis for broadband delivery. At the same time, the Consultation Paper recognizes that the number of rural wireline customers has declined despite the universal support available, while rural wireless services are growing at a fast pace. With respect to the scope of services eligible for funding, we urge TRAI to devise a policy that is open to a wide range of different technological alternatives, including fixed wireless, as it is impossible to predict at this point which technology will be most efficient for providing broadband and other services in any given area in the future. Further, the possibility of inter-modal alternatives would also allow a broader range of entities to participate as potential bidders to supply service in rural areas.

M/s BT Telecom Ltd.

BT is grateful to TRAI for bringing out the consultation paper on implementing the phasing out of ADC with effect from 1.4. 2008. The matter is very important to BT Global Communications (BT) as a holder of NLD, ILD and ISP licences. BT's response to the specific questions raised in the consultation is set out below. BT is very supportive of the intention to phase out the ADC, however, we would, at the outset like to encourage the TRAI to ensure that the reduction in the ADC does not result in any additional burden for competitive operators through increased USO contribution.

Although BT is also supportive of increasing rural teledensity in India and believe that the USO Fund is an important tool to do so, as set out below, BT feels that the existing contribution mechanisms already place a high burden on operators, particularly those long distance operators who do not provide the access services through their own infrastructure.

M/s Pacnet

Pacnet, through its subsidiary Pacific Internet (India) Pvt. Limited is an Internet Service Provider in India, contributing to the Universal Service Obligation Fund (USOF) on all the value added services that it provides to customers in India. We are therefore concerned in the possibility that the Access Deficit Charge (ADC), whilst being phased out may be merged into the USOF.

Pacnet agrees with the TRAI's explanation in the consultation paper of the rationale behind the ADC, the reasons for phasing it out and the likely negative consequences if it were retained. The initial plan regarding the ADC was that it should provide support for the incumbent carrier whilst it rebalanced its tariff structure in order to remove cross-subsidies. TRAI maintains that sufficient time has been given for tariff rebalancing and that continuing the ADC at the same amount would result in rebalancing never taking place, thereby causing a continuing but avoidable burden on customers.

This leads to the conclusion that the ADC should be finally phased out. By merging an ADC element into the USOF there is a danger, however, that the negative effects of the ADC will be perpetuated. The ADC having done its job, Pacnet submits that the time is right for it to be removed, rather than continued in another guise.

There is an added danger if the ADC were perpetuated, as TRAI has indicated that it will no longer calculate what the amount of the ADC should be. If this were the case how would the level of ADC be decided? If it were left to BSNL to claim the amount it considers right, then BSNL would have every incentive to overstate the amount required, in order to maximize their level of subsidy. If TRAI were to conclude that rebalancing process is yet incomplete, and there is still a role for the ADC for the time being (which Pacnet submits is not the case), then the TRAI should review and determine the proper level of ADC, Pacnet submits.

It is well established that the most effective means to reduce telecommunications prices and encourage innovation is competition. Subsidies create distortions and therefore act to inhibit the proper functioning of a competitive market. The effect of retaining an ADC or similar subsidy, would be to perpetuate such distortions and impede competition, to the detriment of Indian telecommunications customers generally.

There also have to be serious doubts concerning the lack of profitability from

BSNL's rural customers. TRAI suggest that there are indications that BSNL is increasing its profitability amongst rural customers by offering them bundled products and services. These customers will also become more profitable as more and more customers are connected to the network and BSNL therefore benefits from network externalities. As profits from rural-area customers grow, the justification for an ADC or similar subsidy diminishes and disappears.

In its consultation paper, TRAI seems concerned that there is a decline in wireline growth or even a decline in the number of wireline customers. This should not necessarily be seen as a negative outcome, if this is caused by fixed to mobile substitution. Wireless may be the most effective means of rolling out basic voice services into rural areas cheaply and quickly. It can therefore be fairly argued that an ADC in favour of an incumbent wireline operator creates a market distortion, favouring wireline over wireless. Such a distortion would unfairly discriminate between competitive technologies and thus again works against the interest of the rural customers.

In conclusion, Pacnet supports TRAI's arguments for the phasing out of the ADC and endorses the view that there is no longer a sound policy rationale for continuing to provide this sort of support to the incumbent. India currently has once of the highest USOF contribution obligations in the world and so any measure that might lead to an increase, or even a continuation at the same level, would be a serious concern for competitive carriers. In view of the large surplus in the fund, it can be argued that the contributions are higher than is necessary to meet the objectives of the fund there is an argument that the level of contributions should be decreased.

Pacnet would also suggest that TRAI consider the way AGR is calculated. Competitive carriers not providing services on their own networks in effect have to pay the AGR twice. They have to pay once on the services they purchase from other network operators and once on the services they provide to their customers. This puts competitive carriers at a serious disadvantage to established network operators and significantly increases the financial burden on Indian customers.

Pacnet would be pleased to provide further comments to the TRAI, if required.

BSNL

Kindly refer to TRAI's Consultation paper on "Access Deficit Charges (ADC)" dated 21.01.2008 and its subsumption into Universal Service Obligation Fund (USOF). At the outset, we would like to submit that the consultation paper is not consistent with the original framework envisaged for the purposes and objectives of ADC in a cost based Interconnection Usages Charges(IUC) regime.

An impression has been created as if ADC regime is something different from IUC regime and the stand now taken in this paper - that the 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 - is completely contrary to the actual purposes of ADC and also contrary to the understanding expressed by TRAI at the time of introduction of cost based IUC regime in India in 2003 as is evident from the references and stipulations expressed in various Regulations/Orders and the Consultation papers issued by TRAI.

Also, references to the reimbursements / financial assistance provided by DoT to BSNL do not have any relevance to the payment of ADC which is a part of cost based interconnection usage charge regime (IUC) and not a out of way financial assistance to BSNL.

2.0 The comments of BSNL on various issues raised in this Consultation Paper are submitted as under:

2.1 Rebalancing of tariffs

2.1.1 The rebalancing of tariffs of basic services is neither desirable nor feasible at this stage due to the reasons of affordability and competition. **TRAI is aware and has recognized that cost based tariffs can not be implemented in basic services** as it will make them **unaffordable and non-competitive** vis-a-vis Cellular and WLL mobile services. It has also been recognized that **any increase in tariffs of basic services in rural areas** is not sustainable and will lead to surrender of telephones and thus further increase in the digital divide**. Recognizing this, TRAI continues to regulate the tariffs of basic services in rural areas even till date, which are far below the cost based tariffs.** BSNL is not able to implement even these tariffs due to social compulsions and continues to provide these basic services in rural areas at tariffs which are far below those prescribed by TRAI. Detailed submissions with respect to basic services in rural areas have been given separately in this letter.

2.1.2 The issue of affordability has been deliberated and recognized by TRAI in its Consultation Paper dated 23.09.2002 on tariffs of basic services. The relevant portions of this consultation paper are reproduced below which clearly indicates the above stipulations :

> *"2.4 While there is no denying that rebalancing of tariffs prepares the grounds for competition, **the adverse impact it is likely to have on affordability by ordinary/general subscribers cannot be overlooked**. In the final analysis the tariff structure has to sustain demand and help achieve higher tele density by making basic telephone service affordable. In view of this, TTO 1999 permits Alternative Tariff Packages (ATP) in addition to the mandatory Standard Tariff Package (STP). The mandatory STP protects the interest of subscribers, while ATPs allows operators to compete for the subscriber's differentiated needs, thereby ensuring that the benefits of competition are available to the subscribers, in the form of lower prices*

and/or better quality."

2.1.3 It has also been accepted in the IUC Regulations dated 24.01.2003 that basic telecom services need to be affordable to the common man. The deficit arising due to provisioning of such affordable tariffs below the actual cost based tariffs was prescribed to be compensated through the ADC. The relevant portions of the IUC regulations dated 24.01.2003 are reproduced as under:

> *"5.* ***The Access Deficit Charge (ADC) is assessed by fixing an affordable level for rental/ local call charges, special concessionary local call charges in the rural areas, provision of free calls****, and any other below cost tariffs that the Regulator may need to specify to make the Basic telecom services affordable to the common man to promote both Universal Service and Universal access as per NTP'99. These tariffs are specified in the Authority's Tariff Order being notified separately. In order to reach the final estimates of IUC this Regulation takes into account the requirements of Access Deficit Charge arising out of the Tariff Order being issued. For certain distance categories the Authority has specified a range for the IUC and expects the final IUC for these categories to be a spot within the given range which will be mutually negotiated among the service providers. The mutually negotiated and agreed amount of IUC has to be paid/ received for the relevant calls."*

2.1.4 The tariffs of basic wireline services can also not be rebalanced due to stiff competition of such services from wireless services where the cost of network is 1/3rd that of the wireline network. In addition, the wireless services have been given a very favourable regulatory environment. The spectrum to wireless operators, which is otherwise a scarce resource and very costly in other countries, has been provided free of cost in India. The cellular operators did not invest the required capital and used the spectrum very lavishly, which has now been recognized by TRAI and the Government and, accordingly, the spectrum allocation norms have been tightened. The cellular services, therefore, became very cheap as compared to the wireline services.

2.1.5 In addition to above, total flexibility has been provided to the private operators in terms of tariff forbearance, bundling of services, network rollouts and subscriber acquisitions. This has enabled them to provide very competitive tariffs in high revenue potential areas and for high revenue yielding customers. BSNL has no alternative but to reduce tariffs for its wireline services so as to retain its customer base and thus revenues. Any attempt to increase the tariff of the wireline services in urban areas, with a view to rebalance the same towards cost based tariffs, will lead to massive churn and will be counter productive. The common man in urban areas and all the customers of the rural areas will be adversely affected due to such increase in tariffs by BSNL. The tele-density, especially in rural areas, will be adversely affected thereby further increasing the digital divide. Such tariff rebalancing exercise could have been done only prior to opening of telecom sector for competition in India as has been followed in other countries. **At this stage it is absolutely not feasible to rebalance the tariffs**.

2.2 ADC is an integral part of IUC

2.2.1 The concept of ADC has been first introduced in the Reference Interconnect Offer (RIO) regulations issued by the TRAI on 12.07.2002 wherein the framework consistent with the licensing regime was prescribed for interconnection of networks of various service providers in a Multi-Operator scenario. These regulations were aimed at prescribing the broad guidelines for interconnection of various networks subject to mutual agreements. Procedure for arriving at the usages charges to be paid by one service provider based on the cost of network resources used was provided in these regulations. These regulations envisaged an item called Access Deficit Charge (ADC) to compensate the access providers. The relevant portion of these regulations is reproduced as below:

> ***"13. Charges for Originating, Terminating and Transit Traffic***
>
> *For arriving at the usage charges (IUC) payable by one service provider to the other, based on the cost of network resources used, the following principles may be followed:*
>
> *1.1 Unbundled element costs as a basis for the usage charge applicable to Origination, Transit and Termination. This needs to be worked out on Fully Allocated current Costs (FACC) basis. Once calculated these would be advised by the TRAI as benchmarks.*
>
> *1.2 Additional items may be specified by the Authority, such as an **access deficit charge to compensate the access provider, for costs the recovery of which is otherwise not provided for**."*

2.2.2 The consultation paper dated 23.09.2002 on tariffs for basic services further deliberated the concept of cost based IUC regime in a Multi-Operator Scenario and stated that **cost based IUC regime is urgently required to provide the revenue to basic operators** due to sharp decrease in the margins available to such operators due to competition in the long distance operations. The relevant portions of the consultation paper dated 23.09.2002 on tariffs for basic services are reproduced as under:

> *"2. The emerging multi-service multi-operator environment would require a renewed regulatory assessment in the context of both tariff & interconnection issues. All round and sustainable growth in a multi-operator environment would require a streamlined interconnect regime, based on cost based Interconnection Usage Charges (IUC). This*

becomes all the more critical when competition in the long distance call markets leads to sharp price declines and thus to precipitate larger reduction in the margins available for cross-subsidising the access deficit. The IUC regime provides an important source of revenue to the basic access providers and is a key part of the model Reference Interconnect Offer that has been notified by the TRAI."

2.2.3 It was clearly understood and TRAI had clearly accepted that the access deficit i.e. difference between the cost based tariffs and the affordable tariffs is required to be recovered through the Interconnection Usage Charges (IUC).The issues to be deliberated were the cost based tariffs and the extent of affordable tariffs. The relevant portions of the consultation paper dated 23.09.2002 are reproduced below:

3.5 For Fixed Line tariffs specifically for the so called Plain Ordinary Telephone Services (POTS), however, the objective of affordability is not easily overlooked. The principle governing these tariffs may, therefore, have to be different from that applicable to WLL (M). ***Nonetheless, even for Fixed Line, the starting point for determining tariffs is to ascertain the cost based tariffs for monthly rental and call charges, and then to determine whether these would be affordable****.* ***If the conclusion is that cost based tariffs are not affordable, the next step in the exercise would be to ascertain the tariff levels that should be put in place keeping in mind the concern of affordability. This would also give an indication of the extent of access cost deficit that would need to be covered from other revenue sources."***

"3.11 Once the cost based tariffs are derived and a view about the affordable level for local service (rental/local call charges) taken, a detailed exercise will need to be conducted for ensuring that the ***access deficit i.e., the difference between cost based tariff and the affordable tariff, is recovered from other revenue sources such as IUC which is part of long distance tariff****. If this is not done, the very purpose of keeping the rental low viz an increase in teledensity will be defeated. The presence of access deficit without an alternative source covering the cost element would then be a serious disincentive to the service providers and may hold them both from investing in the network or attracting more and more end customers."*

2.2.4 TRAI had further stated that the access deficit i.e. shortfall in rentals as well as any shortfall in the costs of providing calls are taken into account while determining the IUC to be paid to the access provider. The relevant portions of the consultation paper dated 23.09.2002 are reproduced below:

”3.33 Given that competitive pressures are likely to increase, the following points merit attention. One, there will be considerable pressure on prices on account of the introduction of Voice Over Internet Protocol and Internet Telephony. Two, the Authority has begun a process under which Interconnect Usage Charge will be agreed among the service providers in such a way that the surplus available with either the access provider or the national long distance operator will be more clearly identified than has been possible till now. It is important that some flexibility be retained in this process and that market interplay and competition be allowed to be reflected in the developments regarding these tariffs. ***It is noteworthy that the access deficit i.e. shortfall in rentals as well as any shortfall in the costs of providing calls are taken into account while determining the IUC to be paid to the access provider.***

5.2 Interconnection Usage Charges (IUC) are required to be paid by one operator to the other(s) involved in carrying a call for originating, terminating and carriage of traffic. The manner of their payment has been indicated in Article 13 and Schedule 6 to the model RIO. The usage charges payable for originating and terminating access will have to be derived taking into account the costs of the network elements from the subscriber station up to the Short Distance Charging Centre (SDCC). For recovering these costs, reliance is placed on the monthly rentals. ***However, when the rentals are below cost, there will be an access deficit cost i.e. the amount by which the rentals are below cost. This will need to be recovered from other sources."***

2.2.5 TRAI proposed to introduce cost based interconnection usage charge (IUC) regime so that all operators are compensated adequately for the costs incurred by them. BSNL and other stake holders agreed for the same as it was expected to compensate the operators as per their costs in a transparent manner. Accordingly, Interconnection Usages Charge (IUC) regime was introduced from 1st May’03. The IUC consisted of origination charges, termination charges, transit charges and Access Deficit Charges (ADC). Origination and Termination usage charges included Access Deficit Charge (ADC) payable to the Basic Service Operators which they must get in order to keep the rental as well as local calls affordable. The relevant portions of the IUC regulations dated 24.01.2003 are reproduced as under:

“1. With the opening up of the Telecom service market (Basic / Value Added) in 90s for private sector participation, the Authority notified its first Telecommunication Tariff Order in March 1999 and a Regulation on Interconnection Charge and Revenue Share in May 1999. Subsequent to these notifications, the National and International Long Distance markets have also been opened up to competition. These policy measures have resulted in significant reduction in long distance tariffs due to competitive pressures. This has drastically reduced the margin

available to fund the Access Deficit incurred by the Basic Service Operators due to rentals being significantly lower than actual costs. In a Multi-Operator environment, it is important to specify an IUC regime which gives greater certainty to the Inter-operator settlements and facilitates interconnection agreements. Thus, there is a need for specifying cost based Interconnection Usage Charges (IUC) for origination, transit and termination in a Multi-Operator environment. Origination and Termination usage charges include ***Access Deficit Charge (ADC) payable to the Basic Service Operators which they must get in order to keep the rental as well as local calls affordable****. The exercise to determine IUCs involved an assessment of the various cost items attributable to the different network elements involved in setting up of a call in a Multi-Operator environment. Every effort has been made to accurately assess the network element costs based on the inputs provided by various operators including the incumbent. ………………"*

2.2.6 TRAI has further stated in the above referred Regulations that Basic Service's tariff and Interconnect Usage Charges (IUC) are closely linked to each other. The relevant portions of these Regulations dated 24.01.2003 are reproduced as under:

"3. The Interconnection Usage Charges for Origination, Transit and Termination are also the underlying costs of carrying a call from the calling to the called party and are thus closely linked with determination of retail tariffs. The tariff re-balancing effected by the Authority was followed by intense competitive price declines in the long distance sector, which brought down the prices substantially. With the initiation of the IUC exercise, the Authority was also in a position to carry out its tariff review which has become essential in the new Multi-Operator Multi-Service telecom scenario which has emerged after opening up of all the segments of telecom service market such as Cellular, Basic and Long Distance. To discuss both ***Basic Service tariff and IUC, which are closely linked****, the Authority released its Consultation Paper No. 2002/3 dated 23rd September 2002. This paper dealt with tariffs for Basic Services as well as the IUC regime including Access Deficit Charge."*

2.2.7 The Tariff orders dated 24.01.2003 also recognizes that the IUC regime is not independent of the tariffs. The relevant portion of the said TTO amendment dated 24.01.2003 is reproduced below:

5. The ***IUC regime is not independent of tariffs****, because the amount of ADC to be covered from various calls depends inter alia on tariffs. Thus, in determining tariffs, the Authority had to consider the objective of affordability as well as not fixing too high an ADC which would* *become a handicap for the fixed line segment of the market in competing with cellular mobile and WLL-M.*

2.2.8 TRAI has also accepted that cost based charges can not be recovered from local calls of basic services and the uncovered amount of such calls has to be included in the ADC component of IUC. The relevant portion of Regulations dated 24.01.2003 is reproduced below.

> *"22. The issue of affordability is critical for local calls (POTS) as such calls provide essential means of communication within the local community of interest. It is therefore felt that a local call charge of Rs. 1.00 per minute would be too high in that context. The Authority has therefore not covered the entire ADC related cost from the local call charge. The amount that is not recovered from such calls has been included in the* ***ADC component of IUCs to be realised from the long distance (STD/ISD) retail tariff……………."***

2.2.9 Thus, it may be seen that when the concept of ADC was introduced, it was well recognized and accepted by TRAI and all other stake holders that it is an integral part of cost based IUC and cannot be viewed in isolation. BSNL had well established revenue sharing arrangements with all the operators for various call scenarios through which it was getting reasonably compensated for its costs. BSNL agreed to implement the cost based IUC regime only on this recognition that it will be fully compensated, in a transparent manner, for all of its costs including Access Deficit. In subsequent amendments of the IUC Regulations also, though TRAI has been indicating to provide ADC through USO funding, it has always recognized that there is an element of Access Deficit for which BSNL is required to be adequately compensated. TRAI has, in line with the international practices, always recognised that in a multi-operator scenario, all the operators need to be compensated according to their costs for an effective interconnection. **This includes the cost of access networks also.** If any such cost is taken out of the purview of IUC, it will be against the principle of the cost based IUC regime leading to the collapse of interconnection between the different operators. Further, this will tantamount to subsidizing the interconnection of other operators with BSNL at the cost of BSNL.

2.3 Subsumption of ADC into USO fund:

2.3.1 As far as the subsumption of ADC into USO Fund is concerned, it is submitted that purposes of ADC and Universal Service Obligation Fund (USOF) are entirely different to each other. As per the policy, USO fund is at present limited to remote and rural areas with greater focus on VPTs while ADC is to be provided for all the wireline connections being provided below the actual costs. The issue of funding of access deficits of basic operators from USOF was well considered by the Authority at the time of introduction of IUC regime and it was decided that, as per the purposes of USOF, **ADC can not be funded from USOF and both ADC and USOF are must.** Relevant portions of the consultation paper of TRAI dated 23.09.2002 on tariffs for basic services are reproduced as under:

> *"3.12 The alternative sources of revenue to meet the access deficit include local call charge, the NLD and ILD calls, an Interconnection Usage Charge (IUC) received by the access provider from the long distance service provider, and the revenue obtained from the USO Fund. There is a complementarity between the revenues provided by the USO Fund and from other sources of revenue in as much as an additional amount of these revenues (including IUC) would imply a lower amount USO funding required to cover a particular revenue deficit* ***. A noteworthy feature in this regard is also that the target of the USO fund is at present limited to remote and rural areas with greater focus on VPTs, while the access deficit arises in the case of DEL's in general i.e. even in urban SDCAs, because of rentals being less than the level computed by cost based methodology****. Therefore, sources of revenue other than the USO fund will have to be found to meet the access deficit for the basic service operator in general. In Chapter 5, this paper provides a calculation of average estimates of IUC including access deficit that have been prepared by the Authority. It must always be kept in view that any change in the tariff structure will have a bearing on the IUC."*

2.3.2 The above has also been accepted by TRAI in its TTO amendment dated 24.01.2003, relevant portion whereof is reproduced below:

> *"9. To the extent that the Authority provides ADC to the service provider, the requirement for USO will be minimized.* ***The USO will, however, still be required because while the ADC will cover the costs for SDCAs with average costs, there will be SDCAs with higher costs whose costs will individually not be covered by the ADC payments****. It is nonetheless expected that with an increased size of the network, the overall cost and the USO requirements will fall over time."*

2.3.3 Without Prejudice to above, it is submitted that in case Authority proposes to fund the access deficits of wireline operators from the USO Fund, necessary amendment in the USO policy will be required to be carried out for which DoT has not made any reference to TRAI till date. The Authority may give suo-moto recommendations for the consideration of the Government after due consultation in this regard in accordance with the framework prescribed in the TRAI Act. ADC can be phased out only after Government accepts such recommendation of TRAI, if made, the USO policy is amended accordingly and necessary amounts start flowing to BSNL from the USO Fund. Till then, ADC can not be phased out.

2.4 Implicit subsidy to wireless operators

2.4.1 As per Authority's own calculations, the cost of wireless networks is less than 1/3rd of the cost of wireline networks. Accordingly, the cost of termination of a call in wireless networks should also be 1/3rd of wireline network. However, TRAI has prescribed same termination charges of Rs. 0.30 per minute for both wireless as well as wireline networks in its Regulations. If the cost of wireless network is 1/3rd of the cost of fixed network, then the cost based termination charges for wireless services should have been prescribed as Rs.0.10 per minute only.

2.4.2 The uniform termination charges have led to the undue enrichment to Cellular and WLL(M) operators. It is an undue advantage being given to the Cellular/ Wireless service operators to the disadvantage of BSNL. If calculated, TRAI may find that it is more than Rs. 7000-8000 crores per annum**. It is beyond comprehension as to why such huge undue advantage** has been given to the cellular and WLL(M) operators. Are they providing any below cost services and need compensation ? **Is it not a form of ADC ?**

The plea given for this undue enrichment by the Authority that this additional amount will help cellular operators expand their business and improve quality of service, is totally unjustified and contrary to the cost based IUC regime.

2.4.3 Authority may kindly note that provisioning of such implicit subsidy in the form of higher than the cost based termination charges is against the laid down principles of the cost based IUC regime. **This favourable regulatory advantage** of higher termination charges to the cellular operators is enabling them to provide lower tariffs thereby causing churn of BSNL's customers and traffic and leaving no scope for any rebalancing of the tariffs by BSNL.

2.5 Revenue Sharing arrangements prior to the IUC regime

2.5.1 Prior to IUC regime, BSNL had entered into revenue sharing arrangements with private operators as per the terms and conditions of the Licences granted to them which were also accepted by TRAI and prescribed in its various regulations. These revenue sharing arrangements were reasonably compensating BSNL for the cost of its various networks. As per these arrangements, wireless operators (WLL as well as mobile operators) were required to pass through their 95% i.e. Rs 1.14 per Metered Call Unit (MCU), revenues while making a call to the subscribers of fixed line operators as per the terms and conditions of their license. Further, fixed line operators were not required to pay any charges to mobile operators while making a call from former's network to latter’s network. Relevant portions of the Telecommunication Interconnect (Charges and revenue share) Regulations dated 14.12.2001 are reproduced below:

SCHEDULE I
INTERCONNECTION CHARGE AND REVENUE SHARING

ITEM	***REVENUE SHARING FOR BASIC SERVICES***
(1) Date of Implementation	*BY 31ST JANUARY, 2002*
(2) Coverage	*Calls originating in a basic service provider's network and transmitted through or terminated in another basic service provider's network.*
(3) Local calls	*Bill and keep for each service provider.*
(4) Domestic long distance calls (STD calls) in Basic Service	*The originating/transit service provider to pay Rs. 0.48 per unit of measured call for traffic delivered from its network to the network of the transit/terminating service provider for the call units measured at the point of interconnection for its further carriage from the point of interconnection to destination, based on the STD pulse rate.*
(4.A) Domestic long distance calls (STD calls) in Wire less in Local Loop with limited mobility	*The originating service provider to pay* ***Rs. 1.14 per unit of measured call*** *for traffic delivered from its network to the network of the transit service provider for the call units measured at the point of interconnection for its further carriage from the point of interconnection to destination, based on the STD pulse rate.* *Provided no such charge either in (4) or (4.A) above shall be payable if the point of interconnection is at the destination Short Distance Charging Area (SDCA) and also provided that no such charge will be payable if the terminating service provider requests that the call be handed over by the originating/transit service provider at an SDCA other than the destination SDCA.*
(5) International calls in Basic Service	*The originating service provider to pay Rs. 0.66 per unit measured call to the transit service provider as may be applicable, for the call units to be measured at the point of interconnection.*

(5.A) International calls in Wire Less In Local Loop with limited mobility [WLL(M)]	*The originating service provider to pay* ***Rs. 1.14 per unit measured call to*** *the transit service provider as may be applicable, for the call units to be measured at the point of interconnection.*
	Notes:(a) "Local calls" are calls which originate from subscribers of a service provider's network/exchange system in a SDCA and terminate either (i) within the same SDCA or (ii) in the contiguous telephone exchange system of the adjacent SDCA, provided these are delivered/handed over to another service provider's network in the destination SDCA only.(b) For domestic long distance calls in Basic Service other than WLL(M), number of units of calls for payment at Rs. 0.48 per metered call to be calculated based on the STD tariff pulse for the radial distance between the point of interconnection and the Gateway TAX where the call is subsequently delivered for further carriage/ termination.(c) For domestic long distance calls in WLL (M), number of units of calls for payment at Rs. 1.14 per metered call to be calculated based on the STD tariff pulse for the radial distance between the point of interconnection and the Gateway TAX where the call is subsequently delivered for further carriage/ termination.(d) ***No revenue is to be shared between basic service provider and cellular mobile service provider for calls originating from the former's network.***

SCHEDULE II
INTERCONNECTION CHARGE AND REVENUE SHARING

ITEM	***REVENUE SHARING FOR CELLULAR MOBILE***
(1) Date of Implementation	*BY 31ST JANUARY, 2002*
(2) Coverage	*Calls originating in a cellular mobile service provider's network and transmitted through or terminated in another service provider's network.*

(3) Local calls from cellular mobile to basic service subscriber	*Payment to basic service provider at the rate of **Rs. 1.14 per metered call**, with number of metered calls measured at the pulse*
(4) Domestic Long distance calls from cellular mobile to basic service subscriber	*Payment to basic service provider at a rate applicable to domestic long distance calls. The charge shall be **Rs. 1.14 per metered call**, with the number of metered calls measured at the pulse rate applicable to basic service long distance calls, with the chargeable distance equal to the distance of the call carried by the basic service provider for an equivalent STD from point of inter connection to destination.*
(5) International calls from cellular mobile	*Payment to basic service provider at a rate applicable to international calls. The charge shall be **Rs. 1.14 per metered call**, with the number of metered calls measured at the point of interconnection at a pulse rate applicable to an equivalent international call made by a basic service subscriber.*
(6) For calls from cellular mobile to cellular mobile	*For local/domestic long distance calls carried (partly) by basic service provider, an amount to be paid to basic service provider at a rate applicable to local/domestic long distance call. The amount to be calculated on the basis of the corresponding conditions specified in Item 3/Item 4 above, i.e. **Rs. 1.14 per metered call**, pulse rate applicable to basic service local/long distance calls, and for long distance calls the chargeable distance equal to the distance of the call carried by the basic service provider for an equivalent STD call from point of interconnection to destination.*

	Notes: *(a) The definition of "local calls" to ascertain revenue sharing with basic service providers for calls carried by them is the same as in note (a) in Schedule I.(b) For domestic long distance calls from cellular mobile to basic service subscriber, number of units of measured calls for determining the amount of revenue payable to basic service provider to be calculated as the number of such calls measured at the basic service provider's Gateway TAX up to the destination Short Distance Charging Area (SDCA).(c) For domestic long distance calls from cellular mobile to cellular mobile carried by basic service provider, number of call units to be paid to the basic service provider at* ***Rs. 1.14 per metered call*** *to be calculated based on the radial distance between the Gateway TAX at the point of interconnection where the call is accepted for further carriage and the Gateway TAX of the service provider to whose network the call is subsequently handed over. (d) For calls originating from cellular mobile, revenue sharing arrangements among one basic service provider and another basic service provider to be as specified in Schedule I. (e) This Regulation does not specifically address any revenue sharing arrangement among cellular mobile service providers for calls from subscribers of any cellular mobile service provider to subscribers of another cellular mobile service provider.*

2.5.2 Similarly, wireless operators (WLL and CMTS) were required to pass through 95 % of their revenues to NLD operators while making the NLD calls. Out of this, private NLD operators were making available to BSNL the revenues @ Rs 3.50 to Rs 4.10 per minute, as a mutual agreement. Relevant portion of the sample Interconnect Agreement existing between BSNL and NLDO are reproduced below:

"6.4 ACCESS CHARGES

6.4.1.1 *<u>Incoming inter-circle STD calls from Cellular / WLL (M) Networks</u>:*

For incoming inter-circle STD calls delivered by BTSOL to BSNL at the terminating SDCC Tandem, BSNL shall charge BTSOL @ Rs 3.50 per minute for terminating the calls in BSNL's network and shall charge @ Rs. 4.10 per minute for calls terminating in other networks of the same SDCA and transited via BSNL's network.

6.4.1.2 Incoming International Calls to Fixed Networks:

BSNL shall charge BTSOL @ Rs. 4.40 per minute for termination of these calls in BSNL's network in the same SDCA. It shall charge @ Rs. 5.00 per minute for calls terminating in other fixed networks and transited via BSNL's network."

2.5.3 Also, ILD operators, as per mutual agreement, had to make the payments to BSNL @ Rs 4.40 per minute to Rs 13.00 per minute for carriage and termination of incoming international calls for different distance slabs. Relevant portion of the sample Interconnect Agreement existing between BSNL and ILDOs are reproduced below:

"II. Payment for Carriage and Termination of Incoming ISD Calls

(i) For incoming international calls, ILDO shall pay to BSNL a per minute charge for carriage and termination as per the details given below: -

Distance (in kms)	*Total charge Rs. Per minute (0000 hrs – 2400 hrs)*
0-50	*4.40*
>50-200	*6.40*
>200-500	*8.80*
>500	*13.00*

"

2.5.4 On the above basis, BSNL could have recovered an amount of approximately Rs 8000 crores per annum from the cellular operators and NLD/ILD operators if the pre-IUC regime would have continued. Thus, from the 2003-08, BSNL could have collected an amount of Rs 40000 crores from the Cellular Operators/NLDOs/ILDOs. Further, BSNL could have saved an amount of approximately Rs 9478 crores paid to Basic Service Operators (BSOs)/Cellular Mobile Service Providers (CMSPs) during the same period as per the IUC regime.

2.5.5 However, during the same period, as per the IUC regime, BSNL has received an IUC (including ADC) amount of approximately Rs 29344 crores only. Thereby, there has been a loss of approximately Rs 20133 crores to BSNL due to implementation of IUC regime. This is because TRAI has not compensated BSNL on actual cost basis while calculating ADC in the various IUC regimes which is against the originally agreed principles of cost based IUC regime. BSNL has been representing against these arbitrary and unjustified decisions of TRAI from time to time but no relief has been provided to BSNL till date.

2.6 ADC admissible to BSNL

2.6.1 During the period from 2003-2008, there was requirement of an amount of Rs 65747 crores in order to offset the deficits arising out of its wireline operations during various Interconnect Usage Charges (IUC) Regimes. The estimated payable amount of ADC by TRAI for BSNL was much lower than the ADC admissible to BSNL on the actual cost basis. Further, even the amount of ADC envisaged by the TRAI in the different IUC Regulations has not been received by BSNL.

2.6.2 Details of ADC admissible to BSNL, ADC estimated by TRAI and ADC actually received by BSNL during the different IUC Regimes are as detailed in the table below:

IUC Regime Applicable	**ADC Admissible as per BSNL**	**ADC Provided by TRAI for BSNL**	**Estimated ADC received by BSNL**	**Shortfall in ADC**
	(Rs in Crores)			
24th January' 2003 Regulations (From 1.5.2003 to 31.01.2004)	13000	12381	7851	5149
29th October' 2003 Regulations(01.02.2004 to 31.01.2005)	11257	4792	4559	6698
6th January'2005 Regulations(01.02.2005 to 28.02.2006)	13830	4954	4584	9246
23rd February'2006 Regulations (01.03.2006 to 31.03.2007)	13830	3200	2743	11087
21st March'2007 Regulations (w.e.f. 01.04.2007)	13830	2000	1800*	12030
Total	**65747**	**27327**	**21537**	**44210**

* Expected recovery up to end of March'2008.

2.6.3 As detailed in the above table, total shortfall of the ADC received by the BSNL in comparison to the ADC admissible is Rs 44210 crores (Approx.). Further, the shortfall in the provision of ADC made by the TRAI in its IUC Regulations, in comparison to actual amount of ADC received by the BSNL, is Rs 5790 crores (Approx.). **There is, therefore, an urgent need for making fresh calculations on actual cost basis for the admissibility of ADC to wireline services and its continuation**. As per the BSNL's calculations which have been submitted to TRAI from time to time, even as on date there is a **requirement of ADC amount of approximately Rs 14000 crores for the year 2008-09.**

2.6.4 Due to such huge gaps between the actual deficits of BSNL due to its wireline services and the payments received by BSNL on accounts of ADC during the various IUC Regulations, the wireline services of BSNL are becoming financially unviable.

2.7 Support received by BSNL from Government

2.7.1 An unwarranted reference has been made in this Consultation Paper towards the financial supports received by BSNL from the Government. It has been clearly recognized by TRAI that the purpose of USO funding and ADC are different and independent of each other. The subsidy from USO Fund has been given not only to BSNL but to other operators as well for specific well defined works as per the USO policy. This subsidy has no co-relation with the cost based interconnection usage charges. It is worth mentioning here that BSNL is contributing about Rs. 1752 crores per annum towards USO Fund in spite of being the major provider of Universal Services throughout the country.

2.7.2 Further, various supports provided to BSNL by the Government such as reimbursement of license fee, Moratorium on payment of interest etc do not have any co-relation whatsoever with the provisioning of ADC to wireline services of BSNL in a cost based IUC regime.

2.8 Rural tariffs, costs and revenues

2.8.1 The tariffs of wireline service in rural area are still being regulated by the TRAI. TRAI has prescribed the rental of Rs 70 per month for rural wirelines against the average cost based rental of Rs 424 per month for wireline connections(taking into consideration both urban and rural). Similarly, TRAI has prescribed the call charges of Rs 0.80 per Metered call unit (MCU) of 3 minutes against the cost based call charges of Rs 3.00 per MCU of 3 minute. Also, TRAI has prescribed the 50 free calls per month to the rural subscribers. The relevant portion of 28th Amendment of TTO'99 dated 05.11.2003 are reproduced below:

"Schedule I

Basic Services (Other than ISDN)

Tariffs as contained in Schedules I of the Telecommunication Tariff (24th Amendment) Order, 2003 shall stand deleted and kept under ***FORBEARANCE"*** *except for the following items:*

Item	*Tariff*		
(5) Monthly Rentals For Rural Subscribers			
(5.a) Fixed line telephony service including wireless in local loop technology (Fixed)	***Capacity of local Exchange System (Number of Lines)***	*Senior Citizen*	*Others*
	Up to 999	*70*	*70*
	1000 to 29999	*120*	*120*
	30,000 to 99,999	*180*	*200*
	1 Lakh and above	*250*	*280*
	Notes: (1) The definition of Senior Citizen shall be the same as for the purpose of payment of Income Tax. (2) Rural subscribers are those who reside in rural areas. For the purpose of this schedule, the definition of rural area shall be same as used in conducting the Census of India. (3) Capacity of the Local Exchange system is the sum of the capacities of all exchanges in a local area. Any augmentation of the local exchange capacity after the date of implementation of this Order shall automatically be taken into account for re-classification for purposes of tariffs. (4) Short Distance Charging Area (SDCA) is one of the 2647 Local Areas whose details are provided in the Basic Service Licenses and also in the Numbering Plan wherein for each SDCA, a unique STD code is provided. Local call charges are applicable on Intra-SDCA traffic and for calls within the distance category "0 to 50 kms.".		

(8) Tariff per metered call for rural subscribers			
(8.a) Fixed line telephony service including wireless in local loop technology (Fixed)	***First 300 Metered calls per Month of the billing cycle(except for free calls) (Rs.)***	***Metered calls in excess of the first 300 metered calls per month of the billing cycle(Rs.)***	
	0.80	*1.20*	
(9) Free calls (or uncharged calls) for rural subscribers			
(9.a) Fixed line telephony service including wireless in local loop technology (Fixed)	*50 metered call units per month of a billing cycle*		

"

2.8.2 BSNL is not able to recover even the tariffs prescribed by the TRAI. The minimum rental being recovered by BSNL from rural wireline connections is Rs 50 per month against the regulated rental of Rs 70 per month prescribed by the TRAI. **BSNL once attempted to increase the rural tariff from Rs. 50 to Rs. 70 per month as prescribed by TRAI but was forced to withdraw this increase in the general public interest**. Average rental recovery of the BSNL from its rural basic operations is approximately Rs 68 per month per line only.

2.8.3 Similarly, BSNL is able to recover the call charges revenue of approximately Rs 103 per line per month from rural areas. Thereby, **total recovery from rural subscribers is only Rs 171 per month approximately at present.**

2.8.4 Operational Expenditure (OPEX) per line per month for rural telephones of BSNL comes to Rs 643/- for the year 2006-07. Thus, there is shortfall of Rs 472 per rural line per month between the OPEX and average revenue recovered. Shortfall between OPEX and Revenues for overall rural lines for the financial year

2006-07 comes to Rs 8774 crores.

2.8.5 Apart from the shortfall in operational expenditure and revenue earned as indicated above, provisions have to be made for the recovery of capital expenditure incurred by BSNL which is to the tune of Rs 29216 per rural wireline connection. Detailed calculations with regard to the rental recovery, call charges revenue recovery, CAPEX and OPEX of rural lines have already been submitted by BSNL to TRAI vide letter number 6-5/2008-Regln dated 17.01.2008.

2.9 Impact of Abolition of ADC:

2.9.1 BSNL is still discharging the social objective by providing wireline services at affordable rates below their actual costs, especially, in the rural areas **where the tariff is still regulated and BSNL's tariffs are even lower than the TRAI tariffs**. Almost all the rural wireline (99.88%) connections are being provided by BSNL. BSNL still needs the financial support to the tune of Rs. 8774 crores per annum to just sustain the operations of its basic services in rural areas. Apart from this, BSNL needs to be adequately compensated for the capital invested in rural areas.

2.9.2 To recoup a part of these losses, BSNL will have to increase rental, call charges and decrease free calls in respect of its wireline services, both in urban as well as in rural areas. This will make the fixed wireline services very expensive vis-à-vis Cellular services and will cause further steep churn. The common man in urban areas and all the customers of the rural areas will be adversely affected due to such increase in tariffs by BSNL to recoup its losses on account of abolition of ADC. **The tele-density, especially in rural areas, will be adversely affected thereby further increasing the digital divide.**

2.9.3 Non sustainability of the wireline networks, due to abolition of ADC, will **severely affect the proliferation of broadband services** in the country. It is pertinent to note that as per the International trends, broadband connections are being provided predominantly on wireline networks using DSL technology. In India also, 81% of the broadband connections are being provided on wireline networks using DSL technology. To achieve the desired level of penetration of broadband services in the country in urban as well as in rural areas with a view to bridge the digital divide, it is absolute necessary that not only existing wireline networks are maintained but also there should be adequate incentives for the services providers for further roll-out of wireline networks, which is not possible if the requisite financial support through ADC is abolished.

2.10 Major Beneficiary of abolition of ADC

2.10.1 Abolition of ADC will mainly benefit the foreign carriers, who will save Rs. 1/- per minute on all International calls carried by them to India from their countries which are of the order of about 1200 crores minutes per annum. **This implies that foreign carriers will get benefit of about Rs. 1200 crores per annum**.

The Indian consumer will hardly get any benefit on this account.

The comment that ADC is a source of arbitrage and results in grey market is not based upon any actual study and is irrelevant. It is pertinent to mention that prior to IUC regime, the termination charges being paid by ILD operators were of the order of about Rs. 4.40 to Rs. 13 per minute which have now been reduced to only Rs. 1 per minute. It is further submitted that most of the countries still charge higher termination charges for their incoming international calls. TRAI must be aware that termination for all mobile networks in Europe is of the order of Rs. 5-6 per minute. **If this arbitrage is not leading to any grey market in those countries why the same should be a cause of worry in Indian context where the termination charges are only of the order of Rs. 1.3 to 1.95 per minute including ADC**.

2.10.2 In addition to the benefit to foreign carriers, the abolition of ADC will also benefit all private NLD, ILD, Cellular and UASL service providers as they will not have to pay 0.75% of their AGR towards ADC. The benefit of this is not likely to be passed on to the consumers as per the past trend when ADC contribution was reduced from 1.5 % to 0.75 % of AGR.

2.10.3 Further, to suggest that the benefit of abolition of ADC will be passed to the consumer is not correct. Even at the time of last amendment of IUC Regulations, the rate of outgoing ISD calls were reduced by 0.80 per minute due to heavy downfall in the rates of international bandwidth and further due to reduction in the termination charges in other countries and not due to reduction in the ADC on outgoing ILD calls. In fact reduction in the outgoing ILD rates could have been far more if the actual benefits of reduction in all costs including ADC were passed on to the consumers.

2.10.4 It is pertinent to mention that though the per minute ADC regime for the domestic calls has already been phased out, wireless operators are still charging the differential higher tariffs to wireline networks vis-a-vis the wireless networks. In some tariff plans, this difference is to the tune of 100%. Therefore, to say that benefit of abolition of ADC will be passed on to the consumers is not correct. This will only cause undue enrichment of the cellular and other private operators.

2.11 To sum up

- Wireline services are still being provided below their costs due to the reasons of affordability.
- Wireline services in rural areas are still being regulated by TRAI and BSNL is charging tariffs which are even lower than those prescribed by TRAI due to social compulsions.
- Tariffs of basic services even in urban areas can not be increased due to competition with the other access services which have been made cheaper by favourable regulatory environment and hence tariff rebalancing is not feasible.

- ADC is an integral part of IUC and cannot be abolished in isolation. Any change in ADC will necessarily require change in the complete IUC regime.
- Implicit subsidy is being provided to wireless operators by way of higher termination charges which need to be corrected.
- The purposes of USO and ADC are entirely different and ADC cannot be subsumpted into USO.
- Non-provisioning of requisite amount of ADC will create a non level playing field to wireline operators vis-à-vis wireless network which are very less capital intensive and are having very favourable regulatory framework for them.
- Abolition of ADC will adversely affect the sustainability of wireline networks in urban as well as rural areas. It will not only decrease teledensity in rural areas and increase the digital divide but will also adversely affect the proliferation of broadband and internet services in the country which are primarily being provided on the wireline networks.
- The major beneficiary of this abolition of ADC will be only foreign carriers. Indian consumers will not get any benefit out of this.
- Even as on date there is a requirement of ADC amount of approximately Rs 14000 crores for the year 2008-09 for wireline services of BSNL.
- BSNL needs Rs. 8774 crores per annum to just sustain the operations of its basic services in rural areas.

2.12 Reiterating our views as above, our para-wise comments on the issues raised in the Consultation Paper are enclosed as **Annexure-I.**

<u>MTNL</u>

1. Average per line cost in fixed network on copper is about Rs.25,000/- while the same in mobile network is Rs.3500/- approx. Though the urban tariffs are under forbearance but it may please be recollected that the same were put under forbearance by TRAI observing that due to intense competition the standard tariff package prescribed by TRAI was of no relevance & tariffs were coming down day by day. The market forces do not allow tariffs for fixed line services to be increased even to cost effective levels.

2. It may please be recalled that earlier the TNF areas and the waiting lists in different areas were monitored closely at all levels and great emphasis was laid to minimize/eliminate the same. Accordingly, MTNL made all out efforts to reach every nook and corner of its service areas to provide fixed line services on demand to any customer, employing enormous capex. Roll out of fixed line services by private operators had been below targets and subsequently the roll out obligations were removed altogether.

3. In order to generate employment in 1970 & 80s as per then prevailing policies of the Govt., a lot more vacancies were created in the PSUs and recruitments made accordingly in order to meet the employment targets set by Planning Commission. The recruited staff continues to be on the rolls of PSUs even after introduction of competition and thus the operating expenses (opex) of the PSUs are much higher in spite of all efforts made to reduce the same.

4. At one time due to the existing policies and priorities emphasis is laid on initial start of service and after subsequent changes in market conditions due to technological innovations when the services are unprofitable, further pressure is put on the service provider to manage the services in the open competitive environment. The later entrants, due to technological advancements, are in a comfortable position and denial of the level playing field conditions to incumbents is unfair.

5. Migration of fixed line customers to mobile services is a universal phenomena observed worldwide after the introduction of mobile services. The same has been observed in India also & fixed line services are being continuously surrendered and a monthly report in this regard is submitted to TRAI. This has resulted in increasing idle capacity in fixed line network of MTNL thereby the opex per working fixed line is increasing day by day.

6. Currently, emphasis is being put on provision of telecom services in rural areas and a support is being promised for such provisioning for a limited period. The services in rural areas and in certain urban areas, on fixed line, are going to be non-remunerative and after the termination of support, the service providers having provided the service in rural areas and certain urban areas will be left by themselves to find ways and means of providing the rural services in spite of their being non-remunerative. Such an approach is not appropriate and it is submitted that the support should continue to be provided so long as the tariffs do not cover the costs in urban as well as rural areas.

7. It is, therefore, requested that the decision of the regulator may be reconsidered and operators should be given continuous support to provide fixed line services till they continue to be below cost.

In case the regulator feels that the ADC support to fixed line operators should not be provided at the cost of mobile services, an alternative could be to increase termination charges of international calls. This will not affect national subscribers as the charges will be levied on the international operations. Presently, the termination charges for international calls are Rs.1.30 including ADC and it is proposed that the same may perhaps be retained as applicable upto 31.01.2005. This will enable operators to get some funding for below cost operations in providing access on fixed line.

M/s Telecomportal.in

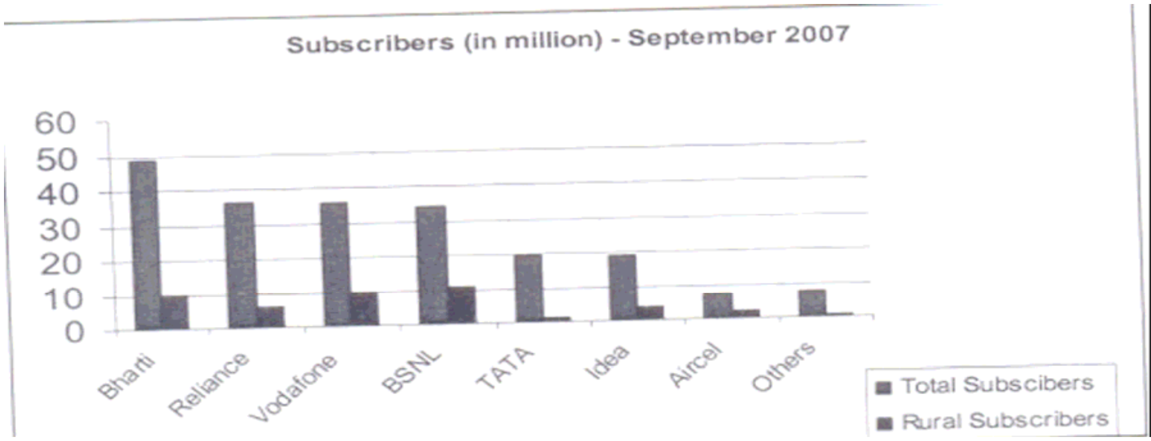
Telecomportal.in had initiated a survey on our website to get the views of our users. Our findings reveal that there is a vast majority of telecom users who are still not satisfied with the telecom services specially wireline services they are being served by the PSUs as well as private operatos. Consumers have time and again raised one aspect “With mobile services becoming increasingly available in more towns/villages, fixed line telephones are becoming more obsolete. If the rates of mobile phones become the same as that of fixed line telephones, consumers will not need to stick to fixed line telephones and face of the problems of dead phones”.

Consumers feel that private telecom operators have shield away form reaching out to rural areas. They are still used to being provided telephone connectivity by BSNL. Now, the time is ripe to make the private operators participate in providing their full-fledged services to rural areas. One of the foremost reasons as to why private operators should be made eligible to provide telecom services to rural areas is that they have shown a tremendous performance to increase the telecom service penetration. Therefore, the Authority should phase out the ADC regime and assign the responsibility to private operators to spread out their service in rural areas. Today, private operators are the most successful players in garnering the urban subscribers numbers in comparison.

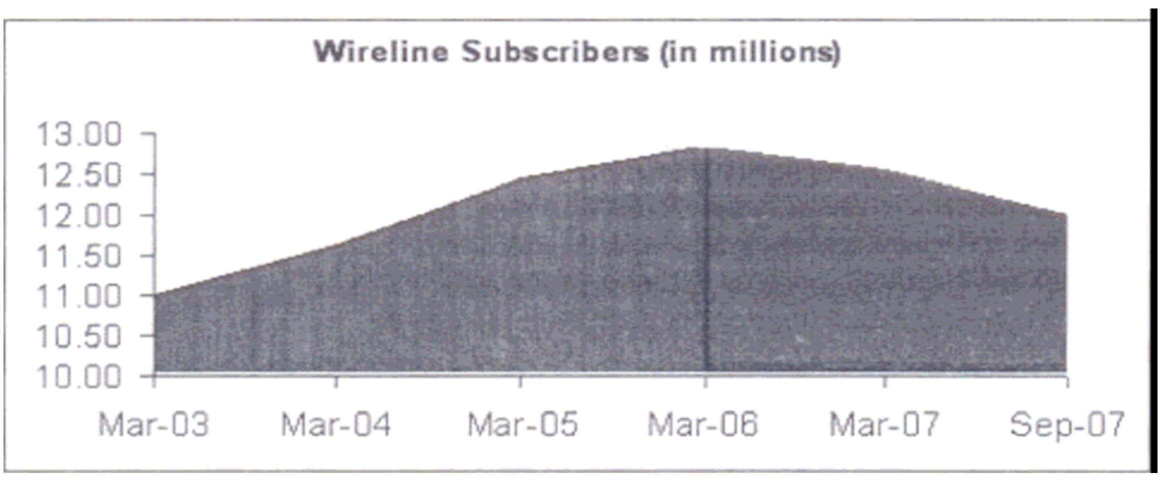
There should be no debate that BSNL has provided reasonable service in very economical price band which is considered affordable by most persons in rural areas. BSNL has reached almost everywhere in the country and is providing its services to people in rural areas. But once this ADC regime will be phased out, then tariffs shall also be decreased and private operators shall be accountable to provide their network to rural areas. Authority should come with a policy which incentivizes the operators to expand their network in more and more villages in limited period of time. The incentives that were given to the incumbent operator in terms of subsidy should be made available to private operators, if the Authority is of the opinion that any support is required.

To support the above view, Telecomportal.in has done some analysis based on the data released by the Authority, which we would like to share as follows:-

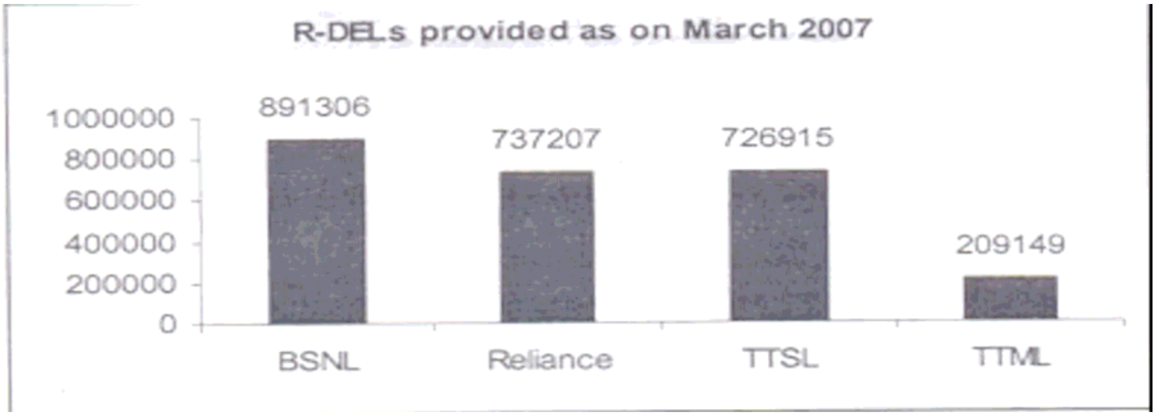
1. If we look at the overall telecom subscriber share of all operators (fixed wireline and wireless) at the end of September 2007 quarter, we can say that private operators like: Bharti, Reliance, Vodafone etc. have shown good response. Though being the first telecom operator of the country, the incumbent is way behind the private operators in providing the telecom services and has also not shown an outstanding performance in rural area. Chart given below provides a clearer picture on this:-



2. Wireline subscribers of the incumbent have been showing a negative growth in rural areas since the last 1.5-2 yrs. whereas in March 2003, total rural wireline base was 10,997,567, it stood at 11,987,947 at the end of September 2007. Ever since mobile segment has shown doubled growth, the number of rural wireline subscribers has registered negative growth showing that wireline subscribers are either shifting to wireless service or unsubscribing their wireline connections due to poor service or shift to wireless service. This is despite the fact that BSNL is the most focused player in wireline telephony.



We would like to arrest the attention of the Authority and policy-makers towards the RDEL lines which were supported under USO Fund, Operators who were shortlisted to provide RDEL connections have shown negative response with respect to fixed wireline telephone additions in rural areas.



From the above para it is clear that:

a) fixed line telephone are more time-consuming and costly to provide – therefore, there is less of a business case to provide such phones in rural areas.

b) Instead, wireless based phones are easier to deploy and provide in rural areas to meet the needs of rural consumers.

c) USO fund should be more effectively monitored and disbursed to ensure that all operators who are providing RDELs are maintaining the TRAI stipulated Quality of Service benchmarks – they should be mandated to provide monthly reports to TRAI which should be subject to periodic audit, before disbursement of any subsidy. Any renewal of these schemes should incorporate these amendments.

d) For promoting broadband usage in rural areas, USO fund should come out with a scheme by which operators can choose whichever technology they find more suitable (but which is capable of providing min. 256 kbps speed, which should again be subject to periodic audit).

We would like the Authority to consider all above points/issued raised by telecomportal.in before finalizing any policy for rural areas. BSNL has played a tremendous role in providing the telecom service to rural people but now the scope for provision of services needs to be expanded to include all operators so that rural areas can be covered in shortest timeframe possible. We certainly would not wish that any policy be made which would put rural areas out of telecom coverage.

We request the Authority to consider the above mentioned comments while making its final regulation.

M/s VSNL

Before responding to the questions raised by the Authority in the Consultation Paper, we wish to recap some of the points that we have made in our earlier submissions:

- ADC and USO Funding are both subsidies by nature, and both the funds have greater relevance to rural telephony . Hence, any funding for the purpose of Access Deficit should be sourced from the USO Fund.
- Further, the USO Fund has not been fully disbursed. It must be utilized to meet the subsidy needed for Access deficit, if any.
- Disbursement from the combined (ADC + USO) fund should be made on the basis of ‘below cost’ services being provided to the weaker / deserving sections of the society, by any operator.
- ADC creates an arbitrage opportunity for grey operators and is also being misused by some operators through re-routing of calls. This is not only an issue of national security but also contributes to decreasing the revenues of licensed operators.

The Tata Group reiterates that the ADC be phased out as proposed in the Consultation Paper by 01.04.08.

VOICE

1. We always believed that there is NO ACCESS DEFICIT.
2. Use of TWO parallel instruments for the same objective is not only BAD governance and lack of VISION but deliberate attempt to promote corruption and inefficiency.
3. TRANSPARENCY, level playing field demand that regulator should not succcumb to any pressure.
4. ADC leads to DISTORTUION in the tarif.
5. DoT and BSNL must come out of the myth that LIE repeated hundred times becomes TRUTH.
6. USO fund must be properly utilised to extend MOBILE nework to rural area.

With expenses on INRASRUCTUE being provided by the USO , little competition will take care of the rest.

USO benefit should be extended to them for coming five years.