



COAI'S RESPONSE TO TRAI'S CONSULTATION PAPER NO. 16/2004 ON GROWTH OF TELECOM SERVICES IN RURAL INDIA

Introduction

At the outset we would like to state that we **wholeheartedly welcome this initiative** of the Authority. We believe that the **provision of services in rural, remote and less developed areas is an important policy objective** that must be addressed to achieve the Government objective of 250 million subscribers by 2007. COAI thus fully supports the efforts of the Authority to encourage growth of telecom and increased competition in the rural areas.

The Authority has rightly noted that there is a **huge untapped potential in rural India**, which needs to be fully exploited for the growth of telecom services in the country and to bring India at par with other developed nations. As a matter of fact around 70% of the population of India (1.2 Billion) lives in the rural areas. Despite of the fact that India has achieved a tele-density of 8.5%, the rural urban divide is increasing. It is thus important for us to look at **various issues that must be addresses and incentives given so that we are able to reach out and serve the rural markets.**

As the Authority may be aware, the COAI has for many months now being representing on the need for special initiatives to tap into the huge potential demand for telecom services in rural India.

This initiative of the Authority is also extremely timely as it is in consonance with the target that has been set by the Government to reach 250 million subscribers by 2007. In fact a special Group has already been set up by the DoT in this regard under the Chairmanship of Member, Services and a meeting has already been held with all industry stakeholders for their views and submissions on the issues that need to be addressed in order to reach the 250 million target that has been set by the Government.

COAI has already made a formal submission to the Group, a copy of which is enclosed as Annexure-1, for your kind consideration.

In light of the above, our specific response to the issues posed by the Authority are as below :

Responses to Consultation Questions

Q1. This consultation paper has discussed various issues related to Growth of Telecom Services in rural areas. Please give your comments on them and suggest any additional point to achieve higher growth of telecom services in rural India.

1. COAI believes that the **Authority needs to take a holistic view of the situation and consider / recommend a multi-pronged approach** to achieve the subscriber objectives that have been enunciated by the Government.
2. As rightly noted by the Authority, there are a number of initiatives / tools that are presently being used by the Government to achieve universal service objectives. We believe that going forward, we will still need to rely on a combination of measures and there is no one single approach that will achieve this objective of rural tele density.
3. In our submission to DoT, we have elaborated on the various policy and regulatory issues that need to be addressed to achieve the subscriber target of 250 million by 2007. These include:
 - a. **Expeditious introduction of Unified Licensing** – we believe that this will immediately facilitate the introduction of increased competition into the long distance segment and could



result in nation-wide calling at near local rates. This would immediately boost the market leading to increased subscriber growth, higher usage, revenues, etc.

- b. **Review of the ADC Regime** – we believe that a higher mobile termination charge on incoming ILD calls will virtually eliminate grey market traffic solving the leakage problem of the prevalent regime. We also believe that since affordable access is one of the key telecom objectives of the Government, there should be no ADC levied on intra-circle calls.
 - c. **Sharing of Infrastructure** – we believe that this would be a cost effective solution to reach out to rural and remote areas by leveraging on the existing nation-wide infrastructure that has already been put in place by the incumbent as also by some private operators.
 - d. **Reduction in High costs of Duties and Levies** – Indian telecom is amongst the most highly taxed sectors, which translates into higher cost of service. The Authority has already mooted a lower license fee revenue share in its draft unified licensing recommendations. The Authority is also considering a lower quantum of access deficit and more affordable charges for spectrum. Positive decisions on these issues will give a tremendous fillip to affordability and improved subscriber growth.
 - e. **Increase in FDI / FII limit** - Increase in the FDI / FII limit from 49% to 74% has already been announced in the Union Budget for 2004-05 and this will go along way in meeting the huge funds requirements that have been estimated over the next three years. The modalities for this are being worked out and it must be ensured that the terms and conditions are not so constrictive that they actually deter the inflow of FDI / FII.
 - f. **Expeditious Introduction of 3G** – 3G with a 4-5 times higher voice capacity than present 2G services will be an ideal tool to deliver low cost voice telephony to rural India. 3G will also be a valuable tool for undertaking social initiatives such as e-Education, Tele medicine, e-Governance, etc.
4. In addition to the various policy & regulatory issues, there is a **need to also look at procedural issues**. There are no uniform, clear, applicable and enforceable guidelines for various procedures such as right of way, municipal & civic clearances, setting up of cell sites, etc. As a result of this different state governments adopt different rules, criteria, costs and time frames, which causes significant amount of effort and delays in operators getting the requisite clearances. This issue needs to be redressed and **uniform guidelines need to be laid down for the various clearances and other procedures** involved in setting up and maintaining a telecom network.

A detailed note on the above issues is enclosed as Annexure-1.

5. Further, we believe that cellular mobile will continue to play a leading role in achieving India's tele density objectives. However, **for cellular mobile telephony to succeed in rural markets**, the telecom infrastructure equipment deployed in the rural areas must get **adequate power for proper working**. The Government will thus have to ensure availability of stable power supply in the rural areas.

Q2. Should 'Niche Operators' as discussed in this Consultation Paper get a support from Universal Service Fund?

1. We are **not too clear about the objectives of introducing Niche Operators** or about the **exact terms and conditions under which these will be allowed to operate**.
2. From the Consultation Paper we gather that Niche Operators will be allowed to operate only in rural areas with a tele density below 1% and that license / registration fee and spectrum fee for



these operators will be nil, although they will be expected to pay the annual charges of 6% (administrative charges + contribution towards USO). Further, the Authority is also considering whether these operators should be entitled to support from the USO Fund.

3. In this regard we would like to submit existing operators have already paid the entry fee for the full service area and there are already entitled to spectrum under their licenses. Further, under the prevalent USO guidelines, existing Access Providers are equally entitled to USO Funding through a multi-layered bidding process on the Least Quoted Subsidy support basis.
4. In light of the above, we are **unable to understand how giving the Niche Operators free entry, free spectrum and USO funding** will better equip them or **make their business case more viable than that of existing operators**.
5. We believe that the **existing service providers** who are already licensed to provide services throughout their respective service areas are **better equipped to undertake this responsibility**. This is because these operators have already **invested significantly in infrastructure** and have **extensively rolled out their networks**. Because of **economies of scale**, it would be **far easier and more cost-effective** for such operators to reach the rural consumers.
6. Further, we believe that it would be **undesirable to create another category of licensee** such as the Niche Operator and **then to incentivise him through various subsidies and incentives to serve the same market** for which the **existing operators have already have a license**. We thus believe that the concept of Niche Operators is not a viable business model for the growth of telecom services, as this will **only fragment the various licenses**, which have already been issued to the operators.
7. Further, the statement in the Consultation Paper that the **definition of Niche Operators could be reviewed at any time also gives rise to concerns about level playing field**.
8. For all the above reasons, it is submitted that **rather than introduce a fresh category of service providers**, it would be far **more appropriate to incentivise the existing licensees** to rollout into the rural areas.
9. Notwithstanding the above, **if the concept of Niche Operator has to be considered, it must be on clearly defined terms and conditions that ensure that the service is distinct and level playing field is maintained** between the existing Access Providers and the Niche Operators. Some suggestions in this regard include :
 - a. **Niche Operators to be given an entirely different spectrum** than that which is assigned to the Access Providers. This could be the 450MHz spectrum, which is meant especially for addressing rural requirements.
 - b. A **different numbering scheme** so that it can be ensured that all subsidies and incentives are targeted at and received by only Niche Operators.
 - c. There should be a Local Exchange at each SDCA in which the Niche Operator is providing service. Further, it should be clearly specified that the **wireless system would be interfaced to the Local Exchange of the rural SDCA only through the ITU specified interface V5.2** – this will ensure that the wireless service do not become full cellular as had happened earlier in the case of WLL (M).
 - d. **Once the service is clearly defined & distinct**, a number of **direct and indirect subsidies and incentives could be extended** to the Niche Operator so as to make the services affordable for the rural consumers. These could include :
 - i. Waiver of Registration Charges & Entry Fee for Spectrum



- ii. Exemption from Service Tax
 - iii. Exemption from Customs Duty
 - iv. Exemption from Sales Tax
 - v. Exemption of ADC for calls originating from the rural SDCA
 - vi. Lower Interconnection Charges
 - vii. Exemption from requirement to provide Financial Guarantees & Performance Guarantees & also deletion of the clause for liquidated damages as these add to the cost.
 - viii. No separate charges for Right of Way, setting up of cellsites, etc.
 - ix. Etc.
10. **Most importantly**, this above **Niche Operator package** that is designed by the Authority **must first be offered to the existing Access Providers**, who are already entitled to offer all types of access services under their existing licenses, and **if the existing Access Providers do not express any interest, it may then be offered to new operators.**

Q3. Instead of subsidizing final product, should the subsidy be given on inputs like Bandwidth and spectrum charges?

1. We believe that a **subsidy may need to be given both on the inputs as well as the final product** so as to make it cost effective for operators to rollout into rural areas.
2. Our submissions in this regard for existing access providers have already been dealt with under our response to Issue 1.
3. Our suggestions and proposals regarding Niche Operators have been covered in our response to Issue 2.
4. We would once again like to **reiterate that if Niche Operators are to be considered, it must be on clearly defined terms and conditions** that ensure that the **service is distinct and level playing field is maintained** between the existing access providers and the Niche Operators. Further, the **Niche Operator package must first be offered to the existing Access Providers** and only if the existing access providers do not express any interest, it may be offered to new operators.

Q4. In this paper it has been proposed that telecommunication facilities capable of offering multiple services including telephony using modern wireless technologies for access offer a near self-sustaining model in rural areas, which can be implemented through subsidization of input costs from Universal Obligation Fund. Do you agree with this proposition? Offer your comments.

No Comments

Q5. For increasing the percentage population exposure to cellular mobile services, should sharing of infrastructure such as buildings, towers, etc. be mandated through regulation with appropriate commercial compensation being provided to owners through regulatory intervention?

1. We believe that **sharing of infrastructure** between operators is an important and **cost-effective tool** that must be optimally utilized to **reach out services into rural areas at the most affordable prices.**
2. Infrastructure sharing is a **relevant tool for India because :**



- a. The **extremely low tariffs** that are prevalent in the Indian market **leave the operators with inadequate resources to extensively rollout their networks** into rural and remote areas.
 - b. **India being a low-income country**, it is also **not desirable for each operator to replicate costly telecom infrastructure** to reach the rural subscribers.
3. Countries like Europe, Australia, etc are already using infrastructure-sharing model to reduce the cost of offering telecom services.
 4. We believe that **given the huge disparity in the bargaining / negotiating powers of different operators, it may be necessary for the Authority to actually mandate infrastructure sharing**. The Authority may consider **recommending appropriate guidelines on the technical and commercial aspects for sharing infrastructure in a multi-operator scenario**.

Q6. Do you visualize any other initiative, which should be taken by TRAI as to achieve the growth of telecom services in rural India?

In addition to our above submissions, the Authority may also like to consider the following suggestions to achieve the growth of telecom services in rural India:

1. At present, provision of rural service is not a viable business for existing service providers. While incentivising operators to venture into areas, **some efforts may be made to define the extent of competition in the initial years**, so that the operators are able to develop the market and reap some benefits. In this regard it is proposed that **if the existing access providers do not express any interest in serving the rural and remote areas**, the Authority may like to consider that in addition to BSNL, **only one Niche Operator should be allowed in each rural SDCA**. The Authority may **determine the appropriate selection criteria** in this regard.
2. The lack of a POI at the SDCA level would increase the call charges to the rural consumer because of higher Interconnect Usage Charge (IUC). Hence, it is proposed that a **point of interconnection (POI) must be provided at each SDCA**. **Cost of providing the POI may be shared between the interconnection seeker and the interconnection provider**. We would like to also reiterate our view that separate port charges should be eliminated as it is covered under IUC charges.
3. The **cost of domestic leased circuits needs to be reduced**. The Authority has already undertaken a consultation in this regard and the decision of the Authority in this regard is awaited. While announcing the revised leased line tariffs, the Authority may kindly **keep in mind the sharp reduction in STD tariffs** from Rs. 24 / minute to Rs. 2.40 / minute by BSNL.
4. **Built up leased lines may be permitted** so that the service providers are able to negotiate the best terms and conditions for leased lines within the desired time frames.
5. There should be a **single uniform pulse rate for all types of calls**. At present there is a disparity in the pulse rate applicable to fixed to fixed calls (180 seconds), fixed to WLL (M) calls (90-seconds) and fixed to cellular calls (60-seconds). This disparity creates unfair advantage for certain types of calls, which is not desirable.
6. **Use of electricity poles in rural areas should be mandated for laying copper cables/optical fibers without payment** or any charge to **State Electricity Board**.

Q7. DO you think that we can sustain USO subsidy model in the long run?



1. The **Universal Service objectives were first enunciated in NTP-99** whereunder specific targets and time frames were laid down under the policy. The policy also laid down the broad guidelines for raising resources for USO as also the implementation of the scheme.
 2. The objective of the USO subsidy model is to achieve the USO objectives laid down in NTP-99. We thus believe that the **USO subsidy model has to continue till the target tele density objectives are achieved.**
 3. In this regard it may be noted that **all service providers are paying a USO levy since August 1999** and the amount of USO funds collected in the last one year alone is in excess of Rs. 3,000 crores. On the other hand it is clear that the **disbursements from the USO fund are extremely modest** amounting to only Rs. 500 crores in the last year.
 4. It may be appreciated that **the USO levies add to the costs** of the service providers, which in turn **impact the tariffs for the service.**
 5. It is therefore suggested that the primary effort of the Authority should be to **first utilize the huge USO corpus** that has collected over the years **before further taxing the service providers** on this account. Once this fund is used up then like the Access Deficit scheme, the Authority should **determine the quantum of USO funding that it requires on an annual basis** and **then impose a suitable levy** on the service providers **to recover the targeted quantum.**
 6. **Concurrent to the operation of the USO scheme**, we believe that **all efforts must be made to reach competition into rural areas.** Once the rural markets are served by a number of service providers giving them choice and quality at the most affordable prices, the **business model will start generating revenues and become sustainable**, thus obviating the need for USO funding.
- Q8. Locally relevant software will have to be developed. What steps could be taken to develop such software and database and what should be government role in this?**
1. We believe that the **role of the authorities should be to incentivise the service providers to roll out their services in the rural areas** and to **leave the rest to market forces.** Development of locally relevant software and content is an objective and responsibility that will be best accomplished by the individual service providers who will develop the necessary databases and the relevant software after assessing the needs and demands of their target market..
- Q9. Share your experiences within and outside the country, which establishes the linkage between growth of telecom services and economic growth of an area with particular reference to rural area economy.**

No comments