Diversifying Participation in Network Development

India’s Universal Service for Telecom Policy and Regulatory Gaps

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Outline

- Achievements of Telecom Sector Reform in India
- Perceived Access Gaps
- Research Questions
- Universal Service Obligation: Findings/Concerns and Way Forward
Perceived Access Gaps

- 70% of population is rural: Low per capita GDP USD 638 (USD 352 in rural areas)
- PCGDP holds higher teledensity potential
- 5000 urban agglomerates: Mobile coverage 50%
- Current ARPU’s/EBITDA’s inadequate to fund capex required
- Operator can make profits at ARPU as low as $5
Perceived Access Gaps

- Urban teledensity 31 vs. rural teledensity 2
- Roll out obligations failed
- Rural DELs installed by incumbent through license fees relief: reliance on a dominant carrier not the most efficient way
- Additional investments: mobilized through intervention, Equity and Efficiency arguments
- Rural demand stronger than revealed in the state-owned monopoly era; heterogeneity in rural areas
Research Questions

Context

Any member of the WTO has the right to define the kind of universal service obligation it wishes to maintain. Such obligations will not be regarded as anti-competitive per se, provided they are administered in a transparent, non-discriminatory and competitively neutral manner and are not more burdensome than necessary for the kind of universal service defined by the member.

Questions we address:

(1) whether the current USO scheme created the least possible distortion to an otherwise well-functioning market, and

(2) whether it provided a level playing field for operators bidding in an auction to receive the USO subsidy.
Findings

- Transparent multi-layered reverse bidding process
- USD 8 billion to be collected USD 4 billion disbursed
- Significant lowering of benchmark subsidy RDELs: rates down to 65 to 70%
- Incumbent won almost 75 percent of auctions
- BSNL (1267 SDCAs), Reliance Infocom Ltd (203 SDCAs), Tata Teleservices (172 SDCAs), Tata Teleservices (Maharsashtra 43 SDCAs)
Concerns

- Benefits from using auctions: difficult to have sufficient participants bidding against the incumbent
- Incumbent in an advantageous position bidding against operators relying on transfer or lease of assets from their competitor
- Tend to be used by market players to extract too many concessions
- Important strategic implications: effect the way firms compete against each other
Concerns

- Restricted participation to already existing phone companies: left huge rents for the incumbent
- Did not maintain incentives for competing networks and/or technologies
- Asymmetry of information between the incumbents and new entrants
Concerns

- Auction design disregarded commercial, legal and regulatory implications of the fact that the incumbent had a fair amount of network.
- Can affect the viability of the existing operators as well as the entry process in those areas; reduces entry.
Way Forward

- Sustainability of universal service: remove regulatory barriers to competition
- A liberal minimalist licensing regime: Entry of more firms *sine qua non* of universal service
- High endogenous cost of doing business: license fee and regulatory levies
- Effective, non-discriminatory access regime for sharing of backbone: Special Obligations counterbalance its market power; Sunk cost arguments
- Separation of the transport layers (physical and logical) from the higher layers (applications and content)
Way Forward

- Spectrum Assignment and Pricing
- Maximise development of all technologies and services
- Avoid a subsidy laden universal service programme
- Public finding of backbone networks assurance of open access to those networks
- Sound regulatory design and competition cornerstone of universal service
Thank you

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