

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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