Competition:
Good practices in India

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Overview

- Background on Competition
- Competition: The Indian Story
  - Practical measures for anti-competitive behaviour
- Suggestions for Mongolia

Competition in Telecom

- Traditionally, Telecom was a government owned monopoly in most parts of the world;
  - More a part of Public Service rather than a business
- Paradigm Shift from Government Owned Monopoly to Private Sector Duopoly / Oligopoly / Open Competition

Why competition?

- **Removing waiting list through increased investment;**
  - **Injection of fresh capital**
- **Improving efficiency of Service Providers;**
- **Introducing new technology in the country;**
- **Improving service quality and network performance;**
- **Meeting international commitments such as WTO;**
- **Reducing tariffs**
- **Cash income to reduce debt**
- **Roll out of network in unserved areas (Universal Service)**

Is competition working worldwide?

-Teledensity increase

-Tariff decrease

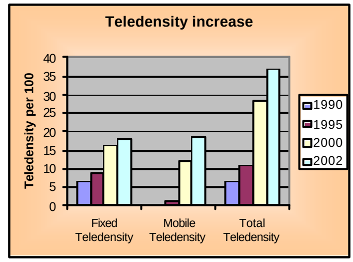
-Investment increase

-Coverage of underserved areas

Rapid increase in Tele-density

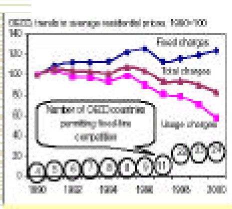
Combine Mobile & fixed Teledensity more than doubled 10.6 (1995) to 28.3 (2000) while it increased from 6.6 to 10.6 between 1990 & 95

- **Mainly on account of growth of Mobile Services**



Source: ITU

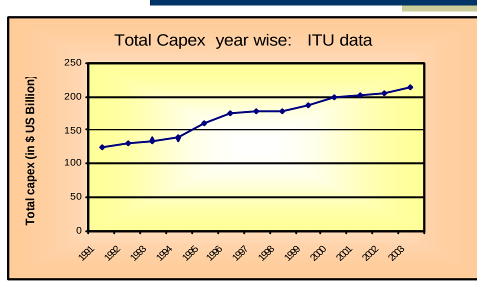
Decrease in Tariffs



World Telephone tariffs		1995	2000	%age decrease
Main Telephone lines				
Residential				
Connection	in $ US	141	86	**39**
Monthly subscriotion	in $ US	7.1	6.3	**11**
Business				
Connection	in $ US	245	113	**54**
Monthly subscriotion	in $ US	11.8	9.8	**17**
Local call	in $ US	0.08	0.07	**13**
Cellular Digital				
Connection	in $ US	112.6	75	**33**
Monthly subscriotion	in $ US	31.5	16.6	**47**
3 minute local call	in $ US	1.17	0.62	**47**

Source: ITU

Investment increase



Source: ITU

Promoting entry: Models

Mobile | Fixed | VAS

Monopoly

1 Duopoly

Duopoly in Access, Monopoly in Long distance e.g. India

Nation wide Duopoly e.g. Australia

Monopoly in Access, competition in Long distance e.g. USA

2 3-4 operators

Limited by spectrum

Open competition

3 Common Carrier, Open competition

International experience
Emerging Models

- Privatisation with full competition
  - Chile, New Zealand
- Privatisation with phased in competition
  - Privatisation of national carrier but exclusivity of operation for a certain period e.g. Japan, UK
- Liberalisation without privatisation
  - e.g. Colombia, Finland, India
- Private sector participation without privatisation or Liberalisation i.e., Franchisees, concessions
  - Thailand BOT, Pakistan (BLT), Indonesia (BOLT)
- Competition without privatisation
  - China

Competition: India Case Study

Good Practices

Brief Overview

As on 31.03.2003

Size: 3287000 Sq. Kms.
Population: 1.027 Billion
Number of Fixed Lines: 41 Million
Teledensity Fixed & Mobile: 5
Number of Cellular : 12.68 Million
Number of Internet : 3.6 Million
Number of rural lines(Dec02):10.7 Million
Number of PCOs (Dec 02) 1.37 Million
%age villages covered 83%

The competition story

- Introducing Competition
- Managing Competition
- Evaluating Competition

Phases of Policy reforms

First phase of reform	Second phase of reform	Third phase of reform	Converged framework
Manufacturing Sector; Value Added Services	**NTP 1994** Duopoly / Oligopoly in Services sector; Further reform in manufacturing sector; Independent regulator	**NTP 1999** Open competition in services sector; Revenue sharing; Separation of operator and policy maker; Privatisation of incumbent i.e., VSNL	Fixed Mobile license fees at similar level; Limited mobility by BSOs and fixed community phones by CMSOs; Converged Ministry of ICT; **Communication Convergence Bill 2000**;

Introducing Competition

Introducing duopoly

- Duopoly in Cellular and Basic Sector in 1995 & 1997 respectively, through bidding
  - In Basic Services, one more operator other than the incumbent;
  - In Cellular, both the licenses for new entrants only
- Limited entry in Radio Paging and PMRTS
- Monopoly in International Long Distance and National Long Distance continued

Characteristics

- **Very high bids received creating viability issues;**
- **While Cellular licenses could be granted in most of the circles, only 6 out of 20 licenses could be granted in Basic Services**
- **Incumbent became a new entrant in Cellular after 6 years of private sector duopoly;**
- **Rural roll out obligations of new entrants largely unmet;**
- **Very small roll out of fixed services**

Introducing Competition
Duopoly to Open Competition

- Migration package to existing Service Provider
  - From bid amount to revenue share (8%, 10% , 12% depending on area);
  - Accept more competition
- In Cellular, incumbent became the third entrant, fourth cellular operator licenses auctioned through a multi layered bidding process;
- Open competition in all services including International Long Distance and National Long Distance services with fixed entry fees

Characteristics

- **Unlike 3G experience in UK, the operators in India were granted relief by government;**
- **Multi-layered bidding process turned out to be very successful;**
- **Except cellular, all other licenses available on first cum First served basis. Hence, reduced speculation**
- **With the new terms & conditions, India has 4 Cellular and 3 to 4 Basic Operators in each service area in addition to 4 NLDOs and 5 ILDOs**
- **Roll out obligations linked with points of presence and not villages**
- **USO through an independent USO Fund**
- **Limited Mobility permitted to BSO**

Good Practices

- **Open entry with transparent entry conditions is the best approach ;**
- **In cases such as Cellular Mobile Multi-layered bidding successful;**
- **Assessment of size of the market important;**
- **Encouraging wireless improves roll out growth rate;**
- **Carrot and stick policy in Universal Service Obligation**

Entry conditions

- Liberalised framework for Internet
  - No license fees
  - More than 400 ISPs licenses
  - More than 100 operational
- Infrastructure sharing has been permitted
- Internet Telephony has been permitted;
  - PC to PC and PC to Phone (outside India)
- Competition in International long distance with permission to use IP

Managing Competition

Ease of entry at any point of time reduces the dominance level. However, there lies ahead several regulatory challenges

Regulatory Issues addressed by TRAI

Regulatory Tool Box

- USO: Comprehensive USO Policy in place
- Interconnection: Issues have been addressed through various regulations and directives; One of the few countries to publish RIO; A comprehensive IUC regime to is in place
- Tariffs: Telecom Tariff Order & amendments; De-regulation of Cellular& Long Distance tariffs; Close monitoring of tariffs to protect consumer interest
- Licensing: Based on TRAI recommendations, open competition has been introduced in all sectors except Cellular where there is frequency limitation
- QoS: End User Quality of Service regulation, Publicly available customer survey
- Competition: Structural separation, Accounting separation, RIO by service providers with significant market power, Merger issues

Key Challenges

- **Managing the legacy**
  - Attitudinal preparedness
    - General perception among incumbent to throttle competition;
    - Micro management by the regulator necessary;
    - The issue became less relevant as Cellular Service Providers rolled out and the incumbent was corporatised;
    - Another option used by countries is to break the incumbent in smaller units; e.g. Brazil, Japan
- **Technical preparedness**
    - Legacy network not ready to provide new services or to carry inter-operator billing;
    - Upgradation of network to support services such as CDR based billing, CCS 7 signalling or IN platform interworking could act as a bottleneck;
    - Non availability of CDR based billing delayed Carrier Selection by one year in India

Interconnection

- Interconnection
  - TRAI specified the Port charges, revenue sharing mechanism, location and number of Points of Interconnect,
  - Mandated Operators with significant market power to publish a Reference Interconnection Offer;
  - An interconnection usage charge regime in place;
  - Migrated from Mobile Party Pays to Calling Party Pays after 3 years of consultation;
    - Low tariff difference between Basic and Cellular has reduced the resistance to migration;

Regulating Tariffs

- Through an open consultation process TRAI established TTO'99; 26 amendments issued
  - Reduction in leased lines tariffs
- All operators required to report the tariffs to TRAI within 7 days of implementation (Services in which TRAI has forborne) / 5 days before implementation in case of Basic Services (which is regulated)
- To provide greater flexibility, Cellular Mobile Tariffs have now been deregulated but a close watch is still maintained to protect consumer interest;
- Roaming charges rationalized

Tariffs & Dominance

- Tariffs
  - What to regulate and when to deregulate?
  - Level of competition is the key deciding factor
  - In India, the competition in Cellular and NLDO is so intense that the tariffs remained at a level below the TRAI specified ceiling set for a long time
- Issues linked with dominance
  - Accounting Separation is a must to ascertain costs related to a specific service;
  - Consolidated and vertically integrated firms creating serious barriers for standalone operators in terms of tariffs

Ability of firms having nationwide footprint to survive competition

Service Area	Name of nationwide Service Provider	Loss in market share (Dec'00 – Mar 03)	Name of standalone Service Provider	Loss in market share (Dec'00 – Mar 03)
1	A	45% ~ 39%	D	54% ~ 36%
2	B	46% ~ 40%	E	53% ~ 20%
3	C	46% ~ 44%	F	53% ~ 23%
4	A nationwide operator took over another standalone operator, which had 27% share while another nationwide oerator had 72 % in 2000. Today, both the nationwide operators have 36%.			

In cases where the standalone entities did not merge and the consolidated entities entered the market as new entrants, there has been huge market loss by standalone entities

How to check dominance?

- Dominance normally reflects itself in interconnection service or tariff package
  - Non availability of ports
  - Bundling of packages
  - Foreclosure
- Closer look at tariffs to prevent Predatory tactics / foreclosure;
  - E.g. Prevent subsidy across two different licenses that have discriminatory effect;(BSO / NLDO);
- Check through consolidation / licensing terms;
  - E.g. In India, one licensee cannot merge with another in the same service area;
- Mandating an RIO is an effective tool

Universal Service: Equal Opportunity

- **Universal Access / Provision of Information Kiosks and lines in high cost areas subsidized through a Universal Service Fund in a transparent manner (Bidding); The fund is created out of a portio of license fees;**
- **Compensation through a well defined Access Deficit Charge for keeping Rural and fixed line tariffs below cost;**
- **Well laid out rural / semi urban roll out obligation in Basic Service license**

Good Practices

- Long terms preparedness to handle technical upgradations a must;
- Lay down the interconnection rules as fine as possible but rules should accommodate flexibility and mutual agreement;
- Equal opportunity to earn back any subsidy from Universal Service Fund;
- Dominance to be checked through lose look at tariffs and interconnection policy

Implementation of Policy Regime

- **Sequencing of Policy important**
  - **Whether regulatory policies should follow a particular sequence keeping in mind the strong links between them;**
    - **E.g USO, Interconnection and Tariffs**
- **Identifying issues that need**
  - **continuous attention**
    - **Tariffs,**
    - **QOS,**
    - **Customer Complaints**
    - **Availability of interconnect resources**
- **Specific but intermittent attention**
    - **Interconnection & Infrastructure sharing**
    - **Spectrum allocation**

Evaluating Competition

- Growth

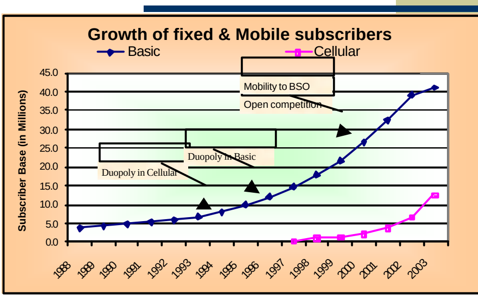
- Tariff decrease

- Fulfilment of Universal Service Objectives

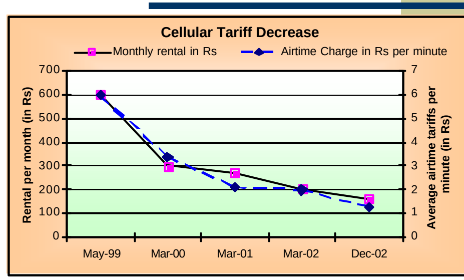
-Foreign investment

-Number of Service Providers

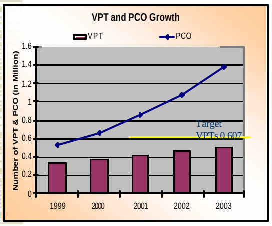
Subscriber Growth fixed & mobile

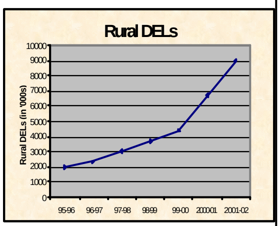


Tariff Decrease



Fulfilment of Universal Service Objectives

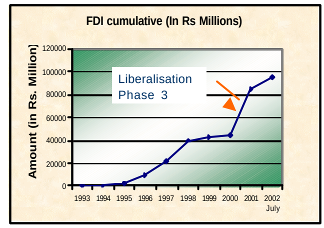




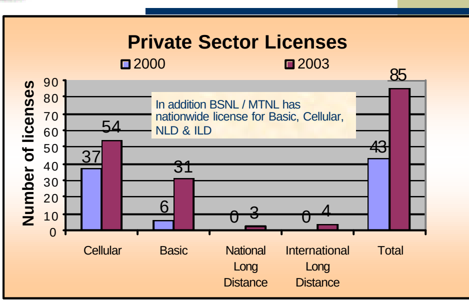
VPT is Village Public Telephone and is the first telephone in a village. Mostly provided by the incumbent

Pro investment climate

Large increase in FDI since 2001 i.e., after open competition was announced



Increase in private sector licensees (Basic, Cellular, NLD & ILD)



Suggestions for Mongolia

- Introduce competition early together with safeguards (dominance rules);
- Define interconnection rules as clearly and minutely as possible;
- Consider mandating an RIO;
- Prepare technically for future services;
- Plan in advance (2 ~ 3 years)
- Clear competition rules and size of the market, the main drivers for competition
- Enforce roll out by making rural areas attractive

Thank You