



# Mobile Termination Markets – Role Play Exercise [Session – 11]

*Training on Competition and Changing Market  
Conditions: Impact on ICT Regulation*

Addis Ababa, 6<sup>th</sup> – 9<sup>th</sup> November, 2007

By

**Pradip Bajjal**

Director

NOESIS Strategic Consulting Services

[Former Chairman, Telecom Regulatory Authority of India]

# Ex-ante regulation at retail level

- Cellular mobile licenses issued before the setting up of TRAI mandated retail tariffs to be charged by the licensees from the end-consumers also. These charges were very high. Naturally there was no growth. The incumbent also put barriers to entry by demanding extremely high termination rates.
- After TRAI was set up in 1997, Telecom Tariff Order, 1999 fixed inter-alia retail tariffs applicable for cellular mobile services. This is an instance of ex-ante regulation of retail prices.
- Ex-ante regulation of retail prices was necessitated at that time i.e. 1999-2002 because competition in the market was not sufficient.
- Another form of ex-ante regulation of mobile services in India was in the form of prior approval of tariffs. Prior approval of tariffs was required to be continued for some time to achieve a smooth transition from a regime where retail tariff was fixed to a regime of forbearance.

# Ex-ante Regulation at Wholesale Level in Termination Markets

- Interconnect Usage Charge Regulation specified origination charge, carriage charges and termination charges for the first time in October, 2003.
- These charges were cost based and determined after going through a consultation process.
- The sum of IUC charges for origination, carriage and termination served as an implicit floor for the retail tariffs. Any tariffs offered by a service provider below this level would raise suspicions about the intention of such pricing strategy because these three components reflect the underlying cost of providing services.

# CPP Regime and lowest termination rates encourage aggressive competition at origination of calls hence lowering of tariffs by operator

June'04

Name of the country	Call charge per minute	Minutes of Use per subscriber per month	ARPU (Average Revenue Per User)	Termination rates per minute	
				Fixed	Mobile
	US\$	Minutes	US\$	US\$	US\$
Australia	0.24	159	43	0.016	0.152
Brazil	0.11	92	11	0.020	0.080
China	0.04	261	10	0.010	0.025
Switzerland	0.45	119	59	0.017	0.163
Japan	0.33	156	63	0.022	0.130
India	0.04*	309	11	0.007	0.007

- \* Has come down to 0.02 in 2007 – lowest in the world
- Since the tariffs are low – there is huge unmet mobile demand in rural areas – only mobile towers have to reach. Now reaching fast in new USO scheme.
- Some low end ARPUs being offered by operators are \$ 4 per month and entry cost (handset price) \$25
- At these rates, huge market is waiting to be tapped

# Termination Charge Regulation

- Termination charge regulation in India has been widely lauded by many jurisdictions in the world for its uniqueness. Some of the major features of the uniqueness of termination charge determined by TRAI are given below:-
  - Since it was recognized by the Regulator that termination was a monopoly, termination charge was cost based and that too down to the bones..
  - Termination charge was uniform across networks – neutral to technology.
  - Termination charge was identical to all types of calls viz. local call, national and international long distance call and also for calls by national and international roamers.

# Substantial Growth for all

**Excerpts from Morgan Stanley Report: Are present tariffs predatory?**

- “Even at monthly ARPU of US\$5, Wireless Operators can make money”
- “ ... with telecom equipment cost having fallen globally, and most of the GSM operators being allotted higher spectrum, the incremental capex/sub in India has fallen.”
- “ We have performed a sensitivity to capex cost and ARPU. A consumer yielding a monthly ARPU of US\$5 provides incremental ROCE of 16% based on capex/capacity of US\$60.”

**The present ARPU is around \$9 per month, hence operators can profitably expand into non-covered and rural areas. In any case operators are already offering \$ 4 / month ARPU tariff packages.**

THANK YOU