



# Application of Competition principles to Interconnection and Access [Session – 7]

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

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

By

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## Performance – Telecom sector

- We do not meet targets very often.
- Aggressive reforms in some sectors have helped us change this perception about India.

<i>Target set for Teledensity in National Telecom Policy 1999</i>			<i>Target achieved after reforms kick started in 1997</i>
2005	-	7%	In 2004
2010	-	15%	In 2006 Likely for 2010 at present rate of growth – 40-50%

# **Impact of Reforms started in 1991**

- Till 1991, the Government was the monopoly producer and fixed administered prices for steel. We gave up after 1991 and allowed private investment. Today there is a huge growth in the sector.
- In 1983, Government used to fix cost-plus prices for fertilizer produced in each factory. We still do. There is not much growth and ever increasing subsidy outgo.
- Telecom sector had tariff based regulation with cost plus pricing till 2003 - We gave up in favour of competition pricing. Look at the results.

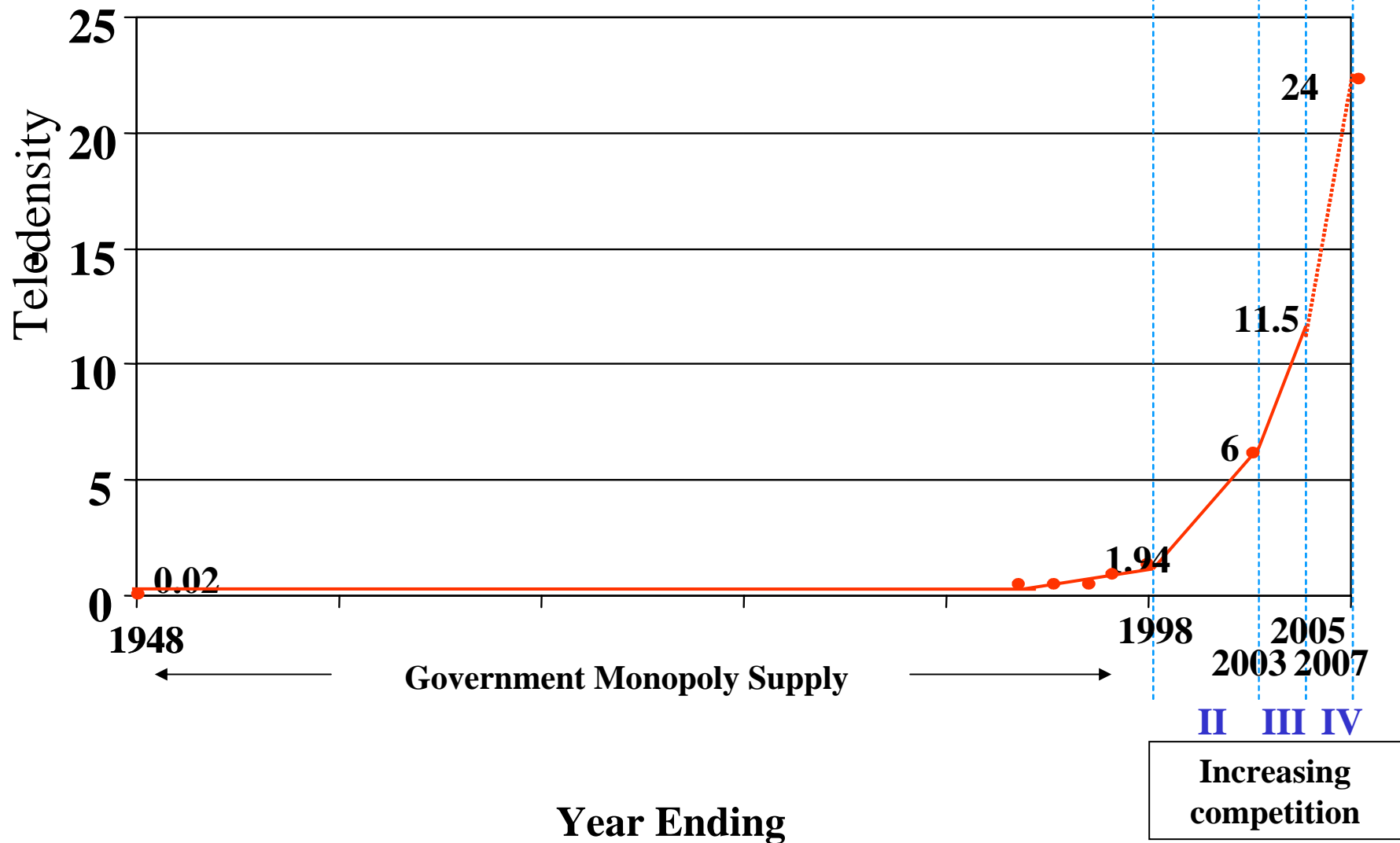
### *. . .Impact of Reforms started in 1991*

- Automobile sector was rigorously licensed. We gave up licensing in 1991 phase of economic reforms. All the car majors moved to India. Doomsayers predicted huge NPAs for Indian Financial Institutions. All companies created their own markets. We produced more cars per year than China in not too distant past. We are the highest exporters of automobile ancillaries in the world today – in a booming sector.
- Government monopoly was given up in the airlines sector through the backdoor initially – in 1993. We have the highest growth in this industry today. Lowering air-fares and reforms in the road sector have forced the monopoly Railways to reform.

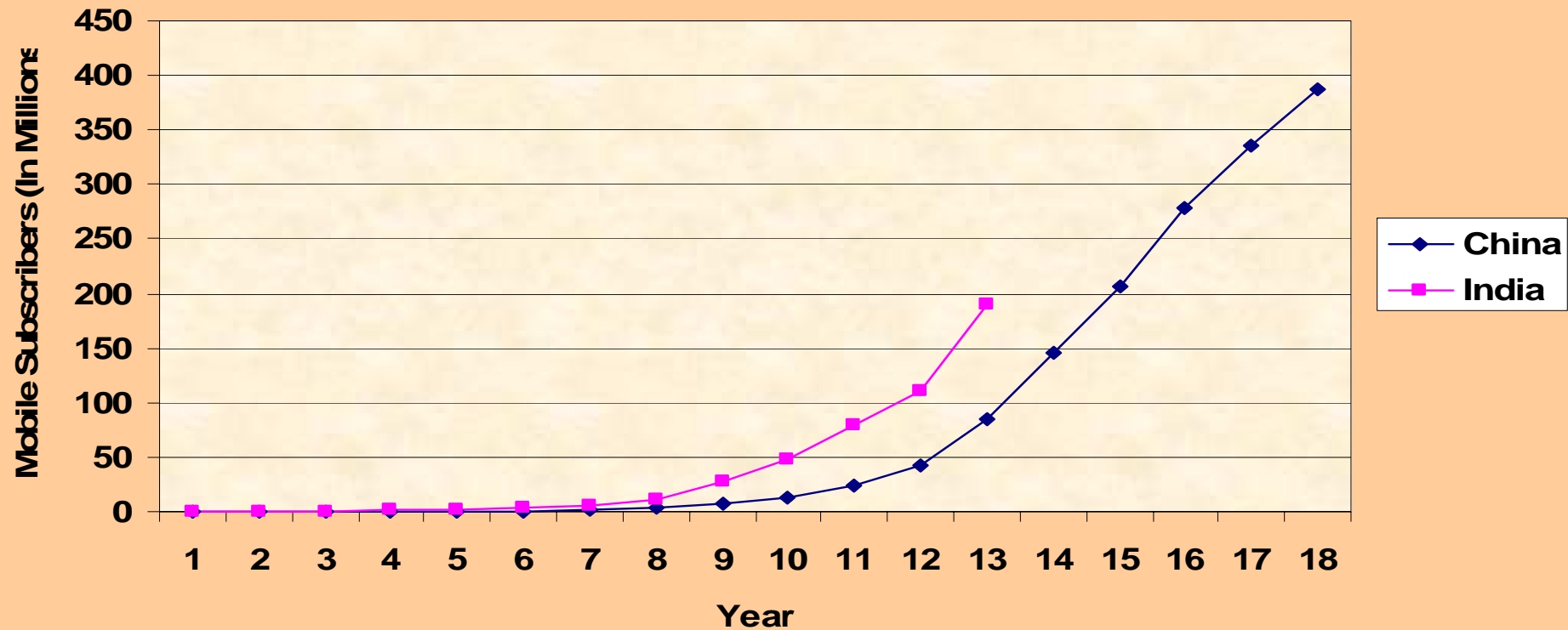
## *. . .Impact of Reforms started in 1991*

- Despite unbundling, power sector continues with cost-plus tariffing and almost a monopoly government supply and distribution even today.
- We have huge slippages in achievement of targets – almost compromising our growth story.
- Utopia is perpetually promised by the sector-always five years later.
- There is a hope now, with competitively bid mega projects. In one project private players bid around 3 cents/unit. The incumbent Government company bid 5.3 cents/unit.
- Let us come back to telecom sector.

# Telecom Growth — The Changing Scenario



**China always Outperforms us - Sometimes we do**  
***Mobile Telephones***



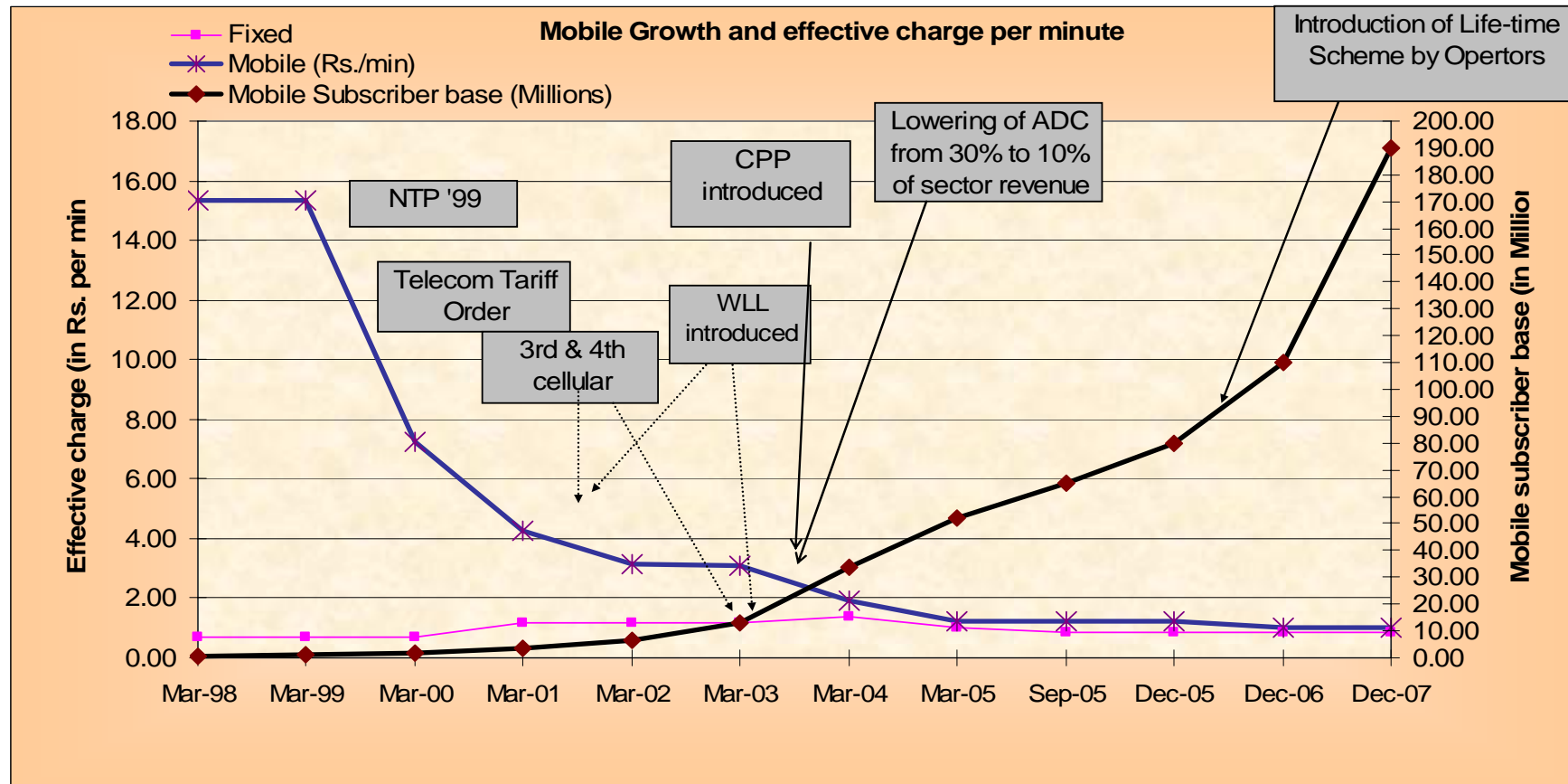
**Mobile subscribers (in Millions)**

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
China	0.003	0.01	0.02	0.1	0.2	0.6	1.6	3.6	6.8	13.2	24	43	85	145	207	279	335	388
India	0.03	0.22	0.8	1.1	1.6	3.1	5.5	10.5	28	48	80	110	190					

**China 1 Year : 1988      Year 20 : 2007**

**India 1 Year : 1995      Year 13 : 2007**

# Growth in Mobile Subscriber base with fall in tariff



- **TRAI facilitated huge reduction in forborne tariffs in 2003-05 through competition**
- **Measures indicated in boxes – and by moving from cost plus regulation to competition regulation in 2003**
- **Mobile growth stepped up significantly – once mobile and fixed line tariffs became equal**
- **Mobile then became the telephone of the common man**
- **We internationalised in the network our main strength – our numbers**



## **Restricted Coverage of Mobile Networks was a problem till recently**

- In 2004-05 Network (Population) Coverage was 25%.
- Network (Population) Coverage by 2006 – 40%.
- Now with sanction of common mobile towers under USO for rural areas will increase network coverage to 85% before 2010.

# Cost of Power

Cost in paise / unit

	Efficient Regulation	Inefficient Regulation	Remarks
Cost of Distribution	65	130	The costs can go down with increase in legal consumers & benchmarking of costs and more generation, a product of distribution reforms and open access.
Cost of Transmission			
Local	5	8	By inviting competition & bring down tariffs
Interstate	13	15	
Inter-region	15	35	
Cost of generation at bar/pithead	120	250	Competitively bid Sasan project and other cost plus tariffs in new stations demonstrate the difference
Cost of Distribution loss (converted into appropriate cost of additional power)	35	75	12% loss in efficient and 25% loss in inefficient system. Loss is 1% in private distribution in G. Noida.
<b>Total</b>	<b>253</b>	<b>513</b>	

THANK YOU