



Cellular Summit 2004

Expanding the Cellular Market

Friday, 18th June, 2004 @ Hotel Intercontinental, Barakhamba Lane, New Delhi

Address of Mr. Dilip Modi, Chairman, COAI

The Indian cellular wireless industry has been the one of the key flag-bearers of the Indian liberalization process. It is also the pioneer of the Indian telecom mobile revolution as it made significant investments to build the cellular mobile infrastructure in the country and develop the market at a time when there were very high level risks, uncertainty and costs associated with this sector.

Commencing services in 1995, in the short span of nine-years, the sector has put in a very commendable performance. It has grown at a brisk pace and as of date, it has set up 108 networks offering world-class cellular mobile services to over 36 million subscribers in over 2000 cities and towns all across the country, at what are perhaps the lowest tariffs in the world. I think that it can safely be said that the cellular wireless industry has moved away from its “value added services” tag and has now become one of the core infrastructure sectors of this country.

The industry has faced several challenges since inception – many of these, including some very contentious ones, have been resolved with timely policy and regulatory initiatives. However, there are still some subsisting issues. These too, we are sure will be examined and suitably addressed to ensure that the cellular mobile sector can contribute in a significant manner to the Government’s connectivity objectives as well as the overall economic development of the country.

One of the key challenges before the industry is the flagging subscriber growth levels. From a healthy subscriber addition of around 1.7 to 1.9 million per month, the industry was looking to step on the accelerator and increase the growth rate to 2.5 to 3 million per month. However, the growth levels appear to have reached a plateau in the last few months, causing concern and anxiety amongst the Government, Regulator and Operators alike.

I would like to take this opportunity to place before this audience some key thoughts on the reasons on this down turn and what measures need to be taken to step up the growth levels so that the cellular mobile industry can move forward.

The most important pre-requisite to ensure fair competition & healthy growth of any sector – is the provision of a level playing field. The principles of level playing fields are acknowledged, accepted and have even been enunciated in our policy document. Level playing field has to be ensured, between technologies as well as between public & private operators. In this regard, I believe that the expeditious introduction of a holistic unified licensing regime will go a long way to ensuring fair competition and level playing field for all players.

Once level playing field is ensured, the next challenge before the industry and all players will be to step up growth levels. Although the performance of the industry has been satisfactory, we still have a long way to go if we are to emulate the success of mobile services in other Asia-Pac economies, especially China.

I believe that in order to step up growth levels we will have to venture out into untapped markets as also reach more and more subscribers in existing markets.

As you are aware, the cellular phone has now become a common man's phone – it is being used by all cross-sections of society. In fact the new subscribers who are now coming on board are giving the operators an ARPU of Rs. 175-200 per month.

At this level of user base, the consumer has two concerns on take up – the entry cost and the monthly recurring cost. The handset forms the biggest component of entry cost, which might be deterring many potential subscribers from taking up the service – if this entry barrier can be removed/ lowered, we will find our services accessible to the next level of low-end users. This can easily be done if service providers can bundle the handset with the service as is widely done in other countries. But in India, because the service provider has to pay license fee on revenues from handsets sales, he is reluctant to offer this facility. If handsets can be removed from the purview of the AGR definition, the service providers may be able to offer a low cost entry option to the consumers.

The other aspect is the recurrent costs of service. The Indian operators are already offering the lowest possible tariffs to the price sensitive Indian consumer – any further reduction will require a lowering of the cost burden. The cost structure of the Indian mobile industry is severely out of line with international practices. It has been estimated by experts that regulatory costs account

for around one-third of the operating costs of subscribers. If the market has to expand, then tariffs have to be lowered, and for this the costs will have to be rationalized to be in line with international norms.

Another important aspect of cost is the imposition of an access deficit charge almost Rs. 5,500 crores on the industry. We believe that this levy is excessive and adds significantly to the costs of service. The quantum of ADC must be reviewed, and if at all, it has to be imposed, it should be as a %age of revenue share paid into a separate Fund – which could for example, be the USO Fund. To reach out to new consumers in rural and remote areas, the sharing of active and passive infrastructure must be encouraged. In a capital starved country like India, it would indeed be wasteful for every operator to duplicate costly infrastructure. Infrastructure sharing on fair, transparent and commercial terms will ensure that consumers in rural areas get choice of service, quality as well as affordability, the nation achieves aggressive rollout and improved tele density whilst the operators get an attractive commercial proposition and an opportunity to expand coverage and reach of their services.

Two other associated aspects for market growth are availability of spectrum and availability of resources for network rollout and expansion.

Spectrum is the raw material for mobile services – growth of this sector is dependent upon the adequate availability and affordability of this resource. Indian GSM operators have paid amongst the highest entry fees in the world for the right to spectrum for cellular mobile services. However, the spectrum allocated to them is sub-optimal vis-à-vis international practices – this situation must be addressed and Indian spectrum allocation must be brought in line with the better international practices. A DoT Committee has already laid down the roadmap for spectrum allocation upto 2X15 MHz per GSM operator – this must be made available at no extra cost. Further, the linkages of spectrum allocation to subscriber numbers must be done away - this will enable efficient utilization of spectrum, as it will allow the operators to optimally plan and design their networks. Further, this will also remove a subsisting disadvantage for the operators who are caught in a vicious circle – as they need subscriber numbers to get additional spectrum assigned, but they cannot get these subscribers until they have additional spectrum. The usage charges for this resource too, need to be reviewed. At present the spectrum usage charges of 2-6% are as high, or perhaps even higher than the annual license fees paid in the better telecom regimes. These should be rationalized to cover only the cost of administration and regulation of this resource. A modest incremental usage charge (beyond allocation of 2X15 MHz) may be considered to discourage inefficient use of spectrum.

Lastly is the issue of funding – it has been estimated that Rs. 50,000 crores will be needed in cellular alone over the next 12-18 months to meet the growth targets of the industry. These funds cannot be raised from domestic sources alone - there will be need for additional FDI / FII inflow into the sector. The issue of enhancement of the FDI/FII limit had already been cleared by the Communications and Finance Ministries and is pending the approval of the Cabinet. This matter must be processed on an urgent basis to ensure that lack of funding does not hamper the industry's growth targets. As regards the concerns on issues of security and management control, I am sure that appropriate safeguards can be put in place to address these legitimate concerns of the Government.

Going forward, we believe that if level playing field is provided, the regulatory cost structure is brought in line with international norms, adequate spectrum is ensured at affordable rates and adequate funding is facilitated...explosive growth in cellular mobile subscribers is sure to follow and cellular mobile could well be the bearer of the convergence revolution in this country.

The cellular wireless industry looks forward to the continued support of the Government and the Regulator in helping it to maintain its aggressive growth rate and to ensure that the benefits of mobile connectivity are available, accessible and affordable for all citizens.

Thank You.