COAI Response to TRAI Consultation Paper No.10/2004 on Fixation of Ceiling Tariff for International Private Leased Circuit(Half Circuit)

Questions for Consultation

(i) Whether tariff for IPLCs (Half Circuit) should be henceforth regulated

It is a matter of concern that despite the opening up of the ILD sector in 2002, effective competition in the IPLC business segment has not yet emerged and that the prices if IPLC are significantly higher in comparison to international prices especially in many Asian countries who are India's competitors in the global BPO business.

As cost of IPLC forms a significant proportion of the total costs in the BPO business, the high prices of IPLC will have an adverse impact on India's competitiveness in this segment.

Given the lack of effective competition in this segment and given India's fast emergence as one of the leading providers of IT Enabled Services (ITES) including BPO, we believe that it is extremely important and opportune for the Authority to intervene in the matter and regulate IPLC tariffs so that they are in line with comparative international practices and give India a competitive edge in the global ITES market.

The tariffs should be regulated till there is sufficient competition in this segment – at least 3-4 players.

We would also like to submit that the Authority must examine the reasons why despite there being a strong demand, adequate competition has not developed in this segment. Therefore the Authority must not only regulate tariffs, but also take adequate steps to encourage competition in this segment.

(ii) If the answer to the above is yes, then whether the reduction proposed by the Authority is adequate, less than adequate or too high.

At the outset, we would like to submit that the IPLC tariffs should be determined on a cost-plus basis and that they should be in line with international practices. The incumbent must not be rewarded for its inefficiencies nor should be allowed to charge high tariffs that are anti-consumer.

As per the data given by the Authority in Annexure II (a) of the Consultation Paper, not only is the price for E1 in India more than double the average tariff in other countries, but that this differential increases significantly for DS3 & STM-1. While the average ratio for the other countries in Annexure II (a) is 1:4.5:10.5, for India the ratio is 1:18:50.

In its present exercise, the Authority has proposed a significant reduction of 40-70% in the IPLC tariffs and brought it down to 1:8:23, it may be noted that these are still substantially higher than those prevalent in other countries, especially for the DS3 & STM1 links.

Thus while we support / welcome this initiative of the Authority and believe that this will go a long way in giving Indian ITES a leading edge over its international counterparts, we would like to point out that there is still scope for much further reduction. .

In this context, it may be noted that tariffs for ILD services, which use the same infrastructure, have fallen by around 90% since the inception of competition in the ILD sector. To that extent, the reduction proposed by the Authority may be considered less than adequate, but it is a welcome first step.

(iii) Whether the methodology adopted for fixation of ceiling tariff for E1 is appropriate? If not, what is the alternative methodology?

We note that the Authority has used the cost based approach to determine IPLC tariffs and then also applied the Annual Recurring Expenditure based methodology to verify its results and consistency of analysis. We note that under both approaches, the Authority has arrived at virtually the same cost based tariffs for E1.

But we would like to point out that the same infrastructure that has been costed by the Authority to arrive at IPLC tariffs is also used by the ILDOs to provide voice services and in fact a majority of the ILDO's revenues accrue from voice services.

To that extent, we believe that loading the entire costs of the ILD on IPLC alone is unjustified.

(iv) Whether the proposal should be in the form of a ceiling or specified level. In addition is it necessary for the Authority to provide a floor?

We believe that in light of the lack of effective competition in the IPLC segment and fact that the incumbent VSNL is the major market player providing this “bottleneck facility”, it is most necessary and appropriate to prescribe a ceiling tariff for IPLC.

In view of the lack of competition in this segment, we believe that it is not necessary for the Authority to prescribe a floor.

(v) Whether the methodology that uses EI capacity as benchmark and multiples for higher capacities are appropriate? Are the multiples themselves acceptable? If not, on what basis revision of the rates of E1:DS3:STM-1 prices should be carried out?

As a first step, we support the above methodology adopted by the Authority to use EI capacity as benchmark and multiples for higher capacities.

However, in our opinion, it must be recognized that this is a simplistic approach and would still contain some degree of over-statement of costs for higher multiples. This fact has also been reflected in the arguments made by the Authority in Para 29 of the Consultation Paper.

Thus we believe that the resultant values proposed by the Authority are still on the higher side and must be re-examined when the next review is undertaken.

(vi) What is the duration for which the new tariff should be valid?

We believe that the tariffs prescribed by the Authority must be valid for at least one year in order to provide a measure of stability in pricing, after which a review must be undertaken.

We therefore recommend an Annual Review of IPLC tariffs.

(vii) **Whether the same tariff should also be applicable for leasing of IPLCs to ILDOs who will make use of this for carrying Voice traffic by terminating on PSTN.**

Yes, we firmly believe that the same tariffs should also applicable for IPLCs leased to ILDOs for carrying Voice traffic as the principles of costing / pricing are the same irrespective of whether the IPLC is used for carrying voice or data. This will help bring down ILD prices, which in turn will benefit the end-user and also help grow the market.