TVR/VEL/103
3 December 2010

**The Telecom Regulatory Authority of India,**
Mahanagar Door sanchar Bhawan
Jawahar Lal Nehru Marg,
New Delhi -110002

Dear Sirs,

**Comments on Discussion paper seeking views of stakeholders on setting floor price for settlement in India of International Long Distance minutes**

1. We thank you for giving us this opportunity to provide our views on this important subject of settlement in India of International Long Distance Minutes.

2. We do recognize the gravity of the problem caused by the unilateral increase of the settlement rates by the monopoly Middle East Operators and appreciate that TRAI has taken up this issue for consultation in the interest of the Indian operators and the Indian telecom sector at large.

3. It is difficult to conceive of a justification for the unilateral increase in settlement rates by certain Middle Eastern operators given that the cost of settlement plus a reasonable rate of return is unlikely to be higher than the original lower price of US$0.10/minute. Such an increase is likely to only be possible given the limited competition that prevails in the market in question.

4. While the Indian ILDO market is highly competitive, middle-eastern operators were generating extraordinary margins even before this increase, as compared to the Indian operators who operate in a competitive environment.

5. The profit margins of the Middle East Operators have been illustrated below. The Authority may please note that even before increasing settlement rates to 13 cents the Middle East Operators were making margins to the tune of 91% which would have further increased after the unilateral increase.

**Profit Margin Calculation of Middle East Operators for calls originating in Middle East and terminating in India**

| | Incoming Minutes (UAE to India) | Outgoing Minutes (India to UAE) |
|---|---|---|
| | **UAE Operators** | **Indian Operators** |
| **Retail Rates USD per min.** | 0.54 | 0.24 |
| | | |
| **Estimated Average Wholesale Settlement Cost (per min)** | 0.02 | 0.13 |
| **Estimated other direct costs of originating operator - eg origination, carriage** | 0.05 | 0.05 |
| **Regulatory fees** | Not known | 0.004 |
| **Gross profit of originating operators/min (before indirect and common costs)** | 0.47 | 0.06 |
| **Gross Margin of Operators** | 87% | 23% |
| | | |
| **Volume ms/year** | 8500 | 2200 |
| **Profitability to Operators (USD ms)** | 4,034 | 122 |

Source: Industry Data. Note that costs are estimated and do not include any allocation of indirect costs, capital costs, fixed and common costs etc

6. However, the forbearance of international settlement accompanied with the low termination charges for the incoming international calls has led to a situation where Indian international settlement rates have reduced to an unhealthy levels due to vigorous competition in this segment. Such low settlement rates may not be financially sustainable in the long run for the International Long Distance Operators in India and could adversely affect the Indian telecommunication sector. It may also adversely affect the investments in the telecommunication infrastructure in the ILD segment and ultimately will hamper the growth of telecom in India.

7. However, while we recognise the problem that is created by the high level of competition in the Indian ILDO market, and the low level of competition in international markets, it is difficult to conceive of a remedy which is likely to be practically possible and politically palatable. Imposing an increased settlement rate for one group of countries (eg the Middle East) which is ~10 times as high as the settlement rate for other countries (eg the USA) is likely to provide substantial incentives for arbitrage and refiling of international traffic.

8. The alternative of imposing an increased settlement rate for traffic originating from all countries would largely address arbitrage issues, but is likely also to be practically difficult since it would imply an increase in settlement rates for some markets in which the ILDO segment is competitive and which have substantial political interests in preserving low international settlement rates (eg the USA).

We believe that the core issue is the comparatively extremely low level of the termination (as opposed to international settlement) rates in India, which sets an artificially low floor price for international settlement rates. The TDSAT has recently pronounced that termination rates have been set on artificially low basis since very real costs, especially capital costs, have been excluded from the TRAI regulatory cost models. Since the Authority is currently initiating a subsequent consultation process on termination rates, we would suggest that the Authority completes that exercise, bearing in mind the issues that below cost termination rates create not only issues in terms of incentives for investment in Indian access infrastructure, but also incentives for investment in NLD and ILD networks and services which all represent critical infrastructure for Indian economic development.

Kind regards,

Sincerely yours,

**T V Ramachandran**
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