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Ref: **VC IPL Response to TRAI's pre Consultation Paper issued vide Press Release No. 58/2014 on 'Delinking license for networks from delivery of services by the way of Virtual Network Operators (VNOs)'**

By email to:  
advmn@trai.gov.in

Dear Sh. Sanjeev Banzal

We are pleased to provide our response to the questions and issues posed in the pre Consultation Paper on delinking of licenses for the networks from the delivery of services by way of Virtual network operators. We also understand that the issues raised and their determination by the authority would also be very relevant and apt for inclusion in the Unified license Phase-II which is also being deliberated through the current consultation exercise

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## **Introduction**

Verizon Communications India Private Limited (“**VC IPL**”) welcomes the opportunity to provide inputs for this very important and opportune pre-consultation paper on delinking of licenses for the networks from the delivery of services by way of Virtual network operators issued by the Telecom Regulatory Authority of India (TRAI) on September 3, 2014 (“**Consultation Paper**”).

By way of background, our Company VC IPL has been awarded NLD/ILD license by the Department of Telecommunication vide License No.10-44/07-CS-III(NLD-20) dated 3<sup>rd</sup> January 2008 and vide License No.10-07/2007-CS-III(ILD-14) dated 3<sup>rd</sup> January 2008 respectively. VC IPL has also been awarded ISP license by the Department of Telecommunication vide License no .820-619/08-LR dated 16<sup>th</sup> January 2009. VC IPL is a unit of Verizon Communications Inc which is a global IT & Telecom solutions provider catering to large and medium business and government agencies and serves 98 percent of the Fortune 500 companies. It provides enterprise data services to multinationals, enterprise customers and the BPO and ITES sector customers for their connectivity requirements in multiple locations across the globe.

In its pre Consultation Paper on VNO, TRAI has asked for inputs from the industry on the related issues which may arise and need to be addressed in case the proposed licensing framework is implemented

Before deliberating on the issues raised in the pre consultation, it would be relevant to quote from the recently announced National telecom Policy (NTP) 2012 which inter alia lays down the strategies of the NTP-2012 to Facilitate resale and the role of new technologies in furthering public welfare

Quote

“3.3. To move towards Unified License regime in order to exploit the attendant benefits of convergence, spectrum liberalization and facilitate delinking of the licensing of Networks from the delivery of Services to the end users in order to enable operators to optimally and efficiently **utilise their networks and spectrum by sharing active and passive infrastructure**. This will enhance the quality of service, optimize investments and help address the issue of the digital divide. This new licensing regime will address the requirements of level playing field, rollout obligations, policy on merger & acquisition, non-discriminatory interconnection including interconnection at IP level etc. while ensuring adequate competition”.

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3.8 To **facilitate resale at the service level** under the proposed licensing regime – both wholesale and retail, for example, by introduction of **virtual operators** – in tune with the need for robust competition at consumer end while ensuring due compliance with security and other license related obligations

11.2. To facilitate the role of new technologies in furthering public welfare and enhanced customer choices through affordable access and efficient service delivery. The emergence of new service formats such as **Machine-to-Machine (M2M) communications** (e.g. remotely operated irrigation pumps, smart grid etc.) represent tremendous opportunities, especially as their roll-out becomes more widespread.

Unquote

### **International Best Practice**

International experience aptly demonstrates that the competition in the Telecom & ICT space is gradually shifting away from traditional competitors ie Pure vanilla network operators to virtual network operators (VNOs). The new breed of companies/operators are not only competing with the traditional telecom companies on price or superior network but also on enhanced customer experience and moving away from traditional to innovative business offerings tailor made to suit the business requirements of enterprise as well as small and medium businesses.

The role of VNO in such a multi operator scenario is very critical especially for the proliferation of cloud and Machine-to-Machine (M2M) services which is expected to drive usher in the next wave of telecom revolution in India and the next big opportunity in the mobile industry. As per industry estimates, M2M is forecasted to bring billions of M2M Connections online in the next ten years. Gartner predicts that by 2020 there will be more machines connected than people.

Given the tremendous opportunity that lies untapped in the cloud and M2M space there is a need for the introduction of VNO's to tap the opportunity in this space, as a fraction of these projections represents huge growth for sector.

Identification and addressing the barriers that restrict resell would ensure more efficient use of infrastructure, leading to enhanced competition, availability of innovative services and affordability in the sector. The current license regime needs to be amended to permit resale of all fixed or mobile telecommunications services both at wholesale and retail level including through VNOs. This will help allow customers and operators to benefits, including faster roll out of services having less tele density.

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The focus of the government policy as reflected in the NTP-2012 has been to provide affordable access and efficient service delivery to the end users. Especially in the Indian context , where a vast majority of the population does not have access to basic healthcare services , emergence of new service formats that permit faster roll out and access to provide critical services can play a critical role in addressing some of these challenges. The role of VNOs for facilitating such M2M services thus becomes very relevant and becomes an important part of an Network operator's business model.

Globally it is seen that many MNO's are partnering with VNO's to be a part of the service delivery value chain and VNO's can really play a significant role in partnering with the MNO's to provide a bouquet of services in a more scalable and innovative fashion.

The VNO model can expand the distribution strategy of the MNO's and potential areas of innovation in the infrastructure sharing space.

Pursuant to the opening up of the telecom licenses for private sector in 1994-95, Telecom service providers in India have invested significantly in building the networks as part of their roll out obligations under the license, through the VNO , there is an opportunity for the network operators to leverage their already established networks & associated infrastructure and create innovative services and pricing plans and expand distribution channels for their services.

Traditional business models are also giving way to newer service formats as Business customers are becoming increasingly comfortable with service & pricing models that create maximum value for them. Internationally there are examples of TSP's embracing VNO business models to expand and drive growth.

In the US , as per the latest figures published by FCC there are more than 138 VNO operating in the US market as on first quarter of 2014 .

In ASPAC region\*, Australia mobile market has four main telecom operators and 43 VNO's , similarly in Hong Kong mobile market there are six MNO's and 11 VNO's . Thus all the above Global trends indicate that VNO is considered one of the ideal options for a service provider's and VNOs expansion and growth strategy.

Source: <http://www.mvndynamics.com/mvno-companies/north-american-mvno-companies/us-mvno-companies/>

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## Issues for pre Consultation.

The additional competition in India's telecom markets resulting from introduction of VNO measures will benefit Indian businesses and consumers and the economy as a whole by ensuring competitive prices, new and innovative products and services and expanded customer choice. In addition, it is vitally important that TRAI work towards ensuring clarity and transparency in the rules and regulations that relate to VNOs. Such clarity and transparency in India's regulatory framework provides new entrants the necessary assurance that they can compete on a fair and equitable basis and fully enjoy the benefits of market opening reforms such as these.

### Issue 1.

In the proposed likening framework, based on the VNO model, one issue could be whether the existing TSPs, will have to obtain an (Network Service Operator) NSO license or both NSO & (Service Delivery Operator) SDO licenses on migration to the new licensing regime? A linked issue for deliberation will be about the necessity of changing the licensing regime at all, at such a short interval since UL was introduced.

**VC IPL Response:** In our view the existing TSP's need not obtain a license for NSO & SDO on migration to the new licensing regime and their existing licensed could be suitably amended to incorporate the relevant terms and conditions related to VNO.

Our experience in the US market has shown that an important factor that has fostered VNOs in the U.S. has been the flexibility with which the VNOs are treated, such that entry barriers are very low. This flexibility has permitted proliferation of VNOs of the many different types & models identified by TRAI. For example, the FCC does not require a VNO to obtain a license specifically to resell wireless services. Thus, an authorized provider of long distance services may include resold wireless service in its package without any additional license specific to the wireless component. VC IPL therefore urges TRAI to consider adopting this approach and not require licensed operators to obtain an additional VNO-specific license in cases where these operators simply resell the services of facilities-based carriers. This approach will benefit the public by facilitating the prompt offering of a wide range of services pursuant to different and innovative business models. (Note that we believe this flexibility to resell services should apply equally whether the already licensed carrier is reselling wireless or fixed services of other licensed carriers.)

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## Issue 2.

Presently there are 7-13 licensees in various service areas. Therefore, another issue for deliberation could be about the need for introduction of more competition in the form of VNOs. Apart from access services, for other services like V-SAT, PMRTS/CMRTS, GMPCS, it needs to be deliberated whether any business case/revenue potential exists for a standalone Virtual Operator for these services

**VC IPL response:** In our view VNO should be introduced in the access services for voice, Video as well as data services.

## Issue 3.

In India, the TSPs have infrastructure, including spectrum, which is just about sufficient to cater to their own requirements. Would they really be able to spare their infrastructure for new SDOs?

**VC IPL response:** We understand that there is sufficient scope for infra-structure providers to provide access to their networks without having to diminish or degrade the services they offer to their customers.

## Issue 4

It can also be deliberated whether the reference of DoT envisaged an entirely new licensing regime or could be considered to mean that a chapter may be added to the existing UL for facilitating licenses to the VNO.

**VC IPL response:** In our view instead of an entirely new licensing regime, a chapter could be added to existing license to facilitate licenses to the VNO.

We would also like to refer to the reference by DoT dated July 7, 2014 to Authority under Point 3 wherein it clarifies that DoT in year 2013 had proposed to introduce Unified License(UL) in two phases. The first phase of UL was introduced in August 2013, we understand that the current reference by DoT is to address some of the additional and related aspects under UL phase two which will help move towards full convergence as well as facilitate delinking of networks from delivery of services.

DoT has requested Authority to submit its recommendations on VNOs including associated issues under unified licensing regime. Therefore it is apt and relevant to address the issue of allowing full convergence under the scope of pre-consultation.

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Therefore as it relates to existing licenses, authority may consider adding a separate chapter to the existing licenses to facilitate resale / VNOs. Alternatively a new authorization / registration based regime needs to evolve to take care of New entrants/ entities who may wish to enter the sector.

### **Associated Issues**

**Roll out obligations:** TRAI may wish to take note of the practice adopted in many international markets of exempting VNOs from many of the regulatory obligations applicable to MNOs, given the fact that VNOs often are niche players, For example, in the U.S., VNOs are not subject to the same types of build out rules that apply to MNOs that have licenses to use spectrum. Nevertheless, VNOs and other wireless resellers generally fit the regulatory definition of CMRS and are subject to many of the consumer protection and other regulations applicable to other CMRS providers.

**Nature of Agreement:** MNO and VNOs / resellers agreements should be driven by market / commercial negotiated terms without any need of regulatory intervention.

**Sharing of infrastructures:** In our view the sharing of infrastructure between the VNO and MNO should be a matter of mutual agreement and settlement. The emerging regime should allow for sharing of both passive and active infrastructures. The reseller / VNO should be able to provide services on the strength of complete infrastructure of MNO.

**Issue of spectrum usage charges: No comments**

**Allotment for the numbering resources:** The regime facilitating resale / VNOs should have necessary provision for allotment of separate numbering arrangement for better administrative purpose in line with national numbering plan. The resellers / VNOs should also have some capabilities to own some pieces of service delivery to be able to provide enhanced quality service to the end customers.

**Lawful interception:** In our view the assistance for lawful interception should be provided by MNO as the underlying network operator since MVNO would not have any control over the network over which services are being provided. There are additional considerations such as the implementation of CMS which need to be borne in mind while deliberating on this issue

Issue 5 : One issue for consideration could be that instead of introduction of VNOs in all areas of Voice, data and Videos, should MVNOs be allowed to function under the present UL framework?

**VC IPL response:** In our view VNO's should be introduced in all areas of voice, data & Videos

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Issue 6 : Another point for deliberation could be that today there is no licensing regime for application providers and Over-The-Top(OTT) operators. With the introduction of the proposed model, would those entities also need to take a license for providing these services

**VC IPL response:** In our view the regulator should follow light touch regulatory intervention model. Regulators around the world generally agree that the market itself, through commercial negotiations and legal enforcement, is best positioned to monitor the provision and growth of VNO services

In this regard, TRAI should be guided, for example, by the evolution of the pro-competitive national deregulatory framework for Commercial Mobile Radio Service (CMRS) prescribed by Congress and implemented by the Federal Communications Commission (FCC), which has enabled both facilities-based and resale wireless competition to flourish in United States, with substantial benefits to consumers and the U.S. economy.

### **Additional Considerations**

1. We recommend that **TRAI consider allowing resale both at wholesale and retail level including VNOs under the proposed phase two of unified licensing regime** or suitable authorization mechanism under VNO similar to those in Europe and the US where a single, easily-obtained authorization allows operators to provide a broad range of data and voice services, fixed and mobile, facilities-based and resold, which has created the most dynamic telecom markets in the world with providers continuously able to offer new and innovative packages of services in response to customer demand and technological developments.
2. Regardless of how TRAI eventually decides to treat VNOs in India, however, it is vitally important that **TRAI work towards ensuring clarity and transparency in the rules and regulations that relate to VNOs** as an affirmative signal to new entrants and established players alike that this segment of India's telecom market is open and that all are able to compete on a level playing field.
3. It is also important that TRAI ensures when opening up any reseller market that the license fee regime does not frustrate the very goal of promoting competition and creating a level playing field among all service providers. Specifically, **the license fee should not operate as a multi-stage and cumulative tax**. Facilities-based operators such as MNOs relying on their own networks need only pay the license fee once, while the services that operators such as VNOs buy from other operators are subject to the license fee twice – once when they are sold from the first network owner (MNO) to the

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second operator (VNO) and then again when the second operator sells them to the end user. Thus, a telecom operator who buys inputs from other licensed operators is placed at a competitive disadvantage with those who do not need to buy these inputs if the license fee is levied at every sales point in the supply chain. In addition to creating this inequity, the license fee may have the effect of frustrating the Consultation Paper's goal of promoting competition and creating a level playing field.

4. VCIPL urges TRAI to consider the adoption of one of the following two suggestions as part of its VNO licensing regime to avoid this double taxation: the application of an excise tax or a value-added tax. Under an excise tax regime, the license fee applies only to transactions where the service is provided to an end user. Intermediate or wholesale transactions where the purchaser is another carrier are not counted. Under a value-added tax regime, all providers would contribute on the basis of all of their sales; however, each carrier would be able to deduct the value of any telecom services it has purchased
5. While considering VNO, we also request to **address the issue of Convergence of Service / Networks / Devices i.e CUG/VPN-PSTN/Public network interconnection in line with the objectives of NTP-2012** which has not been duly recognized in the phase one of Unified License. This will be a key policy enabler for the BPOs/Enterprise Data services segment and fuel further growth of this very important sector. Convergence will enable sophisticated , Advanced and Open IP platform which will enhance the end-user experience and will efficiently address the growing business needs by leveraging on the best of both worlds.

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