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सत्यमेव जयते

भारत सरकार
नीति आयोग, नीति भवन,
संसद मार्ग, नई दिल्ली–110 001
NATIONAL INSTITUTION FOR TRANSFORMING INDIA
NITI Aayog, Parliament Street,
New Delhi-110 001

D.O No. 01/20/2020-Tpt.

February 28, 2020

Dear Shri Sharma,

Ref. TRAI's consultation paper dated 17.12.2019 on "Tariff Issues of Telecom Services." Comments of NITI Aayog are as follows;

2. The consultation paper itself highlights that market interventions in the form of price controls such as the proposed minimum floor price are likely to disincentivise competition on cost efficiency, price, and quality parameters, and deter new entries and innovation. In fact, the greatest disruption in recent years was the entry of a new player with better technology who made significant inroads into the market thanks to very low tariffs. This brought intense competition and growth to the market. Setting a price floor now could prevent similar new entry riding on disruptive technology and deprive customers of benefits of competition. Needless to say, the floor price will reallocate consumer surplus to the incumbent players.

3. Though low in absolute terms, Indian data tariffs as a percentage of per capita income in PPP terms are higher than those of developed countries. In July 2019, India ranked 130 out of 144 countries in broadband speed. Thus, we pay a higher percentage of our per capita income per GB of data for a relatively lower quality offering. Further, given that the consultation paper indicates that data revenues are higher than costs, the justification for setting of a minimum floor price is questionable.

4. The consultation paper does not cover the impact of the recent tariff hikes. Nor does it contain any information on the price elasticity of demand. However, the increase in data tariffs in what is acknowledged to be a price sensitive market is most likely to reduce subscription and consumption which would have a negative cascading effect on the economy; the opposite of the multiplier effect of increasing data consumption.

5. With a less than 50% broadband penetration and a rural internet penetration of about 27%, India has a long way to go in terms of universalizing access which is necessary to bring about the digital transformation that would underlie our ambition to become a USD 5 Trillion economy.

6. The sole justification for price floor is apparently to ensure that incumbents receive higher revenues which would shore up their financial situation which is under stress on account of heavy debt including pending statutory levies. This has been highlighted in the context of the need for 5G roll outs.

7. TRAI has referred in para. 2.24 of the Consultation Paper to its responsibility to ensure the orderly growth of the sector. This should include maintenance of a competitive environment that encourages new business models and entry.

8. There is a need to examine the contribution of the existing licensing and regulatory framework to the stress of the sector. A rigid framework riddled with legacy issues that places a heavy compliance burden on industry and discourages new business models is not in keeping with the promise of a dynamic sector like digital communications.

9. The present crisis in fact presents an opportunity to urgently carry out radical reforms in the regulatory regime transforming it into one that is fit for purpose. This would not just aid recovery, but also place the Indian Telecom Sector on an even stronger footing to play its role as a key enabler of economic growth.

10. However, if at all a measure such as tariff floor is considered imperative on account of inability to address the financial stress of the sector by any other less market distorting means; this should be a very short term intervention. It should be limited to higher end/higher consumption data plans and be reviewed with proper analysis to understand the impact on data subscription and consumption within three months of introduction.

11. This has the approval of CEO NITI Aayog.

With best wishes,

Archana G. Gulati

(Dr. Archana G. Gulati)

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