**Telecom Regulatory Authority of India**

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# TRAI Revises Ceiling Tariff for Domestic Bandwidth

**Revised ceiling tariff for different capacities reduced by 3 to 70% - for higher capacities 70% less than existing market rate**

**Consultation Paper to be issued on measures to promote further competition in Bandwidth market**

**Recommendations to come from TRAI on USO Funding to Bandwidth providers in rural/remote areas**

Close on the heels of fixation of tariff for IPLC (International Private Leased Circuit), the Authority has revised the ceiling tariff for Domestic Bandwidth (Domestic Leased Circuit) fixed originally in the year 1999.

Domestic Leased Circuit (DLC) is the medium of carriage of data and voice services within the country. The service is provided by Basic Service Operators / Unified Access Service Licensees, National Long Distance Operators and Infrastructure Service Providers Category II. The key users of the service in India are Internet Service Providers, Informational Technology (IT) and IT-Enabled Service Enterprises like Business Process Outsourcing Units, Telecommunication Service Providers, corporate enterprises, etc.

The Authority found that competition was not fully effective in the provision of DLCs despite the increase in the number of players in the market. Further, rapid technological advances have sharply reduced the unit cost of long haul bandwidth but the reduction witnessed in the leased line tariffs is not commensurate with the reduction witnessed in the cost of providing the services. The reduction in the tariff for leased circuits seen in the market is largely restricted to selective routes and in selective capacities. The Authority also found that a competitively priced DLC Service is fundamental to achieve a

**higher rate of penetration of Broad Band** in the country, which provides a basis for fundamentally transferring the socio-economic opportunities, particularly in **rural India**.

The Authority had initiated a consultation process by issuing a consultation paper in the year 2004 with a view to revise the ceiling tariff in line with the reduction in the cost of providing services. This consultation process has culminated in the issue of this Amendment ($36^{th}$) to Telecommunication Tariff Order.

Briefly, the Authority has fixed revised ceiling tariff for the most commonly used capacities/speed i.e. 64 kbps, 128 kbps, 256 kbps, E1 (speed of 2 Mega bits per second), DS-3 (speed of 45 Mega bits per second) and STM-1 (speed of 155 Mega bits per second). The **revised ceiling tariffs** in respect of DLC are summarized in the Table given below:-

| Capacity / Speed | Existing Ceiling Tariff (Rs. In lakhs) | Existing Market Rate (Rs. In lakhs) | Revised Ceiling Tariff (Rs. in lakhs) | Reduction with respect to Market Rate (%) |
|---|---|---|---|---|
| 64 Kbps | 0.96 | 0.96 | 0.44 | 54 |
| 128 Kbps | 1.72 | 1.72 | 0.79 | 54 |
| 256 Kbps | 2.97 | 2.97 | 1.36 | 54 |
| E1 (2 Mbps) | 22 | 8.80 | 8.50 | 3 |
| DS-3 (45 Mbps) | 462 | 185 | 62 | 67 |
| STM-1 (155 Mbps) | 1386 | 554 | 165 | 70 |

Note: Tariffs given above are in respect of distance slab 'above 500 kms'.

**Other Features of the Tariff Order**

- The tariffs fixed are in the nature of ceiling tariffs and operators are at liberty to offer rates that are lower than the ceiling fixed by the Authority.

- Discounts and ceiling tariffs when offered shall be transparent and non-discriminatory based on laid down criteria and subject to reporting requirement.
- The ceiling tariff prescribed by this Order will take effect from 1st May, 2005. Pro-rata corrections wherever applicable must be made to any advance payments that might have been made for leased circuits on the basis of prevailing tariffs.
- Providers of leased circuit shall report to the Authority the commercial and economic basis of various terms and conditions governing Rent and Guarantee and other similar schemes meant for providing leased circuit when spare capacity is not available.

In the determination of ceiling tariffs, the Authority has adopted Bottom-up Model using cost of network elements involved in the provision of Bandwidth services based on data on costs provided by various operators. The Authority could have used Forward Looking Long Run Incremental Cost in line with international practice but has not done so mainly with a view to prevent a major shock to the service providers and thus to manage the transition to full competition in a smooth manner.

The Authority recalls the growth experienced in mobile telephony consequent upon tariffs declines witnessed in India. It would be reasonable to expect that the same story would be repeated in the growth of Broad Band/Internet and other data and voice services that are crucially dependent upon Domestic Bandwidth. The growth in demand induced by the lower prices being mandated by the Authority will itself act as demand stimulant leading to higher utilization of capacities of the operators leading to a win-win situation for consumers/service providers, as was abundantly witnessed in the mobile market in India where lower tariffs led to higher profits/reduced losses for operators due to growth. The Authority will review the situation with regard to developments in the DLC segment after a year.

## Further Measures to Promote Competition

Internationally, it is common practice for the tariffs to be regulated until the competition in that market has developed to a level where the Regulator can safely withdraw and allow forces of competition to impose effective market discipline on prices. This appears to be the approach adopted by most overseas Regulatory Authorities prior to competition getting established in those markets. A major finding of the Authority is that the DLC market lacks effective competition in India on account of various factors. While fixing the ceiling tariff based on costs, the Authority has also underlined the need to take further measures to enhance competition in the DLC market, which would be subject matters of another consultation paper that the Authority would issue in due course.

## Promoting Growth of Rural Networks

Recalling the recommendations of the Authority on Broadband initiatives and the subsequent Broadband Policy of the Government, the Authority has reiterated the need for enhancing Broadband penetration in the country with particular emphasis in rural and remote areas. In this regard, the Authority would consider making Recommendations to Government on the issues of providing direct support from USO Fund to Bandwidth providers in rural/remote areas.

It may be pointed out that the total domestic leased line business of different operators varies from 0.5 to 2 per cent of their present turnover. Any short term reduction in revenues consequent to reduction in tariffs will not have any impact on the business of these operators whereas it may lead to explosive expansion of the market as it happened in mobile sector. Reduced profit margins, if any, in the short term will be more than made up in the medium term.