

AUSPI/12/2004/211

December 7, 2004

Shri Pradip Baijal
Chairperson,
Telecom Regulatory Authority of India,
A2/14, Safdarjung Enclave,
New Delhi – 110 029.

Sub: AUSPI Response to TRAI Consultation Paper No. 16/2004 on Growth of Telecom Services in Rural India: The Way Forward

Dear Sir,

AUSPI is pleased to furnish its response to TRAI Consultation Paper No. 16/2004 dated 27th October 2004 on Growth of Telecom Services in Rural India: The Way Forward.

AUSPI requests the TRAI to consider its views as mentioned in the enclosed response while making recommendations on the above subject.

Thanking you,

Yours faithfully,

S C Khanna
Secretary General

Encl.: a/a

CC: Dr D P S Seth, Member, TRAI
Mr P K Sarma, Member, TRAI
Dr Arvind Virmani, Member, TRAI (Part Time)
Prof. Sanjay Govind Dhande, Member, TRAI (Part Time)
Secretary, TRAI
Mr. Rajendra Singh, Advisor (MN)
Dr M Kannan, Advisor (Eco), TRAI
Mr R K Bhatnagar, Advisor (FN), TRAI

AUSPI'S RESPONSE TO TRAI CONSULTATION PAPER NO. 16/2004
ON GROWTH OF TELECOM SERVICES IN RURAL INDIA:
THE WAY FORWARD

INTRODUCTION

Spread of telecommunications to rural area should be a strategic policy from all angles. It would help rural areas to access market place through telecommunications, thus providing a good opportunity in the country's economy. A rural spread requires not only access through telecom network but also effective policies, incentives and involvement of people.

The TRAI in its consultation paper has rightly acknowledged two very crucial aspects relating to telecommunications development in our country:

- i) That telecommunications networks are an aid to enhance the growth of the national economy.
- ii) That though overall tele-density in the country has shown impressive growth, rural telecom growth continues to be slow

In this context the roll out and availability of a robust telecom infrastructure in rural areas should be a key strategic initiative by the policy maker and regulator alike. All stakeholders – including the private sector – should be made stakeholders to achieve this objective. A widely available rural telecom network would provide unprecedented opportunities for growth of our country's economy as a whole. As such an enabling policy framework with incentives is a key requisite for this.

As a first step, the development of telecommunications infrastructure in rural areas would have to aim at providing community based services (like tele-centres or kiosks with internet connectivity). Though this has already been partially envisaged in the USO policy its implementation is still unsatisfactory. In order to achieve these targets the key requirements would be:

- a) A mandated policy for interconnection availability on demand in rural areas
- b) Participation of state and local government to utilize infrastructure created in rural areas for promoting e-governance services
- c) Provision of loans from local financial institutions at nominal rates
- d) A facilitating environment for encouraging agri-based commerce online

TRAI has mentioned a few issues in this consultation paper for achieving higher growth of telecom services in the rural areas and has proposed introduction of 'Niche Operators' to provide fixed telecom services in SDCAs having fixed rural teledensity of less than 1%.

The above definition is ambiguous/confusing. The confusion is further compounded in view of para 2, clause 3.2.1 of consultation paper.

Quote

“ It may be recalled that mobile networks will only cover about half the villages. Several other villages could be covered through ‘Niche Operator’ concept. These villages will be those that have less than 1% teledensity, as defined for the ‘Niche Operator’ concept in the Unified Licensing draft recommendations.”

Unquote

Our submission is that based on the above description in the consultation paper if niche operators are introduced, the definition should be “Niche Operators to provide fixed telecom services **in rural SDCAs** having fixed teledensity of less than 1%.”

Introduction of ‘Niche Operators’ by carving out parts of Unified Licensee’s service area and bestowing them sops like no registration fee etc. will create unnecessary complications of level playing field issues.

It is further submitted that TRAI should not rule out the possibility that Niche Operators can be franchisees of the bigger network operators. This is especially important since the growth of rural tele-density should envision and encompass provision of high speed data connectivity including broadband application since a rural broadband network has to be designed to capture all possible revenue streams.

FINANCIAL INCENTIVES & REGISTRATION FEE

Adequate financial incentives are also crucial to encourage faster roll out in rural areas and this would expedite the achievement of rural teledensity targets. In this context we would like to propose the complete removal of the following levies:

- i) Access Deficit Charge on all operators
- ii) Service Tax for telecom services in rural areas
- iii) Customs and Sales Tax levies on infrastructure equipment used for network roll out in rural areas

We would also like to state that introduction of “Niche Operators’ without the right registration and entry fee charges as paid by other operators (including the Unified Access Service Operators) will raise other issues of level playing field and this should be adequately addressed as has been done in the past.

It would also be useful if information relating to the number and details of SDCAs which have fixed rural teledensity of less than 1% were to be made available for the benefit of all operators.

Finally we would like to highlight that it would be essential to clearly indicate the exact spectrum allocation procedures and policies to be adopted for Niche Operators. The frequency bands in which they are proposed to be introduced

and the pricing principles for the same including the types of services that can be offered on that band. It is necessary that bands already reserved for mobile services (CDMA and GSM) should be excluded since there is already a scarcity of spectrum in these bands for all operators. The NFAP should also adequately address this aspect.

Addressing all the above issues would be extremely important in order to define a transparent and unambiguous policy framework for achieving rural teledensity by introducing Niche Operators.

ISSUES FOR CONSIDERATION

- 1. This consultation paper has discussed various issues related to Growth of Telecom Services in rural areas. Please give your comments on them and suggest any additional point to achieve higher growth of telecom services in rural India.**

The most important issue is the need to have lower prices for services. This pricing is due to access primarily. Our suggestion, therefore, is that there is a great need for enhancing the fiscal incentives including lower taxes, lower duties and tariff forbearance for operators to create access and broadband networks in rural areas.

As has been highlighted by the recent CII study on Broadband, the effective impact of customs duties on capital expenditure is between 20 to 25% thereby making setting up of kiosks and networks in rural areas unviable. Other taxes like entertainment tax and service tax affect the operating costs to the extent of over 35 to 40% of revenues. This distorts the sustainability and breakeven points for rural markets. It is, therefore, recommended that the government should waive all duties and taxes for all rural telecom and broadband investments.

In addition to policy issue, a broad agreement has to be reached by the Regulator and Govt. with other stake holders for the growth of telecom services in rural areas. This synchronization is essential for the spread of telecommunications in unserved areas.

It is thus our submission that regulatory incentives for rural markets should take into account the business and commercial imperatives for rolling out networks in these areas.

TRAI has discussed various issues to enhance growth of telecom services in rural areas and has opined that a largely self sustainable business model can be created for the telecom services even in most backward areas.

Our comments on some of the issues identified are as follows:

- **Coverage of mobile networks mostly urban areas (1700 towns covering 200 million people):** Over the last two years, and specially

with launch of CDMA services on a country-wide basis, mobile telephony has expanded rapidly. All service providers rapidly expanded their networks to reach out to uncovered areas. Primarily, these have been urban and semi-urban areas which have got cellular coverage but rural areas coverage is there in a very limited manner. This has led to about 20% teledensity in urban areas. The Authority has in the Consultation Paper elucidated the future plans (next two years) of all mobile operators comprehensively which shows that over 4900 out of the 5200 towns would be covered along with 3.5 lakh villages out of the total 6.07 lakhs. It has been further explained that this would translate into telephone access to 300 million people in urban areas as well as 450 million people in rural areas thereby covering 75% of the population.

In the following paragraphs, we explain what has led the operators to go into the rural areas on such a large scale in a short span of two years, something which has not been achieved in the last 10 years ever since we have been making concerted efforts to provide rural access.

- **High penetration levels reached in urban areas:** With increasing competition and falling tariffs, ARPUs have also fallen substantially in urban / semi-urban areas where operators are providing services today. Affordability of services is a key factor which has led to this exponential growth in the last two years. With marginal levels of tariff having been reached, profitability and long-term sustainability can only be achieved with an expanded coverage of the networks. This explains the rush towards rolling out services in smaller towns and rural areas in the next two years. Certainly, an early-mover advantage would prevail and no operator is leaving any stone unturned to cash in on this opportunity. TRAI has correctly termed this as an opportunity rather than an obligation. It is without doubt that local content along with innovative value-added services would fuel growth in hitherto uncovered areas, particularly rural areas. What is primarily needed is network expansion which will yield an expanded market with tariff forbearance.
- **Slowdown in VPTs / rural DELs in last 3 years:** With the tremendous cost advantages of wireless networks, operators had directed /are directing their maximum efforts in rapidly rolling out mobile services in uncovered areas.
- **Overall ICT usage lagging behind due to high cost / price to the end subscribers:** Serious efforts from policy makers and industry alike would need to be made towards reducing the cost of services to the end subscriber. While tariffs for telephony may have come down to very low levels, they still remain considerably high for other segments in the ICT arena, thus impeding growth. Parallel work needs to be done to develop locally relevant content both from the Government as well as the industry's side apart from reducing tariffs which will spur

growth. We cannot let a “chicken and egg” situation to happen and non-action on any front may result in a lost opportunity which will be detrimental to the nation as a whole.

- **Availability of finance - USO Support:** In line with the USO Policy, finance should be made available for provision of rural telephony which means that this should be available for provision of broadband and voice connectivity in rural areas through internet dhabas and net high cost DELs in rural SDCAs. Funds should be available to all operators going to rural areas for both capital as well as operational expenses.

2. Should ‘Niche Operators’ as discussed in this consultation paper get support from Universal Service Fund?

AUSPI has maintained that the concept of ‘niche operators’ can cause serious disruptions in the level playing field scenario. **Instead if the benefits envisaged for ‘niche operators’ were to be extended to the present network operators they would be able to fulfill the same targets** with their already existing networks in place. Even if niche operators are to be allowed, all the benefits granted to them should also be made available to the unified licensees who also set up networks in these remote areas. This is important since unified licensees have paid high registration charges.

If Niche Operators are introduced, support from the Universal Service Fund could be **provided to them on the same lines as that available to other Access Providers.**

Further, AUSPI suggests a ‘franchisee model’ for spread of telecom service in the rural SDCAs. It would be in this direction TRAI should work out a ‘model franchisee agreement’ to be followed by the Unified Service licensees.

3. Instead of subsidizing final product, should the subsidy be given on inputs like bandwidth and spectrum charges?

Support from Universal Service Fund should be the way forward. However, subsidy on inputs like interconnection, bandwidth, co-location with the incumbent, spectrum charges, facility for interconnection with incumbent etc. be given, instead of subsidizing final product.

It would also help if the following additional measures were adopted for rural network roll out:

1. Permit use of available electric poles for laying overhead fibre
2. No WPC License fees for VSAT connectivity apart from leasing satellite bandwidth on subsidized price
3. Permit operators to allot a range of numbers for Rural Communications and inform DoT of the same. This range should then be made available

to all other operators. No IUC charges should be levied for both originating & terminating calls on these numbers.

- 4. In this paper it has been proposed that telecommunication facilities capable of offering multiple services including telephony using modern wireless technologies for access offer a near self sustaining model in rural areas which can be implemented through subsidization of input costs from Universal Obligation Fund. Do you agree with this proposition? Offer your comments.**

Yes, we agree. It would be viable to allow provision of entire range of services in rural areas. i.e., the viable rural model would be the aggregator approach – like that of a tele-centre or kiosk. This would essentially mean the deployment of broadband networks for voice, data, video and e-governance applications all rolled into one.

Multiple services being derived from modern wireless technologies for access are similar to the concept of by-products in a manufacturing activity. This will certainly generate revenues which will be helpful since it will reduce the dependence on subsidies from USO and gradually move towards self-sustainability.

- 5. For increasing the percentage population exposure to cellular mobile services, should sharing of infrastructure such as buildings, tower, etc. be mandated through regulation with appropriate commercial compensation being provided to owners through regulatory intervention?**

For increasing the percentage population exposure not only to cellular mobile services but to all telecom services, sharing of physical infrastructure such as buildings, towers etc. should be on mutually agreed commercial terms. In the event of discord, TRAI may intervene to mediate.

- 6. Do you visualize any other initiative which should be taken by TRAI as to achieve the growth of telecom services in rural India?**

The rural economy in India which houses 70% of the population exhibits tremendous robustness which is evident from the fact that it accounts for a large pie of FMCG, consumer durables / white goods, automobile / two-wheeler / tractor sales among a host of other industry sectors in our country. Therefore, the problem is not of affordability. With the present tariff structure, telephony is certainly affordable for the rural masses. However, the rural folk need to be shown the benefits they could derive from this connectivity.

It is here that the Government - both Central and State can step in as a major user and help fulfill its social objectives in health and education. Rural artisans can market their handicrafts through the internet and sell their products in a global marketplace. Farmers can access information related to the crops they sow, from agricultural universities and wholesale markets where they will sell their produce. Therefore, it is all about local

content development. Large scale efforts from the Government and Industry need to be made towards this end if we are to reap the benefits of ICTs. Apart from this, some specific actions which are necessary to kick-start the entire process are given below:

- Removal of all kinds of levies / taxes, etc. which go to increase the input costs thus pushing up end costs – no service tax, spectrum charges, etc.
- PC ownership to be facilitated for village community centre (public access through kiosk) through availability of zero-interest loans.

7. Do you think that we can sustain USO subsidy model in the long run?

USO subsidy model has to continue till the time teledensity reaches the expected level.

The USO subsidy model is a self sustaining model in the long run since the market is expanding and with turnover increasing the USO Contribution is also going to increase. Consequently, over time more areas are going to be covered under telecom networks which will over time reduce the dependence on USO subsidy. Therefore, the subsidy model is essential today to reach the uncovered areas and soon the rural economy in these areas will generate revenues for its long term self sustainability. The USO target of 7 years seems workable to connect all of India's villages with public telephone access.

8. Locally relevant software will have to be developed. What steps could be taken to develop such software and data base and what should be government role in this?

The most important issue is the availability of relevant local content. The availability of this content would encourage the usage and development. In this direction our views are that the following steps may be taken by the Govt. to develop locally relevant software and data base creating awareness in the various sectors:

- a. Promote all major national languages for the internet usage.
- b. Proper support for unicoding these national languages.
- c. National plan for state wise E-vision development programme.
- d. Participation of all related ministries/ Departments of central and state Govt. to push programmes for rural development, agricultural services/ training to the farmer etc.
- e. Placement of all programmes/ data base on the internet.

There have been encouraging announcements / developments recently reported in the media that global software giant Microsoft is soon developing software in major Indian languages. This will promote use of ICTs immediately in all rural areas as the rural community will be able to use computers in the languages they understand. This is one of the major reasons for the success of internet in some of the East Asian economies. English language is not commonly used in these countries, but due to Windows and MS Office being available in major local languages, the use of computers is very high. This success can be replicated in India too.

Apart from such initiatives being taken by global software companies, the Government, particularly state governments will have to step in as a major contributor to content development that too in the local languages so that the information can be used by the rural community. Government can fulfill many of its social objectives through the internet. It is when such content is available that usage will rapidly increase. State Governments can effectively host wide ranging information which can be accessed by villagers across the state as and when it is needed. That is when there will be value for the rural population.

Industry too will have to leverage the internet to maximize their revenues through e-commerce and bulk of this will have to be in local languages otherwise there will be very little off-take. The banking and insurance industry can gain significantly with local content

development to effectively market themselves. In this manner, the rural economy can be integrated with the global economy.

The key area of support would be :

- a) e-governance
- b) e-health
- c) e-education
- d) e-entertainment
- e) e-commerce

9. Share your experiences within and outside the country which establishes the linkage between growth of telecom services and economic growth of an area with particular reference to rural area economy.

It has been found by many researchers that investment in telecommunications infrastructure and the resulting improvement in telecommunications services have consistently led to economic growth. Improved telecommunications has helped both urban and rural communities.

Studies have found that economic benefits of telecommunications investment stem from the increased productivity of business using telecommunications and the improved education, health and social services the telecommunications made possible. In all cases, telecommunications is a catalyst for or a complement of other development activities. Telecommunication access would increase the awareness level and thus encouraging the same for use for market place activities.

The “net” is an important business opportunity for rural businesses seeking to expand their markets, but that avenue of growth is blocked for them if no local internet provider can offer a network server on which local business could put up their “home pages” or give consulting help to show them how to do it.

Telecommunications-intensive applications like e-commerce, e-education, telemedicine etc. will be the way rural communities use improved telecommunications to improve their economies and their quality of life. The relationship between telecommunications investment and rural development is not some distant, abstract concept. It is the practical business of installing in rural communities the networking capabilities that will make a difference to the lives of rural residents.

Netherlands Foreign Investment Agency news report (posted November 10, 2003) says Investment in ICT boosted GDP growth in Netherlands.

It is believed that investments in information and communication technology (ICT) by the Netherlands, the United States, Canada and Australia boosted the gross domestic products (GDP) of those countries

more than the other member nations of the Organisation for Economic Cooperation and Development (OECD) between 1995 and 2001, according to the “OECD Science, Technology and Industry Scoreboard 2003.”

