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TRAI's latest proposals to cut interconnect charges may lower call rates

NEW DELHI: Telecom regulator TRAI has fired the starting gun on radical changes in the mobile sector by proposing deep cuts in charges paid by operators to each other, a move that could lower tariffs for consumers but worsen the rancour in a deeply divided industry.

The Telecom Regulatory Authority of India on Thursday set the ball rolling on its review of so-called "interconnect charges", seeking views from mobile operators on a range of proposals that even include the possibility of doing away with call termination charges.

Interconnect charges are fees mobile operators pay one another for using their networks for originating, carrying and terminating calls. These charges, which include top rates of 20 paise a minute in termination fees and 65 paise a minute for carrying STD calls, account for as much as 75% of the total cost of a mobile call.

Kicking off its first review of these charges since 2009, TRAI said the launch of the services by new operators and the introduction of per second billing had made it "necessary to have a re-look" at these charges. It said its discussions with mobile companies revealed that some of them wanted do away with termination charges altogether and sought wider inputs on the feasibility of a "zero termination charge".

TRAI acknowledged the complaints of smaller and new operators that incumbents gained most from termination charges and sought the industry's response of having a lower slab of charges for new entrants. It said that globally, many regulators had allowed new entrants to enjoy lower termination charges to help remove barriers to competition as these players had little to offer in negotiations with incumbents.

Experts said the TRAI move was likely to divide the industry once again, with bigger, older operators with a large customer base likely to oppose the proposals, while newer entrants and those with fewer customers welcoming the changes. The incumbents and newer operators are already at daggers drawn over a raft of issues and the TRAI's latest move comes at a time the sector is in the cross-hairs of a sweeping investigation over the 2G scam.

The country's No. 1 mobile operator, Bharti Airtel, recently told TRAI that the costs of building and operating networks should be taken into account when determining termination charges and cautioned against extending "undue privileges or subsidisation" to new operators.

Another incumbent operator, Vodafone Essar, said in its submission to the regulator that interconnect charges needed to be cost- based and investment-friendly. "Adopting any methodology which does not take into account all costs, will only encourage a destructive retail price war and urban cream-skimming, which would be clearly inconsistent with the principle of sustainability."

But the Association of Unified Service Providers of India, an industry body representing firms such as Tata Teleservices and Reliance Communications , urged TRAI to cut all components of interconnect charges right away. It said internationally too, these charges are reviewed every two years and had fallen by 50% during this period.

Tata Teleservices said the 33% cut in 2009 had led to an explosive growth in the mobile sector. "This is an ideal stage for increasing competition by drastically reducing termination charges.Such a step would result in tremendous savings to the consumer, who would directly benefit by a reduction in tariff and would lead to the next round of explosive growth," it said.

Older operators with large customer bases gain most from termination charges because the ratio of calls ending on their networks is far greater than calls made by their customers to networks of other operators. Large operators also enjoy the benefit of so called "on-net" calls, in which they do not pay termination charges because a bulk of the traffic stays within their networks, for instance, a Bharti Airtel Delhi customer calling an Airtel user in Mumbai or Delhi.

But some experts say new entrants and those offering services on the CDMA technology platform typically have a larger base of low-end users and these companies receive more calls than their customers make.

Operators are allowed to charge lower amounts than the specified rates based on mutual agreements they have with each other. A cut in interconnect charges could also help many mobile phone companies reduce losses as they already offer calls below cost.

The TRAI said its focus in the latest round of consultations would go beyond calls. The regulator said it would also look at the rates of text messages because new operators had questioned higher termination and carriage charges for SMS by existing service providers.

"According to many stakeholders SMS tariff does not appear to be as competitive as that for voice call. There may be a huge difference in cost of providing these two services. However, tariff for both these services are almost in the same range," it said.

The regulator also sought the industry's views on imposing additional charges on bulk SMSs following complaints from leading operators that bulk SMSs offered at very low rates by some players had been flooding their networks impacting the quality of voice calls and other services.

"There is a possibility that such imbalance could impact the networks receiving the large proportion of SMS traffic and may justify regulatory intervention," it said.

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