

Telecom Regulatory Authority of India**Press Release No. 24/2005****11th March, 2005****TRAI Fixes Ceiling Tariff for International Bandwidth****Tariff for International Bandwidth segment regulated****TRAI found market failure in International Bandwidth market****Ceiling Tariff for higher capacities is reduced by about 70% and for lower capacity by 35%.**

International Bandwidth is the medium of carriage of data and voice services across countries in the world. The International Bandwidth service is provided through international private leased circuits (IPLC). The International Bandwidth service is generally provided through submarine cable systems and through satellite media and in India submarine cable systems is the most predominant mode of delivery of IPLC services. The providers of the service are the International Long Distance operators. The main users of IPLC in India are Internet Service Providers, Informational Technology (IT) and IT-Enabled Service Enterprises like Business Process Outsourcing Units and International Long Distance Operators etc.

The IPLC Leased rentals i.e. the charges for using the services of the international leased circuits were found to be higher in India than in many countries owing to **lack of effective competition in the market**. For instance, effectively in India there are only 3 operators who provide this service as against 14 operators in Korea, 24 in France and 32 in Germany and USA (New York). The Authority found that it is essential to make this key input available to various economic and social activities at a competitive price because the market forces are not effective. Also because the competitive advantage of the user industries can be enhanced in the global market. The Authority also found that a competitively priced IPLC 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 examine the possibility of regulating the IPLC market. This consultation process has culminated in the issue of this Amendment (34th) to Telecommunication Tariff Order. Thus, for the first time the Authority is regulating the tariff for International Band Width.

Briefly, the Authority has fixed ceiling tariff for three most commonly used capacities/speed i.e. 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 **salient features of the tariff** fixed in respect of international bandwidth are as under:-

- The ceiling tariff for IPLC half-circuit in respect of E1, DS-3 and STM-1 capacities are Rs. 13 Lakhs, Rs.104 lakhs and Rs.299 lakhs per annum respectively. Operators are at liberty to offer tariffs that are lower than the ceiling tariff fixed by the Authority.
- These ceiling tariffs fixed result in a reduction of 35%, 71% and 70% in tariffs for E1, DS-3 and STM-1 capacities respectively (as compared to the existing listed price prevalent in the market for the distant destination i.e. India-USA). Thus, the reduction has been higher in higher capacities, which would be more in demand in future.
- The prescribed ceiling tariff would be applicable for all destinations, capacities and types of cable systems used for carrying either voice or data.

- The service providers are required to offer Standard Tariff Package containing tariff for half circuits for all routes/destinations for which circuits are offered.
- The tariff for capacity/speed below E1 is kept under forbearance i.e. left to market forces as the demand in future will be mainly for higher capacities.
- The tariff for IPLC offered through satellite media is kept under forbearance i.e. left to market forces as the submarine cable systems is the most predominant mode of delivery of IPLC service.
- The ceiling tariffs prescribed by this Order will take effect from 1st April, 2005.

The ceiling tariffs have been determined primarily on the basis of the incumbent. Forward-looking Long Range Incremental Costs (FL-LRIC) would be increasingly used from next year.

In arriving at decisions at the end of the consultation process (as given above), the Authority inter-alia considered the existing market conditions in India for IPLC including prices, its market structure, the conditions prevalent elsewhere in the region and the practices governing regulation of IPLC in other jurisdictions.

It has been found that the International market for Bandwidth has witnessed a deflationary spiral for more than five years owing to a number of factors. This did not happen in Indian IPLC market. For instance, as against 45% (CAGR) decline in the IPLC rentals elsewhere in the world, the decline in India was only to the extent of 10%. It is apparent that this has been due to lack of competition in the Indian market requiring regulatory intervention.

Internationally also, 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 IPLC 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 remove bottlenecks in cable landing facilities and enhance competition in the IPLC market, which would be subject matters of another consultation paper that the Authority would issue in due course.

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 International Band Width. 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 that would have secondary effects in pushing down the price levels. The Authority will, therefore, review the situation with regard to developments in the IPLC segment within a year.

The Authority would shortly issue the Tariff orders revising the existing ceiling tariff in respect of domestic Leased Circuits (domestic bandwidth).