the longer term, with the introduction of USL, a USL operator would be able to provide IP telephony, but without the restrictions that currently apply to ISPs (namely, termination of calls on the PSTN network, restrictions on computer-tophone calls in India, etc.). In such a scenario, the greater freedom available to USL players in deploying VoIP may overcome the edge conferred on the ISPs by the discounted licence fees.

Rajat Sharma IP telephony has not been a success till now. If one looks at the revenues of the ISPs from such a model, this fact comes out clearly. Unless the quality offered is the same as that offered by BSNL, VSNL, etc., there is not much scope. International bandwidth is very expensive and most of the players are small. Also, till the time ISPs are not allowed to connect freely to the PSTN network, we cannot witness a situation that will truly generate arbitrage opportunities in the future.

Manish Srivastava IP telephony will require a USL under the recommended licensing structure. In any case, licence fees are recommended at just 6 per cent of the net revenue –- and that too is envisaged to decline in the longer term.

I do not see how this sort of fee would create any material arbitrage opportunities in the market.

Mahesh UppaIl assume we are talking about internetbased IP telephony, not pure (managed) IP telephony. There is no restriction on the latter since it is simply an available technology to transport your calls/data and is in use by operators, including BSNL. Internet telephony does theoretically allow some arbitrage opportunity but it does not have to be that way. Remember that anyone can provide these services and the bigger players, with facilities already in place, can provide the services at fractional additional costs and undercut the new players if they want to. They could even set up their own separate subsidiaries. However, the price of international calls will be forced further down with margins under greater pressure.

Will the concept of "niche operators" actually provide incentives to initiate rollouts in the rural areas?
S.C. Khanna The concept of "niche operators" is not very clear. Since the next phase of growth for all existing operators is anyway going to be the rural markets, with teledensities lower than 1 per cent, it would be better for the government to encourage rural rollout by the existing operators.

Presently, all operators have embarked upon extensive network expansion activities to bring large areas under their footprint, which will certainly include rural areas. It is strongly felt that the incentives given to niche operators should also be passed on to the existing operators. Apart from this, niche operators and existing players should be treated equally by the incumbent for interconnection purposes so that rollout is actually facilitated and teledensity can be increased. Without this guarantee, the concept of niche operators may become a non-starter.

Mohit Saraf In the words of Ogden Nash, "Someone invented the telephone, and interrupted a nation's slumbers, ringing wrong but similar numbers." Nash, while penning "Look What You Did, Christopher", would probably never have imagined that decades later TRAI would seek to use niche operators to wake up the slumberous Indian countryside. In trying to promote teledensity in rural areas through the concept of niche operators, it seems that TRAI has got hold of a wrong though similar number. TRAI's niche operator concept seems to have overlooked one crucial point –- commercial logic. While the idea of improving connectivity in rural areas is laudable, industry dynamics cannot be forgotten. In an industry driven by volumes, the rural segment, which is typically ridden by low payment capacity and treacherous topography, would be unable to attract players in the absence of clear financial incentives. The mere removal of entry fees and spectrum fees is definitely not incentive enough to allow large entrepreneurs, leave alone small entrepreneurs, to provide services in rural areas. TRAI may thus need to consider providing additional financial incentives, such as permitting niche operators to bid for USO funds and reducing the licence fees payable by niche operators.

Rajat Sharma On paper, the recommendations with such incentives might look very ambitious and realistic, but to achieve such a vision of penetrating the rural markets, deeper issues need to be resolved; issues such as that of interconnection. Even if there are some local niche operators, their subscribers will need to dial into some other network. Also, such incentives may not achieve the desired goal due to the stiff competition the niche operators might have to face from giant telecom companies in the market. The government will need to play a very strong role to ensure that such operators face no difficulties in their operations.

Manish Srivastava I believe competitive bidding-based USO funding is the best way to incentivise rural rollouts. Sub-scale smaller networks would be severely challenged in terms of economics. TRAI's approach on niche operators focuses on tapping local entrepreneurs to expand rural teledensity and the regulator has pointed that one should avoid prejudging economics. It is worth giving it a shot.

Mahesh UppalTo a degree, yes. The limitation on fixed line services, the need to share revenues and having to work in areas with less than 1 per cent teledensity, rather than any rural

area, will considerably dampen the incentives. In any case, interconnection and spectrum fees are still not fully worked out. L "I do not see how this sort of fee would create any material arbitrage opportunities in the market for IP telephony. " Manish Srivastava "The two-step process was wasteful.... The real issue is that some fees are absurd."

Mahesh Uppal

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