



PRESS RELEASE

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Incumbents develop cold feet on aggressive tariffs by new comers

Earlier this month, India's leading mobile service provider Bharti Airtel approached the telecom regulator TRAI to investigate into predatory pricing offered by some of the new operators who have launched with rock bottom tariffs. The operator alleges that the tariffs are lower than the cost structure for some operators; and that their business model is unsustainable and needs to be inspected.

However the allegation of predatory pricing by new entrants is a unique point never seen in any other market. A pricing mechanism is predatory when it is offered by the large established operator to drive out the smaller new entrants, who cannot match due to lower scale and higher costs. What we currently observe in the Indian telecom market is exactly the opposite. The new entrants and smaller operators have come up with aggressive tariff propositions which the incumbents have been reluctant to follow. For example, Uninor (JV between Norway's Telenor and Unitech) has launched with 29 p/minute for local calls, which is a significant discount from the market standard rates of 50 p/minute or 1 p/second. Other operators have offered similar promotional tariffs, which signals the feasibility of sustaining such lower tariffs in the long run.

The devious part of this allegation is that in reality the affected parties would be the promoters and the shareholders of the firms and not the competition which will eventually gain if the smaller players drive themselves to insolvency.

In the Indian market, we see instances of predatory pricing where large incumbent operators offer highly subsidized on-network calling rates; and where a similar proposition by the smaller players is not as attractive due to their limited subscriber base. Airtel, for example, offers a 17% discount on calls to its own network (50 p/m vs. 60 p/m), and a 25% discount on on-net outgoing roaming calls (60 p/m vs. 80 p/m). This behavior is tantamount to predatory pricing, as it uses the lure of a large existing subscriber base to drive away the smaller players.

The telecom minister A Raja has laid out his vision of 10 p/minute for local calls and 25 p/minute for STD calls within the foreseeable future. We are already on the path to achieving this vision which will tremendously benefit the common man; and any efforts by the incumbent operators to sabotage that should be checked immediately.
