Scrapping ADC in India: A Case of Tardy Regulatory Response

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The most important fact about telecommunications is the revolutionary technological change in the industry since the widespread adoption of wireless technology. As in many developing countries, telecom growth in India has been fuelled by wireless growth with the subscriber base growing from 1.6 million in 1999 to 165.11 million in March 2007, resulting in an overall teledensity of 18.23. Slowly wireless technology is also increasing the affordability of services in rural areas with rural teledensity rising from 1.86 in March 2006 to 7.03 in September 2007. Given these facts we question the use of the regulatory tool of Access Deficit Charge (ADC) to compensate the incumbent for below cost wire line tariffs and to promote universal service. Regulatory authorities were slow to recognize that this tool was losing its relevance in the "new order"

While the continuance ADC in the short run may be attributed to a misjudgment regarding the impact of wireless technology on ownership and universal service or an inability to recognize and repair the unintended consequences of well-meaning efforts, their longevity points elsewhere. LIRNEasia research shows that ADC was no more than "a politically motivated tax on private operators to protect the incumbent, its employees and its copper-wire access network during a very long transition to competition." [1] Even the Telecom Regulatory Authority of India (TRAI) in its consultation paper has pointed out that it is undisputed that prolonged ADC puts avoidable burden on the customers, creates market distortion, gives rise to grey market for international calls and is a hurdle for innovation of services.

In this background we suggest that the regulators should be more proactive and respond quickly to the new environment. Thus a "universal service plan" should not be promoted through a market distortionary instrument such as ADC, which is incorporated into interconnection charges making interconnection far above costs. Interconnection charge should be cost-based and unbundled and that inclusion of ADCs imparts an element of non transparency and discrimination. Further, ADCs inflate prices and may encourage inefficient bypass and network duplication. Removing this anomaly form the current interconnection regime would go a long way in improving competitive conditions as well as in strengthening the regulatory environment in this regard.

It is prudent to provide the incumbent with a lump-sum subsidy from the Universal Service Fund if its legacy network stranded costs have to be subsidized as opportunities of cross-subsidizing dwindle. Other instruments like mandatory local loop unbundling (LLU) can also be used. The revenue earned through copper LLU can take care of the stranded costs. Moreover, the Universal Service policy should in itself technology neutral. Only very recently the Indian Universal Service policy recognized the merit of technology neutrality and provided support to wireless infrastructure. New regulatory approaches to universal service are being adopted albeit slowly. Unfortunately this is quite in line with the Indian development paradigm, as the analogy speaks for itself, a slow elephant.

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[1] De Silva, Harsha, Access Deficit Tax. In R. Samarajiva and A. Zainudeen (Eds.), *ICT infrastructure in Emerging Asia: Policy and Regulatory Roadblocks* (240-261), New Delhi & Ottawa SAGE & IDRC. 2008. http://www.idrc.ca/en/ev-118645-201-1-DO_TOPIC.html

Bio

Payal is a Reader in Economics at Delhi University, India and a Senior Research Fellow at LIRNEasia. She has almost 12 years of policy research experience on the issues of market structure and regulatory design for sectors like power, telecommunication and water. More generally her research is focused on the links between technology, economy and society in the infrastructure sector.