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Telecom Regulatory Authority of India

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TRAI releases consultation paper on Access Deficit Charge(ADC) and its subsumption into Universal Service Obligation Fund(USOF)

New Delhi, 21st January, 2008 - Telecom Regulatory Authority of India (TRAI), today initiated consultation process on Access Deficit Charge (ADC), subsumption of ADC into USOF and also supporting rural telecommunications growth.

Regulators in many countries established the ADC regime at the time of liberalization of telecommunications sector to ensure sustainability of incumbents fixed line operations in a competitive environment. In India TRAI instituted the framework of Interconnection Usage Charge (IUC) and ADC regime through "The Telecommunication Interconnection Usage Charges (IUC) Regulation, 2003" (1 of 2003) dated the 24th January 2003. This regime came into effect from 1st May 2003. This regime was superseded by "The Telecommunication Interconnection Usage Charges Regulation, 2003" (4 of 2003) dated the 29th October 2003 which became effective from the 1st February 2004. This regulation was amended annually to reflect the contemporary industry situation. No ADC was levied on revenue generated from rural wireline subscribers and the access providers were permitted to retain ADC generated by fixed line business. The total ADC funding including that estimated for 2007-08 amounts to about Rs 12,500 crores.

The total support provided to BSNL, since its formation and upto 2006-07, in various forms i.e. reimbursement of licence fee and spectrum charges, moratorium on payment of interest, support from USOF, ADC funding and exemption on entry fee was about Rs 31,500 crores.

This temporary support during transition was particularly necessary for the network in the rural areas and more importantly one that was focused on important social objectives in the telecom sector. The idea of instituting ADC was not to make the incumbent perpetually dependent on support but to allow them time for adjustment during the period of transition from monopolistic environment and era of government funding and cross-subsidization to a competitive business environment.

The ADC framework established through an elaborate consultation process envisaged that:

- ADC would be time bound and cannot continue in perpetuity
- ADC would be a depleting regime
- ADC would be reduced to zero in the year 2008-09.
- ADC should be replaced or merged with USO (Universal Service Obligation) regime from 2008-09

It was earlier contemplated that ADC shall be phased out in 2008-09. Accordingly the present consultation paper has extended the scope and invites comments on the following issues:

1. Abolition of ADC from 1.4.2008
2. Support to the incumbent (BSNL), after abolition of ADC, from the USO fund for sustaining fixed line business in non-profitable areas.
3. Lowering of entry barriers for consumers in rural areas

It is essential to deliberate on the above issues as support to rural services and making them affordable for the rural masses are of vital importance. BSNL is maintaining a fixed wireline network with a large rural footprint and providing services in remote and far-flung areas. It is important that this network is sustained and expands as fixed line operations in rural areas are crucial in the context of the information age and the need to facilitate the growth of broadband services. If considered justified, support can be given from the USO fund to the BSNL for sustaining their non-remunerative rural operations. Additionally, in view of phasing out of ADC, as a result of the saving that would accrue to the service providers, there may be a scope to lower the entry barrier in rural areas and making services increasingly more affordable without the need to disturb the existing policy of forbearance on mobile tariff.

It is expected that implemented after due diligence, the amendments would pave the way for lower telecom tariffs, higher growth specially in rural areas, reduction in grey market, removal of market aberrations caused by ADC.

The consultation paper is available on TRAI's website: (www.trai.gov.in). All the stakeholders are requested to send their written comments through email/fax/letter by 11th February 2007.

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