

International Call Termination Charges

What is the issue?

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- Telecom Regulatory Authority of India (TRAI) has decided to slash International Termination Charge (ITC) by 43%.

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- This move has serious implication for the telecom sector revenues and other macro-economic calculations of the government.

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What does “Call Termination Charge” mean?

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- Termination rates are the charges the call receiver’s telecom operator charges the dialler’s telecom operator for letting the call go through.

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- This cost becomes the operating cost for the dialler’s network and is charged from the dialler as part of the call rates.

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- Most telecom jurisdictions have regulated this rate by law and India’s TRAI too has done the same.

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- Currently, the domestic call termination charges is 6 paise/min and the international rates is 53 paise/min.

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- As per the recent TRAI directive, the international rates will become 30 paise/min from Feb 2018.

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- Notably, domestic rates were cut last year by more than half, which was seen as a move that advantaged new comers over established incumbents.

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Why is TRAI’s logic flawed?

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- **Security Aspect** - TRAI's has stated that this cut is to eliminate grey market calls that pose a national security threat.

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- But this argument is weak as the rate cut comes at a time when voice calls are increasingly being made via internet based applications.

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- As these apps also come embedded with similar "security" threats, merely cutting rates for calls might not address the security issue.

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- **Rate Contradiction** - Cheaper international incoming calls are indeed consumer-friendly, which is the focus of TRAI's mandate.

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- But India's current rate of 53 paise/min already fares favourably with Rs 1.01 of US, Rs 15.44 for Oman and Rs 8.36 for the UAE.

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- Notably, the low ITC in India has resulted in a skewed pattern of call traffic, with incoming to outgoing calls in the ratio of about 20:1.

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- Given this, there is little reason to suppose that incoming traffic is likely to surge as a result of this cut or that consumers will enjoy increased ease.

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What is the macro impact?

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- The telecom sector is stressed with an accumulated debt of Rs.4.7 trillion, which is partly due to the reckless competition from the deep pocketed "Jio".

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- Hence, Telcos have expectedly protested strongly against ITC reduction as it might affect their revenues drastically.

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- As the estimated loss is around Rs.20 billion for this year, it will be a significant portion of the industry's annual earnings of around Rs 2.4 trillion.

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- From the government's perspective, this cut is likely to impinge on revenues - in terms of the GST, licence fees and foreign exchange earnings.

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- Significantly, the government is currently struggling to curtail the burgeoning fiscal deficit, for which limits have been breached within 8

months.

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- All these factors call for a serious rethink and TRAI would do good to revoke the rate cut.

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Source: Business Standard

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