

In The Name Of Allah, The Most Beneficent, The Most Merciful

## PAKISTAN TELECOMMUNICATION AUTHORITY

### Consultation Paper No: Tariff-8/2004

#### **Tariff Issues pertaining to Cellular Mobile Telephone Services**

*This paper intends to seek opinion of all stakeholders including the cellular mobile operators, general public and consumer rights organizations. The stakeholders are urged to look into these issues and send their comments and observations in writing within 15 days. This paper does not convey in any sense a decision of the Authority in respect of the issues discussed in this paper. Your response, queries and clarifications may be addressed to Mr. Aasif Inam, Director (Tariff & Interconnection), PTA Building, F-5/1 Islamabad Fax: 2878133  
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#### **Introduction**

1. The Telecommunication (Re-organization) Act 1996 empowers Pakistan Telecommunication Authority to regulate the tariffs of telecommunication services. According to Section 26 of the Act, the tariffs for telecommunication shall be regulated according to following general principles:

- (a) the regulations shall be made with a view to achieving the greatest possible degree of pricing flexibility and stability compatible with safe guarding and protecting the interests of the consumers.
- (d) tariffs shall be at a level which provides a reasonable rate of return on investments taking into account the cost of operation.

2. Similarly according to para 5.9 of Mobile Cellular Policy of the Government of Pakistan, “*the retail price cap on mobile Licensees, fixed from time to time, by PTA will continue till such time the market, in the view of the PTA, becomes sufficiently competitive*”.

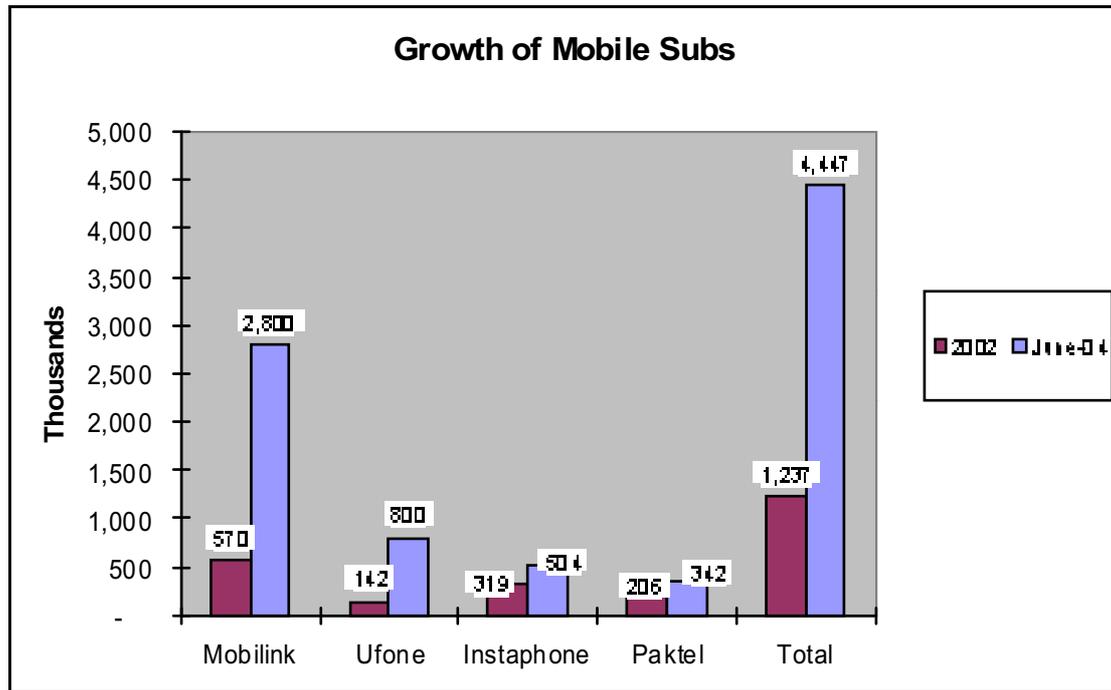
## **Background**

3. The Authority fixed the ceiling for airtime tariffs and CPP charges for a period of two years through its Determination dated May 3, 2002. In the said Determination, the ceiling for airtime tariffs and CPP charges was reduced from Rs. 6.25 to Rs 5.75 and Rs. 3.20 to Rs. 2.80 per minute respectively. Other incentives were also given to the cellular mobile operators such as reduction in leased line charges by 30%, reduction in royalty from 4% to 1.5% and reduction in spectrum fee.

4. At the time of issuing the above referred Determination, the cellular mobile sector had begun to turnaround and high growth in subscriber base was witnessed in the market. Keeping in view the anticipated increase in competition in the cellular mobile market, the Authority, while determining the airtime tariffs expected that the market forces will play their role and the airtime tariffs along with other charges of cellular mobile services will reduce further. This view of the Authority was also based on the foreseeable benefits to the cellular mobile operators, due to strong growth in number of subscribers and declining trend in technology prices.

5. In the light of foregoing, the Authority fixed the airtime tariffs and CPP charges for two years leaving the decision and timing to reduce tariffs on operators' discretion. It was also expected that the cellular mobile operators will make matching investments to meet the huge market demand and growth potential.

6. It is worthwhile to note that during the two year period, the subscriber base of cellular mobile operators increased tremendously. Since May 2002, the cellular mobile subscribers have grown by a Compounded Average Growth Rate (CAGR) of approximately 90%. The growth in cellular mobile subscribers is given in the following graph:



7. Similarly, the Cellular mobile operators also earned substantial returns during this period and their Returns on Equity and Capital Employed during the last year of operations improved considerably.

8. While it was expected that consumers will reap the benefits of effective competition in terms of reduction in tariffs and quality of services, the Authority noted that these objective could not be achieved fully as expected.

9. Inadequate investments and technological limitations (of two of the mobile operators) were two important reasons for the inability of market to become fairly competitive and therefore it was important to intervene in the market.

### **Issuance of New Licensees**

10. In order to enhance competition in the cellular mobile sector and to increase choice for customers at competitive and affordable prices, the Authority awarded two mobile licenses to M/s Telenor Communications AS Norway & M/s Warid

Telecommunication Pvt. Ltd. through open bidding. One important reason for opting for open bidding was to ensure that the additional licensees are capable of making huge investments in accordance with the market potential of Pakistan. The two new cellular operators are expected to commence their services within a year and it is expected that with the addition of two new cellular mobile operators, consumers will have more choice in terms of pricing, quality of service and coverage.

### **The Issue**

11. The two year ceilings set in 2002 on airtime tariffs and CPP charges have lapsed and the Authority, therefore, wishes to consult all stakeholders through this consultation paper to obtain views on Cellular Mobile Tariffs along with CPP charges.

12. Although there is a ceiling on the airtime tariffs, however, there are various value added features that have become essential element of mobile services today. In this paper airtime tariffs, CPP charges and the tariffs of the following services are discussed.

- i. NWD & NWD access charges
- ii. ISD access charges
- iii. Roaming charges
- iv. International Roaming
- v. SIM replacement (one time)
- vi. Security Deposit
- vii. SMS Line Rent

### **Airtime Tariffs**

13. While the Authority's Determination imposed the airtime ceiling of Rs. 5.75 per minute, the following airtime tariffs are being charged by cellular mobile operators at present:

	<b>Mobilink</b>	<b>Ufone</b>	<b>Instaphone</b>	<b>Paktel</b>
<b>Airtime (Rs.)</b>				
<b>Peak</b>	5.75	5.00	5.75	5.75
<b>Offpeak</b>	5.75	5.00	1.99	3.00

14. The Authority is considering a reduction in the airtime tariffs, and the pulse duration from 1 minute to 30 seconds. The cellular mobile operators under the proposed scenario will mention their airtime tariffs on a per minute basis but would be required to

charge the consumers on the basis of a maximum airtime charging duration of 30 seconds. The operators will also elaborate the charging mechanism clearly in their Tariff Brochures.

### **Calling Party Pays (CPP) Charges**

15. The ceiling on CPP charges was fixed for a period of two years that also expired in May 2004. According to the provisions of Mobile Cellular Policy “*Mobile Interconnection termination charges will not exceed the existing level until cost-based rates are available for both fixed and mobile operators. PTA will set rates before the end of 2004 based upon its view of termination costs by existing operators*” .

16. In the Authority’s Determination of 2002, the interconnection termination rate for cellular operators was set at Rs. 2.00 per minute. The Authority believes that cellular operators, with the increase in network rollout, have achieved considerable economies of scale and it justifies the case for further revision of CPP charges. Keeping in view the provision of Cellular Policy, the Authority has already asked the cellular operators to submit their cost for interconnection termination rates.

17. At present PTCL retains origination charges of Rs. 0.80 from the Rs. 2.80 per minute charged to its customers for calling a local mobile number. With the finalization of PTCL’s interconnection charges that will be part of its Reference Interconnect Offer (RIO), the origination charges of Rs. 0.80 may be reduced.

18. The Authority will also rationalize the mobile termination charges in accordance with its view of termination costs of the cellular mobile operators.

### **NWD and NWD Access Charges**

19. For a national long distance (NWD) call, the cellular operators generally charge their customers against the following elements:

- (i) Airtime
- (ii) NWD access charges
- (iii) Mobile Long Distance (MLD) / PTCL NWD charges (LLD)
- (iv) Termination charges (if the call terminates on some other network).

20. In NWD calls, the airtime tariffs and the call termination charge (CPP charge) are regulated by the ceilings imposed by the Authority, however, the NWD access and MLD /LLD charges are not regulated. Following table summarizes the total charges a mobile customer has to pay if making a call from Islamabad to Karachi within the same network:

<b>Operators</b>	<b>Airtime</b>	<b>Mobile NWD</b>	<b>PTCL NWD</b>	<b>NWD / Access</b>	<b>Total Rs / min</b>
Mobilink	5.75	9.00	-	-	14.75
Ufone	5.00	-	5.00	2.00	12.00
Instaphone	5.75	5.00	-	2.00	12.75
Paktel	5.75	5.00	-	2.00	12.75

21. Following table summarizes the total charges a mobile customer has to pay for making a call from Islamabad to a PTCL Subscriber in Karachi:

<b>Operators</b>	<b>Airtime</b>	<b>PTCL NWD</b>	<b>NWD / Access</b>	<b>Total Rs / min</b>
Mobilink	5.75	7.39	2.00	15.14
Ufone	5.00	7.39	2.00	14.39
Instaphone	5.75	7.39	2.00	15.14
Paktel	5.75	7.39	2.00	15.14

22. It is worthwhile to note that PSTN subscriber dialing from Islamabad to Karachi has to pay only Rs. 7.39 per minute.

23. Following table summarizes the total charges a mobile customer has to pay if making a call from Islamabad to a mobile subscriber of another network in Karachi:

<b>Operators</b>	<b>Airtime</b>	<b>Mobile NWD</b>	<b>PTCL NWD</b>	<b>NWD / Access</b>	<b>CPP</b>	<b>Total Rs / min</b>
Mobilink	5.75	9.00	-	2.00	2.00	18.75
Ufone	5.00	-	7.39	2.00	2.00	16.39
Instaphone	5.75	5.00	7.39	2.00	2.00	17.14
Paktel	5.75	5.00	7.39	2.00	2.00	17.14

24. The above charges are indeed exorbitant on a standalone basis and also if compared with the SAARC Countries. The Authority is considering rationalizing and imposing an over all ceiling of NWD calls originating from a mobile network in order to avoid levying of other charges in the garb of access charges etc.

### **ISD Access Charges**

25. For International calls, the cellular mobile operators charge airtime, ISD Access charge and PTCL international call charges. The ISD access charges ranges from Rs. 2.00 to Rs. 3.00 per minute. It is pertinent to mention that the cellular mobile operators also get 25% discount on all PTCL call charges. Moreover, as per traffic arrangement, the cellular mobile operators hand over international calls to nearest PTCL DTE. Another aspect which requires attention is that PTCL is charging international calls on 20 second pulse, the mobile operators charge their subscribers on per minute basis against which the Authority has been receiving complaints.

### **Roaming Charges**

26. During April – May 2002, the Authority had reviewed the prevailing tariffs of cellular mobile services. In this review process miscellaneous questions and issues pertaining to the mobile services were also raised for discussion. These issues were later on addressed in the Determination after due deliberations. Among these, “Roaming Charges” were one of the issues.

27. Notwithstanding the earlier observations of the Authority on the issue of roaming, it is considered appropriate to look into this issue in view of the deregulation of the telecom sector and increasing consumer complaints.

28. According to ITU, roaming means “a service allowing cellular subscribers to use their handsets on networks of other operators or in the other countries” Similarly, the GSM World Association has defined roaming as “the ability of a cellular customer to automatically make and receive data, or access other services when traveling outside the geographic area of the home network, by means of using a visited network. If the visited network is in the same country as the home network, this is known as domestic roaming”

29. According to mobile cellular policy, “*Licensees are encouraged to offer National Roaming with other licensees offering reciprocal services in accordance with the guidelines issued by PTA*”. From the definition of the term roaming and from mobile cellular policy, we have observed that it is common among all important and relevant

international bodies that roaming applies only when a subscriber access services in an area where the network of his service provider is not available and service is accessed through the visited network.

30. In Pakistan, all operators have been granted nation-wide licenses. None of them have domestic roaming agreement with each other. Hence, strictly speaking the term roaming does not apply to them in the true meaning of roaming as defined above but the traffic routing from other networks and home region makes it reasonable to recover call carrying costs (Long distance) as roaming charges when a mobile receives a call while visiting another region.

31. It is also important to note that when a roamer receives a call originated from the visiting zone of the same network then there is no extra cost incurred but the calling and the receiving party both have to pay huge charges for NWD and Roaming charges respectively. The total costs incurred by calling and called party (in case the called party is on roaming) are enumerated in the following table:

	PTCL	Other N/w		Mobile Share					Total Rs / min
		A/T	NWD	A/T	NWD	CPP	Roaming	Total	
<b>Scenario 1</b>	<b>Roamer receiving a call from Visiting Network</b>								
<b>PTCL</b>	7.39	-	-	-	-	2.00	6.00	8.00	15.39
<b>Other N/w</b>	-	5.75	9*+2	-	-	2.00	6.00	8.00	24.75
<b>Same N/w</b>	-	-	-	5.75	9.00*	-	6.00	20.75	20.75
<b>Scenario 2</b>	<b>Roamer receiving a call from Home Network</b>								
<b>PTCL</b>	0.80	-	-	-	-	2.00	6.00	8.00	8.80
<b>Other N/w</b>	-	5.75	-	-	-	2.00	6.00	8.00	13.75
<b>Same N/w</b>	-	-	-	5.75	-	-	6.00	11.75	11.75

\*In case of Ufone, Instaphone & Pakcell, 7.39 A.T = Airtime, N/w=Network

32. The roaming charges of cellular mobile operators are as follows

<b>Operators</b>	<b>Charges</b>
Instaphone & Paktel	0 to Rs. 5 per minute
Mobilink	0, Rs. 2 to Rs. 6 per minute
Ufone	0 to Rs. 5 per minute

33. At present, Instaphone, Paktel and Ufone do not charge their customers for roaming within NWFP & Punjab and Sind & Balochistan. However the maximum charges for roaming are still at Rs. 6 per minute that are considered burdensome by the mobile subscribers.

34. In order to provide some benefit to all of the cellular mobile customers the Authority intends to impose a ceiling for roaming charges.

### **International Roaming**

35. With the increase in the size of the market more users now avail the international roaming facility. Although the charges for international roaming are not an important aspect that is often brought to the attention of the Authority is the provision of CLI to international roamers. At present, CLI is not being provided to International Roamers and therefore it causes not only inconvenience but the roamers also have to bear the cost of receiving avoidable calls.

36. In Authority's viewpoint, it is the right of cellular user to have CLI when roaming internationally as it is the case when mobile subscribers of other countries visit Pakistan.

### **SIM Replacement**

37. Till recently, some of the cellular mobile operators were charging up to Rs 2000 for replacement of a damaged or lost SIM. Currently, these charges range from Rs. 300 to Rs. 750. The Authority has observed that the complaints regarding SIM replacement are quite genuine, hence should be redressed. Moreover, we feel that there should not be any discrimination between prepaid and postpaid users on this account.

### **Security Deposit**

38. The Authority has observed that some of the operators are maintaining quite heavy security deposit. The operators are not giving any benefit of this free money to the users. Moreover, a user whose average bill does not exceed Rs. 1000 per month feels the present security limit very harsh, which in turn increases the overall cost of owning a post-paid mobile connection.

39. The Authority, therefore, intends to regulate the element of security in the best interest of users. A standard security deposit of Rs. 1000 should be taken for all call types. Moreover, advance line rent is being charged which also reduces the risk for bad debts. Any user who intends to avail a higher credit limit may have the option to pay higher security deposit to avail the desired level of credit limit.

### **SMS Monthly Line Rent**

40. One of the cellular mobile operators is also charging Rs. 25 as SMS monthly line rent. The Authority has been receiving complaints against SMS monthly line rent and the complainants consider these charges as unjustified.

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