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Subject: The Nutgraf : The camel is inside the tent
Date: 12-Oct-2019 at 10:02:59 AM
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the nutgraf

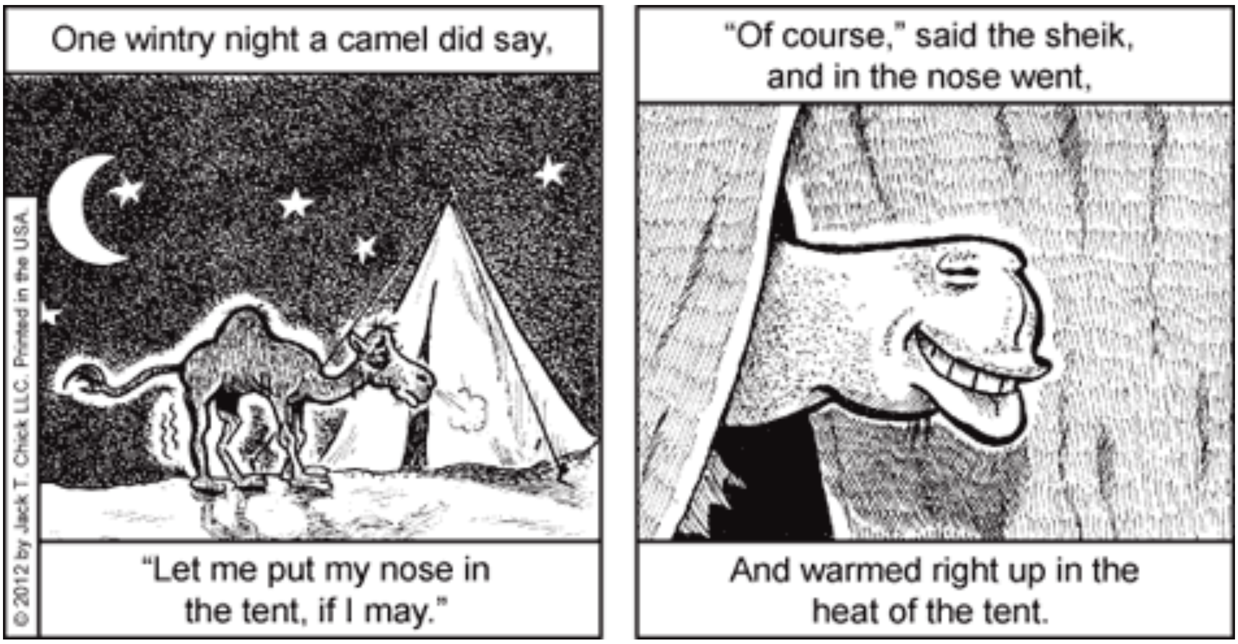
Good morning Dear Reader,

What a week. India’s banking system continues to flounder. Donald Trump’s tweets have only become more bizarre. And, most disappointingly, this newsletter has been denied a Nobel Prize. But no matter. Maybe next year.

Until then, ask your friends to sign-up here. For free. For now.

Let’s dive in.

The Reliance Jio camel is inside the tent



You know the fable. It’s winter. It’s the desert. Enter a camel, who walks up to an Arab's tent and asks to be let in. The Arab permits the camel to stick its nose in. The camel pushes his luck. One leg; another. Until the camel is completely inside and refuses to leave.

Good story.

So let's talk about what Reliance Jio did last week.

Jio announced that it would charge its users Rs 0.06 ($ 0.0008) per minute for outgoing voice calls made to other networks. This, after Jio had promised that voice calls would always be free on its network.

Why is this a big deal? And what does it mean?

I'll explain. But first, a quick history of India's telecom market in five points.

Just ten years ago, India's telecom market was crowded. There were nearly 10-11 players at any point—all jockeying for dominance. There were regional players as well. Aircel in Tamil Nadu. Orange in Mumbai. And so on.

But soon, the market consolidated. Some merged. Others went bankrupt. The Wikipedia entry for defunct mobile operators in India looks like it's written by George RR Martin. All this in the last ten years.

Defunct operators [edit]

Operator	Ceased Operations	Fate	Citation
Modi Telstra	2000	Merged into Axiata Spice Communications	[13]
Hutch	2007	Bought by Vodafone Group	[14]
Axiata Spice Communications	2008	Merged into Idea Cellular Limited	[15]
S-Tel	2012	Licence cancelled by the Supreme Court of India	[16]
Etisalat	2012	Licence cancelled by the Supreme Court of India	[17]
Loop Mobile	2014	Ceased operations after expiration of licence	[18][19]
Virgin Mobile India	2015	Merged into Tata Docomo	[20]
T24 Mobile	2015	Merged into Tata Docomo	[21]
Videocon	2016	Shut down following sale of spectrum to Bharti Airtel	[22]
MTS India	2017	Merged into Reliance Communications	[23][24]
Vodafone India	2018	Merged with Idea to form Vodafone Idea Limited	[25]
Idea Cellular	2018	Merged with Vodafone to form Vodafone Idea Limited	[25][26]
Aircel	2018	Bankrupt	[27]
Telenor India	2018	Merged into Bharti Airtel	[28][29][30]
Tata Docomo	2019	Merged into Bharti Airtel	[31][32]
Reliance Communications	2019	Bankrupt	[33]

Telecom in India is a brutal, expensive business. For three reasons.

1. First you need to build towers across the length and breadth of an unforgiving landscape.
2. Then you need to buy spectrum—among the most expensive anywhere in the world.
3. Finally, to make your money back, you need to figure out a way to get millions of Indians, a country with a nominal per capita income that's twice the price of an iPhone 11 Pro, to buy phones.

To succeed, you need a combination of enormous capital, overarching political influence and a willingness to grind it out for the long-term.

So, in 2016, Mukesh Ambani, India's richest man entered the market with Reliance Jio. To signal his intent, Jio launched with *absurd* offers. You want a phone? Take it for free. Outgoing calls? Free. Data prices? Next to nothing. Several of these were guaranteed to be free for life.

The market responded. Jio just exploded. Customers migrated to Jio from other networks in droves. The incumbents protested—they claimed the pricing was predatory, that this wasn't fair, and in order to compete, dropped their prices as well. This made India the country with the cheapest mobile data in the world.

But our story isn't really about Jio.

It's about India's telecom regulator, Telecom Regulatory Authority of India (Trai), and the concessions it made to Jio.

And how it's finally realising, perhaps too late, that things need to be reined in.

The nose

Reliance Jio's entry to the telecom market was fairly controversial. In the 2010 spectrum auction, when incumbents like Airtel and Vodafone were locked in a bidding war for 2G spectrum, a small firm called Infotel Limited successfully bid for rights to broadband across India by paying 5,000 times its net worth.

Infotel was a front for Reliance. And one day after it bid and won the license, it was acquired by Reliance. As The Caravan reported in their stunning story titled 'How Reliance Jio is monopolising the telecom sector',

"Mukesh Ambani established his position within the telecom industry by acquiring a small, obscure firm that had won an auction for national wireless spectrum one day earlier. To win, the firm bid roughly a hundred times what it was worth. According to the spectrum licence, the firm was only permitted to provide internet service. But three years later, the government allowed that firm, by then renamed Jio, to upgrade to a "full mobility" licence and offer every kind of cellular service for a fraction of what its full-mobility licences should have cost."

The Comptroller and Auditor General of India, in a draft report to the Department of Telecom, suggested that the spectrum allocation be cancelled, accused Jio of rigging the auction, and estimated that Reliance Jio gained an unfair advantage of approximately Rs 22,842 crore ($3.3 Bn).

Not everyone agreed. Not Reliance.

But especially, not Trai.

The neck

Here's a question.

How many customers did Reliance Jio have the day before it officially launched?

If you said zero. You'd be wrong. The answer is close to 2 million subscribers.

Wait. How?

Just before launch, Reliance Jio claimed that it was running a 'test trial' - to understand how its service worked, iron out kinks, etc. And because the regulations were helpfully opaque about the limitations on a test trial, Jio went all-out. Typically, test trials are for a period of 90 days. Jio ran it for nearly three times as long.

As the Bloomberg Quint reported in 2016,

The current regulations of the Telecom Regulatory Authority of India are silent on the scope of trials that can be undertaken by a new entrant in the industry. The Reliance Jio test phase is a full-fledged commercial launch in the garb of testing, says Rajan Mathews, Director General Cellular Operators Association of India in an interview with BloombergQuint.

Jio refutes the charge and accuses the COAI of favouring the incumbents.

The torso

Now is where it gets fun.

Because we get into something called Points of Interconnect (POI).

A point of interconnect is where two different networks are physically connected to each other. Say between Airtel and Jio. Or Vodafone and Airtel. Points of Interconnect are what ensure that calls made by one operator's customer end up reaching another operator's.

I could go on, but quite honestly, Rohin did a fantastic story called 'The Interconnect Wars' back in 2016, and because he's my boss, I'm going to try to impress him by reprinting what he wrote back then.

Telecom regulators around the world, including TRAI in India, pay special attention to POIs because of their criticality to telecom networks and competition.

…Jio's Achilles Heel was the fact that its customers still need to make voice calls. And those calls need to land on the incumbent's voice-based networks.

Which require POIs.

As per law, 0.5% are the number of call drops that are tolerable on POIs. But as Jio started adding more and more users to its network in what it called a "test" phase, its call failures started climbing to anywhere between 50-80% for calls made to the three largest incumbent operators.

And thus began an elaborate, high-stakes game of who-blinks-first between Jio and the incumbents, with regulations being the weapon of choice.

When Jio started complaining earlier this year that it didn't have enough POIs for its users to make calls to incumbent networks, the incumbents said Jio was only conducting tests. So why did it need so many POIs? They said they weren't obliged to provide POIs en-masse to any non-commercial network.

As call failures climbed on Jio's network, it went and complained to Trai, claiming it was being held back by these incumbents, and that this was anti-competitive.

Trai looked at this, and agreed.

It recommended a fine of Rs 3,050 crore ($458 million) on Airtel, Idea and Vodafone.

Woah.

The legs

There's another aspect to Points of Interconnect. And that's a financial transaction. If you make a call from one operator to another, the first operator has to pay the second an additional charge for every minute for every call. This is set by Trai.

This is called Interconnect Usage Charge (IUC).

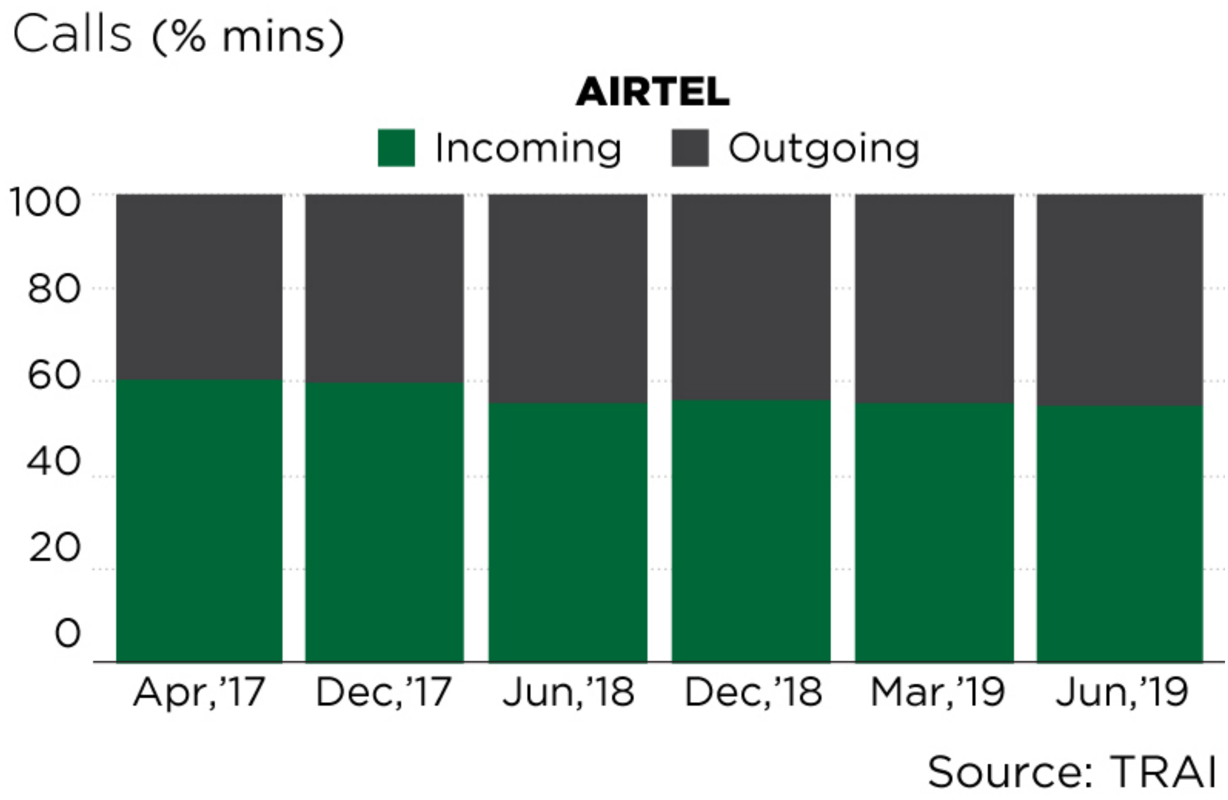
This is important.

Fundamentally, it's a sound idea. It's supposed to compensate the receiving operator for the infrastructure setup and POIs needed to be maintained to receive a call from another operator. Before Jio came along, this wasn't a big deal because the market was symmetric and whatever big players paid one another largely evened out.

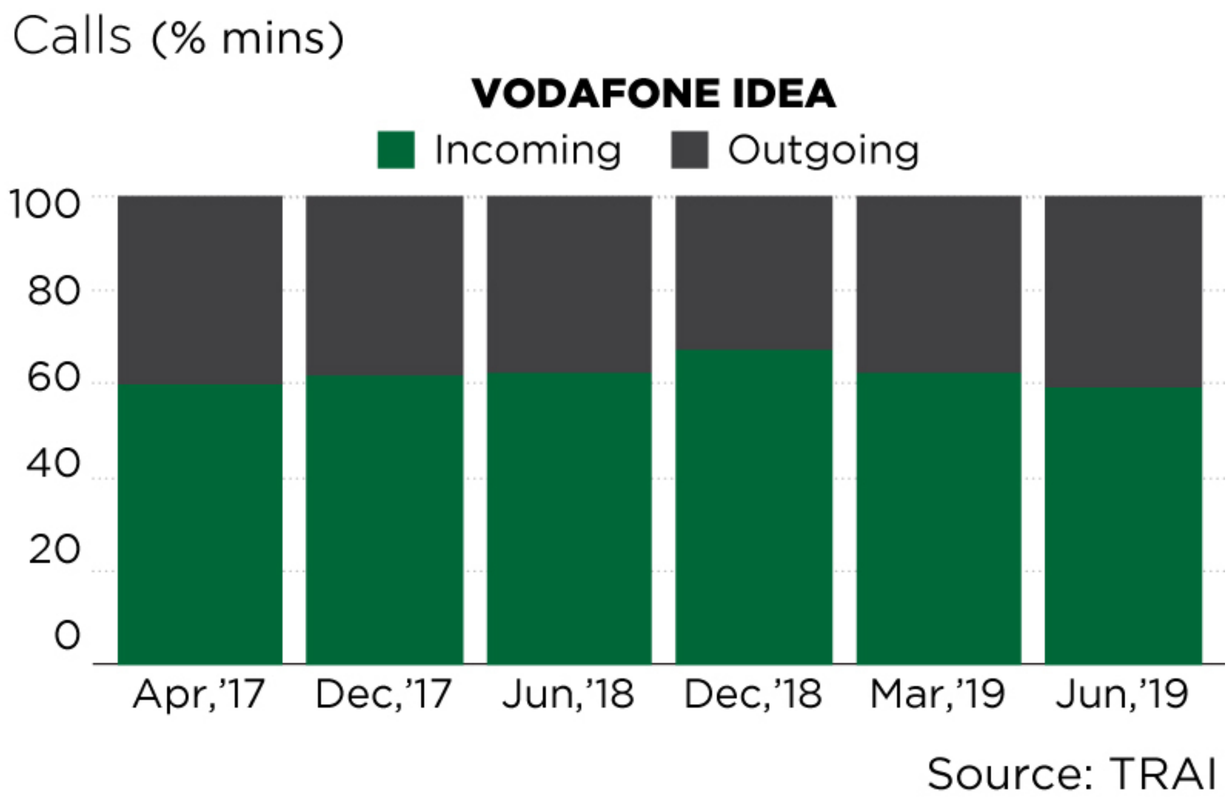
But then Jio came along and said that all outgoing calls were free. For life.

And look what happened.

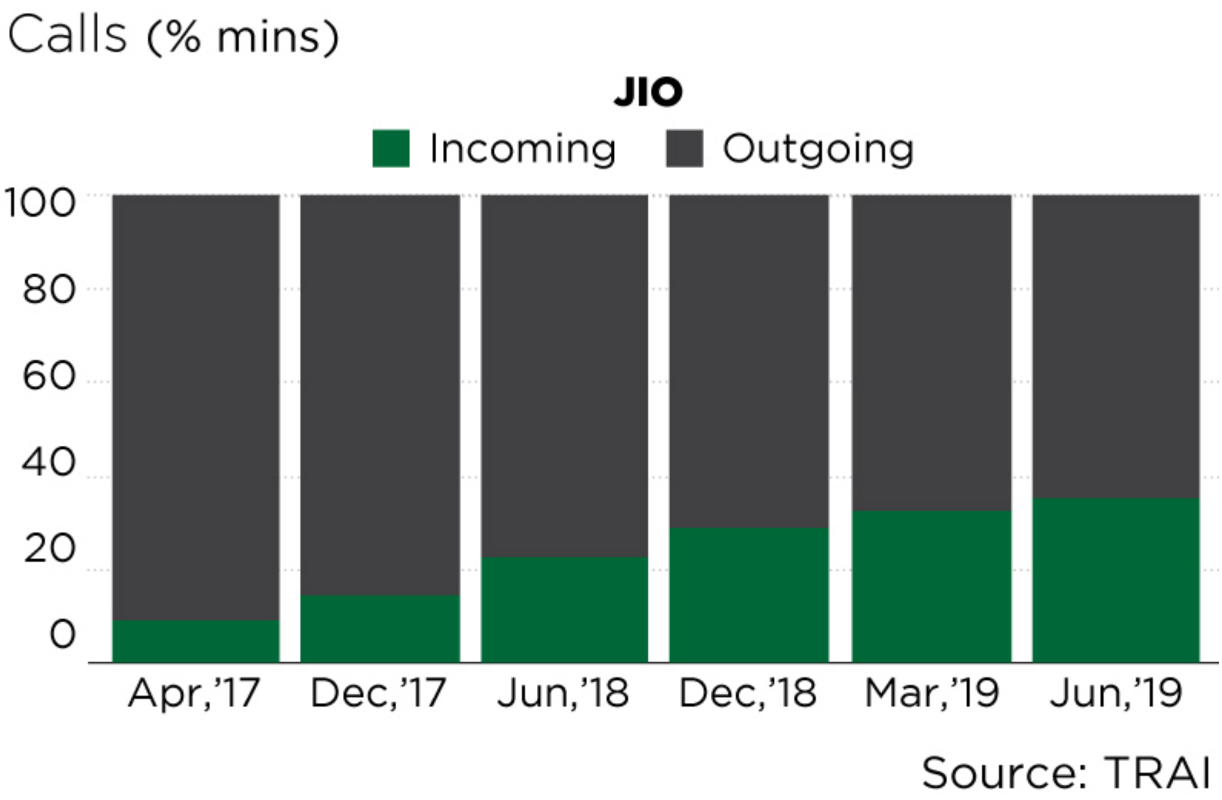
This is the ratio of incoming and outgoing calls for Airtel.



This is Vodafone Idea.



Now look at Jio.



Basically, this is what happened.

- **Since Jio made outgoing calls free, it skewed the market**. Now, Jio's customers were the ones calling everyone else.
- **This skew enormously benefits Airtel and Vodafone**, who are net receivers of IUC. Jio claims to have paid nearly Rs 13,500 crore ($2 Bn) as IUC over the last three years.
- **In 2017, Trai helpfully reduced the IUC charge from Rs 0.14 a minute to 0.06 a minute**. It also signalled its intention to remove the IUC altogether by 2020. Airtel and Vodafone cried foul. To little avail.

So what happened as a result of these regulations?

Lots.

First, the telecom market consolidated. Two of the biggest telcos, Idea and Vodafone, merged in 2018. This left the market with four players. Airtel. Vodafone Idea. Jio. And the state-run BSNL.

Second, debt climbed on Airtel and Vodafone's balance sheets. In an effort to match Jio's prices, both Airtel and Vodafone accumulated debt of over Rs 1,06,000 crore (~$15 Bn) and nearly Rs 1,15,000 crore ($17 Bn), respectively.

Third, Vodafone Idea started to have problems. Vodafone Idea, struggling with a terrible merger, and rising costs, is losing nearly 10% of its subscriber base every quarter. Its share price used to be Rs 24 a year ago. Now it trades at Rs 5.

Fourth, BSNL, the other telecom network, is struggling to stay afloat. It hasn't paid salaries to employees in months. And is begging states not to cut electricity to its offices due to unpaid bills.

Fifth, in August, Jio became the number one mobile operator by revenue market share.

The camel was inside the tent.

And wanted more.

Trai's walkback

Trai, realising that things have gone too far, tried to scale back. A telecom market of sixteen is down to four. And there's a non-zero chance of four becoming two if the current state of affairs continue. If that happens, we enter complicated territory. A market of two is a duopoly, and Trai will end up losing what little leverage it has. Clamor for subsidies and tax-cuts will get louder. Also, how does one conduct a spectrum auction with two players? Plus, wireless connectivity is what the entire future of Digital India depends on. Not to mention UPI. And e-commerce. The fallout will be massive.

The stakes couldn't be higher.

So what did Trai do?

A few weeks back, it released a consultation paper where it asked the question: Should the proposal to do away with IUC be postponed beyond 2020?

Jio said, fine. If you decide to renege on your commitment, I'll just charge my customers for it.

And they'll know it's all because of you.

Just look at their communication

Reliance Jio
@reliancejio

All you need to know about IUC.

Jio DIGITAL LIFE

IMPORTANT ANNOUNCEMENT

9th OCTOBER 2019

Dear Jio family,

- Due to the undergoing regulatory policy changes for mobile-call-related charges, **Jio is compelled** to recover IUC charge for NON-Jio mobile voice calls.
- **All calls to NON-Jio mobile numbers will be charged at 6 paise/minute, from your next recharge, post 10th October.**
- **Recovery of IUC will continue ONLY UNTIL the IUC charge is made zero by TRAI.**
- **Select an IUC TOP-UP** to make non-Jio calls:

IUC Top-Up Voucher Amount (₹)	IUC Minutes (non-Jio mobiles)	Free Data Entitlement (GB)
10	124	1
20	249	2
50	656	5
100	1,362	10

1 GB OF DATA for every ₹10 spent, ABSOLUTELY FREE

FREE Jio TO Jio CALLS CONTINUE ON ALL PLANS

T&C apply. Above changes subject to compliance of TRAI tariff order

3,337 8:30 PM - Oct 9, 2019

2,780 people are talking about this

It's called an IUC top-up. And it's levied only until Trai abolishes IUC. Jio is clear about this.