
Banded Forbearance: A new approach to price regulation

Rohan Samarajiva and Tahani Iqbal

Communication Policy Research: *south*
Beijing, 5-7 December 2008



Rationale

- Growth and industry changes occurring around the world
 - Rapid changes in technology
 - Increasing phone use, especially mobiles
- Service providers focus on **innovation** and **competition**
- Regulatory authorities need to **prioritize** tasks

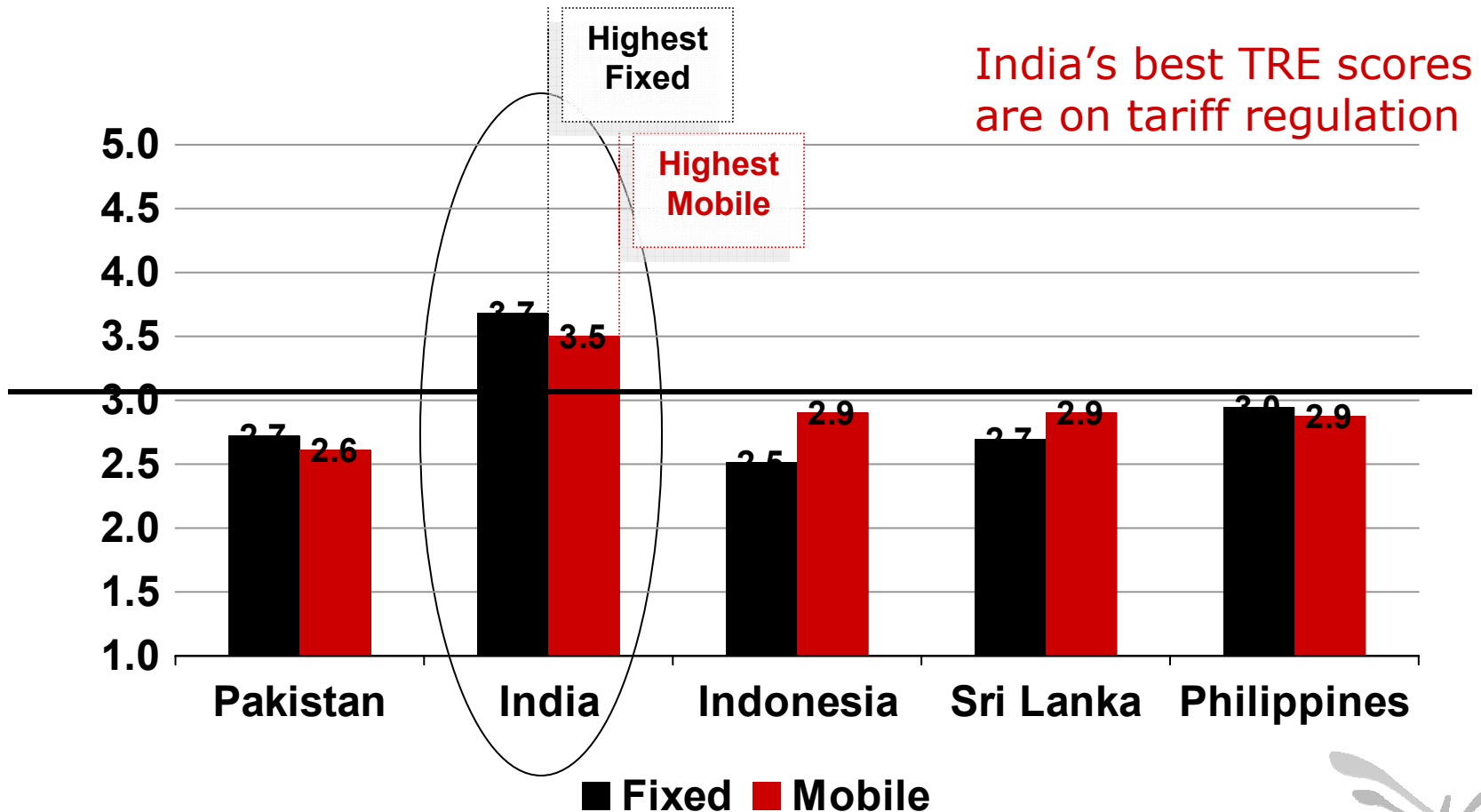


Regulatory forbearance

- Refraining or forbearing from intervening and regulating
- India's TRAI performs fewer regulatory functions than its counterparts
 - Does not regulate tariffs
 - Forbears on mobile price regulation in urban areas



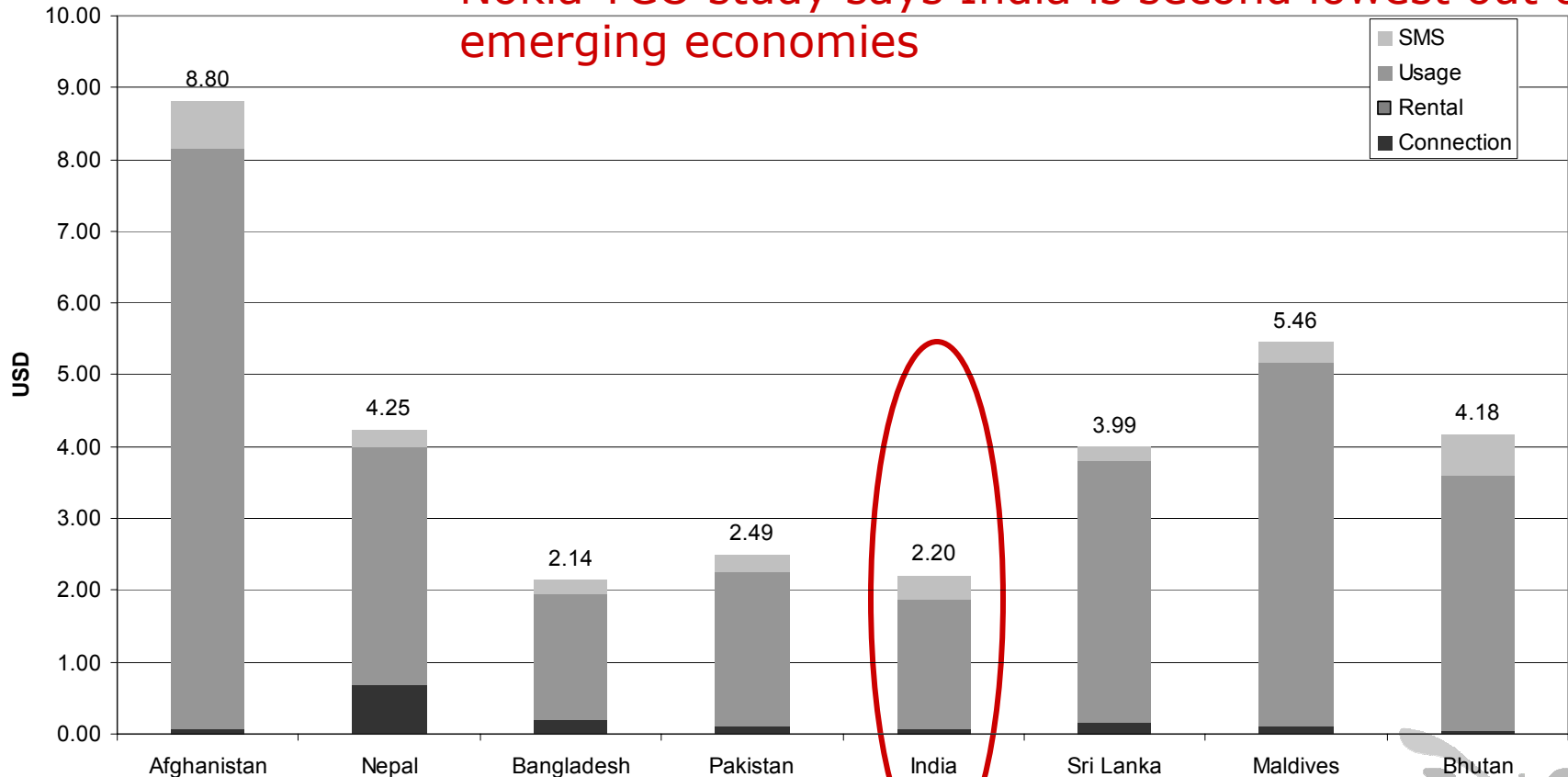
TRAI's approach is appreciated by informed stakeholders . . .



. . . and has yielded some of the lowest mobile prices in the world

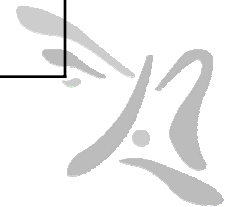
Average monthly prepaid mobile cost for a Low User

Nokia TCO study says India is second lowest out of 77 emerging economies



India has high levels of competition

| | HHI (Dec 07) |
|------------|---------------------|
| Pakistan | 0.27 |
| Bangladesh | 0.31 |
| India | 0.16 |
| Sri Lanka | 0.36 |



If not full forbearance . . .

- Why not asymmetric regulation?
 - Regulate the tariffs of the SMP operator, but forbear on the rest
- For example, Pakistan regulates tariffs of only SMP operator in mobile market
 - Lower prices than even India
 - Under appreciated by stakeholders



Implementation difficulties

- Identification of SMP operator
 - Highly resource intensive
- Decision has to be made on what kind of regulatory tool to be used
 - Price capping (RPI-X)
 - Difficult to calculate
 - Ineffective where inflation is high
 - Rate of Return (ROR) regulation
 - Little flexibility for operators
 - No longer appropriate in today's fast changing markets



Other concerns

- ❑ Damages chances for competition (Paredes, 2005)
- ❑ Hurts the SMP financially (Armstrong and Sappington, 2006)
 - Causes discontent among SMP
- ❑ Allows inefficient firms into the market resulting in rising costs to the industry (Gual and Trillas, 2003)
 - Favoritism
- ❑ Stifles innovation (Lyon and Huang, 1995)
 - Only unregulated firms find it profitable to innovate



Banded forbearance as a solution?

- Forbearance, with safeguards derived from benchmark regulation

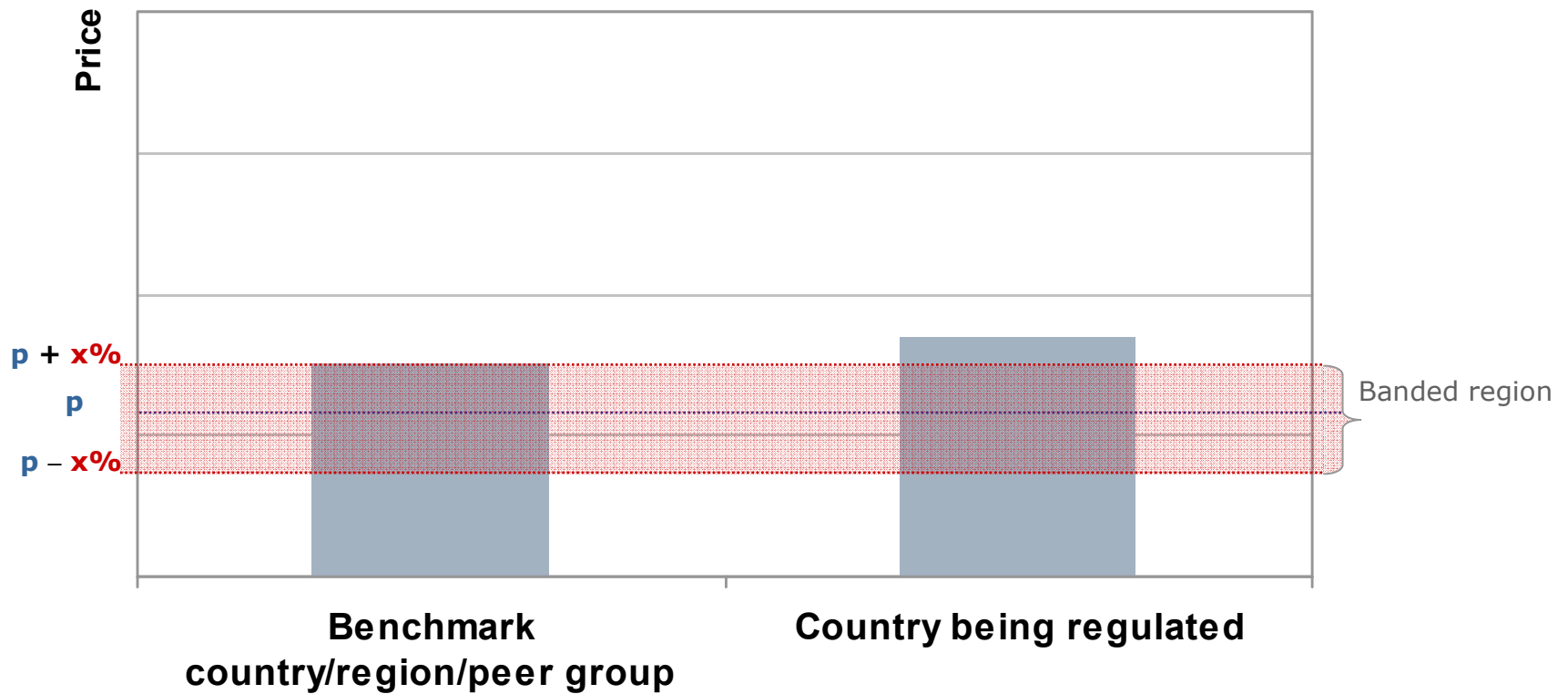


Methodology

- Identify indicator(s)
- Identify peer group
 - Must have data that can be compiled into benchmarks
 - Can be selected based on GDP per capita, geography, market structure, regulatory regimes, etc
- Define benchmark
 - Select period for revision (once a year; once every two years . . .)
 - Benchmark + markup?
- Define band: floor and ceiling



Setting the bands



Methodology

- Anything goes within the band
 - Tariffs must be filed
 - Evaluated only for
 - Whether within the band
 - Default approval within x days/or sanctions if criteria not met
 - Even better: all tariffs are immediately implementable, but penalized if outside the bands
- When tariff dips below the floor, investigate for anti-competitive impact only
- If tariff goes above ceiling, no alternative but to start a formal proceeding



Merits of banded forbearance

- Asymmetric regulation, which also saves regulatory resources, deregulates non-dominant operators but requires dominant operator to file tariffs
 - Cause of great unhappiness for SMP operator
 - Regulator has difficulty properly regulating dominant operator's tariffs
 - In oligopoly/duopoly conditions, non-dominant operators may just shadow the incumbent's prices
- Banded forbearance applies to all operators and is much cheaper



Merits of banded forbearance contd.

- ❑ Less complicated and intrusive, more flexibility
- ❑ Reduces opacity of pricing
- ❑ Intelligent and responsible regulation



Conclusion

- **De facto forbearance** is what prevails in the countries that have succeeded in offering the lowest prices to mobile consumers
- Banded forbearance will
 - Improve predictability of regulation
 - Constrain discretion
 - Improve regulatory resource allocation (can reassign tariff staff)



Thank you!

