

**KEY NOTE ADDRESS BY MR. MADHAV JOSHI, PRESIDENT, AUSPI ON
'INDIAN TELECOM'
(DUN BRADSTREET FUNCTION ON 22.12.09)**

Dignitaries on the dais and those present in the auditorium, let me thank the organizers for inviting me to share my views on such an important subject with this distinguished gathering.

I will divide my speech into 2 parts;

- First-** What is the current position in telecom and
Second- What is the way forward?

So, what is the current status of Indian telecom sector?

Let me first give a long list of 'Pluses'

- We have 540 million subscribers
- We are Number 2 in the world (next only to China)
- Over-all tele-density is 45%, urban 100% plus and rural 19%. Rural subscribers are 30% of total subscribers. There are 45 crores youths (age 14-24 years).
- Telecom sector has made significant contribution to the growth of services sector which in turn helped the economic growth of our country in the past few years especially when the global economy has been on a decline.
- We are still witnessing subscriber growth of 15 million every month.
- Private sector collectively has invested to the tune of Rs. 1, 88,499 crores (USD40 bn) which is one of the highest private sector investment in any sector.
- Global economic slowdown has not affected much the telecom sector in India.
- Telecom infrastructure has become a separate business for last 2 years and tower sharing is very common. It has unlocked value for telecom companies.
- Mobile Number Portability is couple of months away (Hope so!). It will liberate the choosy subscribers.

Let us now have a quick look at the problems facing Indian telecom sector:

- The tariffs are the lowest in the world. Not yet reached the bottom! We as customer can't have better than this!
- ARPUs are also probably the lowest in the world. Subscribers are using multiple SIMs and hence tele-density and ARPU figures may not be representative. Double and triple SIM handsets are being aggressively promoted.
- VAS revenues are very low i.e. @8- 9% of revenues (including SMS charges) as against about 30% in many other countries. With plans like one paise per SMS-VAS component in total revenues will dip further.
- Ours is the only country in the world to have 12-13 operators providing service and some more will join from 26th September-1st October 2007 pending applications list and may be some more also join from 3G auction.
- The stock prices of telecom operators on BSE/NSE have eroded substantially which could hinder further investments.

There are many issues related to Spectrum:

- 93% of the subscribers are on wireless and still lot of spectrum is with non-telecom users. We are not aware of any Govt. plan to retrieve this spectrum for telecom.
- Spectrum inadequacy has led to operators getting sub-optimal initial allocations of 4.4+4.4 MHz leading to higher capex and sub-optimal QoS.
- It may not be incorrect to say that there is no serious and scientific management of available spectrum and there is lack of transparency.
- There has been no consistency in spectrum allocation; Adhoc circulars have been issued in last 9-10 years. Spectrum has been issued ignoring contractual cap of 6.2 MHz in the license agreement. CDMA has been given step-motherly treatment because it is efficient! This is like encouraging petrol guzzler cars and penalizing latest petrol efficient cars.

- New licenses have been issued without arranging spectrum; as a result at least 2 operators who have paid in January 2008 are still waiting for initial spectrum in 39 districts in 9 circles while 4 operators are yet to get initial spectrum in Delhi circle and there is no visibility.
- 3G auction has been delayed couple of times and it is likely to be conducted next month for 4 slots. It is also being conducted at a time when the Govt. is set to review the whole scenario for 2G spectrum after receiving TRAI recommendations. 4G has already been launched this month in two countries in Europe.
- It is unfair that even in commercial field also Govt. is discriminating between private and Govt. operators. Govt. companies have been given 3G spectrum without bidding. They would have 15 months advantage over private 3G operators. There are larger corporate governance issues involved. MTNL is a listed company and the board of directors and public shareholders of MTNL have been left with no choice to decide whether it should invest in 3G. They will have to match H1 price. We are not aware if MTNL Board had requested DoT for such spectrum and had given a blank cheque..
- Not enough attention has been given to the Broad band where we have only 7.5 million connections against 2010 target of 20 million as per Broadband Policy of 2004. Computer literate population is 87 million and hence there is lot of scope.

The above inventory of problems may lead one to believe that Govt. has done nothing good for telecom sector but that is not the case.

It won't be wrong to say that major part of the credit for the spectacular Indian telecom success story goes to GoI, TRAI and the judiciary.

I have been fortunate to be closely associated with telecom privatization process since 1998 and have been witness to many ups and downs. We started before 12-13 years with fixed licence fee. The mobile operators were paying a licence fee per subscriber while 6 basic service operators had committed huge fees. To give an example, one single circle basic service operator had committed fee of Rs.14900 crores payable over a period of 15 years.

The private sector and fortunately the Government led by Shri. Atal Bihari Bajpaiji realized early enough that if the fixed fees were continued the privatisation would be nipped in the bud and the Govt. took very bold step of announcing NTP'99 and migrated the licensees to multi-poly and revenue sharing regime. The Govt. was accused of scam of Rs.50,000 crores (since then all scams in telecom carry a tag of Rs.50,000 crs-nothing less than that!), there was public interest litigation which was very ably defended by Govt. If the private operators were not migrated to NTP'99 regime the story of privatization would have ended in 1999 itself.

Since then there have many path-breaking decisions by the Govt. like introduction of UASL in 2003 and allowing migration of existing operators to UASL. We also had 'dual technology' press note in Oct 2007.

Past performance of the Govt. and TRAI has raised our expectations and we therefore seek Govt. help in continuing the telecom sector success story. We request that:

1. Spectrum being a critical component for growth of mobile service, and as some operators are still waiting for initial spectrum of 4.4 MHz, Government needs to take radical step of withdrawing all the spectrum which is in excess of the limits of 6.2 MHz for GSM and 5 MHz for CDMA laid down under UASL and then it needs to be redistributed on equitable basis amongst all operators after ensuring 6.2 MHz for all in all circles. I reiterate that auction is not the proper method. We may land up in a situation where top 2-3 operators may corner the spectrum and starve the new operators. 900 MHz band spectrum is much superior to 1800 MHz band spectrum and hence re-farming of 900 MHz needs to be carried out to allocate it equally to all operators in tranche of 2.2 MHz per operator.

This would bring about level playing field between new and old operators and promote effective competition.

2. We also need to evaluate creation of Mobile Network Authority which will hold all the spectrum and all the service providers will have a right to use the collective pool of spectrum depending upon their traffic volumes. This could put an end to all spectrum disputes.
3. Government has to re-enforce its technology neutral approach as envisaged in the NTP '99 as well as in a number of TRAI recommendations and not discriminate between GSM and CDMA technologies. Growth path should be provided for CDMA technology. Efficient technology needs to be incentivized.
4.
 - a) USO levy of 5% was fixed when the tele-density was 5%. Now the teledensity is nearing 100% in urban and 19% in rural areas. The existing corpus of USO Fund of about Rs.14000 crores is sufficient to meet the USO objectives. In view of this, there is an urgent need to review the USO levy being charged and revise it to 2% or less of the AGR. We may adopt French model of estimating the requirements at the beginning of the year and then deciding the charge for the year.
 - b) Broadband services can reach the urban and rural consumers only if services are offered at affordable and easy terms. A USO subsidized scheme for broadband services, utilizing wireless, in rural areas should be brought out at the earliest. Wireless is the only solution.
 - c) Development of content for 3G and rural consumers to promote agriculture, e-education, tele-medicine, Mandi-Bhav, climate information to farmers is essential and needs to be encouraged through USO. Climate and wind information to fishermen provided by TTSL in association with Dr. Swaminathan Foundation in Tamil Nadu is a good example.

5. **Promotion of telecom service in rural area**

With the back drop of economic slowdown operators alone will not be able to achieve this. Govt. support would be required on:

- Uninterrupted Power supply in rural areas. Alternate sources of energy need to be encouraged. Telecom should be treated as a public utility and power should be provided at concessional tariffs.
- Standardization of ROW clearances- National Telecom Infrastructure Policy needs to be evolved and implemented.
- State and Central Govt need to be made partners and they should subscribe to connections for schools, post offices and for state govt activities like e –chaupal, e-governance.
- Rural unemployed youth need to be involved in rural infrastructure roll-out and maintenance.
- Create Telecom Technology Development Fund with corpus of Rs.2000 crores out of USO.

6. **Rationalization of Levies**

- i. At present, telecom industry is subject to service tax, licence fees including universal service obligation fees, spectrum charges etc besides, the states levy of additional taxes such as Octroi, VAT, stamp duty, entry tax and levies on towers etc. The total of all the levies on telecom industry works out to 24-30 percent of their AGR, which is one of the highest in the world.
- ii. The Government needs to rationalize multiple levies currently being imposed on telecom sector.
- iii. Revenue share license fee

The government has reduced the license fee for long distance service to 6% of AGR. In line with the revenue share rates for other services, the revenue share for UASL should also be 6% of the AGR. Uniform revenue share license fee at the level of 6%

would remove the arbitrage under the current licensing fee regime.

7. Number of operators could be reduced from 12-13 to 4-5 or so without adversely affecting the competition in the market.
8. Lower allocation of spectrum creates need for more and more towers while the infrastructure providers have been facing daunting problems from general public who are fed by somebody inaccurate information that telecom towers create harmful radiation. They start opposing pressurizing state Govt and local bodies to stop construction of towers. The local bodies are exploiting the tower companies by levying premium or taxes running into lacs of rupees per tower.
9. DoT probably under pressure from security agencies, is pressurizing the service providers to get more and more documents from prospective subscribers and it is also holding the operators responsible even for forged documents. Impression is being created that mobile connection is like a weapon. We need to bear in mind that operators have to rely on 'sales channel' spread all over India and there is a limit to what extent such channel can be disciplined. Operators have been mandated to pay very high penalties to DoT for the failures/mistakes of channel. We fully support that we should be vigilant but we should not forget the fact that mobile is not a weapon and mobiles have infact, helped the agencies to solve crime mysteries. We sincerely seek help and understanding in this regard.

We have suggested to DoT that post offices can issue identity cards on the basis of which mobile telephones can be subscribed.

Let me end my speech on a positive expectation that our Govt. will continue to rise to the expectations of the telecom sector and will continue to support the telecom success story.

I am grateful to the organizers for providing me and AUSPI this opportunity to put forward our views and I thank all of you for your valuable time and encouraging response.