IMPLEMENTATION OF NEW TELECOM POLICY'1999

Introductory

Recognising that provision of world-class telecommunications infrastructure is sine-qua-non to rapid economic and social development of the country and that development of information technology industry, in the times to come would contribute a major part of the GDP of the country, Government announced a National Telecom Policy in 1994, which aimed to achieve, in a given time-frame, availability of telephone on demand, provision of world-class services at reasonable prices, India's emergence as major manufacturing/export base of telecom equipment and universal availability of basic telecom services to all at affordable prices. It also announced a series of measures to achieve specific targets by 1997. While the targets for providing new telephone connection was exceeded in metros and big cities, there was serious shortfall in provisioning of Village Public Telephones (VPTs) and rural areas remained neglected. The NTP'1994 was promulgated on the assumption that available resources with the Government will fall short of the requirements and, therefore, involvement of private sector was required to bridge the resource gap. The Government announced a New Telecom Policy in 1999(NTP'99), presumably on the ground that some of the objectives of NTP'1994 could not be fulfilled and there were far –reaching developments in the Telecom, IT, consumer electronics and media industries worldwide and that convergence of both markets and technologies had become a reality forcing re-alignment of the industry.

2. It was claimed that the shortcomings and obstacles in the earlier Telecom Policy had been overcome in new policy document. The new policy is under implementation for about two years. The Committee has, therefore, decided to review the progress made so far with a view to point out shortcomings and lacunae if any, and recommend if necessary appropriate measures for mid-term corrections to accelerate the pace of development.

Need for New Telecom Policy'1999

3. The Committee enquired about the factors that necessitated the formulation of the New Telecom Policy'1999 when the National Telecom Policy' 1994 was not given a fair trial. In reply, DoT has stated that NTP'1994 recognised that the required resources for achieving the set targets would not be available with the Government. It therefore, emphasised involvement of private sector to bridge the resource gap. Government invited private sector participation in a phased manner from the early nineties initially for value added services such as Paging Services, Cellular Mobile Telephone Services(CMTS) and thereafter for Basic Service. However, within a few years of attempting to implement NTP'1994, Government realised that the result of privatisation efforts was not satisfactory and the actual revenues realised by their projects was considerably short of their calculations. The operators were unable to arrange finance for their projects and therefore, could not complete the same. As a result, some of the targets as envisaged in the objectives of NTP'1994 remained unfulfilled.

4. The Member(Finance) Telecom Commission stated in evidence that the obligation for payment of the required licence fee was not discharged as the amount was very high while revenue streams were inadequate. Moreover, the licence fee was to be paid in advance for the whole year even before the operator earned any revenue, which added to the cost of the project. So, most of the projects became unviable and as there could not be financial closure which

presented a big problem. In order to address this problem, Government decided to allow the private operators to migrate to the new regime of revenue sharing.

5. Asked about the basis on which licence fee regime was provided in the 1994 Telecom Policy, a representative of the DoT stated in evidence that in retrospect it appears now to be a faulty decision on the part of the Government as well as the operators. He added that at the time of formulating the policy, they did not have sufficient inputs. The opening up process had taken place for the first time for a country of the size, magnitude and diversity of India. There was not enough information available as to what would be the response of the market to this new phenomenon and how much investment would be needed. Also, proper market survey was not done. As the events proved later, the response was not commensurate with the expectation and that is why there was a problem of inadequate revenue earning.

6. The Secretary, DoT stated in evidence that need for a new Telecom Policy was felt as there have been far reaching developments also in the Telecom, IT, consumer electronics and media industries world-wide. Convergence of both markets and technologies is a reality and is forcing realignment of the industry. This convergence now allows operators to use their facilities to deliver some services reserved for other operators, necessitating a re-look into the existing policy framework. The new telecom policy framework is also required to facilitate India's vision of becoming an IT superpower and develop a world class telecom infrastructure in the country.

7. In this context, it would be pertinent to point out that this Committee, while examining the subject of 'Privatisation of Basic Telecom Services' as envisaged in the Telecom Policy, 1994 had in its Fifth Report(Eleventh Lok Sabha) observed in December, 1996 that before formulating the National Telecom Policy, it was essential to make wide-ranging and indepth studies of several important and vital issues viz. whether adequate resources could be raised in the public sector, whether privatisation was unavoidable so as to serve the poor better and if so how to bring down the costs and expenses involved and the impact on consumers. The Committee had also observed that no study was undertaken, nor any working paper prepared to ascertain whether the target fixed in the National Telecom Policy was achievable through privatisation and if so, in which time-frame and what would be the terms and conditions and the area and basis on which private operators would be permitted to operate and the cost involved therein. The Committee had further pointed out that when Eighth Plan was formulated or finalised, no proposal was mooted for the privatisation of basic telecom services or any part of the telecommunications network. No thought was given as to what would happen if there was no adequate response from the private sector and whether private sector itself would have the capacity to arrange to raise resources that would be required.

8. The Committee was given to understand by the DoT that private service providers would make an investment of Rs.14,000 crores over a period of three years. Besides they would also be required to pay licence fee of Rs.65,775 crores over a period of fifteen years out of which Rs. 1,884 crores would be in the first year. They were expected to supply 35 lakh direct exchange lines during the first three years of their operations. The Committee had observed on it that practicability in terms of financial and technological requirements of private sector was not undertaken by the DoT. According to industry sources, they were required to invest around Rs. 5,00,000 crores in the basic and cellular services and would be required to pay Rs.1,06,000 crores to Government in the form of various levies over a period of ten years of which Rs. 40,000 crores was towards access duty and Rs.12,000 crores was for service tax. The Committee had pointed out at that time that no efforts were made by DoT to examine the

potential viability of private sector projects. In fact, the Secretary, DoT had contended that viability is to be worked out by the entrepreneurs along with their funding institution. The Committee had deplored such a simplistic approach which showed an attitude of avoiding responsibility and of ignoring public interest. The Committee had also observed that basic pre-requisite to avoid subsequent pitfalls had to be undertaken with regard to financial and technical requirements vis-à-vis, capability of the private sector. The Committee had based its observations on expert studies made by some eminent persons well-connected with the telecom sector. Surprisingly, the DoT had expressed its ignorance about such studies.

Salient features of NTP'1999

9. The Committee asked about the new thrust areas of NTP'1999. In reply, the Secretary, DoT stated that new policy, *inter-alia*, aimed at:-

(a) To make available telephone on demand by the year 2002 and sustain it thereafter so as to achieve a tele-density of 7 by the year 2005 and15 the year 2010

(b) Increase rural tele-density from the current level of 0.4 percent to 4 percent by the year 2010.

(c) To make effective communications available for the citizens of India at affordable rate.

(d) Changeover to Revenue Sharing Regime from the earlier Fixed Licence Regime

(e) To transform in a time bound manner, the telecom sector to a greater competitive environment in both urban and rural areas providing equal opportunity and level playing field for all players.

(f) Encourage development of telecom in rural areas making it more affordable by suitable tariff structure and making rural communication mandatory for all fixed service providers.

(g) Achieve telecom coverage of all villages in the country and provide reliable media to all exchanges by the year 2002.

Implications of each of these features are discussed in details in the following paragraphs:-

(a) Access/ Availability of Telephones

10. The Committee has been informed that tele-density of 3.6 was achieved in April, 2001 which included mobile and fixed phones provided by the private operators also. Further, BSNL envisages to provide telephone connection on demand in the country by 31 March, 2002 with private sector supplementing the efforts of the Government. The Government also envisages to achieve the tele-density of 7 by 2005 and 15 by 2010 with the participation of private operators as reflected in NTP'1999.

11. The Committee desired to know DoT's plan of action to achieve tele-density of 7 percent by 2005 and 15 percent by 2010 . In reply, the Secretary, DoT stated that the same would be achieved with the joint efforts of BSNL and Fixed Service Providers. For this purpose, Fixed Service Providers have been permitted direct connectivity. Licence of existing licensees has been extended for a period of 20 years and there would be unrestricted number of operators subject to payment of entry fee and other conditions and to achieve the target the licence fee has been replaced by entry fee and revenue sharing. As regards the number of telephones that would be provided for achieving the said target, the Member(Finance) submitted that by the year 2005 it would require 75 million telephones and by 2010, 175 million telephone connections. It was added that BSNL would provide more than 90% share of all the telephones installed at that point of time.

12. As regards the resources required to achieve these targets, the Member(Finance), Telecom Commission stated that Bharat Sanchar Nigam Ltd. alone will require Rs. 2,22,000 crores during the period 2001 to 2010 AD. Rs.1500 crores would come out of the licence fee. The resources that they would be generating by way of profit, retained surplus and after meeting all their liabilities would be around Rs.1,69,000 crores. It has further been stated that resource gap would be about Rs.55,000 crores that could be bridged by borrowing from the market i.e. by borrowing 25% to 30% of the Plan funds.

13. Member(Finance) further submitted that the cause of concern for them is that there are certain additionalities like the corporate taxes and the amount they would have to pay for insurance policy which BSNL would have to obtain as a result of corporatisation for which the corporation was not likely to have the benefit of concessional Sales-tax or Central Sales-tax. Further, the expenditure for salary will go up because the pay-scales will be higher than the Government pay-scales. It was estimated that the additional burden on account of these items would be about Rs. 28,000 crores to Rs. 30,000 crores. Therefore, the deficit of Rs.55,000 crores would go up by Rs.28,000 crores to Rs.30,000 crores over a ten-year period.

14. The witness further stated that DoT has been pursuing the matter with the Ministry of Finance to evolve a package by which Bharat Sanchar Nigam Ltd. can be given financial relief(tax relief) so that the Company can fulfil its assigned role in the development of the Telecom Sector. Further Universal Service Obligation(USO) should be so arranged that the company should get substantial amount, for which the Company was making necessary effort.

15. The witness further added that the Government has taken a decision that for uneconomic activities of the Bharat Sanchar Nigam Ltd. like rural telephony or for providing service in non-profit making areas, Government would give assistance to the Company. The decision was taken in the context of corporatisation on a proposal given by the Department of Telecommunications

16. Perspective Plan for Telephone Services(2000-2010) anticipated that the annual requirement of fixed phone will gradually reduce by the year 2004 and that of mobile phone will steadily increase. The demand for mobile phones is expected to be higher than fixed phones from the year 2006 onwards. The projections made in this regard in the Perspective Plan document are given at Annexure I.

17. It would be seen that out of the expected total addition of 1461 lakh telephones during the ten-year period from 2000 to 2010, requirement will be 659 lakh fixed phones and 802 lakhs cellular phones-55% mobile phones and 45% fixed phones. The combined contribution of DTS and MTNL is estimated to be 956 lakh telephones(65.4%), including the mobile phones, out of the additional requirement of 1461 lakh telephones.

18. The funds requirements during the perspective plan period from 2001-01 to 2009-10 to provide the additional 1461 lakh telephone connections, will be to the tune of Rs.3,86,460 crores. While BSNL and MTNL are expected to mobilise Rs. 2,54,179 crores, Private Service Providers will have to provide Rs. 1,32,281 crores to provide 505 lakhs of Direct Exchange Lines as envisaged in the perspective Plan (2000-2010). In a subsequent reply in this regard, the total number of Direct Exchange Lines(DELs) committed and provided by the basic service operators in the first 3 years of their operations is given as under:

COMMITTED PROVISION OF DIRECT EXCHANGE LINES (DELs) AND ACHIEVEMENT THEREOF BY PRIVATE OPERATORS(as on 31.1.2001)

Sl. No.	Name of the Company	Service Area	Effective Date	Committed cumulative targets of DELs at the end of I year	II year	III year	No. of DELs provided till date
1.	M/s Reliance Telecom Private Ltd.	Gujarat	30.9.97	48000	144000	288000	150(upto 31.12.2k)
2.	M/s Bharti Telenet Ltd.	Madhya Pradesh	30.9.97	50000	100000	150000	109878
3.	M/sTata Teleservices Ltd.	Andhra pradesh	30.9.97	50000	150000	300000	50917
4.	M/s Hughes Tele.com (India) Ltd.	Maharashtra	30.9.97	10000	262000	607900	42739
5.	M/s HFCL Infotel Ltd.	Punjab	30.9.97	125000	325000	525000	7729
6.	M/s Shyam Telelink Ltd.	Rajasthan	4.3.98	29757	72273	146909	3871(upto 31.10.2k)
	Total			312757	1053273	2017809	2,15,284

Note: The year I, II and III for above committed cumulative targets are to reckoned/counted from the effective date of licence as indicated above.

19. One of the the specific targets that the NTP' 1999 seeks to achieve is to make telephone available on demand by the year 2002. The Committee desired to know DoT's plan of action to fulfil this commitment. In reply, it has been stated that in the Ninth Five Year Plan BSNL is to provide telephone connections on demand in the country by 31 March, 2002 and achieve teledensity of 7 by 2005 and 15 by 2010 with the participation of private operators.

20. In a note furnished to the Committee on waiting list, the position in respect of urban and rural areas separately during the last three years is given as under:

Status as on	**Waiting list (in lakh)** Urban	Rural
1.4.1999	9.30	10.53
1.4.2000	20.26	16.55
1.4.2001	12.09	17.07

21. The Perspective Plan for telecom services (2000-2010) states that demand for telephone is dependent on various parameters like the economic growth of the country, tariff

etc. and as the Perspective Plan deals with the longer time-frame of 10 years, it is believed that some deviations in the telephone demand projections may occur, especially in view of the tariff revisions and expected improvement in facilities. It has further been stated that during the period 1991-97, the annual growth was at the rate of 16.5% but in order to achieve the targets of tele-density as envisaged in the new Telecom Policy 1999, the rate of growth will have to be more than 16.5%. With 16.5% annual growth rate the available telephone connection will be 1293.87 lakh whereas NTP'1999 contemplates a figure of 1745 lakhs.

22. It may be seen from the projections of requirements upto the year 2010 to meet the tele-density targets, that in the year 2002 the additional requirement of fixed phones will be 82.84 lakh out of which BSNL, MTNL and private operators have to provide 65.41 lakh, 5 lakh and 12.43 lakh respectively. BSNL and MTNL together would provide 59.30 lakh telephones in the year 2000-01.

23. However, from the results so far achieved, availability of telephones will remain a dream for the common man as capability of BSNL and MTNL to generate additional resources for expansion of telecom network as envisaged in the perspective plan 2001-2010 is in question. It appears that out of total number of telephones installed, about 1 crore are installed in homes, the rest being in offices and business premises. Sixty per cent of the telephones installed at homes do not generate much revenue as hardly any long distance call is made from them. Usually local calls, generally within the free call limit, are made from them. The remaining 40 lakhs phones on which long distance calls are made generate surpluses to the DoT of nearly Rs. 10,000 crores a year. Since the rates of long distance calls have been reduced, the surplus of DoT is bound to be less in the future, though DoT is still optimistic.

24. Moreover, there are apprehensions that creamy layers will be catered to by the private operators who will be competing with DoT. DoT has to use its surplus income to provide nearly 50 lakh new telephones a year – about half of which are in rural areas earning low revenue. So far DoT could afford to install the economically unviable rural phones without any budgetary support from the Government, only because of its revenue surplus. Now, since it has been corporatised it will be required to pay, as admitted by the Member (Finance) Telecom Commission, income tax and other levies which are obligatory and also will have to incur extra expenditure to pay higher renumeration to employees, so the surplus amount is bound to be less which will have adverse affect on BSNL's expansion plan. Ultimately, it will affect the tel-density in the country and it is apprehended that the projections made in the perspective plan are unlikely to be fulfilled.

25. It has been pointed out by some witness that the tariff rates are bound to be raised upward to make telecom business profitable for new entrants. As demand for telephone is substantially related to Gross Domestic Product (GDP), the rising costs will depress the demand for new telephones. In this connection, the Committee's attention has been drawn to two recent reports of the International Telecom Union (ITU)- 'World Telecommunication Report, 1998' and 'Trends in Telecommunications Reform, 1999'. These studies reveal that only 26 countries (with over 4 million telephones each) have corporatised and have introduced competition in basic telephone services. Of these 26 countries, 18 have an annual per capita GDP ranging between $15,000 and $40,000 and there is telephone in every home; the remaining 8 countries have per capita GDP ranging between $2,000 and $15,000 and a tele-density of 10 or above, i.e. a telephone in every two homes.

26. In contrast India's per capita GDP is below $400 and only one home out of 20 has telephone connection. Further, the annual telephone charges in India are about 20% of the per capita GDP, while in the 26 countries referred to above, the charges are generally below one per cent of the GDP. Thus, there is little scope to increase local tariffs, which if raised further will deter the growth of telecom. So, the reliance in the perspective plan on earnings from increased tariffs to meet the costs appears to be misconceived and far-fetched.

27. The Committee finds that National Telecom Policy, 1994 could not fully yield the desired results as it was adopted without undertaking any a comprehensive indepth study on vital issues like capabilities of private sector in raising adequate resources, the terms and conditions under which they would operate, aggregate requirement of funds as well as the capacity of public sector to achieve the desired expansion out of their internal resources. In fact, the later developments have proved the same. Difficulties were faced as soon as implementation started. With the stated objective of overcoming the deficiencies, New Telecom Policy was announced in 1999. After a detailed study of the New Telecom Policy, 1999, the Committee finds that it also suffers from several lacunae and contradictions as was the case with the earlier Policy and requires urgent corrective steps. These are summarised in the following paragraphs.

28. The Department of Telecom has admitted that licence fee regime ushered in the 1994 Telecom Policy has proved to be a faulty decision on the part of the Government as well as Private Service Providers who quoted astronomical bids devoid of ground realities. No proper market survey was done nor enough information was collected about the likely response of the market. Assumptions made about the revenue generation also proved to be incorrect. However, the Committee finds that some well-meaning experts had conducted indepth studies, but the DoT did not pay any heed to their views. Private operators, with a view to have the largest market share gave offers which proved to be totally unreal, as subsequently proved. The private operators were expected to invest Rs.5,00,000 crores in basic and cellular services and also to pay Rs.1,06,000 crores to government in the form of various levies. When asked about the capacity of the private sector to raise resources of this magnitude, the Department stated that "viability has to be worked out by entrepreneurs alongwith their funding institutions". Evidently, such a simplistic approach on the part of DoT has already cost the nation heavily when targets set for 1997 about provision of telecom services in the country were deferred by 5 years to 2002. The Committee hopes that DoT will draw lesson from the lapse made in the past.

29. The NTP'1999 aims to make telephone available on demand by March, 2002 and sustain it thereafter so as to achieve a tele-density of 7 by the year 2005 and 15 in the year 2010 AD. In this respect, private sector is expected to supplement the efforts of the Government. The private operators are required to provide 131.76 lakh fixed phones and 374.15 lakh cell phones over the period of Perspective Plan from 2001 to 2010. It comes to about 12-13 lakh fixed phones and 4-8 lakh cell phones per year in the initial years of the Perspective Plan. However, if the past performance of private operators is any guide, where the private operators have provided only 2,15,284 fixed phones against their commitments of 20,17,809 fixed phones, the Committee apprehends that the target will not be reached even in the foreseeable future.

30. **The Committee feels that in the case of BSNL and MTNL also, because of resource constraint owing to corporatisation of BSNL and its liability to pay taxes and levies to Government, it will be difficult to achieve the growth rate envisaged in the Perspective Plan. According to DoT's own estimation, BSNL and MTNL will require Rs.2,54,179 crores during the period 2001-2010 AD. The resources expected to be generated after meeting all the liabilities will be to the tune of Rs. 1,69,000 crores. The resource gap of about Rs.85,000 is planned to be bridged by way of borrowing from the market which again in turn reduces the surplus. Thus, it will be very difficult to add 60 lakh plus fixed phones every year till 2006 because of the lesser availability of resources, if timely corrective steps are not taken urgently. The projections made in the Perspective Plan are likely to go haywire if resource constraint is not addressed to properly. The Committee, in this context strongly endorses the plea of the DoT for tax relief to Bharat Sanchar Nigam Limited, so that it may be expected to fulfill its assigned role.**

31. **The Committee further notes that Universal Service Obligation (USO) has to be enforced on those telecom service providers who do not fulfill their quota of rural telephony. As almost all the private operators have so far failed to provide rural telephone (they have provided only 562 VPTs against the commitment of 97,806 VPTs in the first 3 years of the operation), they should be asked to make payment immediately, so that the resources of BSNL may be augmented. It is purturbing to note that quantum of USO has not yet been spelt out in clear terms nor any realisation has been made so far. If timely appropriate amount of compensation is not paid to BSNL in this regard, it may affect adversely its financial health in the long run.**

32. **The Committee notes that as per the projections made in the Perspective Plan, annual requirement of fixed phone will gradually decrease by the year 2004 and that of mobile phone will steadily increase. After 2006, growth in demand of mobile phones is projected to outstrip that of fixed phones. The Committee will like to be apprised of the underlining assumptions in these projections. It seems to the Committee that the projections are based on the growth model achieved in developed countries, which have much higher per capita income. In these countries, an average domestic subscriber, as per studies made in this regard, spends only one percent of per capita income whereas in our country, it is more than 20 percent. So it is debatable whether demand for mobile phones will outstrip that of the fixed phone when the former is costlier and subscriber is required to pay substantial sum for handset also.**

33. **The Ninth Five Year Plan envisages that BSNL will provide telephone on demand in the country by March, 2002 and achieve tele-density of 7 by 2005 and 15 by 2010 with the participation of private operators. In this context, it is pertinent to note that while waiting list in urban areas has come down during the last 3 years, in rural areas it is rising. It has increased from 10.53 lakhs as on 1 April 1999 to 16.55 lakhs on 1 April, 2000 and 17.07 lakhs on 1 April 2001. Evidently, demand which was suppressed due to non-availability of phones is coming to fore with its availability in rural areas. Rural areas, normally being difficult and inaccessible, also have scattered demand which adds to the cost of rural telephones. In view of all the circumstances and keeping in view the fact that one-third of the villages have yet to be reached, the Committee apprehends that promise of telephone on demand by 31 March, 2002 is most unlikely to be fulfilled.**

34. The Perspective Plan takes note of the fact that demand for telephone is dependent on various parameters like economic growth and tariff rates. Some experts outside the Government have pointed out this fact stating that in India telephone subscribers on an average spend 20 percent of per capita share of the per capita share of Gross Domestic Product (GDP) of $ 400 on telephone charges whereas in developed countries telephone charges constitute 1 per cent of their GDP. Obviously telephone charges in our country are already high and further upward revision of tariff is bound to depress aggregate demand. On the other hand, with reduced long distance call rates and emerging competition from private operators, BSNL and MTNL are bound to lose substantial part of the creamy layer of their business. These developments are bound to reduce surpluses of both the public sector undertakings which would affect adversely their investment plans for expansion of network. Therefore, as the Committee apprehends, the availability of telephones to common man will remain a dream on both accounts – availability and affordability. The Committee, therefore, strongly recommends that a pragmatic view be taken of the emerging scenario and corrective action taken after mid-term appraisal of projections.

(B) **Village Public Telephones(VPTs)**

35. During the course of evidence, the Committee pointed out that NTP'1994 had envisaged to cover all the villages with telephone facilities by the year 1997 but the target remained unfulfilled. In this context, the Committee desired to know how DoT proposes to fulfill commitments made in NTP'1999 to increase the rural tele-density from current level of 0.4 percent to 4 percent by 2010. In reply, it has been stated that for the years 2001-2002 to 2009-2010(9years), 30 lakhs rural DELs or 54 lakhs switching capacity is required to be added annually to achieve rural tele-density of 4 percent by 2010 subject to financial assistance from Government/Universal Service Obligation(USO). Further, provision of these DELs would also depend on the demand for telephones coming upto that level. In this connection, steps are stated to have been taken to encourage the demand for telephones in rural areas like reducing the registration charges to Rs. 500/- and non-increase in the rural tariff.

36. Subsequently in a note furnished to the Committee, it has been stated that to achieve the targets of tele-density and VPTs as envisaged in the NTP'1999, following steps have been taken:

(i) Unrestricted open entry has been announced by the Government for provision of telephone services in all Telecom Circles including six Circles, where private licensees already exist in addition to BSNL/MTNL.

(ii) It would be necessary to generate sufficient demand by appropriate marketing strategies. The licensees would be required to register all request/demands for telephone connections from any person without any discrimination on any ground. The licensees will be required to maintain a transparent, open to inspection, waiting list. If any connection is attracting Universal Service Obligation, then it would have to be considered accordingly.

(iii) Private sector licensees would have to provide around 13 to 15 lakhs of Direct Exchange Lines per annum as envisaged in the Perspective Plan (2000-2010).

(iv) Licensees would be able to franchise services in the last mile, with the provision that all responsibilities for ensuring compliance of terms and conditions of the licence shall vest with the original Licensee only.

(v) Licensees will have to extensively use:-
-digital technologies for switching and transmission
-wireless technologies (supporting internet access) and optical networks, as envisaged in TRAI's recommendations.
-satellite and Wireless in Local Loop (WLL) for coverage of rural remote and far-flung areas to provide quick and efficient service.

37. When asked about the mechanism devised to monitor the generation of demand for phones, it has been stated that there is already a provision that the licensees shall provide telephone connection to the new customers on the first come first served basis subject to DoT's guidelines in this matter i.e. by keeping a transparent waiting list in existing licence of Basic Service Providers. Moreover, TRAI has also issued a direction on 8 January, 2001 to all Basic Service Operators for maintaining waiting list in transparent manner. These directions are reportedly being monitored. A provision to this effect has been proposed to be made in new licence agreement also which would be signed with the new Basic Service Operators.

38. In the course of evidence, in reply to another query, the Secretary, Department of Telecom replied that so far as Village Public Telephones are concerned, they initially utilised Multi Access Relay Radio (MARR) technology and they faced problems in maintenance. However, DoT is now considering other options. They are wire-line, where optical fibre can be extended to as many clusters as possible. The second option is Wireless In Local Loop (WLL) where field trials have already been done in six or seven places including Bihar.

39. Secretary, DoT further submitted that based on the trials, they have ordered the equipments. Based on the tendered equipment prices, Department is considering as to how many numbers will be connected by WLL. When asked about the time needed to supply orders and get the materials, a representative of DoT stated that there are options either to cover by Global System Mobile (GSM) technology or Cellular Mobile Technology, where base station covers areas and then those villages can be covered. In addition, in certain remote areas, WLL may not be able to reach because of the terrain of that area. Therefore, one will have to use through VSAT or other satellite phones. So far WLL is concerned, the tenders have been called and are in the process of evaluation. They have been trying to identify the areas which would be appropriate for WLL because the cost per line of WLL is significantly higher than the cost per line of Global System Mobile.

40. To the anxiety shown by the Committee about the coverage of all the villages by March 2002, when equipment has yet to be procured, the witnesses submitted that so far as WLL is concerned, they have given directions to all the CGMs in the country and they have action plan to execute the work for providing telephone facilities to villages by March, 2002.

41. Asked whether village telephones would only be provided by the Government agencies only no private operator was willing to do it. The Secretary, DoT submitted that a service provider apprehending loss could get funds from universal service funds and that would be regulated by the Regulator. DoT have directed private operators to give out their roll-out plan in this respect.

42. In this context, when the Committee asked about the performance of private operators in providing VPTs, the following information was furnished by the DoT :

TOTAL NUMBER OF VILLAGE PUBLIC TELEPHONES(VPTs) COMMITTED AND PROVIDED BY EACH PRIVATE BASIC SERVICE OPERATOR AS ON 30.6.2001

Name of the Licence	Service area	Total Number of VPTs committed in the first three years (From Sep. 1997 to Sep. 2000)	Total Number of VPTs provided so far
BHARATI TELENET LTD.	Madhya Pradesh	16,500	348
HUGHES TELENET COM(INDIA) LTD.	Maharashtra	25,760	--
TATA TELESERVICE LTD.	Andhra Pradesh	9,635	5
RELIANCE TELECOM LTD.	Gujrat	8,635	--
SHYAM TELECOM LTD.	Rajasthan	31,834	209
HFCL INFOTEL LTD.	Punjab	5,442	--
TOTAL		97,806	562

It will be seen that out of the total commitment of 97,806 VPTs, six private service operators who have set up their infrastructure have collectively covered only 562 VPTs, a miserable figure.

43. The Committee asked about the strategy evolved by DoT in the eventuality of the failure of private sector concerns to fulfill the contractual obligations. In reply, it has been stated that establishment of a Technology Development Fund envisages major contribution out of the licence fees and revenues to enable fulfillment of uneconomic obligations thrust on the BSNL in case the private licencees fail to fulfill their obligations. The Committee pointed out that considering the gigantic magnitude of the problem, this Fund is likely to be grossly inadequate. In reply, the Secretary, DoT stated that Universal Service Obligation is one area of funding and the Department of Telecom is stated to be in dialogue with the Ministry of Finance in this respect. This is also before the Group of Ministers on Information Technology and Telecom. So far the telecom sector was self-financing through the resources that were being obtained by the sector. Now the operations in some areas being non-viable, funding for remote or inaccessible areas would be supplemented firstly from the USO and if it is not adequate, from the licence fee that the Government gets from the licence sector.

44. In a subsequent note furnished to the Committee, it has been stated that resources for meeting Universal Service Obligation would be raised through ‘universal service levy’ which would be a percentage of revenue earned by all the operators under various licencees. When asked, how universal access levy would be determined and whether it would be same for all the operators under various licencees, it has been stated that recommendations from TRAI on this subject have not been received. Based on the TRAI recommendations and the decision of the Government thereon, a suitable provision would be added in the licence agreement.

45. It has been further stated that out of 6,07,491 villages in the country 3,78,460 villages have so far been provided with VPTs. When enquired about the number of VPTs that would be provided by BSNL and private operators separately, the Secretary, DoT replied that since only six private operators were there, only 98,000 villages would be covered by them and the balance by BSNL. Besides, Village public telephony in areas where it has been done through MARR would require replacement. So, the private operators would have the obligation of providing services in such areas where satisfactory service has not been provided.

46. The Secretary, DoT further added that with unrestricted entry, many more operators would come into the roll out plan in such a way that each short-distance charging area will have a point of presence from the Fixed Service Provider. He supplemented that the Department is committed to fulfill the NTP'1999 targets and assured that in case of slippages by the private operators, Govt. would fill up the gap. At the same time by the unrestricted entry they are expecting that in other Circles also the private operators would provide their share of Village Public Telephones.

47. The Committee further desired to know the steps taken by the Department to make rural communication mandatory for all fixed service providers. In a note submitted to the Committee it has been replied that recommendations of TRAI with regard to roll out obligations of Fixed Service Providers to fulfill NTP'99 commitments in respect of provision of telephone connections in urban and rural areas, are under consideration of the Department.

48. As regards providing reliable access to the media to all exchanges by 2002, it has been stated that there are 18138 exchanges with reliable communication media and 6524 exchanges with unreliable media. It has been planned to provide 6000 exchanges with reliable communication media during the current year and the balance during 2001-2002 subject to the availability of equipments and stores.

49. The Committee during study tour learnt that in Karnataka state, Karnataka Telecom Circle has provided VPTs to 26036 villages out of 27066 villages. It was stated that due to the non-availability of equipments in time, it has not been possible to provide public telephones in all the villages, It has been represented to the Committee that materials should be made available right from the first quarter of the year. To a specific query, it was stated that the provision for rural telephone connections 'on demand' by the end of March 2002 would be difficult to achieve unless new technologies like WLL,TDMA-PMP etc. are deployed in the access network.

50. Andhra Pradesh Telecom Circle has provided 23,383 VPTs out of the 29,460 villages existing in Andhra Pradesh. Provision of VPTs to the remaining 6,077 has been entrusted to M/s Tata Tele Services-the private licence holder for basic services in Andhra Pradesh, who has not been able to fulfil its commitments. Subsequently, DoT in a note to the Committee has stated that Private Operator has provided only 5 VPTs and that too in the fourth year of their operation. In the first three years, the performance was nil.

51. The Committee has been told that out of 39,483 villages in Rajasthan Telecom Circle, 23,727 villages have been provided with VPTs as on 31 March, 2001. The New Telecom Policy envisaged the role of private telecom operators in providing rural telephones. As per the agreement, rest of the villages would be covered by private operator. The private operator who is having licence for more than three years has done little to provide rural telephones specially

in interior areas. It has provided only 209 VPTs in the State till June, 2001 against the target of 31,834 VPTs. It has been stated that BSNL has already provided its share of VPTs in the villages and the rest of VPTs have to be provided by the private basic service operator i.e. M/S Shyam Telelink. Therefore, no target has been assigned to BSNL in Rajasthan Telecom Circle during the last two years.

52. The representatives of the Maharashtra Telecom Circle at Mumbai stated that out of the total 42,467 villages, VPTs have been provided in 31,541 villages. The balance 10,926 VPTs have to be provided by private operator-M/s. Hughes Telecom Ltd. As regards Chattisgarh Telecom Circle, it has been informed that out of 19,720 villages in the Circle, 10,601 villages are already provided with VPTs. Out of the remaining 9119 villages, 4017 VPTs have to be provided by BSNL in the year 2001-2002 and the rest 5,102 to be covered by Private Service Provider.

53. As regards the implementation of NTP'1999 in Chattisgarh State, the Committee has been informed that new technology equipment like WLL,TDMA-PMP planned for the last year were not received and are likely to be received during this year. Accordingly, the uncovered villages would be covered in the current year. In reply to another query by the Committee, it was stated that huge investment is required to implement the plan to cover all villages whereas no separate fund has been provided to meet the expenditure in unrenumerative projects. In rural areas, stable telecom services are being provided to increase reliability and faith of rural customers for using telecom services.

54. In Orissa State, it has been stated that out of the total of 46,989 villages in the State 24,965 VPTs have been provided with public telephones as on 31.3.2001. To a specific query, it has been stated that during 2000-01, the target was to provide 12,000 VPTs based on WLL technology. However not a single WLL VPT has been provided due to non-availability of WLL equipments. The target for the year 2001-02 has been kept to provide 22,024 VPTs but if for reasons of non-availability of WLL equipments, some villages would not be covered, the same would be covered during the year 2002-03. The estimated requirement of funds in these two years is around Rs.130 crores which is difficult to generate through internal resources.

55.

56. To a specific query about the development of telecommunications in the North Eastern Region of the country, DoT has stated in a written reply that 9,190 villages are yet to be provided Village Public Telephones (VPTs) in the North-Eastern States. By March, 2002, DoT would provide 5,110 VPTs out of the same 555 would be in Nagaland, in particular. It has been added that land line VPTs in this area are impracticable and a very small number of villages would be covered by the land lines. Most of the villages would be covered by SAT phones, that is, through the satellite media or the WLL and TDMA. Details of Action Plan prepared to achieve these objectives are stated to be as follows:

ACTION PLAN 2000-2002
VPTs to be provided on

State	Land Lines	Satellite	WLL/TDMA	Total
Nagaland	24	254	277	555
Arunachal Pradesh	62	2021	166	2249
Manipur	48	705	953	1706
Megalaya	395	890	3042	4327
Mizoram	7	85	57	149
Tripura	28	70	106	204

The Department has further stated that a lot of difficulties have been faced by the Department in providing VPTs due to inaccessibility and insurgency.

56. Drawing the attention of the Department to the fact that it was very difficult for a single Chief General Manager to look after the telecom work of the six States, the Committee suggested that the whole North-East Circle should be divided into two zones. One zone should consist of Meghalaya, Mizoram and Tripura and the other zone may consist of Nagaland, Arunachal Pradesh and Manipur. To this, Member (Finance) responded that they themselves appreciate that the terrain has been very difficult and inhospitable and for that reason they had to provide connectivity of the first rate as early as possible. DoT has been paying special attention from the beginning. They have made certain proposals for reorganisation of the Circle. In the last meeting of the Telecom Commission, a proposal was put up for consideration but a final view could not be taken. He assured that a decision would be taken on this matter very soon.

57. To another suggestion of the Committee to post younger staff in the North-Eastern States because of the difficult hilly terrain there as the officers are required to take strenuous journey, the witness stated that they would put young direct recruit officers as suggested by the Committee.

58. The NTP' 1999 envisages to increase rural tele-density from 0.4 percent at present to 4 percent by 2009-10. It requires on average an addition of 30 lakh rural telephones with 54 lakh switching capacity each year. For this purpose, BSNL and MTNL are expected to provide total fixed phones in the range of 60 lakh to 70 lakh each year during the period 2001-06 and the private service providers 13 lakh to 15 lakh phones each year during this period. However, the actual achievement of BSNL and MTNL in the previous year was 59.33 lakh DEL. The six private service providers who had committed to provide about 20 lakh phones in the first 3 years of their operations, miserably failed to honour their commitment. They could provide only 2,15,284 telephones in all. The Committee is at loss to understand, how BSNL with their dwindling surpluses and private operators because of their own problems would be able to expand their network to the extent mentioned above. In the absence of any convincing evidence, the Committee is inclined to believe that projected availability of telephones in NTP' 1999 will merely remain a tall claim particularly in rural areas.

59. The Committee notes that out of 6,07,491 villages in the country, 3,78,460 villages were provided with Village Public Telephones (VPTs) by the end of year 2000. The six private service providers who have set up their infrastructure altogether provided only 562 VPTs against the commitment of 97,806. Obviously, they are not interested in VPTs

as it is a losing preposition. The BSNL has left most of the remaining VPTs for private operators because as per the licencing agreement, they are required to provide 10 percent of the requirement in rural areas. The DoT has argued that service provider expanding network in rural areas would get funds from Universal Service Obligation Fund (USO). However, the Committee is not at all impressed by this line of reasoning since quantum of USO itself has not yet been spelt out by the Regulator, not to speak of availability of funds. Again, the realisation from licence fee would be only a small fraction of the funds required to extend telecom operations in 2 lakh leftover villages which are mostly remote and difficult. Moreover, BSNL will be obliged to provide on priority basis reliable telephony in those areas where MARR telephones have gone out of order and require to be replaced immediately.

60. The Committee finds that six private service providers had committed to provide 97,806 VPTs in the first three years of operations from September, 1997 to September, 2000. However, they provided only 562 VPTs upto 30 June, 2001. Hughes Telenet Com (India) Ltd., Reliance Telecom Ltd. and HFCL Infotel Ltd. who have the licences to operate in Maharashtra, Gujrat and Punjab did not provide even a single VPT though made commitment for 25,760 VPTs, 8,635 VPTs and 5,442 VPTs respectively. Bharati Telenet Ltd. provided 348 VPTs against the commitment of 16,500 in Madhya Pradesh, Tata Teleservice provided 5 VPTs and that too, in the fourth year of their operations, out of the commitment of 9,635 VPTs in Andhra Pradesh and Shyam Telecom, 209 VPTs out of 31,834 in Rajasthan. Strangely, the DoT did not take any punitive action against them even though the licence agreement provides for the same. The DoT owe an explanation to the Committee on this account. Obviously, the people in rural areas of all the six States mentioned above have been denied telecom facilities to that extent for inaction on the part of DoT.

61. The Committee is deeply concerned to note that in Orissa, out of the 46,989 villages only 24,965 villages i.e. 53% of the total village have been provided with VPTs upto 31 March, 2001. Providing VPTs in 22,024 left over villages in the remaining one year i.e. upto 31 March, 2002 as envisaged in the NTP'99 is an uphill task which is impossible to be accomplished as the required resources are stated to be not available. It is ironical that knowing all these facts, the DoT is still reiterating again and again in Parliament as well as outside, that the commitments made in the NTP'99 with regard to VPTs will be achieved.

62. The same is the case with the North-Eastern States also where 9190 villages are to be provided with VPTs as the DoT is stated to be facing a lot of difficulties due to inaccessibility and insurgency in some areas of these States, the target is to cover only 5110 villages with VPTs by March, 2002. The remaining 4,000 villages will thus have to wait indefinitely for telecom service. Evidently, NTP'99 has grossly failed to deliver the desired results. Since laying of land lines in North-Eastern States to provide VPTs is impracticable because of mountainous topography, the Committee desires that VPTs through Satellite and WLL/TDMA technology be expedited.

63. The Committee also finds that due to inaccessibility of vast areas in North-Eastern states, it has been very difficult for a single Chief General Manager to effectively look after the telecom network in six States. Since the matter regarding reorganisation of North-Eastern circle is already under consideration, the Committee desires that an early decision be taken with a view to accelerate development of telecom facilities in these States.

Moreover, younger staff capable of undertaking strenuous jobs be posted on field duties so that the maintenance work is accomplished expeditiously.

(C) Affordability of Telephones

64. Committee enquired about the plan of action initiated to make effective communications available to the citizens at affordable rate. In reply, DoT has stated that constant efforts have been made by the Bharat Sanchar Nigam Limited (BSNL) to increase the availability of telephones and ensure spread in the rural areas. Latest technologies are reportedly being incorporated to ensure reliable connectivity on the one side and reduce cost on the other. These technologies include use of Wireless in Local Loop (WLL), Optical Fibre Cables and GSM technologies. For providing Village Public Telephones also these technologies have been introduced which would shorten the time of provisioning of public telephones besides increasing reliability.

65. It will be seen that the TRAI had announced tariff reduction for long distance calls twice one in 1999 and then in year 2000. The Committee desired to know the impact of these tariff reductions as announced by TRAI. In reply, it has been stated that as against BE of Rs.19,788 crore, the actual revenue receipts in 1999-2000 was Rs. 18,257 crore. This decrease is attributed among other factors, to the reduction in tariff applicable from 1 July,1999. The estimated revenue for the year 2000-2001 was Rs. 19,814 crore. It has been stated that with corporatisation, cost would further go up due to the expenditure of staff, sales tax, octroi, insurance, wealth tax etc. The overall impact on profit would be to the extent of 10%. The BSNL as corporate entity would also have to pay licence fee @ 10% of the revenue. However, the same would be reimbursed by the Govt. as proposed in the Budget for 2001-02 for rural applications. As regards the impact of privatisation, it has been stated that it would be difficult to access the impact of the privatisation on BSNL at this stage.

66. When asked about the strategy of DoT to co-up with the present challenges, it has been stated that the main objective of BSNL has been to make telephone services more affordable to the rural and lower income groups to enable them to go for telephone connections which would result in increase of teledensity as envisaged in NTP'1999. With better management, proper marketing of telephone services and with increased growth in traffic/usage, DoT expected that this would result in lower operating cost, thereby arresting the decline in the surplus generation by BSNL. In addition BSNL proposes to enter into new value added services. The programme for the introduction of cellular mobile service and WLL is reported to be in hand.

67. It is understood that BSNL and MTNL Cellular mobile service and WLL have started. It may be seen that as per press note dated 18 May,2001, TRAI has fixed monthly rentals of WLL-M, at a floor of Rs.450/- and a ceiling of Rs.550/-. Further the press note states that handset for WLL-M connection may either be supplied by the service provider or procured by the user himself. In case it is supplied by the service provider, he may ask for a deposit for the handset from the consumer upto an amount of Rs. 10,000/-. This amount will be refundable in full to the consumer on the cessation of the service. Further, a maximum of Rs.80/- per month may be charged as rental for handset, if it is supplied by the service provider.

68. In this context, the Committee further note that as per Data published in two recent reports of the International Telecommunication Union (ITU) – 'World Telecommunication Development Report 1998' and Trends in 'Telecommunications Reform 1999' India's per

capita annual GDP is below $ 400 and there is a phone only in every 20 homes. India's local annual telephone charges are about 20 percent of the per capita GDP. In the 26 developed countries mentioned earlier, these charges are generally below one percent of the GDP. This shows that there is little scope for further increasing local tariffs in India, which is still a low – income developing country and any increase will be seriously detrimental to telecom growth.

69. Department of Telecom has stated that the telecom services have been corporatised in India to provide healthy competition, and also to provide world class telecommunication services at affordable prices. Also during tenth five year plan it is proposed to provide 834 lakh fixed and mobile telephones in the country by BSNL, MTNL and Private Operators. This will raise the teledensity to 8 % by 2005 and 11.5% by 2007. The Perspective Plan for telecom services for the period 2000-2010 envisages to reach a status of 1745 lakh connections raising the teledensity to over 15% as envisaged in NTP 1999. To spread the telecom services to rural areas, the new basic service licence agreements stipulate rollout obligations in terms of points of presence. The rollout obligations have been stipulated in equal proportions in urban, semi-urban and rural Short Distance Charging Areas(SDCAs).

70. However, the Committee finds that a couple of months back, TRAI revised the tariff rates. While reducing the tariff for long distance, local call rates were revised upwards and duration of local calls reduced from 5 minutes to 3 minutes which amounts to indirect tariff revision.

71. The Committee finds that no indepth study has been made to achieve the objectives of availability and affordability of telephones as enunciated in the NTP'1999. The Policy document promises to make telephone available on demand by the year 2002 and also make it more affordable in rural areas by suitable tariff structure and making rural communication mandatory for all fixed service providers. However, the steps required to be taken in this direction have not been spelt out in clear terms. As has been discussed earlier, surpluses of BSNL and MTNL are bound to come down because of corporatisation, competition and reduced tariff. The surpluses generated has already come down by 30 percent last year alone in spite of indirect upward revision of local charges by adjusting pulse rate from 5 minutes to 3 minutes. If tariff is further reduced, it will make more dent in their profits and investible funds to that extent will not be available for expansion of telecom network. It will adversely affect growth and projections made in the Perspective Plan of 7 percent teledensity by 2005 and 15 percent by 2010 will never be realised. It is also impossible for the Government to make funds available from general revenues, given the state of affairs of Central revenues. Nor the deficiency can be overcome by cellular mobile phones which are much more costly.

72. **On the other hand, as has been brought out by some Expert studies, our average annual telephone charges being 20 percent of the per capita Gross Domestic Product(GDP) of $ 400 is very very high as compared to developed countries where an average subscriber spends less than one percent of per capita GDP on telecom services. The rural scenario is still worse. Even at the current rates of tariff, it will be difficult to sustain the projected demand for a span ranging upto ten year as envisaged in the Perspective Plan. Therefore, in all probability, tariff will have to be reduced as the TRAI has done in recent past to generate more demand. The Committee, therefore, recommends that indepth studies be undertaken expeditiously to resolve the dichotomy if promise made**

to common man in the NTP'1999 has to be realised. The Committee will like to be apprised of the action taken in this regard.

73. The Department of Telecommunications has advocated that better management, proper marketing of telephone services and increased growth of usage/traffic would result in lower operating cost and it would arrest decline in surplus. In the absence of any empirical study, it is nothing but a wishful thinking which can jeopardise all the projections of the Perspective Plan. The Committee is therefore, inclined to believe that objective of NTP'1999 are mere pious wishes of the Government devoid of ground realities. Concrete steps are required to be taken expeditiously to reduce the cherished goal.

(d) Revenue Sharing Regime

74. Another salient feature of New Telecom Policy, 1999 is migration of existing Basic and Cellular service licencees from fixed licence fee regime to the revenue sharing regime. In this connection, the Committee desired to know the rationale behind the change over and how the Department termed it as an improvement. In reply, Department of Telecom has stated that the licensing framework of the 1994 Telecom Policy did not achieve its objectives. The private sector entry had been slower than what was envisaged in the NTP-94. Large capital resources were invested by the private licencees in the telecom service sector, however the fixed licence fee regime based on the bidding process was affecting the viability of the telecom service industry. Besides there have also been far-reaching developments in the recent past in the telecom, IT, consumer electronics and media industries world-wide.

75. Also draft New Telecom Policy 1999 which has been formulated by a High Level Group on Telecom(GOT) under the Chairmanship of the then Dy. Chairman, Planning Commission had been put for the first time on Internet site for wide national debate and more than 17,000 responses were received. The same were scrutinized and suitably incorporated in the policy. The NTP-1999 which envisaged a one time entry fee and licence fee as revenue share in place of the earlier scheme of fixed licence fee has stated to have been widely accepted as an improvement upon the previous policy and seen a step in right direction meeting the imperatives of technological developments, market growth. Shift from payment of fixed licence fees to revenue sharing in the multipoly situation as recommended by GOT has been accepted by the Government. The objective of NTP-1999 have been stated to be to activate investment and competition in the telecom sector; to create a modern and efficient telecommunications infrastructure taking into account the convergence of IT, media, telecom and consumer electronics and thereby propel India into becoming an IT superpower.

76. In reply to a specific query as to whether the Revenue sharing would not lead to slackness on the part of private service providers, as there would not be any compulsion to expand at the optimum rate, it has been stated that the revenue sharing regime in NTP-99 would give the service providers flexibility to adjust in future to fast changing technologies and tariff changes, and offer lower tariff and better quality of service to the consumer. Also as regards roll-out and expansion of services, there are clearly laid down roll-out obligations of the Service Providers in Licence Agreement. In case of cellular services, the operators have to cover 10% of the District Headquarters in one year and 50% within three years of the effective date of licence. In case of Basic services, the existing operators have roll-out obligations for provision of given number of direct exchange lines and VPTs, while in the case of new licences to be issued, the roll out obligations would be in terms of establishment of point of presence viz. a

switch in every short distance charging area in the given time frame. Strict penalties are envisaged for non fulfillment of roll out obligation.

77. The Committee has also been informed that as per the conditions of Migration Package, the existing operators have surrendered their right to operate in a limited competition environment and therefore, additional operators would be introduced. Moreover, due to stiff competition in the market no licencee company can afford to be slack in provision of good quality of service, coverage and competitive prices.

78. It may be seen that w.e.f. 25.01.2001 the licence fee for Basic as well as Cellular Operators has been fixed at 12% of the Adjusted Gross Revenue(AGR) for Metro Service Areas and category `A' Circles, 10% of AGR for category 'B' Circles and 8% of AGR for category 'C' Circles. In addition, the cellular licencees would have to pay spectrum charges on revenue share basis of 2% of AGR for spectrum upto 4.4MHz(or 3% of AGR for spectrum upto 6.2 MHz, as the case nay be). For existing operator, these frequency charges would be effective from the cut off date of change over to NTP-99 regime i.e. 1.8.99.

79. The Committee is unable to subscribe to the view that Revenue Sharing regime decided on the basis of 17000 responses after a national debate on Internet is an improvement over the earlier scheme of licence fee. In fact, the Committee is convinced that change over to Revenue Sharing scheme has been devised to bail out the private telecom service providers who without undertaking any indepth study quoted astronomically high bids to garner, as much as possible, telecom licences to establish private monopolies at a later date. It cannot be said that they lacked experience as all of them had collaborated with foreign companies in the field of telecom as per the licencing conditions. It appears that 17000 responses were procured by those who after securing licences at exhorbitant bids wanted to extract concessions from the Government at the cost of the exchequer. Even after four years of their operations, they are still unwilling to honour their commitment to the nation made in terms of VPTs and rural telephony. Even in the urban areas, they are far behind their commitments. Private Service Providers have so far confined themselves to metropolis and cities which gives an impression that they are after the creamy layer to make windfall profits at the cost of BSNL and MTNL – the two public sector undertakings. Thus, the Revenue Sharing Regime ushered by the NTP'99 has in no way benefitted the nation. It has only absolved the private service providers of their commitment to pay licence fee. The Committee desires that penalities as envisaged in the licence agreement for non-fulfilment of roll out obligation be realised from defaulting licencees who took the nation for a ride by their false promises.

80. The Committee finds that under the earlier licencing system, private service providers were under compulsion to expand their telecom network to spread fixed cost over a larger base. However, there is no such compulsion under the Revenue Sharing Regime. This fact has been amply borne out by the performance of the six private service providers who have installed only 2,15,284 DEL against the commitment of 20,17,809 during the first three years of their operation. It is no use saying that existing operators have roll-out obligations for provision of DELs and VPTs when these are not enforced with punitive action. Provision of strict penalties could not make them compliant. The Committee is not convinced of the reasoning that due to stiff competition in the market, no licencee could afford to be slack in quality of service, coverage and competitive prices. All these factors are to be decided by the Regulator. If past experience is any guide, private

service providers would operate in those areas only, where they are able to maximise their profits.

OTHER ISSUES

<u>Foreign Direct Investment (FDI)</u>

81. The Committee drew attention of the Department of Telecom to the reports appearing in the Press that telecom industry expected a phase of consolidation through complex financial engineering measures that circumvent legal stipulations and desired to know whether the Department envisaged any such eventuality and if so, what checks have been provided in the New Telecom Policy to ensure that control of telecom companies remain in Indian hands. In a note, the DoT has stated that there had been reports in the media that some of the companies have through complex financial engineering measures circumvented the policy provisions and the management control has been passed on in favour of foreign companies.

82. It has further been stated that the guidelines of the Government are very clear which permits 49% foreign equity in the company licenced to operate telecom services thereby ensuring management control with the Indian shareholders. Moreover, licence conditions have been modified to explicitly ensure that management control rest with the Indian shareholders. In order to raise resources and at the same time to maintain the sanctity of foreign equity cap, a decision has reportedly been taken in 1996 to allow 49% foreign equity in an investment company set up for making investment in the Telecom Sector. FDI in such companies was permitted subject to three conditions viz. Foreign equity in the investment company will not exceed 49%, the management of the investing company remains with the Indian owners; and prior to making investment in a company licenced to operate Telecom Services, they will seek the approval of the Telecom Authority. However, Department of Economic Affairs (DEA) has stated to have announced a policy for preference shares, which stipulates that in case the preference shares are non-convertible, the same do not attract sectoral cap. Based on this policy guideline, some companies have allotted 100% non-covertible preference shares to foreign promoters.

83. DoT has stated to have raised the point that by this policy, under the Companies Law, management control, under certain conditions, may go in the hands of preference shareholders and, therefore, the condition that "management control must necessarily rest with the Indian shareholders" may not be adhered to even if a stipulation to that effect has been made while giving approvals. The DoT is stated to have already been taken up this issue with the Ministry of Commerce and Industry and Department of Economic Affairs

84. The Committee is perturbed to note that some of the telecom companies through complex financial engineering measures have circumvented the policy provisions and the management control has been passed on in favour of foreign companies. This has been done by resorting to preference shares' route to raise financial resources. As per the policy announced by the Department of Economic Affairs, if the preference shares are non-convertible, the same do not attract sectoral cap. Based on this policy guideline, some companies have allotted 100% non-convertible preference shares to their foreign promoters. Thus, under the Companies Law, management control under certain conditions, may go in the hands of preference shareholders and, therefore, the condition

that "management control must necessarily rest with the Indian shareholders" may not be adhered to even if a stipulation to that effect is made while giving approvals. The DoT is stated to have taken up the matter with the Ministry of Commerce and Industry and Department of Economic Affairs. The Committee takes a view that the matter requires utmost attention of the Government at the highest level with a view to plug loopholes in the policy and the management control should rest with the Indian shareholders.

Problems of Cellular Mobile Telephones Operators

85. The representatives of Cellular Operators' Association of India (COAI) stated in evidence that although there has been 75% reduction in tariff in the last 18 months, yet the Cellular services has still been unaffordable. The various reasons for the same are stated to be India's low per capita income and high licence fee paid by them as entry fee. Subscriber has to pay for the incoming calls also and the cost of the hand-sets has been high. Though the duty has come down, yet the prices remained still high.

86. The Committee enquired about coverage of rural areas by Cellular Mobile phones. In reply, the Director General, COAI submitted that through a base station or transmitter station, airwaves can go as much as 30 Kms. Though they did not go to the villages initially, yet they have covered 60,000 villages and most of them are such which don't have fixed telephone facilities.

87. It has further been stated that these 60,000 villages could not get the benefit of private cellular phones though it is possible to extend the facilities in these villages. Cellular Operators could not provide these facilities because of certain conditions imposed by DoT

88. The representatives of COAI also stated that the mobile service can be made affordable if Government policy in respect of the Direct inter-Circle connectivity between Service Providers as envisaged in NTP, 1999 is implemented. They desired that DoT should permit Cellular Operators to have their own direct inter-connection with any other inter-circle cellular operators. Further, as it is mandated in NTP'1999 Cellular Operators should be permitted direct connectivity to VSNL gateways with the opening of the long distance service. VSNL have got gateways in almost all major cities like Delhi, Mumbai and Bangalore etc. and the Cellular Operators have infrastructure to go directly to VSNL instead of routing through DoT or MTNL. While going through BSNL or MTNL, the call quality suffers because of massive congestion in their system. Also Cellular Operators are required to pay huge charges unnecessarily to a middle man. Direct connectivity through VSNL would make the international calls quite cheaper

89. In a written representation to the Committee, COAI has stated that if direct inter circle connectivity is implemented, an STD call from Delhi to Chennai, that presently costs Rs. 24 per minute would be available in the range of Rs. 10 per minute or even less. Lower STD charges would immediately benefit the consumers, not only in the metros and towns and to the high-income group people, but also to the peoples living in rural areas and making their calls from STD booths.

90. Further, if both the cellular and fixed operators are allowed to directly interconnect with each other, as has been clearly mandated in NTP'1999 they would be able to utilize their existing infrastructure more optimally.

91. Asked to comment on the abovesaid submissions of COAI to the Committee, regarding inter-circle connectivity between service providers, the DoT in reply has stated that NTP'1999 stipulates service area for national long distance service providers as service area beyond the service area of the access providers i.e. cellular mobile telephone service providers and basic telephone service providers. The inter-connectivity between the two service providers in different service areas may not be provided as it is within the scope of service of National Long Distance (NLD) Service Provider. Cellular Operators are free to form consortium as an alternative NLD service providers so as to provide cheaper and better service to the consumers of the country and may obtain a licence for the same after fulfilling the eligibility conditions

92. Regarding more affordable long distance service, DoT has stated that intra-circle long distance calls have been offered by the Cellular Operators at a fraction of fixed service charges of BSNL because of different routing, charging and tariff plans. Any call from one Short Distance Charging Area (SDCA) (typically tehsil) to another SDCA would be a long distance call for BSNL while in case of cellular service operators, it is a local call within the whole State.

93. For optimal utilization of existing infrastructure, DoT has submitted that Cellular and fixed operators are allowed direct inter-connectivity with each other within the service area. A cellular operator can have direct interconnection with fixed operators for terminating the traffic, as the transit traffic to other service area has to be routed thorough National Long Distance (NLD) service provider. Direct inter-connectivity with VSNL has also stated to be not provided in view of the NLD service provider who has the right to carry long distance calls within India.

Wireless in Local Loop (WLL)

94. On the issue of WLL Based Mobility for fixed service operators, the Cellular Operators have controverted the recommendaions of the Group on Telecom & IT Convergence in a written representation to the Committee stating:-

(a) Equalization of long distance revenue sharing for WLL mobile cellular operators and Cellular Operators

(b) Determination of Entry Fee to remain within the domain of TRAI.

(c) Allocation of spectrum to be considered inextricably linked to performance.

(d) Sub-classification of SDCAs into urban, semi-urban and rural with requirement to cover them equally at each stage of the roll-out obligations.

95. In this connection, COAI has submitted that GOT-IT recommendations represent a very significant departure from the position advocated by TRAI and the stance adopted by the Government in the matter of WLL based mobility for fixed operators and that the disturbances would be created in the level playing field.

96. COAI has stated that the recommendations of GOT-IT tacitly acknowledge the WLL mobility as a mobile service and also call for an equalization of terms between the two mobile services. Therefore, the principle of equalization is one of the fundamental principles of level playing field and this must be applied to all aspects of competition in a particular service.

97. COAI further submitted that quantum of Entry Fee is one of the crucial aspects which has been considered neither by TRAI nor by GOT-IT. The Group had noted that the submission that the decision to allow limited mobility to fixed service providers without prescription of an additional entry fee remains within the domain of TRAI.

98. TRAI had recommended that there was no need to have a separate additional entry fee for WLL Mobility services as the objective of entry fee was mainly to deter non-serious players. The TRAI had also justified Nil entry fee on the grounds that the tariff for "WLL Mobility" services would be the same as for fixed telephony. However, this presumption is now stated to be untenable since the monthly rentals of Rs.450-630 fixed by TRAI completely demolishes the argument of affordability. The Rs.10,000 deposit for the mobile handset coupled with the high monthly rentals in fact makes WLL Mobile, one of the most expensive telecommunication services in the country

99. COAI has further stated that if the new entrants are allowed free entry into mobile services, it would give them a significant competitive edge over the existing players. In this context, TRAI itself in the case of FSPs had acknowledged that the huge differences in the entry fee paid by existing fixed operators and the new entrants would give the latter a significant competitive edge over the former. TRAI has accordingly recommended that the licence fee of existing fixed operators be waived for 4 years in an attempt to neutralize the disadvantage. Despite a referral back from the Government to reconsider this recommendation, the TRAI had maintained back its view. COAI has, therefore, desired that the issue of the entry fee needed to be re-examined.

100. Another issue raised by Cellular Operators is that of discrimination on the allocation of spectrum. TRAI is stated to have recommended that the basis for charging for WLL frequency spectrum in the CDMA band and the cellular mobile spectrum in the GSM band should be identical. TRAI further stated that in the long run frequency spectrum being a limited resource may have to be auctioned both for CDMA based WLL systems and GSM based CMTS. The Cellular Operators have contended that as per the present policy, the fixed operators would get spectrum on a first come first serve basis, while the cellular operators are required to go through a three stage bidding process to acquire the same. Spectrum being a scarce and valuable national resource, cannot be allocated in a discriminatory manner.

101. In the context of the first-come-first-served policy of spectrum allocation, the GOT-IT Report has stated that the fixed operators seeking spectrum must have established a Point of Presence in an SDCA in order to be eligible for the first tranche of spectrum" and that 'first-come-first-served' on a true interpretation only means that allocation of spectrum is and must be considered to be inextricably linked to performance".

102. COAI has stated that in the light of the limited slots of spectrum available and to uphold the principle of equity and non-discrimination, all Letters of Intent must be given at the same time so as to prevent one set of operators from having an unfair advantage over others on the basis of an early start.

103. In the matter of pricing of this resource, COAI has reiterated that NTP, 1999 does not permit fixed operators to offer any type of mobile services. Use of spectrum for fixed operators is to be used only for fixed wireless access. It is submitted that NTP, 1999 clearly provides for spectrum to be allocated to fixed operators upon the "payment of an additional one time fee over and above the FSP entry fee". Free allocation of spectrum is in contravention of the provisions of the NTP, 1999.

104. The Committee observes that Cellular Operators through their base stations have extended telephone facilities to about 60,000 villages which don't have the telephone facilities. However, they are constrained to do so further because of certain conditions imposed by the Department of Telecom. The Cellular Operators Association of India(COAI) has represented that as envisaged in NTP'1999, direct inter-circle connectivity between service providers should be allowed. Direct connectivity through VSNL should also be permitted as it would make the international call much cheaper. Cellular Operators have desired that Cellular and Fixed operators should be allowed direct connectivity with each other in order to optimally utilise the infrastructure. However, DoT clarifying the position has stated that NTP'1999 stipulates service area for national long distance service providers as service area beyond the service area of the access providers i.e. cellular mobile telephone service providers and basic telephone service providers. The inter-connectivity between the two service providers in different service areas may not be provided as it is within the scope of service of National Long Distance (NLD) Service Provider. However, Cellular Operators are free to form consortium as an alternative NLD service providers so as to provide cheaper and better service to the consumers of the country and may obtain a license for the same after fulfilling the eligibility conditions.

105. To optimally utilise the existing infrastructure by the Cellular Operators, the Committee is informed that Cellular and fixed operators are allowed direct inter-connectivity with each other within the service area. A cellular operator can have direct interconnection with fixed operators for terminating the traffic, as the transit traffic to other service area is to be routed through National Long Distance (NLD) service provider. Direct inter connectivity with VSNL cannot be provided in view of the NLD service provider who has the right to carry long distance calls within the country.

106. The Committee is unable to understand the rationale in creating artificial obstructions in various networks in which Cellular Operators are unable to have inter Circle connectivity nor they can directly access VSNL gateways. Such restrictions are unduly leading to higher costs to subscribers through sub-optimal utilisation of infrastructure. The Committee strongly feels that while interconnection charges should be equitable, cost-based and non-discriminatory, routing of calls should be such to ensure optimal utilisation of infrastructure and delivery of services at most economic rates. The Committee also finds no acceptable reason as to why the Cellular Operators should not expand Cellular services in the villages which are covered by their base stations. However, any factor still deterring the affordable facility to the consumers should be looked into.

107. The COAI has further represented that recommendations of the Group on Telecom & IT Convergence like an equalization of long distance revenue sharing for WLL Mobile Operators and Cellular Operators, determination of Entry Fee to remain within the domain of TRAI, allocation of spectrum to be considered inextricably linked to performance and sub-classification of SDCAs into urban, semi-urban and rural and requirement to cover them equally at each stage of the roll-out obligations, represented a very significant departure from the position advocated by TRAI and the stance adopted by

the Government in the matter of WLL based mobility for fixed operators. TRAI recommendations on the introduction of WLL based mobility for FSPs were qualified recommendations and were conditional to that WLL mobility is not the same as that of the cellular mobile services and the disturbances expected to be created in the level playing field by introducing this service can be evened out by making some necessary policy changes.

108. COAI also contended that GOT-IT tacitly acknowledged WLL mobility as a mobile service and also called for an equalization of terms between the two mobile services. Therefore, the principle of equalization is one of the fundamental principles of level playing field and this must be applied to all aspects of competition in a particular service.

109. For the quantum of Entry Fee, the group had noted that the submission that the decision to allow limited mobility to fixed service providers without prescription of an additional entry fee remains within the domain of TRAI. TRAI had recommended that there was no need to have a separate additional entry fee for WLL Mobility services as the objective of entry fee was mainly to deter non-serious players. The TRAI had also justified Nil entry fee on the grounds that the tariff for "WLL Mobility" services would be the same as for fixed telephony. However, Cellular Operators held this presumption as untenable since the monthly rentals of Rs.450-630 fixed by TRAI completely demolishes the argument of affordability. The Rs.10,000 deposit for the mobile handset coupled with the high monthly rentals in fact makes WLL Mobile, one of the most expensive telecommunication services in the country. The Committee finds merit in the logic advanced by COAI and recommends sympathetic consideration.

110. COAI has further stated that if the new entrants are allowed free entry into mobile services, it would give the new entrants a significant competitive advantage over the existing players. TRAI has accordingly recommended that the licence fee of existing fixed operators be waived for 4 years in an attempt to neutralize the disadvantage. Despite a referral back from the Government to reconsider this recommendation, the TRAI had maintained back its view. COAI has desired that the issue of the entry fee should be re-examined. The Committee endorses the views of the TRAI in this regard.

111. On the issue of allocation of spectrum, the Committee is informed that TRAI had recommended that the basis for charging for WLL frequency spectrum in the CDMA band and the cellular mobile spectrum in the GSM band should be identical. TRAI further stated that in the long run frequency spectrum being a limited resource may have to be auctioned both for CDMA based WLL systems and GSM based CMTS. However, according to the present policy, the fixed operators would be getting spectrum on a first come first serve basis, while the cellular operators would have to go through a three stage bidding process to acquire the same.

112. The Committee is of the view that WLL Based Mobility for fixed operators, the contentions expressed by the Cellular Operators on equalization of long distance revenue sharing for WLL mobile cellular operators and Cellular Operators determination of Entry Fee to remain within the domain of TRAI, allocation of spectrum to be considered inextricably linked to performance and sub-classification of SDCAs into urban, semi-urban and rural and requirement to cover them equally at each stage of the roll-out

obligations needs to be reconsidered. The apprehensions shown by the COAI cannot be ignored as the same may affect the consumers interest.

NEW DELHI **SOMNATH CHATTERJEE**
29 August, 2001 **Chairman,**
7 Bhadrapada, 1923(Saka) **Standing Committee on Information Technology.**