Addressing the Telecom Sector Crisis

What is the issue?

- Top telecom companies such as the Bharti Airtel and Vodafone Idea recently reported historic losses. Click here to know more.
- In this backdrop, here is a look at Indian telecom sector's growth and the current crisis it faces.

How was the telecom sector in the 90s?

- In the early 1990s, India had merely 7 million telephones with a waiting time of 7 to 8 years to get a connection.
- It was because the cost of installing a landline telephone was too high.
- The required average revenue per user (ARPU) was Rs. 1,250 per month.
- This was certainly too high for most Indians at that time.
- [ARPU is defined as the total revenue divided by the number of subscribers.]

How did the sector evolve thereafter?

- Indian telecom grew at a slow pace through government budgets and subsidies.
- It is in this context that wireless telephony was introduced.
- This brought down the capital cost, made telephones affordable, was easier to install and brought in private investments.
- The results have been certainly dramatic, with telecommunications sector growing at a rapid pace.
- It moved ahead with the virtuous cycle of growing demand and increasing competition.
- This pushed down prices to levels not seen anywhere else in the world.

What is the current crisis?

- The telecom sector is now under severe pressure, reflected in the top telecos' loss making trend.
- Notably, the troubles of present are rooted in the fast-paced growth of the past.
- The regulations that increased tele-density in the past, consequently pushed down ARPUs.
- This drove businesses to work with a single mind focus on consumer

acquisition, as the base of users increased rapidly.

How were such crisis handled in the past?

- The first telecom auctions for private players were in 1995.
- The financial bids were unbelievably high; some international consultants proposed large licence fees without understanding Indian affordability.
- Over the period, the winners realised that the bids were economically unsustainable.
- Several legal ploys were used to stop the payment against bids, cases multiplied, and the telecom dream was shattered.
- It was advised in 1999 that the only way out was to cancel the licence fees due to the government and introduce the “revenue share” model.
- [This involves the distribution of the total amount of income generated by the sale of goods or services between the stakeholders or contributors.
- This is different from profit share model wherein only the profit is shared i.e. the revenue left over after costs have been removed.]
- The then PM Atal Bihari Vajpayee took the bold step and licensees were offered an option to switch to revenue-share instead of upfront licence fees.

What was the result of the move?

- The installation cost of wireless telephony was less than one-fourth of a landline telephone.
- Low ARPU was no longer a big concern.
- By around 2003, India had around 300 million telephone lines and the urban market was saturating.
- Airtel, Vodafone, and Idea (GSM trio), with their GSM mobile-licence, were the leaders.
- Rural markets required lower tariff, but the GSM trio were happy with the urban market and resisted reduction in tariffs.
- The market grew at a slow pace since then.

How was this corrected?

- It was in around 2007 that the then government saw this imbroglio and found ways to give new GSM licences using primarily revenue-share.
- These newcomers, primarily Reliance Communications (RCOM) and Tata Teleservices, dropped tariffs and introduced per-second billing.
- Others had to follow. The market thus grew quickly to 900 million lines.
- Resultantly, the operators were making decent money, even with lower tariffs.
- Till then, India was using only 2G telephony. Data and Internet was at very

low speed.
- 3G telephony was just being introduced and operators were bargaining for more 3G spectrum in 900 MHz and 1800 MHz bands.
- The government was periodically conducting auctions since 2010, fetching large spectrum bids.

How did the old vs new players come about?

- Around 2013, the Government made available some spectrum in the 2300-2500 MHz band.
- This was not considered suitable for 3G telephony then.
- 4G was in its infancy and there was some concern about technology standards and technology readiness.
- A new company, Reliance Jio, betted on it and won the whole spectrum pan-India through a partner company.
- It got it at a relatively lower price as there was little interest from established operators.
- Jio had to wait for years to get the technology ready and launched the 4G service late in 2016 and caught the imagination of users.
- It made voice calls almost free and offered good quality video on smart handsets at very low tariffs.
- Others did follow this but paid higher amounts for spectrum in later auctions.
- Jio has been gaining market share since then.
- The older operators have been on the defensive, facing serious erosion in market share and profitability.
- RCOM and Tata Teleservices have been wiped out.
- Vodafone and Idea merged to just about survive.
- Airtel, the strongest operator 2 years back, continues to lose market share and profitability.

What is the recent SC verdict, and the challenge therein?

- The revenue-sharing agreement that companies like Airtel, Idea, Vodafone and others signed in 2001 has come to affect them.
- The Supreme Court ruled in October 2019 that these companies are liable to pay revenue share not just on telecom revenue but all revenues of the company.
- These include sales proceeds on handsets, renting of their towers, infrastructure sharing, and even on dividend incomes from any investment.
- Furthermore, they have to pay huge late-fees and penalties, totaling Rs. 1.3 lakh crore.
- The court has rightly interpreted the written agreement of 2001.

- However, the amounts are enormous that when paid, is likely to bankrupt these players.
- Further, except that it says so in a contract, it makes little sense to pay revenue share to the government on unrelated businesses.
- The industry is already saddled with debt of Rs. 7 lakh crore.
- Once again, India is faced with the prospect of a telecom monopoly or duopoly.

What lies ahead for the government?

- The government could offer the telecom operators payment of principal in installments and waive off interest and penalties.
- It is critical for the nation to have multiple players compete in telecom services.
- Besides, the role digital connectivity plays in society should be recognised.
- If India is to reap the benefit of being fully digital, government's taxes and earnings from telecom should be limited.
- Today, in addition to corporate taxes, the government's telecom revenue includes GST, spectrum auction, revenue share as licence fees, amounting to about 30% of customer bill.
- The money could be better spent by operators to improve today's average service-quality.
- This would help telecom reach the remotest parts of the country and the service needs to continue to be affordable.
- The government should thus not look at the telecom sector primarily as a revenue-earner but as a key service provider towards ensuring connectivity.

Source: The Hindu

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