Telecom Industry Crisis

What is the issue?

- Two leading and important players in the telecom industry -Bharti Airtel and Vodafone Idea have reported historic losses.
- In the second quarter of the fiscal year 2019-2020, Vodafone Idea has declared a loss of Rs. 50,922 crore while the former, Rs. 22,830 crore loss.

What is the reason for the loss?

- The losses were due to provisions that the two companies had to make following an **adverse verdict in the Supreme Court** (SC).
- This verdict was given on their battle in SC with the government over the definition of 'aggregate gross revenue'.
- The two companies have warned that their very existence as a going concern will be in doubt.
- They stated that this may be caused if the government doesn't offer them relief on the demand to pay arrears of revenue share along with interest and penalty, adding up to about Rs. 80,000 crore between them.
- Vodafone has said that it will have no option but to exit India.

Could this have been avoided?

- The question to ask here is why they not provided for the liability in their balance sheets over the years.
- Conservative accounting demands that contingent liabilities be provided for.
- The sudden pressure on their financials could have been avoided if they had made a provision in their balance sheet for the liability stemming from a possible adverse verdict in the case.

What should the government do?

- It is true that the industry in general (minus Reliance Jio) is under severe stress and they need help from the government.
- A **Committee of Secretaries** headed by Cabinet Secretary Rajeev Gauba is studying ways in which the telecom industry can be bailed out.
- The fact is that the industry needs another round of reforms right away.
- The government appropriates about 30% of the revenues of each player through various levies and taxes.

- So it needs to **revisit some of the policies framed** by it earlier.
- The most important issue is **addressing the validity of a licence fee** in the form of revenue share.
- This was set when spectrum was allotted and not auctioned.
- With the government now collecting revenues upfront in the form of spectrum auction fees, there is little justification for a licence fee as well.
- There is also the **issue of interconnect usage charges** to be settled. The telecom regulator is adjudicating this dispute right now.
- The government also needs to **look into the fairness of regulatory policies and approaches** and ensure that they are unbiased.
- The telecom industry is crucial to India's next wave of growth through digitalisation.
- So, the government should not be blinded by short-term revenue considerations that imperil long-term prospects.

Source: The Hindu

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