

Telecom Sector - IMG Recommendations

Why in news?

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Inter-Ministerial Group (IMG) constituted for resolving the crisis in the telecom industry recently published its report.

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What is the situation in the Telecom Sector?

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- The industry has an outstanding loan of over Rs 4.6 lakh crore to various financial institutions.

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- It has also deferred payment liabilities of about Rs3.1 lakh crore to the government.

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- Also, as over Rs.9 lakh crore has been spent on capex, the industry needs around Rs 140,000 crore to merely survive.

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What are the reasons?

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- The reason for such high financial crisis in the sector is due to the exorbitant government levies.

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- The old system of high-taxation which was followed when spectrum was given for free is continued even today.

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- As a result, the share of revenue going to the government through licence/spectrum charges rose from 11% in FY07 to 32.4% in FY17.

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- Also, TRAI's auctioning process that involved releasing only a small band of spectrum ensured that bids stayed exorbitantly high.

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- Also, the reserve prices which are fixed based on the previous auctions wasn't sensitive to the existing market conditions.
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- This made it harder for the telcos as they had to pay huge sums for voice spectrums similar to 4G, although demand was not supportive.
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What are the IMG recommendations?

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- Reserve price of spectrum may be modified to make it more reasonable and in line with international best practices.
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- Automatic annual renewal of spectrum for existing telcos like in the US can be considered.
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- This will prevent sky rocketing of spectrum prices due to irrational annual competitive bidding.
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- Also, reducing the high annual license fee obligations needs to be considered.
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- Although IMG studied the sector and made some suggestions, it has largely left it for the awaited 'New Telecom Policy' for making structural changes in levies.
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Source: Financial Express

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