

TELECOM Sector



WHY IN NEWS?

Reports of closure of Tata Teleservices highlighted the stress of **telecom sector in India**

KEY FEATURES OF NATIONAL TELECOM POLICY, 2012

PROMOTION OF DOMESTIC INDUSTRY: through preference in procurements having security implications or are for the **government's** own use

LEGISLATIONS: It seeks to review the **Indian Telegraph Act** to remove impediments to effective functioning of TRAI

CONNECTIVITY: Increase rural tele-density from the current level of approximately **39% to 70% by 2017**, and **100% by 2020**, enabling broadband access to all village panchayats by 2014 and to all villages by 2020 and recognising the 'Right to Broadband'

LICENSING: Aims to simplify policy licensing framework by establishing a unified license for all **telecom services**, single-license system for the entire country and removing roaming charges

SPECTRUM: Liberalise spectrum through a system where spectrum can be pooled, **shared** and **traded**

TELECOM SECTOR IN INDIA

According to DOT the **mobile industry contributes 6.5%** to our GDP, and employs over 4 million people.(2016-2017)

India ranks 3rd in the number of internet users. It will have 700 mn users of the 4.7 bn global users by 2025

- India has **2nd largest telecom network** in the world having ~1.21 billion subscribers (July 2017)
- Tele-density, i.e no. of telephone connections per 100 individuals, increased from **17.9 ('07)** to **93.88 ('18)**
- Smartphone subscriptions** in India are likely to increase four-fold to 810 million users by 2021
- Presently, telecom sector is governed by **National Telecom Policy, 2012**

IMPORTANCE OF TELECOM SECTOR

Doubling of data use leads to an increase in **GDP per capita growth rate** of 0.5% points (Deloitte'17)

TAX%

Telecom is the second highest revenue earner for government after **income tax**

Telecom services become the first line of defense in any emergency scenario

10% increase in penetration increases total factor productivity in the long run by **4.2% points**

In under-banked India, **mobile banking** can be a boost for **financial inclusion**

It is in top **five employment** opportunity generator

ISSUES INVOLVED

Declining profitability is a major issue. It further exacerbates the **twin balance sheet (TBS)** problem

PROFITABILITY IS AFFECTED BY

- HIGH DEBT:** Unsustainable **spectrum prices** and **low revenue**. Telecom together carry a debt of ~ Rs 5 lakh crore
- EXPENSIVE SPECTRUM:** Spectrum in India is among the **highest**
- HIGH TAXES:** In the 30%-plus range
- RESTRICTIVE GOVERNMENT POLICIES:** for eg. cross-holding norms prevent telecom to own stakes in other operators during mergers and acquisition
- RECENT REDUCTION:** in **Interconnected Usage Charges** by TRAI allegedly caused huge loss to operators

- LOW REVENUES:** Price reduction & declining average revenue per user by 22% due to new entrant
- COMPETITION FROM OVER-THE-TOP OPERATORS:** eg. WhatsApp as they don't **pay taxes** or levies
- QUALITY OF TELECOM SERVICES:** Disappointing due to issues like **call drop** etc
- DIFFERENTIAL PRICING FOR DATA SERVICES:** Although **TRAI promotes net neutrality**, no laws to enforce it

IMPACT

- Rising debt and reducing revenues disincentivises deployment of **new technologies** such as Internet of Things etc.
- Government programs viz **Digital India**, Smart -cities depends on the sector
- Expected loss of up to **30,000 jobs** due to business consolidation and cost-cutting

INTERCONNECTED USAGE CHARGES (IUC)

Are charges paid by a telecom services provider whose subscriber makes a call to the service provider whose **subscriber receives** the call

Allows subscribers of one network to seamlessly communicate with those of **another network**

Is decided by TRAI & is the **main source of income** to the Telecoms

VARIOUS STEPS TAKEN BY GOVERNMENT

REFORMS IN SPECTRUM MANAGEMENT: viz. spectrum sharing, spectrum trading, spectrum harmonization, spectrum auction

PLANNING TO AUCTION 5G SPECTRUM: to promote **Internet of Things (IoT)**

PHASED MANUFACTURING PROGRAMME (PMP): aims to add more **smartphone** components under the **Make in India** to encourage the domestic mobile manufacturers

BHARAT NET: to link the 2.5 lakh Gram Panchayats through **Broadband optical fibre network**

OTHER STEPS THAT CAN BE TAKEN

PAY OFF DEBT: through the sale of tower business and **fibre**, monetising its real estate etc

ACCEPTING TRAI RECOMMENDATIONS: Reducing SUC (**spectrum usage charges**) fees to 1% & licence fee payment to 3% and adopting revised definition of adjusted gross revenue

EXPEDITING THE IMPLEMENTATION OF BHARAT NET: through the PPP model as suggested by **Niti Ayog**

INNOVATION: and investment in **future technologies** for sustainable revenue flow

RETHINKING OF FLOOR PRICE: so that strong players can **absorb weaker** ones without destruction of value and assets created

