RING IN NEW REGULATIONS

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The Inter-Ministerial Group (IMG) formed by the government to look into the health of the telecom sector is a significant step forward by the government. It is an acknowledgment of the current crisis which the sector is undergoing by first taking steps to ensure immediate corrective measures and deliberate on future preventive actions which stabilize the sector and bring about regulatory and policy certainty. While the process of consultation with the industry and the stakeholders has just begun, positive signs are already emerging in the form of a consensus among the government and bureaucracy about the issues being faced by the industry.

It will not be premature to say that the telecom industry is hopeful that the IMG will bring relief to it and show the way ahead for introducing systemic changes to make the industry financially viable, strong and resilient.

At this important juncture, we must take a look at the role played by the telecom sector, which brought in a fast-paced revolution in the country. The telecom sector contributes 6.5 per cent to India's gross domestic product (GDP). Cumulative FDI inflows into the sector were to the tune of Rs 1.11 lakh crore as of September 2016. In terms of employment, the sector contributes directly to 22 lakh and indirectly to another 18 lakh jobs, making it one of the largest employers in the country.

But, even then the telecom sector is in a dire financial condition with a 1 per cent return on investments and many operators even making negative returns. The industry for the first time ever, saw a revenue drop for the full financial year FY 2017. From the first quarter to the fourth quarter of FY17, the industry AGR witnessed a decline of 12 per cent, from Rs 472 billion in Q1FY17 to Rs 415 billion in Q4FY17.

The highly taxed telecom industry, which has invested heavily in license fee, spectrum, telecom equipment and security apparatus, is now on an unequal footing with unregulated over-the-top operators (OTTs) that are offering voice services without incurring any regulatory costs. Using technologies that are spectrum inefficient and without contributing to the exchequer in the form of license or spectrum charges; and that too when the existing TSPs have paid a huge price for spectrum acquisition.

The high spectrum cost has contributed to the debt burden and this accompanied by high levies and taxes has resulted in immense financial pressure on the sector.

Considering the above, COAI and its members believe that it is the need of the hour that the telecom industry, both as a service and infrastructure, be considered as a resource of national importance. We envisage that data connectivity to India’s population with wide deployment of broadband will be at the core of the Digital India programme.

Thus, the immediate priority for the government is to ensure that the affordable mobile broadband services are adopted and utilised by a vast mass of unconnected and low net usage citizens. The roll-out of broadband and internet services in rural areas will ensure that the AGR to the tune of Rs 200,000 crore over the next 3-5 years for spectrum, technology equipment will be required.

These are critical for bridging the digital divide and for connecting the unconnected for fructifying the prime minister’s vision of a fully connected and digitally empowered India. The key question therefore is the viability of the sector is to raise additional funds.

For a business to generate capital expenditure it either needs to generate sufficient profits, which can be ploughed back into the business or it needs to be lucrative enough to attract funds be it in form of equity or debt.

Hence, it is vital to ensure that the telecom industry remains financially strong. The financial health of the telecom industry has to be safeguarded and there is a need to boost the financial viability of industry in order to meet the investment expectations. Given the importance and speed with which there is a need to enable digital citizenship, it is important to make investments in infrastructure.

That is consistent with the short-term benefits of immediate revenue generation and the long-term dividends that a robust connected trillion dollar digital economy can create for India. There is a need to rationalise the regulatory costs. If not addressed with alacrity, there could be an adverse impact on the telecom industry, the Indian economy and the financial stability of the country.

Recently, the industry has managed to bring down the falling incomes of the telecom sector, is to reduce spectrum license fees to a minimum level of Spectrum Usage Charges (SUC) per unit per location across all spectrum bands. The recommendations given by the Telecom Regulatory Authority of India (TRAI) for revamping AGR should be implemented as early as possible in order to bring financial uniformity in the sector. The spectrum license fees should be lowered from 5 per cent to 3 per cent immediately and should be eventually phased out. The high rate of 18 per cent GST will further blur the industry and keeping in mind the license nature of telecom sector, it would be helpful if the rate is brought down to 5 per cent.

Permitting deferred payment for the spectrum acquired after the auction process will help the sector find some firm ground. The steps in this direction should be further bolstered by allowing tax-free bonds.

There is a growing understanding that the digital economy is key to sustained growth and policymakers that OTT players by escaping the regulatory route have also escaped the license cost and the impact is being borne by both the telecom industry and the government. It would be the right move to bring them into the ambit of license and taxes in order to create a sense of balance and level playing field among all players.

Another very helpful step — which has been already been discussed with the policymakers — would be to create an infrastructure bank or a telecom finance corporation which will give easy loans to TSPs and will honour spectrum and other infrastructure as guarantee or collateral.

Along with the above, it is also equally important to swiftly implement the RoW rules, across the country in synergy with the states so that TSPs start getting into the untapped markets and add to their subscriber base, with rapid expansion even in rural markets.

Finally, the need of the hour is a stable, predictable, responsive policy and regulatory environment which facilitates innovation and investment comprehensively addressing the financial needs of the sector.