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Culling the telecoms 'golden goose'

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When India's Supreme Court cancelled all 122 2G licences, it gave a big jolt to the foreign investors that were already operating in the Indian market, having tied up with those local companies that received 2G licences. -- PHOTO: BLOOMBERG

By Kunal Kumar Kundu For The Straits Times

The successful auction of India’s 3G telecom spectrum in 2010 transformed the country’s telecom sector – but for the worse.

This sector, hitherto one of India’s most successful reform stories, is in a sorry state, thanks to overly-optimistic telecom companies; overzealous and misguided regulator (read Comptroller and Auditor General, or CAG); an overbearing judiciary (read India’s Supreme Court); and greedy government.

The unparalleled growth in the last decade of India's telecom sector to become the world's third largest had won worldwide praise.

When India decided to auction its 3G telecom spectrum, the government initially estimated it would garner 300 billion rupees in revenue; this was subsequently scaled down to 200 billion rupees. But thanks to the bidding frenzy, the revenue generated was a whopping 677.2 billion rupees, more than triple the revised estimate.

This windfall helped the government reduce its fiscal deficit for the year to 4.7 per cent of GDP, which otherwise would have touched 5.5 per cent.

Meanwhile, various irregularities were found in the earlier granting of 2G licences in 2001. At this point, the CAG suggested that the 2G spectrum price had been kept artificially low, leading to a loss of 1.8 trillion rupees to the exchequer. Its argument was based on what the 3G spectrum auction fetched.

What was conveniently forgotten was that the low spectrum price (the 2G spectrum was bundled with the licences given out) had ensured that India had one of the cheapest call rates in the world, leading to wide penetration and increased efficiency.

Admittedly, there was corruption involved in the 2001 licence deal. However, India's Supreme Court then not only sought to punish the guilty but went beyond its legal limit and transgressed into policy-making by cancelling all 122 2G licences.

In one fell swoop, it gave a big jolt to the foreign investors that were already operating in the Indian market, having tied up with those local companies that received 2G licences. Punishing the guilty was par for the course but arbitrarily cancelling licences – by India's highest court no less – brought into question the stability of India's policy regime.

That was not all. New Delhi – keeping in mind tax revenues that failed to match its ever growing need to spend on the social sector and on a slew of subsidies – got greedy following its successful auction of the 3G spectrum.

The scrapping of the earlier 2G licences by the Supreme Court and its decree that future spectrum deals had to be done only through auction was virtually godsend to the government. New Delhi saw spectrum as a scarce resource to be tapped on to earn a large chunk of revenue.

Hence, last year, it set the base price for auctioning the 2G spectrum at an exorbitant rate – 70 billion rupees, which was double the initial base price for the 3G auction – in the expectation of garnering as much as 400 billion rupees from the auction.

But its plan came unstuck, with only five participants offering bids worth only 94 billion rupees. In fact, only 55 per cent of the total spectrum offered nationally was sold, with operators refusing to pick up any slot in lucrative Delhi and Mumbai.

This was unsurprising given the high prices set by the government for the auction and that too within two years after most of the operators had raised heavy debts during the 3G spectrum auction.

A subsequent auction of the unsold spectrum in March 2013 (at a much reduced base price) was a flop too – with Sistema Shyam, the subsidiary of Russian telecom conglomerate Sistema, being the only applicant.

Given this, the government may or may not continue with the 2G auction. It is reviewing the entire process and may even fall back on the previous allocation of 2G spectrum through administrative means. As of now, nothing is clear.

Earlier, last November, the government had approved a separate proposal to impose a one-time fee on all the current operators for 2G spectrum they held above the contracted amounts for the remaining period of their existing licence. This fee, intended to take effect from Jan 1, 2013,will cost the operators as much as 180 billion rupees. The operators have hotly contested the levy and the courts have granted a stay on its imposition.

Such whimsical policy-making have all but wrecked the telecom players' business plans. These companies had put sizeable sums into building up the infrastructure. They had also run up huge debts getting the 3G spectrum. This additional burden risks ruining their finances even further, as the companies would not be in a position to increase tariffs proportionately since they operate in a highly price-sensitive market long used to having one of the cheapest tariffs in the world.

In fact, over the past six years, the average revenue per user for the private operators in India has been falling at an annual rate of 18.4 per cent. Moreover, the cash-strapped government, stung by the court stay-orders against imposition of the one-time fee, is now preventing the telecom operators from sharing their networks with each other.

Such sharing would have led to better efficiency and allowed those private telecom operators to offer 3G roaming services outside their licensed zones. And consumers would have benefited too.

Worried that it might one day be made to pay a one-time levy, India's Tata Teleservices has now decided to surrender most of its additional spectrum in 15 locales, so as to minimise payments. It asked for 120 days to surrender the spectrum in order to redeploy and revamp its network, so as to reduce inconvenience to consumers.

The government, it seems, is bent on culling the golden goose.

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