

13

STANDING COMMITTEE
ON COMMUNICATIONS
(1997-98)

ELEVENTH LOK SABHA

MINISTRY OF COMMUNICATIONS
(DEPARTMENT OF TELECOMMUNICATIONS)

[Action taken by Government on the Recommendations contained in the Fifth Report (Eleventh Lok Sabha) Standing Committee on Communications on Privatisation of Basic Telephone Services]

THIRTEENTH REPORT



LOK SABHA SECRETARIAT
NEW DELHI

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COMPOSITION OF STANDING COMMITTEE ON
COMMUNICATIONS
(1997-98)

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2. Shri S.K. Sharma — *Deputy Secretary*

INTRODUCTION

I, the Chairman of the Standing Committee on Communications (1997-98) having been authorised by the Committee to submit the Report on its behalf, present this Thirteenth Report, on Action Taken by the Government on the Recommendations of the Committee contained in the Fifth Report (Eleventh Lok Sabha) on Privatisation of Basic Telephone Services relating to Department of Telecommunications.

2. The Fifth Report was presented to Lok Sabha on 19.12.1996 and was also laid on the Table of Rajya Sabha on the same day. Action Taken Notes were received from the Department of Telecommunications (DoT) on 17 March, 1997. However, on perusal these were found to be incomplete and wanting in some respect. Therefore, DoT was requested to complete and update the same. Updated and completed Action Taken Notes have been received on 1.8.1997.

3. The Report was considered and adopted by the Committee at its sitting held on 5 September, 1997.

4. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in the body of the Report.

5. An analysis of Action Taken by Government on the recommendations contained in the Fifth Report of the Standing Committee on Communications is given in Appendix-II.

NEW DELHI;
September 5, 1997

Bhadra 14, 1919 (S)

SOMNATH CHATTERJEE,
Chairman,
Standing Committee
on Communications.

CHAPTER I

REPORT

This report of the Standing Committee on Communications deals with the action taken by Government on the Recommendations contained in its Fifth Report (Eleventh Lok Sabha) on Privatisation of Basic Telephone Services relating to the Ministry of Communications (Department of Telecommunications).

2. The Fifth Report was presented to Lok Sabha on 19.12.1996 and was also laid on the Table of Rajya Sabha on the same day. It contained 26 observations/recommendations. Action Taken Notes were received from Department of Telecommunications (DoT) on 17 March, 1997. However, on perusal these were found to be incomplete and wanting in certain respect. Therefore, DoT was requested to complete and update the same. Updated and completed Action Taken Notes have been received on 1.8.1997.

3. Action taken notes in respect of all the observations/recommendations contained in the Report have been received and categorised as under:

- (i) Recommendations/observations which have been accepted by the Government.
Para Nos. 34, 36, 54, 55, 57, 58 and 59
Total 7
Chapter II
- (ii) Recommendations/observations which the Committee does not desire to pursue in view of the reply of the Government.
Para Nos. 14, 16, 17, 18, 21, 30, 31, 63, 68 and 69
Total 10
Chapter III
- (iii) Recommendations/observations in respect of which replies of Government have not been accepted by the Committee and which require reiteration.
Para Nos. 9, 10, 13, 15, 20 and 29
Total 6
Chapter IV
- (iv) Recommendations/observations in respect of which replies are of interim nature.
Para Nos. 50, 51 and 53
Total 3
Chapter V

4. The Committee trusts that utmost importance would be given to the implementation of recommendations accepted by the Government. In case where it is not possible for the Government to implement the recommendations in their letter and spirit for any reason, the matter should be reported to the Committee with reasons for non-implementation. The Committee further desires that action taken on the recommendations contained in chapter I of this Report and the final Action Taken Notes in respect of the recommendations contained in Chapter V of the Report (Paras 50, 51 and 53 of the Fifth Report) should be furnished at an early date.

5. The Committee will now deal with action taken by Government on some of its recommendations.

Impact of privatisation of basic services (Para No. 9)

6. The Committee in its earlier Report had observed that before opening of telecommunication services to the Private Sector and formulation of National Telecom Policy, it was essential to make wide ranging indepth studies on such important and vital issues as capability of Public Sector in raising the required resources, whether privatisation was unavoidable to serve the people better and if so how to bring it about; the after effects of privatisation on the future functioning of DoT; relationship between DoT and Private Sector; cost and expenses involved and also the impact on consumers.

7. The Department of Telecommunication in Action Taken Note has stated that besides the Athreya Committee Report which was set up to recommend the most appropriate organisational structure for management of telecom services in the country, there were several seminars and debates including those sponsored by ICICI, the CII and National Telematics Forum on the new Telecom Policy.

8. The Committee is not at all impressed by this line of reasoning. The valuable advise of Athreya Committee was lost to Government where it decided not to proceed with the corporatisation of DoT. Consequently, it also lost the opportunity to raise enormous funds from public as well as the banks and financial institutions to accelerate the expansion of basic telecom services in the public sector. The seminars and debates mentioned in the Action Taken Note were the logical extensions of National Telecom Policy announced in May, 1994 promising telephone on demand and coverage of all villages by telephones by 1997 besides PCOs for every 500 persons in urban areas by that date. The Committee will like to impress that even now DoT should initiate studies to gauge the capabilities of private sector and public sector in raising required funds; impact on consumers and on DoT itself of duopoly in basic services.

Formulation of National Telecom Policy (Para No. 10)

9. The Committee in its earlier Report had pointed out that except demand projections for the VIII Plan no study was undertaken nor any working paper prepared to ascertain whether the target fixed in the National Telecom Policy was achievable and if so within what time frame and at what terms and conditions. It was also not clear what would be the area and basis of private participation and what would be the cost.

10. The DoT in its Action Taken Notes has stated that National Telecom Policy was formulated after considerable study and the targets were determined on a realistic basis keeping in view the increasing demand for telecom services.

11. The Committee is not convinced that targets were determined on a realistic basis keeping in view the increasing demand and that National Telecom Policy was formulated after considerable study. If it were so the original target of providing telephones on demand and connecting Village Public Telephones by 1997 would not have slipped to 2000 AD. If there had been any study about the terms and conditions, areas and basis of participation by the private sector, cost involved and the capability of private sector in raising such huge funds, there would not have been stalemate and confrontation with prospective private service providers as has been witnessed in the post-tendering era. No doubt, DoT has exceeded VIII Plan targets, but private sector projects have failed to take off in the given time-frame for want of proper planning and lack of imagination. The Committee hopes that DoT will draw suitable lessons for future guidance.

Non-Implementation of Athreya Committee Report (Para No. 13)

12. The Committee in its Fifth Report had expressed its views that the Athreya Committee recommendations in respect of corporatisation of DoT could have been considered by the Government in all its aspects by taking into consideration the views of different sectors, including the trade unions, particularly in the context of the proposal for giving up monopoly right of the Government in the important telecom sector and in that event the future growth and management of telecommunications in the country would have been left with wholly owned public sector undertakings. The Committee observed that without any such effort being made the Government took a decision to open up the telecom sector for private participation.

13. The Department of Telecommunications in its action taken note has stated that the recommendations of the Athreya Committee in respect of corporatisation of DoT were not pursued in view of the financial implications involved and reservations expressed by the Telecom Unions and Telecom staff in this behalf. Apart from this, it was also felt that if future growth and management of the Telecommunications in the country would be left with wholly owned Public Sector Undertakings, these Public

Sector Undertakings would again have dependence on the Government to provide resources. It is this resource crunch which was one of the vital factors to invite private sector to participate in providing Basic Telephone Services to meet the growing demand of telecom services in the country.

14. It is further stated that the question of restructuring of DoT for distancing policy making functions from operational functions assumed importance in view of implementation of the National Telecom Policy and a Committee was set up under the Chairmanship of Shri D.K. Gupta, a retired Member of the Telecom Commission, to make recommendations in regard to restructuring of the headquarters of DoT.

15. It is also submitted that the position has changed considerably now in view of the fact that value added services are being provided by the private parties and two licences have also been issued for basic telephone services. The Telecom Regulatory Authority of India has also been established and started functioning. The question of corporatisation/restructuring of the DoT is being considered again in the light of these developments, and the previous reports of the various committees.

16. **The Committee does not find any logic in the statement that if future growth and management of telecommunications in the country was left with the wholly owned public sector undertakings, these undertakings would again have to depend on the Government to provide resources.** The Committee finds that Telecommunication in one of the most profitable areas and this fact is amply substantiated by astronomically high bids received from prospective service providers. Corporatisation aided by suitable amendments in the law would have helped public sector corporations to raise funds from public and financial institutions for their expansion and Government would have immensely benefited from their profitable operations.

17. The Committee trusts that the Department would soon take a decision in respect of corporatisation/restructuring of the DoT in the light of the suggestions/recommendations of the Gupta Committee and various other developments as experienced by the Department. It would also like to be apprised of the progress made in this regard.

Implementation of National Telecom Policy (Para No. 15)

18. The Committee had expressed concern and disapproved introduction of private sector in the vital area of telecommunications by DoT without considering important facets of policy changes and assuming that all the problems of expansion of telecom network as also resource gap would be resolved and met thereby.

19. For these reasons, the Committee had concluded, there was no actual introduction of the Private Sector into basic telecom services nor DoT was in a position to achieve fully the original targets laid down for the VIII Plan.

20. In its Action Taken Note the Department of Telecom has stated that it has exceeded its targets by 16 per cent and that 2 of the Private Sector companies have signed the Licence Agreement with the Government for providing basic telecom Services in Gujarat and Madhya Pradesh Circles and have started implementing the Licence Agreement.

21. The Committee notes that so far only 2 private companies have signed licence agreements out of the ten circles for which bids were accepted. DoT has exceeded its targets by 16 per cent but it is no consolation to those who are waiting for telephone connections for years. It speaks poorly of the implementation of National Telecom Policy, 1994 which promised Village Public Telephone in every village and telephone on demand by 1997.

Viability of DoT (Para No. 20)

22. The Committee in its 5th Report held the view that introduction of competition by way of privatisation of basic telecom services was premature, in as much as the Government did not apply its mind as to the consequences of the policy change and feasibility thereof. The decision was taken without fullest consideration of the possibility of raising funds by DoT and MTNL. Private financing was inevitable for the development of Telecommunication Network and input of modern technology requiring huge resources. The policy changes were made without full consideration of the manner of implementation and feasibility thereof. There was no consideration how private sector could be allowed to operate without in any way affecting the functioning and viability of DoT and MTNL.

23. In its Action Taken Note, the Department of Telecommunications has stated that in line with the reforms being carried out globally in the telecom sector, competition in the telecom sector was introduced with a view to meeting the demand for telecommunication services, both quantitatively and qualitatively. As more and more private operators enter the telecom sector progressively, more and more of the objectives envisaged in the policy would be achieved. It has further been stated that to provide a level playing field for all private operators. The TRAI has been set up w.e.f. 20.2.97. However, it has been admitted that the entry of the private sector in the Basic Telephone Service has not been smooth sailing primarily because it was for the first time that the reforms were introduced and both the Government and the Indian Industry had no experience on their part. It is further stated that considering the larger interest of the consumers in terms of better service at affordable cost, DoT and MTNL will have necessarily to gear up to meet their objectives.

24. The Committee will like to re-emphasise that the Department of Telecom, should give serious consideration to the fact that entry of private Sector operators in telecom sector do not adversely affect functioning and viability of DoT and MTNL. Such a vital issue cannot be left to the operation of market forces. The Committee also desires the DoT and MTNL

to simultaneously gear up their activities to face the competition considering the larger interest of the consumers in terms of better service at affordable cost.

Potential viability of the Projects (Para No. 29)

25. The Committee in its earlier Report had deplored the approach of the Ministry for not working out the potential viability of the projects and that the viability was to be worked out of the entrepreneurs alongwith their funding institutions or financial institutions. It was of the view that before announcement of the Telecom Policy, DoT should have undertaken an exercise with regard to the financial and technical requirements *vis-a-vis* the role assigned to them. They felt that it was the basic pre-requisite to avoid subsequent pitfalls, as a situation of stalemate was developing.

26. The Department of Telecommunications in its action taken note has stated that the situation of stalemate is not prevailing either in the Cellular Mobile Telephone Service or Basic Telephone Services. Licences have been issued for providing Cellular service in various circles and the service has already started in most of the circles and the four Metro Cities. Various points raised by the prospective Basic Service operators are being sorted out and two companies have already signed the Licence Agreement with the Government for Gujarat and Madhya Pradesh Circles. As regards the viability of the projects, it is stated that this falls within the domain of the private bidders who submitted their bids in response to the tenders invited by the Government and the Government had no role to play except that of fixing up of parameters on 3 years Roll Out Plan, extent of rural coverage, use of indigenous equipment and the quality of service at tariff rates not being more than that of the DoT. Moreover, primarily it was lack of resources with the Government which prompted the Government to consider participation by the private sector providing basic telecom services.

27. The Department has further stated that while financial viability is primarily the concern of the entrepreneurs/private parties and financial institutions, the Government is contemplating certain steps which would enhance the financial viability of the projects.

28. The Committee does not subscribe to the view that Government has no role to play so far as the viability of private basic telecom service projects are concerned. In fact it is of the opinion that viability of projects has to be adjudged by DoT as it is its primary responsibility to achieve aims and objectives of National Telecom Policy in broader sense. If, for one reason or the other, a particular private projects fails to take off and is unable to make any substantial contribution to the objectives and targets laid in the National Telecom Policy simply for the reason that at a later stage project is found to be unviable, the nation as a whole will suffer and DoT cannot absolve itself of its responsibility in this regard.

29. The Committee notes with some satisfaction that Government is now contemplating certain steps which would enhance the financial viability of the projects. Had these steps been taken earlier, the delay in execution of private operator's projects could have been avoided to a great extent. The Committee however desires that immediate steps should be taken and continued in this direction to save the interests of the subscribers.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation / Observation (Para No. 34)

The Committee is not at all impressed by the DoT's statement that at this stage cream-skimming is merely a conceptual visualisation. It may be so in the immediate future when adequate capacities are not built by private service providers and also for the reason that presently there is a large unsatisfied demand. The Committee feels that the situation may not continue for long, once all the prospective service providers build up the projected capacities. In the conditions of competition, which would develop in telecom sector after a while, cream-skimming seems to be unavoidable. Given the situation of very heavy skew in the distribution of telephone subscribers on the basis of their revenue contribution, where about 5.52 per cent subscribers contribute about 58 per cent of the telecom revenue (in 8 large cities), the Committee apprehends that DoT/MTNL will lose at least some of their high revenue earning subscribers to private operators which would adversely affect DoT/MTNL revenue per DEL and the gross revenue may also come down. Such a situation may lead to heavy increase in the minimum access charges. In the opinion of the Committee such apprehension cannot be brushed aside. The Committee desires that DoT should analyse all these factors in detail, to come to the right conclusion and devise timely steps to obviate the possibility of DoT/MTNL suffering in any way at a later stage.

Action Taken/Action Proposed

The Department of Telecommunications, no doubt will have to face a competition with the private operators in the area of Basic Services. While the competition reduces the profit margins it gives a fillip to the quality of service. Department in its pursuit of world class service to its customers, is readying itself to face the competition with private operators as a result of their entry into the area of Basic Telephone Services. DoT had formed a high level committee headed by Sh. P.Khan to suggest ways and means to prepare the Department to face the ensuing competition. The Committee has given several useful suggestions which are in various stages for processing. Further, private operators are supposed to provide at least

10% of the connections in rural areas. This will ensure that the private operators do not confine themselves to the high revenue generating subscribers.

[No. 12-8096-BS-I Dated : 31.07.97]

Recommendation / Observation (Para No. 36)

Again, the Committee finds that DoT has not made any study with regard to the effect of competition in Telecom sector on telephone density and its further consequences. According to knowledgeable sources, high telephone density has been possible only in monopoly regime through internal cross subsidies between basic access and long distance usage. Consequently, long distance call charges tend to come down while basic access charges may go up. In the opinion of the Committee serious thought should be given to the conclusion drawn by experts so that timely corrective action can be initiated.

Action Taken / Action Proposed

As already stated in reply to para-34, the Department had formed a high level committee headed by Sh. P.Khan to examine and suggest ways and means to prepare the Department to face the competition. The committee has made several useful recommendations which are under various stages of examination. In order to ensure reasonable penetration in all the regions, private operators are supposed to provide 10% of telephone connection in villages.

[No. 12-8096-BS-I Dated: 31.03.97]

Recommendation / Observation (Para No. 54)

The Committee notes with concern that there are no bids for the circles of Andaman and Nicobar Islands, Assam, Bihar, North-East, Madhya Pradesh, Himachal Pradesh, Tamil Nadu, Rajasthan, Karnataka and U.P. (E) etc. The Committee has been informed that highest bids in these circles were less than that calculated by TEC and as such the bids were rejected.

Action Taken / Action Proposed

The bids for A&N Island, Assam, North East, Himachal Pradesh and U.P. (E) were not found reasonable, and hence rejected. For Bihar and Tamil Nadu Circles Letters of Intent have been issued to M/s Techno Telecom (India) Ltd. and M/s Basic Teleservice Ltd. respectively on the basis of the second round of financial bidding. In respect of Madhya

Pradesh, the LOI was issued on the basis of third round of financial bidding and the company has already signed the Licence Agreement. In regard to the rejection of highest bid for Karnataka and Rajasthan Circles, the representations of the highest bidders for these two circles were reviewed by the TEC. The Letter of Intent has been issued for Karnataka Circle after taking approval of the Government. The case of Rajasthan Circle is under consideration of the Government.

In the light of the experience gained so far it is proposed to modify the terms and conditions of tender which will be invited in future. The tenders for the remaining Circles are proposed to be invited after a finality is reached with regard to the existing letters of intent holders.

[No.12-8096-BS-I Dated: 31.07.1997]

Recommendation / Observation (Para No. 55)

In view of the fact that no private bid has been accepted for these circles as the quoted bids were below the expectations of DoT. The Committee desires that DoT should develop its infrastructure expeditiously so that these areas do not suffer and rising demands in these areas are well taken care of.

Action Taken / Action Proposed

In the beginning of 8th Five Year Plan the demand was projected as 78 lakhs additional lines during the Plan Period. Department had accordingly planned for 75 lakh new telephone connections. In the first four year of the Plan period Department has been able to provide 61.69 lakhs telephone connections and is likely to provide about 86 lakhs telephone connections by the end of the Plan period.

During the 9th Five Year Plan, it is projected that 237 lakhs telephone connections would be provided to make telephone on demand by the end of Ninth Plan out of which 185 lakhs new telephone connections would be provided by DoT and the remaining about 52 lakhs connections would be provided by private sector. These projections are based upon the expected resources of DoT which may vary on year to year basis which could be taken care of at the time of annual plan proposals. However, if there is any sippage from private sector, the targets of DoT may be reviewed through Annual Plans commensurate with the resources available to DoT.

[No.12-8096-BS-I Dated: 31.07.1997]

Recommendation/Observation (Para No. 57)

The Committee is disturbed to note that very low weightage of only 3 percent has been assigned in the evaluation of tenders to the value of indigenously manufactured equipment which will be used in the network by the private operators. The Committee is not impressed with the reply of the DoT that it is following a policy of encouraging use of indigenous

equipment, in the light of the fact that very low weightage has been assigned to it in the tendering process. The Committee, therefore, recommends that DoT should take more effective steps to encourage use of indigenous equipment by the prospective private service providers apart from by DoT itself. A policy of incentive/disincentive may also be considered in this regard. Imports should be allowed only in areas where the necessary technology is not available indigenously or the price difference is very high.

Action Taken / Action Proposed

In order to provide incentive to local manufacturers, the DoT has sent its recommendations to Finance Ministry for providing adequate duty difference between finished products and sub-assemblies and between sub-assemblies and components.

[No.12-80/96-BS-I Dated: 31.07.1997]

Recommendation / Observation (Para No. 58)

Although the tenders were floated by DoT as early as in January, 1995 and clarifications were given by the DoT and although the technical bids were opened on 23 June, 1995 and the financial bids were opened on 31 August, 1995, no agreement has yet been entered into in respect of any circle nor the required deposits have been made by the bidders. It appears that even in December 1996 no date can be indicated with any amount of certainty for the completion of the agreements and the implementation thereof.

Action Taken / Action Proposed

It is stated that M/s Bharti Telenet Ltd. and M/s Reliance Telecom Ltd. have paid first year licence fee and signed the Licence Agreements on 28.02.97 and 18.03.97 for providing Basic Telephone Service in Madhya Pradesh and Gujarat circles respectively. In respect of the other circles for which the LOIs were issued, the respective operators have raised certain issues, relating to the Licence and the Inter connect Agreements. These issues have received special attention at the highest level in the Govt. and these are being resolved on the basis of mutual discussions.

[No.12-80/96-BS-I Dated : 31.07.1997]

Recommendation / Observation (Para No. 59)

The Committee is concerned to note that there are numerous areas where there are substantial difference between the prospective service providers and the DoT and that hardly any effective steps have been taken to narrow down and ultimately to eliminate the differences. The result has been that there is a stalemate in the proper functioning and expansion of basic telecom network in the country and the Committee is of the definite opinion that either the process should be completed within a given time-frame or the Government should give serious consideration to

the possibility at all of implementing the National Telecom Policy as at present envisaged. The future of the telecom service and the network in the country cannot be left dependent on introduction of private sector at an uncertain date and with still more uncertain conditions. In any event, the Committee is of the opinion that DoT/MTNL should prepare its own plans for expansion and improvement of the network, so that ultimately the interest of the country does not suffer.

Action Taken / Action Proposed

In the beginning of 8th Five Year Plan the demand was projected as 78 lakhs additional lines during the Plan Period. Department had accordingly planned for 75 laks new telephone connections. In the first four year of the Plan period Department has been able to provide 61.69 lakhs telephone connections and is likely to provide about 86 lakhs telephone connections by the end of the Plan period. Though the Department will be able to exceed the demand projections made at the beginning of the 8th Plan, yet there is a waiting list because the more new Telephone connections are given the latent demand surfaces.

Thus, when the demand projections were made during formulation of National Telecom Policy the demand for new telephone connections (during Eighth Plan) in order to make the telephone on demand, was projected as 100 lakhs and this additional 25 lakh demand was expected to be met with the telephone connections through private sector. However, the projections made now at the end of Eighth Plan show that about 115 lakh lines should have been provided in order to make telephone on demand by the end of the Plan. As department would be able to provide only 86 lakh new telephone connections and there is delay in private sector participation, it is expected that likely waiting list would be about 30 lakhs at the end of Eighth Plan.

During the 9th Five Year Plan, it is projected that 237 lakhs telephone connections would be provided to make telephone on demand by the end of Ninth Plan out of which 185 lakhs new telephone connections would be provided by DoT and the remaining about 52 lakhs connections would be provided by private sector. These projections are based upon the expected resources of DoT which may vary on year to year basis which could be taken care of at the time of annual plan proposals. However, if there is any sippage from private sector, the targets of DoT may be reviewed through Annual Plans commensurate with the resources available to DoT.

As regards the Committee's suggestion that either the process should be completed within a given time frame or the Government should give serious consideration to the possibility at all of implementing the National Telecom Policy as at present envisaged, there has been a constant dialogue with the basic service operators as a result of which considerable progress has been achieved in matters such as interconnectivity and assignability of their respective licences. The Telecom Regulatory Authority of India

(TRAI) has also been set up and is expected to be operational very soon. One of the basic service operators M/s. Bharati Telenet Ltd. for MP Circle has, in fact already signed the Licence Agreement. It is expected that all outstanding issues would be sorted out in the near future.

[No.12-80/96-BS-I Dated: 31.07.1997]

CHAPTER III

RECOMMENDATIONS / OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLY OF THE GOVERNMENT

Recommendation/Observation (Para No. 14)

The Committee finds and the conclusion is inescapable that the policy of privatisation of the basic telecom services was initiated by DoT without undertaking any study about the feasibility and the effect of such a policy change. Without any exercise whatsoever as to what would be the programme of action and how to implement the policy of privatisation, about sourcing of funds and achieving targets within a specified time frame, the process of privatisation was started. It is a matter of grave concern that no perspective planning was undertaken except the simplistic exercise of demand assessment on the basis of waiting lists prevailing at the relevant point of time. What is most disquieting is that the future expansion and performance of DoT and MTNL was decided upon the assumption of the role and participation of the private sector in the expansion of the basic telecom services. No thought was given as to what would happen if there was no adequate response from the private sector and whether private sector itself would have the capacity to arrange for the resources that would be required and whether DoT would, alongwith the private sector, at all be able to meet the targets.

The Committee cannot but express its grave concern and disapproval that without consideration of the obvious and important facts of the policy changes, the DoT preferred to take an easy approach and attempted to introduce the private sector in the vital area of telecommunications, unreasonably assuming that all the problems of the expansion of the network as also resource gap would be resolved and met thereby.

Action taken/Action proposed

The National Telecom Policy which was placed before both Houses of Parliament in May, 1994 envisaged entry of private sector to supplement the resources of the DoT (about additional Rs. 23,000 crores) towards the fulfilment of the various objectives embodied in the Policy document. In this context, it may be mentioned that the revised targets in the telecommunications sector include provision of telephone on demand and extensive coverage of rural areas, necessitating very substantial additional investments (Rs. 23,000 crores) which went beyond the scope of government finances.

Moreover, to mobilise the resources to achieve the goals of the National Telecom Policy, it was felt that substantial investments needed to be tapped from both foreign and Indian capital market, in addition to resources provided by the Government. It was expected that this would not only encourage competition but also achieve vital goals like availability of telephone on demand, as such, private investment and association of private sector was considered necessary to bridge the resources gap.

A perspective plan for Telecommunication Services upto the year 2000 was available at the time of framing 8th Five Year Plan proposals. DoT's Annual Plan proposals even after taking decision of privatisation of Basic Services in the National Telecom Policy have been to provide more DELs compared to the preceding years and there has not been any letup in this regard. A target of 29 lakh DELs has been fixed for the year 1997-98 including 4.4 lakh DELs of MTNLs of Mumbai and Delhi as against a total waiting list of 28.87 lakhs as on 1.4.97 which includes the waiting list of 3020 as on 1.4.97 of MTNLs. The year-wise targets and achievements of DELs during the last 3 years are given below:

Year	Target (DoT + MTNL)	Achievement (DoT + MTNL)
1994-95	14.26 lakhs	17.7 lakhs
1995-96	20.00 lakhs	21.83 lakhs
1996-97	24.5 lakhs	25.64 lakhs

[No. 12-80/96-BS-I Dated: 31.07.1997]

Recommendation/Observation (Para No. 16)

It is clear that a major policy decision having far-reaching consequences on national economy in general and telecommunication sector in particular, was taken by the Government without any consideration of the effect thereof or of its feasibility or method of implementation, far less obtaining the views of the Parliament in the matter. The Committee cannot find any acceptable reason for the unseemly hurry with which the Government acted.

Action Taken/Action Proposed

The National Telecom Policy was announced in May, 1994 after exhaustive deliberations with various agencies within and outside the Department and experience gained in other countries. The National Telecom Policy was placed in Parliament and, subsequently, issues

regarding the Policy have been discussed in Parliament. Moreover, the broad guidelines for entry of private sector were envisaged in the National Telecom Policy itself indicating that the Government had simultaneously been thinking of the ways as to how the private sector will be allowed to participate in the provision of telecom services. The detailed procedural guidelines for the entry of private sector were, however, issued in September, 1994. As this was a new experience for the Government as well, certain difficulties did arise in the implementation of the National Telecom Policy, 1994 especially in regard to the basic telephone services which are being resolved.

[No.12-80/96-BS-I Dated: 31.07.1997]

Recommendation/Observation (Para No. 17)

The committee is constrained to observe that the decision for privatisation was taken without any proper study or exercise of its ramifications and consequence including due implementation. In its obsessive urge to follow the New Economic Policy, the Ministry decided to privatize the telecom sector and then started on the exercises to formulate a procedure for privatisation, which should have been the other way round.

Action Taken/Action Proposed

The National Telecom Policy was finalised after extensive debate and examination of cross country experience. To supplement the resources and efforts of the Department towards fulfilment of the priority objectives, the Policy envisaged the entry of private sector in basic Telephone Services. In this context, it may be mentioned that the revised targets in the telecommunications sector include provision of telephone on demand and coverage of rural areas, necessitating very substantial additional investments (about Rs. 23,000 crores) which were beyond the scope of government resources alone. As such, private investment and association of the private sector was considered necessary to bridge the resources gap. It was, however, made clear that private initiative would be used to complement government efforts to raise additional resources through innovative means and increased internal generation of funds. It was felt that competition was a powerful instrument for managing the telecommunications sector with a growing degree of efficiency.

[No.12-80/96-BS-I Dated: 31.07.1997]

Recommendation/Observation (Para No. 18)

What is to be noted is that the New Telecom Policy announced nearly three years after the announcement of the new Economic Policy, yet the Government took the far reaching decision without any due study or any consideration about its effect. In the process, the Committee feels, the national interest has not been served.

Action taken/Action Proposed

The National Telecom Policy was announced in 1994 after extensive debate in various fora and examination cross country experience for framing the policy in consonance with national and public interest.

[No.12-80/96-BS-I Dated: 31.07.1997]

Recommendation/Observation (Para No. 21)

The New Economic Policy as well as the National Telecom Policy contemplate and provide for privatisation in different sectors including telecom sector, yet the approach of the DoT in the matter of implementation thereof not only shows lack of planning but also indecision, ad-hocism and total lack of professional approach. On the assumption that privatisation of basic telecom services was necessary, the Committee desired to know whether any planning/study had been made with regard to the implementation of the National Telecom Policy and its practicability in terms of financial and technological requirements of private service providers, the logistics etc. The Secretary, DoT in reply stated that private service providers are expected to make an investment of Rs. 14000 crores over a period of three years. Besides they would be required to pay licence fee of Rs. 65,775 crores over a period of 15 Years out of which Rs. 1884 crores would be in the first year. They are expected to supply 35.38 lakh direct exchange lines (DELs) over a period of 3 years. The reply indicated total dependence on the performance of the private sector, without any enforceable obligation on its part to achieve the targets within a given time-frame.

Action Taken/Action Proposed

Department of Telecommunications has been making all efforts to achieve the targets irrespective of the private sector participation. However, the anticipated demand for telephones has been steadily increasing with increased availability. At the time of formulation of 8th Five Year Plan the anticipated demand to be met during 8th Five Year Plan was 78.71 lakhs. It increased to 100 lakhs at the time of framing National Telecom Policy and by the end of the 8th Plan it exceeded 174 lakhs.

It may also be pointed out that the licence agreements do stipulate an obligation on the part of the licensees to discharge their contractual obligations within a specified time frame. As per licence agreement, the licensees are required to pay liquidated damages in case they fail to commission the services within the specified time limit. Serious breach of the licence conditions would also entail cancellation of the licence.

[No.12-80/96-BS-I Dated: 31.07.1997]

Recommendation/Observation (Para No. 30)

In this context, the Committee is alarmed to note the finding of a study made by an expert who also happens to be a former Secretary, DoT. According to his analysis, the prospective licencees in Andhra Pradesh, Delhi, Gujarat and Tamil Nadu Circles are likely to end up with accumulated losses of Rs. 11,548 crores in Andhra Pradesh, Rs. 17,003 crores in Delhi, Rs. 12,215 crores in Gujarat and Rs. 8,181 crores in Tamil Nadu circles at the end of 15 years of operations. DoT is not aware of the study and the basis of calculation of proposed losses. No doubt, bidders would have quoted the levy amount for each circle after making the studies of the financial viability of their projects. But the Committee find that there are differences of opinion on various issues between DoT and the bidders, which shows that many of the aspects were not considered before the tenders were invited.

Action Taken/Action Proposed

Major issues relating to terms and conditions of licence and interconnect agreement documents, on which letter of Intent holding companies expressed their concerns, are enumerated below with comments:—

(i) Request for assignability of licence:

This has been agreed by the Government for the purpose of securitisation of debts to facilitate financing of these projects by lenders.

(ii) Request for exemption of licence fee payments during and extension of licence tenure for the period covered by Force Majeure events:

The Government is considering that in the Force Majeure event of war, act of God and directions from statutory authority for stoppage of work or service, the payment of licence fee shall be exempted to the extent payable for the period covered entirely by such an event and there will be fair and reasonable extension of licence tenure by the corresponding period.

(iii) Request for arbitration of disputes by an arbitral tribunal instead of sole arbitration by the Telecom Authority:

Government is considering this request and the provisions of Indian Arbitration and Conciliation Act, 1996 and rules framed thereunder with modifications/re-enactments made from time to time, shall be applicable.

(iv) Request for applicability of ECB guidelines issued by Ministry of Finance from time to time;

Government is considering that ECB restrictions imposed on ECB in the tender documents shall stand modified in accordance with the guidelines issued on the subject from time to time by Ministry of Finance, Government of India;

(v) Request for reduction in quantum of interconnect port charges;

Government has already agreed to reduce these charges from earlier stipulated rate of Rs. 96,000/- per PCM termination per annum to either a flat rate of Rs. 54,100/- per PCM termination per annum or a graded scale of charges applicable for various demand situations separately in each exchange of the circle. This scheme of port charges excludes the total cost of infrastructure investment by DoT for providing the terminations to the Licensee and is based only on incremental cost and the facility shall be available as special dispensation only for the initial period of 3 years during which a regular policy and modality will be evolved under the control of TRAI.

(vi) Request DoT for not insisting upon Advance deposit in cash towards access charges:

The Government has agreed that DoT will not insist upon the advance deposit towards access charges, however, in the event of Licensee's failure to make regular payment, it would be required to follow a letter of credit arrangement.

[No. 12-80/96-BS-I, Dated: 31.07.97]

Recommendation/Observation (Para No. 31)

Further, it appears that DoT has not made any analysis as to the impact on the consumers of licence fee to the tune of Rs. 65,775 crores to be charged from private operators in ten circles over a period of 15 years. As per DoT, there is not likely to be any impact of licence fee on the Direct Exchange Lines (DEL) provided by private service operators as they cannot charge more than the tariff fixed by DoT irrespective of the licence fee quoted by them. The Committee views it as too simplistic a statement. It is normal business to recover all the costs, direct and indirect, in addition to some profit to remain in business. Private operators cannot be expected to defray licence fee without any hope of recovery. However, as per the Expert Study, impact of licence fee per DEL without taking interest into consideration would be Rs. 2036 in Andhra Pradesh, Rs. 1735 in Gujarat and Rs. 4831 in Tamil Nadu Circles per annum. The Committee recommended that a proper study should be made by DoT as otherwise a situation may develop where DoT will have to revise tariff upward considering the high costs of private operators which will include licence fee also. In such a situation impact of high licence fee will have to be borne by the subscribers.

Action Taken/Action Proposed

It is the domain of the bidders to see the financial viability of their projects and actually they must have made certain assumptions including the quoted licence fee while examining the financial viability of their projects. Quoted licence fee may be a percentage of the profit or the

revenue expected to be earned by a bidder in the operation of the service. The bidder may deploy smaller man-power and new technologies to make their projects financially viable. The Licence fee quoted for different circles depends upon the number of lines to be provided by the operator and not on tariff to be charged from subscribers. Different bidders must have made different assumptions while working out the financial viability of their projects and Department is not aware of their assumptions. Moreover, copy of expert study, as mentioned in para, has not been made available to the Department.

However, based on the Roll out plans of the bidders for the first three years and taking into account weighted average revenue per DEL per month based on the departmental figures, some calculations have been made to compare licence fee quoted for the first three years and gross revenue to be earned during these years, which are available in the Annexure. From these calculations, it would be seen that all the bidders for these circles would start recovering the amount of licence fee either in the second year or third year of the operation of the service.

[No. 12-80/96-BS-I, Dated: 31.07.97]

Recommendation/Observation (Para No. 63)

The Committee is deeply concerned to note that there are serious differences in the perceptions of DoT and the prospective service providers on the issues of assignability of licences debt-equity ratio, raising of funds, tenure of licence, capitalisation of licence fee, inter-connection charges etc. Because of those differences, licences have not been granted to any one of them so far. It is highly disturbing. The Committee feels that precious time has been lost without any satisfactory solution so far. For this reason, the Committee feels that the objectives of the National Telecom. Policy to provide access and availability of telephones on demand and covering all villages with telephones by the revised target date of 2000 AD will remain a distant dream. The Committee therefore, urges the DoT to look into the matter objectively and find an amicable solution without further loss of time.

Action Taken/Action Proposed

1. Keeping in view the concern expressed by the private operators, mainly in raising funds to implement the projects, the Assignability/transferability of the licences has been agreed under certain terms and conditions and procedures to be implemented through a Tripartite Agreement for securitisation of debts/project loans extended by lenders to the Licencees.

2. It has been agreed that the restrictions imposed in tender documents on foreign debt equity ratio/External Commercial Borrowings, shall stand modified in accordance with the guidelines issued on the subject from time to time by the Ministry of Finance.

3. Keeping in view the tender conditions and concern expressed by the operators, it has been agreed to modify the interconnection charges for terminating the interconnecting PCM links (port charges of DoT) from the earlier stipulated rate of Rs. 96,000/- per PCM termination per annum. Now these interconnection port charges shall be payable by Licensee either at a flat rate of Rs. 54,100/- terminations in each exchange for the circle as a whole or as per the graded scale of charges applicable for various demand situations separately in each exchange of the circle. This scheme of port charges excludes the total cost of infrastructure investment by DoT for providing the terminations to the Licensee and is based only on incremental costs. This facility shall be available as special dispensation only for the initial period of 3 years during which a regular policy and modality will be evolved under the control of TRAI.

4. Keeping in view the difficulties faced by the private operators primarily from foreign lenders, Government is considering that in the FORCE MAJEURE EVENT of (i) was, (ii) Act of God and (iii) directions from a statutory authority for stoppage of work or service, the payment of licence fee shall be exempted to the extent payable for the period covered entirely by such EVENT of Force Majeure and there will be a fair and reasonable extension upto the corresponding period in the licence period.

5. Thus Government has taken appropriate steps to resolve the issues raised by them and thereby has facilitated the launching of projects after concluding the Licence Agreements. Two letter of Intent holding companies viz. M/s. Bharti Telenet Ltd., and M/s Reliance Telecom. Pvt. Ltd. have already signed the licences for Madhya Pradesh and Gujarat Telecom Circles respectively. Also an amount of Rs. 116.718 crores has been realised before 31.3.97 from these two companies as first year's Licence fee.

[No. 12-80/96-BS-I, Dated: 31.07.97]

Recommendation/Observation (Para No. 68)

The Committee is gravely concerned to note that one of the basic objective of national Telecom Policy, 1994 of providing telephones to all villages by 1997 is not going to be achieved. The target had now slipped to the year 2000 AD and that too only if the private service providers are in place well in time. However, no private operator has yet been granted licence. There are serious differences about their demands with regard to equity norms/funding, interconnectivity charges and assignability of licence etc. It has been submitted to the Committee by representatives of prospective service providers that unless these issues are resolved, they will not be in a position to establish capacities. The Committee fear that if such statement persists there would be huge shortfall in the achievement of target of Village Public Telephones even in the year 2000 AD as the

gestation period for private operators is stated to be 12 to 18 months. As per the DoT perceptions as on 1.4.1997 the number of uncovered villages with telephone facilities would be 60665 in case of Bihar and 29239 in case of Orissa and it would be possible to cover them by the year 2000 AD only if there is private participation. The Committee expects the DoT to devise steps to ensure that the revised targets are kept in observance.

Action Taken/Action Proposed

The Department is putting all efforts to achieve the targets within the funds and resources available. As regards Bihar, Orissa and other big circles where there are large number of uncovered villages, the use of new technologies which can be rapidly deployed would be explored.

There will be requirement of larger funds if the department goes for rapid deployment of such technologies. As such the participation of private operators is very much essential and desirable.

[No. 12-80/96-BS-I, Dated: 31.07.1997]

Recommendation / Observation (Para No. 69)

The Committee also desires that irrespective of the entry of Private Sector which appears uncertain the DoT should gear itself to meet the target on its own. They should evolve the suitable perspective plan to cope with the increased progressive demand for telephone connections.

Action Taken/Action Proposed

In the beginning of 8th Five Year Plan the demand was projected as 78 lakhs additional lines during the Plan Period. Department had accordingly planned for 75 lakh new telephone connections. In the first four years of the Plan period Department has been able to provide 61.69 lakhs telephone connections and is likely to provide about 86 lakhs telephone connections by the end of the Plan period. Though the Department will be able to exceed the demand projections made at the beginning of the 8th Plan, yet there is a waiting list because the more new Telephone connections are given the latent demand surfaces.

Thus when the demand projections were made during formulation of National Telecom Policy the demand for new telephone connections (during Eighth Plan) in order to make the telephone on demand, was projected as 100 lakhs and this addition 25 lakh demand was expected to be met with the telephone connections through private sector. However, the projections made now at the end of Eighth Plan show that about 115 lakh lines should have been provided in order to make telephone on demand by the end of the Plan. As department would be able to provide only 86 lakh new telephone connections and there is delay in private sector participation, it is expected that likely waiting list would be about 30 lakhs at the end of Eighth Plan.

During the 9th Five Year Plan, it is projected that 237 lakhs telephone connections would be provided to make telephone on demand by the end of Ninth Plan out of which 185 lakhs new telephone connections would be provided by DoT and the remaining about 52 lakhs connections would be provided by private sector. These projections are based upon the expected resources of DoT which may vary on year to year basis which could be taken care of at the time of annual plan proposals. However, if there is any sippage from private sector the targets of DoT may be reviewed through Annual Plans commensurate with the resources available to DoT.

The Committee has observed that the entry of the private sector appears to be uncertain and hence DoT should gear itself up to meet the target on its own. As a result of constant dialogue with the basic service operators, many of the problems are expected to be resolved shortly. In fact, one of the basic service operators, Bharati Telenet Ltd., has already signed the Licence Agreement and a few more are expected to do the same in the near future. It has also to be noted that the entry of private sector has been permitted not only to increase competition but also to supplement the resources of the Government. While the DoT should do its best to maximise the telecom network, the private sector will also have to be given its share in coping with the increased progressive demand for telephone connections.

[No. 12-8096-BS-I, Dated: 31.07.1997]

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT REPLIES HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation/Observation (Para No. 9)

The Committee is of the view that before any decision was taken to open a very important and sensitive sector like telecommunication to the private sector and to formulate the National Telecom Policy, it was essential to make wide-ranging and in-depth studies on several important and vital issues, *viz*, whether adequate resources could be raised in the public sector, whether privatisation was unavoidable so as to serve the people better and if so, how to bring it about, the effect of privatisation on the future functioning of DoT, relationship between DoT and the private sector, costs and expenses involved and last but not the least, the impact on the consumers.

Action Taken/Action Proposed

A High level Committee headed by Dr. Athreya, a management expert, was set up by the Govt. to recommend the most appropriate organisational structure for the management of Telecom Services in the country keeping in view the operational and development requirements of the decade of 1990s. The Committee recognised the need for reforms in the telecom sector. A debate was generated. In fact, there have been several seminars etc.—including those sponsored by ICICI, the CII, National Telematics Forum—on the new Telecom Policy. Further the details about the Athreya Committee Report was a useful document which was taken into consideration.

The revised targets announced in the National Telecom Policy include provision of telephone on demand and extensive coverage of rural areas, necessitating very substantial additional investments (about Rs. 23,000 crores) which went beyond the scope of Govt. resources. After considering various aspects of the matter, it was not considered necessary to go ahead with the corporatisation of DoT. The gap in resources was proposed to be met by seeking the participation of the private sector investment in telecom sector.

One of the objectives of the National Telecom Policy is to achieve universal service covering all villages. The expression "universal service" means provision of access to all people for certain basic telecom services at affordable and reasonable prices.

[No. 12-80/96-BS-I, Dated: 31.07.97]

Comments of the Committee

Pl. *see* Para No. 8, (Chapter I).

Recommendation/Observation (Para No. 10)

The Committee is surprised to note that the except demand projections for the VIIIth Five Year Plan, no study was undertaken nor any working paper was prepared to ascertain whether the target fixed in the National Telecom Policy was achievable through privatisation and if so, within what time-limit and what would be the terms and conditions and the area and the basis on which private sector would be permitted to operate and the basis on which private sector would be permitted to operate and what would be the costs involved therein. It has been clarified by the DoT that initially there was no proposal for privatisation and it was thought of only by way of implementation of National Telecom Policy. It should be noted that when the VIIIth Plan was formulated or finalized, no proposal was mooted at all for privatisation of the basic telecom services or any part of the telecommunication network.

Action Taken/Action Proposed

The National Telecom Policy was formulated after considerable study and the targets were determined on a realistic basis, keeping in view also the increasing demand for telecommunication services. In order to achieve these targets, induction of multiple operators and introduction of competition in this sector was felt to be necessary. In other words, the policy of monopoly of the telecom services was replaced by a policy of competition.

The number of DELs working as on 31.3.92 were 58.1 lakhs and the waiting list was 22.89 lakhs. The estimated demand as on 31.3.97 was 136.81 lakhs Thus the total demand to be covered during Eighth Five Year Plan was 78.71 lakhs. The 8th Five Year Plan of DoT was formulated to provide 75 lakhs new telephone connections to meet the above demand. During Eighth Five Year Plan 87.33 lakh new telephone connections have been provided by DoT thus exceeding the targets of 8th Five Year Plan.

It is true that there was no concrete proposal for privatisation of the telecom sector at the time the VIIIth Five Year Plan was formulated. The Policy of economic reforms in all sectors was crystallised in the year 1991

which almost coincided with the beginning of VIII Five Year Plan. In 1991, the manufacturing of telecom equipment was delicensed in the year 1992, the Cellular Mobile Telephone service was thrown open to the private sector. In the year 1994, National Telecom Policy was announced. It would thus be seen that the policy of privatisation in the Telecom Sector evolved gradually during the course of VIII Five Year Plan though nothing concrete was available at its beginning.

[No. 12-80/96-BS-I Dated: 31.07.97]

Comments of the Committee

Pl. see Para No. 11 of Chapter I.

Recommendation/Observation (Para No. 13)

In answer to a query of the Committee, the DoT, in a note, stated that the recommendations of Athreya Committee in respect of corporatization of DoT were not pursued in view of the financial implications involved and reservations expressed by telecom staff as also in the context of the National Telecom Policy, 1994 envisaging deeply in basic telecom services to be provided by Government as well as by the private operators. The Athreya Committee report was submitted in March, 1991 and through its majority report, stressed on the need for separating the "policy and regulation" tier from the "operations" tier in any future organisation of the DoT. The majority report was in favour of Conversion of DoT field operations (including MTNL) into a Holdings company and five subsidiary Corporations made up for Zonal Telecom Operating Corporations and Long Distance Connector Corporation. The Committee is of the view that the Athreya Committee report could have been considered by the Government in all its aspects by taking into consideration the views of different sectors, including the trade unions, particularly in the context of the proposal for giving up monopoly right of the Government in the important telecom sector. In that event, the future growth and management of telecommunications in the country would have been left with wholly owned public sector undertakings. Without any such effort being made, the Government took a decision to open up the telecom sector for private participation which the Committee finds difficult to appreciate.

Action Taken/Action Proposed

The recommendation of the Athreya Committee in respect of corporatisation of DoT were not pursued in view of the financial implications involved and reservations expressed by the Telecom Unions and Telecom Staff in this behalf. Apart from this, it was also felt that if future growth and management of the telecommunications in the country would be left with wholly owned PSUs, these PSUs would again have dependence on the Government to provide resources. It is this resource crunch which was one of the vital factors to invite private sector to

participate in providing Basic Telephone Services to meet the growing demand of telecom services in the country.

The question of restructuring of DoT for distancing policy making functions from operational functions assumed importance in view of implementation of the National Telecom Policy and a Committee was set up under the Chairmanship of Shri D.K. Gupta, a retired Member of the Telecom Commission, to make recommendations in regard to restructuring of the headquarters of DoT.

Further, as has been clarified in reply to para 9, it was decided not to corporatise the DoT after considering the report of Athreya Committee. It must also be pointed out that the position has changed considerably now in view of the fact that value added services are being provided by the private parties and two licences have also been issued for basic telephone services. The Telecom Regulatory Authority of India has also been established and has started functioning. The question of corporatisation/restructuring of the DoT is being considered again in the light of these developments, and the previous reports of the various committees.

[No. 12-80/96-BS-I Dated: 31.07.97]

Comments of the Committee

Pl. *see* Para Nos. 16 & 17 of Chapter I.

Recommendation/Observation (Para No. 15)

The consequence is now for all to see. Since 1994, there has been no actual introduction of the private sector into the country's basic telecom services nor are the DoT or MTNL themselves in a position to achieve fully the original targets laid down by the VIIIth Five Year Plan, far less any expansion of the network has been or can be achieved.

Action Taken/Action Proposed

Department of Telecommunications has not only achieved the original targets of 75 lakh DELs in the 8th five year plan but has exceeded the target by 16%. Moreover, in the private sector two companies have already signed the Licence Agreement with the Government for providing Basic Telephone services in the two circles namely, Gujarat and Madhya Pradesh and the parties have started implementing the Licence Agreements.

[No. 12-80/96-BS-I Dated: 31.07.97]

Comments of the Committee

Pl. *see* para 21. of Chapter I.

Recommendation/Observation (Para No. 20)

The Committee is thus constrained to hold that introduction of competition by way of privatisation of the basic telecom services was premature, in as much as the Government did not apply its mind as to the consequences of the policy change and the feasibility thereof. Telecommunication is too vital a sector where such important decision could be taken without any perspective planning or without fullest

consideration was given as to the possibility of raising funds by DoT and MTNL by taking recourse to private enterprise and private financing was inevitable for the development of telecommunication network and input of modern technology requiring huge resources, the policy changes were made without full consideration of the manner of implementation and feasibility thereof. There was no consideration how the private sector could be allowed to operate without in any way affecting the functioning and viability of DoT and MTNL, such matters could not be left to the mere operation of market forces, as it seems to have been the approach of the Ministry in the matter.

Action Taken/Action Proposed

In line with the reforms being carried out globally in the telecom sector competition in the telecom sector was introduced with a view to meeting the demand for telecommunication services, both quantitatively and qualitatively. As more and more private operators enter the telecom sector, progressively more and more of the objectives, envisaged in the Policy would be achieved. To provide a level playing field for all private operators, the TRAI has been set up w.e.f. 20.2.97. However, it is a fact that the entry of the private sector in the Basic Telephone Service has not been smooth sailing primarily because it was for the first time that the reforms were introduced and both the Government and the Indian Industry had no experience on their part. Considering the larger interest of the consumers in terms of better service at affordable cost DoT and MTNL have necessarily to gear up to meet these objectives.

[No.12-80/96-BS-I Dated: 31.07.97]

Comments of the Committee

Pl. *see para No. 24 of Chapter I.*

Recommendation/Observation (Para No. 29)

The Committee is surprised to note that prior to enunciation of new Telecom Policy, 1994 which envisages private initiative to complement DoT's efforts to raise additional resources to achieve the Policy objectives, no planning/study with regard to the practicability in terms of financial and technological requirements of private sector was undertaken by the DoT. According to industry sources,.. they would invest around Rs. 500,000 crores one way or the other in the basic and cellular services. They would be required to pay Rs. 106,000 crores to the Government in the form of various levies over a period of ten years of which Rs. 40,000 crores are stated to be towards access duty and Rs. 12,000 crores for service tax. No efforts were made in DoT to examine potential viability of private sector projects. The Secretary, DoT candidly admitted that they did not have any material on the basis of which they could test the potential viability of any project. The contended that viability is to be worked out by the entrepreneurs alongwith their funding institutions or financial institutions. The Committee deplore such a simplistic approach which shows an attitude

of avoiding responsibility and ignoring public interest. In fact they are of the view that before announcement of the Telecom. Policy, DoT should have undertaken an exercise with regard to the financial and technical requirements *vis-a-vis* the role assigned to them. It was the basic prerequisite to avoid subsequent pitfalls, as a situation of stalemate is developing now.

Action Taken/Action Proposed

The situation of stalemate is not prevailing either in the Cellular Mobile Telephone Service or Basic Telephone Services. Licences have been issued for providing Cellular service in various circles and the service has already started in most of the circles and the four Metro Cities. Various points raised by the prospective Basic Service operators are being sorted out and two companies have already signed the Licence Agreement with the Government for Gujarat and Madhya Pradesh Circles. As regards the viability of the projects it is reiterated that this falls within the domain of the private bidders who submitted their bids in response to the tenders invited by the Government and the Government had no role to play except that of fixing up of parameters on 3 years Roll Out Plans, extent of rural coverage, use of indigenous equipment and the quality of service at tariff rates not being more than that of the DoT. Moreover, primarily it was lack of resources with the Government which prompted the Government to consider participation by the private sector in providing basic telecom services. While financial viability is primarily the concern of the entrepreneurs/private parties and financial institutions the Government is contemplating certain steps which would enhance the financial viability of the projects.

[No. 12-80/96-BS-I Dated: 31.07.97]

Comments of the Committee

Pl. *see* para Nos. 28 & 29 of Chapter I.

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

Recommendation/Observation (Para No. 50)

The Committee is concerned to note that the private company which was the highest bidder in nine Telecom circles was asked to select any three circles of its choice because it was considered fair and just to give it, an option to choose the circles since it is stated to be affected by capping. The Committee is not at all impressed by this line of reasoning. In fact, the impression persists that capping in this case was used to bail out the highest bidder from paying the astronomical sum of Rs. 58135 crores it had bid. Capping bids at the choice of the bidders would have been a fair exercise if it had been announced earlier. Announcing it afterwards was not in accordance with the usual commercial principles of evaluating tenders. The reasoning of private monopoly does not hold good in the light of the fact that in the foreseeable future DoT will continue to be the dominant player in Telecom sector all over the country.

Action Taken/Action Proposed

The matter is under consideration of the Government.

[No. 12-80/96-BS-I Dated: 31.07.97]

Recommendation/Observation (Para No. 51)

The Committee is of the view that though tender documents contemplated introduction of capping yet the choice was left to the Government to take recourse to the same. Leaving the choice of circles to a bidder was an inexplicable opportunity given to the bidder to wriggle out of its obligations. Further, even if a particular concern was to be restricted to three circles only, it was for the Government to decide the circles. The plea of showing "fairness" to the concerned bidder is not convincing as bids were given by the concerned bidder voluntarily obviously indicating its capacity to meet its obligations in respect of all the circles. Leaving the choice to the bidder concerned, has resulted in a net loss to the exchequer to the tune of Rs. 40,000 crores as the subsequent bids for Andhra Pradesh, Gujarat and Punjab Circles have been considerably lower to the extent of nearly 1/3 of the previous bids. The Committee is of the view that this matter should be enquired into in depth as the reason put forward by DoT is not convincing at all.

Action Taken/Action Proposed

The matter is under consideration of the Government.

[No. 12-80/96-BS-I Dated: 31.07.97]

Recommendation/Observation (Para No. 53)

Further, the Committee is of the view that, it was not proper on the part of DoT to announce the NPV after the first round of bidding when it was known to it that capping was to be applied and that the sum quoted by second highest bidder were very low *vis-a-vis*, the quotation of the first bidder. Restricting the second bid to original participants (except the HI bidder) of first round knowing well the rates quoted by them is highly questionable. The subsequent development amply prove this. The plea of fresh open tendering process consuming long time and delays defeating the objectives of National Telecom Policy is not at all convincing as till today none of the Companies has complied with the stipulations nor any licence has been granted so far. The Committee feels that entire licensing process requires to be probed in depth by an authority independent of DoT.

Action Taken/Action Proposed

The matter is under consideration of the Government.

[No. 12-80/96-BS-I Dated: 31.07.97]

NEW DELHI;
September 5, 1997

Bhadra 14, 1919(S)

SOMNATH CHATTERJEE,
Chairman,
Standing Committee on Communications.

APPENDIX

**MINUTES OF THE FOURTH SITTING OF THE COMMITTEE ON
COMMUNICATIONS (1997-98)**

The Committee met on Friday, the 5 September, 1997 from 10.30 to 12.30 hrs. in Committee Room 'C', Parliament House Annexe, New Delhi.

PRESENT

Shri Somnath Chatterjee—Chairman

MEMBERS

Lok Sabha

2. Shri K.L. Sharma
 3. Prof. Rasa Singh Rawat
 4. Smt. Sheela Gautam
 5. Smt. Bhavna Chikhalia
 6. Shri Harpal Singh Sathi
 7. Shri Th. Choaba Singh
 8. Shri Thomas Hansda
 9. Shri Neil Aloysius O'Brien
 10. Shrimati Geeta Mukherjee
 11. Shri Budh Sen Patel
 12. Shri Joachim Baxla

Rajya Sabha

13. Shrimati Veena Verma
 14. Shri S.S. Ahluwalia
 15. Shri Govindram Miri
 16. Shri Md. Salim
 17. Shri Ish Dutt Yadav

SECRETARIAT

Shri S.K. Sharma—Under Secretary

NON-OFFICIAL WITNESSES

Shri H.K. Mallick—Ex-M.P. (Rajya Sabha)

REPRESENTATIVES OF MINISTRY OF INFORMATION & BROADCASTING

1. Shri C.R. Kamalnathan—Secretary, M/o I&B
 2. Shri V.K. Majotra—Addl. Secretary, M/o I&B
 3. Shri O.P. Kejriwal—Dir. General, AIR
 4. Shri K.S. Sarma—Dir. General, Doordarshan
 5. Shri Raghu Menon—Jt. Secy, M/o I&B
 6. Shri N.S. Madhavan—Jt. Secy (Policy), M/o I&B

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Government on the recommendations contained in the Fifth Report of the Committee (1996-97) on Privatisation of Basic Telephone Services and adopted the same without any modifications.

5. The Committee authorised the Chairman to present the same to the House.

The Committee then adjourned.

APPENDIX II
(Vide Introduction of Report)

**ANALYSIS OF ACTION TAKEN BY GOVERNMENT ON THE
FIFTH REPORT OF STANDING COMMITTEE ON
COMMUNICATIONS
(ELEVENTH LOK SABHA)**

(i) Total Number of Recommendations	26
(ii) Recommendations/observations which have been accepted by Government. Para Nos. 24, 36, 54, 55, 57, 58 and 59	Total 7 26.92
(iii) Recommendations/observations which the Committee does not desire to pursue in view of the reply of the Government. Para Nos. 14, 16, 17, 18, 21, 30, 31, 63, 68 and 69	Total 10 38.46
(iv) Recommendations/observations in respect of which replies of Government have not been accepted by the Committee and which require reiteration. Para Nos. 9, 10, 13, 15, 20 and 29	Total 6 23.07
(v) Recommendations/observations in respect of which replies are of interim nature.	3 11.53

2372/LS-1400.