

FIFTY-FIRST REPORT

STANDING COMMITTEE ON  
INFORMATION TECHNOLOGY  
(2003)

(THIRTEENTH LOK SABHA)

MINISTRY OF COMMUNICATIONS AND  
INFORMATION TECHNOLOGY

(DEPARTMENT OF TELECOMMUNICATIONS)

*Action taken by Government on the Recommendations/Observations  
contained in the Twenty-Seventh Report (Thirteenth Lok Sabha)  
of the Standing Committee on Information Technology  
on "Implementation of New Telecom Policy' 1999"*

*Presented to Hon'ble Speaker 3.7.2003  
Presented to Lok Sabha on ....22.2.03  
Laid in Rajya Sabha on ....22.2.03*



LOK SABHA SECRETARIAT  
NEW DELHI

*July, 2003/Asadha, 1925 (Saka)*

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COMPOSITION OF THE STANDING COMMITTEE  
ON INFORMATION TECHNOLOGY  
(2003)

Shri Somnath Chatterjee—*Chairman*

MEMBERS

*Lok Sabha*

2. Shri Yogi Aditya Nath
3. Shri Pawan Kumar Bansal
4. Prof. Dukha Bhagat
5. Shri Ajay Singh Chautala
6. Shri P.D. Elangovan
7. Shri Rama Mohan Gadde
8. Shri Jarbom Gamlin
9. Kumari Bhavana Pundlikrao Gawali
10. Shri T. Govindan
11. Shri Jawahar Lal Jaiswal
12. Shri K.K. Kaliappan
13. Shri A. Krishnaswamy
14. Shri K. Balrama Krishna Murthy
15. Shri Bhartruhari Mahtab
16. Shri Amarsinh Vasant Rao Patil
17. Shri Sheeshram Singh Ravi
18. Shri Saroj Tufani
19. Shri K.A. Sangtam
20. Shri C.N. Singh
21. Rajkumari Ratna Singh
22. Shri Nikhil Kumar Chowdhary
- \*23. Vacant
24. Shri Vanlalawma
25. Shri Rajesh Varma
26. Smt. Kanti Singh
27. Shri Amir Alam Khan
28. Shri Charanjit Singh
29. Shri Arun Kumar
30. Dr. Bikram Sarkar

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\*Vacancy caused *vice* appointment of Shri P.C. Thomas as Minister *w.e.f.* 24 May, 2003.

*Rajya Sabha*

31. Shri Vijay J. Darda
32. Shri Dasari Narayana Rao
33. Dr. Prabha Thakur
34. Shri Suresh Pachouri
35. Shri S.S. Ahluwalia
36. Shri Balbir K. Punj
37. Shri Dina Nath Mishra
38. Smt. Sarla Maheshwari
39. Shri K. Rama Mohana Rao
40. Shri Shahid Siddiqui
41. Ms. Lata Mangeshkar
42. Shri Rajeev Shukla
43. Shri Sanjay Nirupam
44. Shri Kartar Singh Duggal
45. Shri Mukhtar Abbas Naqui

SECRETARIAT

1. Shri P.D.T. Achary — *Additional Secretary*
2. Shri S.K. Sharma — *Joint Secretary*
3. Shri S.K. Sharma — *Deputy Secretary*
4. Shri B.D. Swan — *Under Secretary*

## INTRODUCTION

I, the Chairman Standing Committee on Information Technology (2003) having been authorised by the Committee to submit the Report on its behalf, present this Fifty-First Report on Action Taken by Government on the Recommendations/Observations of the Committee contained in its Twenty-Seventh Report (Thirteenth Lok Sabha) on "Implementation of New Telecom Policy, 1999" relating to the Department of Information Technology.

2. The Twenty-Seventh Report was presented to Lok Sabha on 30 August, 2001 and was laid in Rajya Sabha on 31 August, 2001. The Department furnished Action Taken Notes on the recommendations contained in the Report on 14 December, 2001.

3. The Report was considered and adopted by the Committee at its sitting held on 12 June, 2003.

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 Twenty-Seventh Report (Thirteenth Lok Sabha) of Standing Committee on Information Technology is given in Annexure-II.

NEW DELHI;  
17 June, 2003  
19 Jyaishta, 1925 (Saka)

SOMNATH CHATTERJEE,  
*Chairman,  
Standing Committee on  
Information Technology.*

## CHAPTER-I

### REPORT

This Report of the Standing Committee on Information Technology deals with the action taken by Government on the recommendations contained in the Twenty-Seventh Report (Thirteenth Lok Sabha) on "Implementation of New Telecom Policy, 1999" relating to Ministry of Communications and Information Technology (Department of Telecommunications).

2. The Twenty-Seventh Report was presented to Lok Sabha on 31.8.2001 and was laid on the Table of Rajya Sabha on 31.8.2001. It contained 29 recommendations.

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:

Paragraph Nos. 34, 62, 63

Total: 3  
Chapter-II

- (ii) Recommendations/Observations which the Committee does not desire to pursue in view of the reply of the Government.

Paragraph Nos. 27, 29, 30, 32, 58, 59, 60, 61, 71, 72, 79, 80, 104, 105, 106, 107, 108, 109, 110, 111 & 112

Total: 21  
Chapter-III

- (iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration:

Paragraph Nos. 28, 31, 33 and 73

Total: 4  
Chapter-IV

- (iv) Recommendations/Observations in respect of which replies are of interim nature:

Paragraph No. 84

Total: 1  
Chapter-V

4. The Committee trusts that utmost importance would be given to the implementation of the recommendations accepted by the Government. In cases, where it is not possible for the Department 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 Notes on the Recommendations/Observations contained in Chapter-I of this Report should be furnished at an early date.

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

#### **PARTICIPATION OF PRIVATE SECTOR**

**(Para No. 28)**

6. The Committee in its earlier Report had pointed out that licence fee regime ushered in the 1994 Telecom Policy proved to be a faulty decision on the part of the Government as well as private service providers. No proper survey was done nor enough information was collected about the likely response of the market. Assumptions made about revenue generation proved to be incorrect. The Committee had also pointed out that DoT did not pay any heed to the contemporary studies conducted by well-informed experts. The private operators offered bids which were totally unrelated to the ground realities. The Ministry, before awarding the licenses did not verify the veracities of those bids. In fact, the Department had contended that viability has to be worked out by entrepreneurs along with their funding institutions. The Committee had criticised such a simplistic approach on the part of DoT as such a lapse caused the nation heavily as the extension of telecom services in the country suffered greatly. The Committee had hoped that DoT would draw lesson from the lapses made in the past.

7. In its action taken note, the Department of Telecommunications (DoT) has admitted that in the strict sense due diligence market survey was required to be done by the private companies who had entered the arena. The private companies quoted high licence fee to out bid each other which they could not sustain later on. The DoT has now decided not to go for open ended bids for licence fee.

8. The Committee is not convinced of the reasons advanced by the Department of Telecommunications (DoT) that participation in the telecom sector was a new experience both for the Government

as well as the private companies. The Committee expects the DoT to be pragmatic in the light of intelligible studies published. The Committee will like to be assured that such costly lapses would be avoided in future and in-depth study would be conducted before taking decision about funding and pricing of telecom services. The Committee will also like the DoT to have purposeful interaction with those who are conducting valuable studies on the contemporary issues in telecom sector outside the Government.

#### PERFORMANCE OF PRIVATE SERVICE PROVIDERS

(Paras Nos. 29 and 80)

9. The Committee in its 27th Report (13th Lok Sabha) had observed that to supplement the efforts of the Government to expand telecom network, private sector was required to provide 131.76 lakh fixed phones and 374.15 lakh cell phones over the period 2001-2010 *i.e.* 12-13 lakh fixed phones and 4-8 lakh cell phones per year in the initial years of perspective plan. Looking at the past performance of the private operators where they could provide only 2,15,284 fixed phones against their commitment of 20,17,809 fixed phones, the Committee had apprehended that the target would not be fulfilled even in the foreseeable future. The Committee had also pointed out that under the earlier licensing system, private service providers were under compulsion to expand their network to spread fixed cost over a larger base. However, there has been no such compulsion under the Revenue Sharing regime. The fact has been borne out by the performance of six service providers during first three years of operation. The roll out obligations for provisions of DELs and VPTs had no relevance unless enforced with punitive action. Even strict penalties could not make them complaint as all these factors had to be decided by the regulator. The Committee had, therefore, apprehended that private service provides would operate in those areas only, where they would be able to maximise their profits.

10. Department of Telecommunications (DoT) in its action taken note has stated that as the pace of providing fixed phones by private operators was very slow, the target for providing fixed phones by private operators was revised to 20 lakhs from the initial estimate of 52 lakh and the DEL's targets of the DoT and MTNL were enhanced from initial estimate of 185 lakh to 222.7 lakh. Further, a target has been fixed to provide 834 lakh DELs during the Tenth Five Year Plan,

out of which 434 lakh DELs have to be provided by BSNL and MTNL and remaining 400 lakh by the private operators. Liquidated damages were recovered from the defaulters as per the relevant provision in the license agreement. It has further been stated that in order to ensure that the private service providers meet the terms and conditions of the license, the Government as a licensor has taken strict measures to ensure compliance by private service providers. The other conditions which are required to be complied before signing the License Agreement are stated to be furnishing of an unconditional and unequivocal undertaking in the form of an indemnity bond (in the prescribed format) to guarantee compliance for fulfilling the pending roll out obligations without any reservation or deviation. Further they will have to submit an additional Performance Bank Guarantee (PBG), valid for two years (in prescribed format) for a sum equivalent to total of various PBGs stipulated in different License Agreements having unfulfilled roll out obligations. However, in respect of existing Basic telephone Service Licence, the figure of Rs. 50 crore shall be added for this purpose.

11. It has been added that for the new licensees, the provision to ensure strict adherence to the minimum network roll out obligations has been made more efficacious and result oriented. The time period for 100% fulfillment of minimum roll out obligations have been divided into four phases. Before signing the license Agreement, the Company is required to submit 3 separate PBGs for amount equivalent to 20%, 30% and 50% of the total amount of stipulated PBG valid for a period of 3, 5 and 7 years resp. which would be released only on completion of II, III and IV phases subject to fulfillment of the network roll out obligation by establishing Point of Presence in Short Distance Charging Areas (SDCAs). A direction has also been issued by TRAI to provide telephone on demand. Any shortfall below the percentage of network coverage and phase II, III and IV will result in encashment/forfeiture of the PBG relatable to that phase.

12. The Committee note with concern that in view of slow pace of providing fixed telephones by the private service providers, the target has been scaled down to 20 lakh from the initial estimate of 52 lakh. On the other hand, DEL's targets of the DoT and MTNL have been enhanced from initial estimate of 185 lakh to 222.7 lakh. For the Tenth Five Year Plan, a target has been fixed to provide 834 lakh DELs, out of which 434 lakh DELs have to be provided by BSNL and MTNL and remaining 400 lakh by the private operators. The Committee desires DoT to devise timely steps to fulfill the revised targets.

13. The Committee note that the Government has taken several measures to ensure that the private service providers meet the terms and conditions of the license. Further, in order to ensure better performance by the private service providers to provide DELs and VPTs, the applicant company is required to submit a detailed roll-out plan. Before signing the License Agreement, three separate Performance Bank Guarantees (PBGs) are required to be submitted for amount equivalent to 20%, 30% and 50% of the total amount of stipulated PBG valid for a period of 3, 5 and 7 years respectively which would be released only on completion of II, III and IV phases subject to fulfillment of the network roll out obligation by establishing Point of Presence in Short Distance Charging Areas (SDCAs). A direction has also been issued by TRAI to provide telephone on demand. Any shortfall below the percentage of network coverage and phase II, III and IV will result in encashment/forfeiture of the PBG relatable to that phase. The Committee, however, will like to be assured of the efficacy of the measures contemplated to make the private service providers complaint to provide DELs and VPTs in remote and inaccessible areas.

#### TAX RELIEF TO BSNL

##### (Para No. 30)

14. The Committee in its earlier Report had noted that owing to corporatisation, BSNL would be paying taxes and levies to the Government. Due to resource constraint, however, it would be difficult for BSNL and MTNL to achieve the growth rate envisaged in the Perspective Plan. According to DoT's own estimation, BSNL and MTNL would require Rs. 2,54,179 crores during the perspective plan period and the resources expected to be generated after meeting all the liabilities would be to the tune of Rs. 1,69,000 crore only. The Committee had apprehended that the resource gap of Rs. 85,000 crore planned to be bridged by borrowing from the market, would in turn, reduce the surplus and it would be very difficult to add 60 lakh plus fixed phones every year till 2006, if timely corrective steps to address the resource constraint were not taken urgently. The Committee had strongly endorsed the DoT's plea for tax exemptions to BSNL, so as to enable it to fulfill its assigned role.

15. The Department of Telecommunications (DoT) in its action taken note has reiterated that the total requirement of funds for BSNL and MTNL for the perspective plan period (2000-2010) has been estimated

at Rs. 2,54,179 crore. The plan expenditure would be met by the internal resources and market borrowing wherever necessary. No assessment of internal resources has been made for the perspective plan period. However BSNL/MTNL is stated to be entering into various new avenues of additional revenue generation which include mobile phones and several value added services which are likely to give boost to the volume of traffic thereby compensating for the revenue loss due to reduced tariff etc. and also increase the revenue. The overall revenue of BSNL and MTNL would be monitored closely as the new services penetrate more into the network. It has further been stated that in order to make the contribution expected from BSNL in meeting the targets as per projections in the Perspective Plan with effect from 2001 onwards, financial support has been sought for the provision and operation of VPTs and Rural and Urban uneconomic connections. A package of measures to ensure that the viability of BSNL is not impaired because of implementation of any socially desirable but uneconomic activity undertaken at the behest of the Govt. is stated to be under discussion with the Ministry of Finance and Planning Commission.

16. The Committee notes that total requirement of funds for BSNL and MTNL for the perspective Plan period (2000-2010) has been estimated at Rs. 2,54,179 crore. It is however, surprising to note that the Department has not done any assessment of the generation of internal resources required for the perspective plan period. The Committee is informed that in order to meet the targets projected in the perspective plan period, financial support has been sought for the provision and operation of VPTs and Rural and Urban uneconomic connections. When no assessment of internal resources has been made, how has the Department moved the proposal for financial support. The Committee will like to be apprised of constraints, if any, in assessment of internal resource generation during Perspective Plan period (2000-2010).

17. The Committee notes that a package of measures to ensure that the viability of BSNL is not impaired because of implementation of any socially desirable but uneconomic activity undertaken at the behest of the Government is under discussion with the Finance Ministry and Planning Commission. The Committee would like to be informed of the details of package as soon as a decision is taken in this regard.

## UNIVERSAL SERVICE OBLIGATION (USO)

### (Para No. 31)

18. The Committee in its earlier Report had desired that Universal Service Obligation (USO) should be enforced on those telecom service providers who failed to fulfil their quota for rural telephony. They should be asked to make the payment immediately. In first three years of operation they could provide only 562 VPTs against the target of 97,806 VPTs. The Committee noted with regret to note that quantum of USO was not decided and desired that appropriate amount of compensation should be paid to BSNL in this regard.

19. The Department of Telecommunications (DoT) in its action taken note has stated that as per NTP' 99, the resources for meeting the USO would be raised through "Universal Access Levy (UAL)" which would be a percentage of the revenue earned by all the operators with various licenses. The Government in consultation with TRAI would decide the percentage of revenue share towards UAL. Recommendations of TRAI dated 3.10.2001 are stated to be under consideration of the Department. The issue of obtaining appropriate amount of compensation to BSNL, for meeting social objectives which involve uneconomic activities, has been taken up with Planning Commission.

20. The Committee finds that recommendations of the Telecom Regulatory Authority of India (TRAI) regarding quantum of Universal Service Obligation (USO) are under consideration of the Government since October 2001. The Committee desires that the matter be decided expeditiously with a view to accelerate the expansion of telecom network in remote and inaccessible areas.

## WAITING LIST IN RURAL AREAS

### (Para No. 33)

21. The Committee in its earlier report had noted that the Ninth Plan envisaged provision of telephone on demand in the country by March, 2002 and achieve tele-density of 7 by 2005 and 15 by 2010 with the participation of private operators. However, the Committee had observed that though waiting list in urban areas came down during the last three years, it was rising in rural areas. It had increased from 10.53 lakh on 1 April, 2000 to 17.07 lakh on 1 April, 2001. In view of

the increased and scattered demand in the rural and inaccessible areas which would add to the cost of the rural telephones, the Committee had apprehended that the Department would not be able to keep its promise of providing telephone on demand by 31 March, 2002.

22. The Department of Telecommunications (DoT) in its action taken note has given the year-wise status of Rural DEL's Growth Rate & waiting list of Rural DEL's from 31 March, 98 to 31 March, 2001 as follows:

As on	Status of rural DELs	Growth Rate	Waiting List
31 March, 98	28.4 lakhs	25.06%	12.12 lakh
31 March, 99	36.5 lakhs	28.52%	10.53 lakh
31 March, 2000	48.2 lakhs	32.05%	48.47 lakh
31 March, 2001	66.9 lakhs	38.79%	17.08 lakh

23. It has been stated that the average growth rate of rural DELs during the last three years had been above 30% and rural tele-density had increased from 0.4% in 1997-98 to 0.93% by 31 March, 2001 and was expected to cross 1% by 31 March, 2002. It has been proposed to provide rural telephony in a cost effective manner, taking advantage of the recent developments in access technologies. The remaining VPTs are to be provided by Wireless in Local Loop (WLL), Inmarsat and C-DOT PMP technologies.

24. It has been added that in the past, private operators were prepared to pay penalty for non-fulfilment of rural obligations rather than making investment that they perceived to be unprofitable. In the licenses issued recently to the basic service operators, it has been stipulated that point of presence (PoP) has to be established by the operators in equal proportion in rural, semi urban and urban Short Distance Charging Areas (SDCAs). Various measures are being taken to provide telephone on demand in rural areas also by 2002.

25. The Committee notes that the rural tele-density has increased from 0.4% in 1997-98 to 0.93% by 31 March, 2001 and crossed 1% by 31 March, 2002. However, the increase in waiting list in rural areas from 12.12 lakh to 17.08 lakh is a matter of serious concern. It is quite clear that as more and more rural areas get connected, further demand is generated as suppressed demand hitherto gets

accentuated. It is, therefore, imperative to plan for higher growth rate of expansion in network capacity than that being envisaged. Only then it will be possible to provide telephone in rural areas on demand.

#### STEPS TO REALISE PERSPECTIVE PLAN OBJECTIVES

##### (Recommendations at Para No. 73)

26. In the earlier Report, the Committee had observed that better management proper marketing of telephone services and increased growth of usage/traffic would result in lower operating cost and it would therefore arrest decline in surplus was merely a wishful thinking in the absence of any empirical study, which might jeopardize all the projections of Perspective Plan. It, therefore, desired that the Department should take concrete steps to realise the goal.

27. Department of Telecommunications in its action taken note has stated that considering Indian scenario, the reduction in long tariff on two occasions by TRAI were very steep. Further as a service provider DTS/BSNL has allowed some concessions at different points of time including concessional call rates for intra-circle calls. Market will also take some time to stabilise and respond positively. The work of marketing has been taken in hand recently by BSNL and its impact is yet to be assessed.

28. The Committee is not convinced with the plea that there were steep reduction in long tariff on two occasions by TRAI and DTS/BSNL had also given certain concessions at different points of time including concessional call rates for intra-circle calls which resulted in decline in surplus. The Committee is of the view that such line of reasoning conveniently overlooks developing competition from private operators. Concrete steps are required to be taken to gear up marketing and management to augment surplus.

## **CHAPTER II**

### **RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT**

#### **Recommendation (Para No. 34)**

The Perspective Plan takes note of the fact that demand for telephone is dependent on various parameters like economic growth and tariff rates. Some experts outside the Government have pointed out this fact stating that in India telephone subscriber on an average spend 20 per cent of per capita share of Gross Domestic Product (GDP) of \$400 on telephone charges whereas in developed countries telephone charges constitute 1 per cent of their GDP. Obviously telephone charges in our country are already high and further upward revision of tariff is bound to depress aggregate demand. On the other hand, with reduced long distance call rates and emerging competition from private operators, BSNL and MTNL are bound to lose substantial part of the creamy layer of their business. These developments are bound to reduce surplus of both the public sector undertakings, which would affect adversely their investment plans for expansion of network. Therefore, as the Committee apprehends, the availability of telephones to common man will remain a dream on both accounts—availability and affordability. The Committee, therefore, strongly recommends that a pragmatic view be taken of the emerging scenario and corrective action taken after mid-term appraisal of projections.

#### **(Action Taken by the Department)**

Tariff for long distance calls have been reduced twice by TRAI—1st time w.e.f. 1.5.99 & 2nd time w.e.f. 1.10.2000 alongwith increase in rental. DTS/BSNL has also given number of concession in rental, call charges, free calls etc. to telephone subscriber. Recently BSNL has reduced the tariff w.e.f. 26.01.2001 in respect of intra circle calls with the marginal adjustment of the rental (within the ceiling prescribed by TRAI) under a package.

The reduction in tariff has improved the affordability. Competition between operators is bound to reduce the tariff. Also more resources would become available with the increase in competition.

It is hoped that with better management and cost effective technologies by BSNL and the increased participation of private sector, sufficient investment will be available for achievements of desired goals as provided in the NTP 1999 and projection made in the perspective plan.

It is, however, pointed out that the power for tariff fixation in respect of various Telecom Services has been delegated to Telecom Regulatory Authority of India (TRAI) under section 11(2) of TRAI Act 1997 and all service providers are bound to implement the tariff notified by TRAI.

The Committee's recommendations will be kept in view at the time of mid term appraisal.

#### **Recommendation (Para No. 62)**

The same is the case with the North-Eastern States also where 9190 villages are to be provided with VPTs as the DoT is stated to be facing a lot of difficulties due to inaccessibility and insurgency in some areas of these States. The target is to cover only 5110 villages with VPTs by the year 2002. The remaining 4,000 villages will thus have to wait indefinitely for telecom services. Evidently, NTP'99 has grossly failed to deliver the desired results. Since laying of land lines in North Eastern States to provide VPTs is impracticable because of mountainous topography, the Committee desires that VPTs through Satellite and WLL/TDMA technology be expedited.

#### **Action Taken by the Department**

VPTs target for NE States has been revised to 9801. 30,500 lines of WLL system and 5 systems of CDOT TDMA/PMP have been allotted to North-East Circles to achieve the desired results. All out efforts are being made to provide telecom facility in the remaining villages of these States also by 2002. Satellite terminals have been planned for those remote places which cannot be covered by any terrestrial media by 2002. Lot of problems are being faced in NE States. Some of the major problems being faced are lack of stable power supply, insurgency and inaccessibility.

#### **Recommendation (Para No. 63)**

The Committee also finds that due to inaccessibility of vast areas in North Eastern states, it has been very difficult for a single Chief Manager to effectively look after the telecom network in six States. Since the matter regarding reorganization of North Eastern circle is already under consideration, the Committee desire that an early decision be taken with a view to accelerate development of telecom facility in these States. Moreover, younger staff capable of undertaking strenuous jobs be posted on field duties so that the maintenance work is accomplished expeditiously.

#### **Action Taken by the Department**

The North-Eastern states have been divided in two Telecom circles. The states of Meghalaya, Mizoram and Tripura fall under North East-I and Arunachal Pradesh, Nagaland and Manipur fall under North East-II. Additional staff is being made available to North Eastern states.

### **CHAPTER III**

#### **RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DOES NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT REPLY**

##### **Recommendation (Para No. 27)**

The Committee finds that National Telecom Policy' 99 could not fully yield the desired results as it was adopted without undertaking a comprehensive indepth study on vital issues like capabilities of private sector in raising adequate resources, the terms and conditions under which they would operate, aggregate requirements to funds as well as the capacity of public sector to achieve the desired expansion out of their internal resources. In fact, the later developments have proved the same. Difficulties were faced the same. Difficulties were faced as soon as implementation started. With the stated objective of overcoming the deficiencies, New Telecom Policy was announced in 1999. After a detailed study of the New Telecom Policy, 1999, the Committee finds that it also suffers from several lacunae and contradiction as was the case with the earlier policy and requires urgent corrective steps. These are summarized in the following paragraphs.

##### **Action Taken by the Department**

The issues raised in this para are covered in detail in the following para 29 to para 35 and action taken on these issues are given against each para.

##### **Recommendation (Para No. 29)**

The NTP, 1999 aims to make telephone available on demand by the year 2002 and sustain it thereafter so as to achieve a tele-density of 7 by the year 2005 and 15 in the year 2010 AD. In this respect, private sector is expected to supplement the efforts of the Government. The private operators are required to provided 131.76 lakh fixed phones and 374.15 lakh cell phones over the period of Perspective Plan from 2001 to 2010. It comes to about 12-13 lakh fixed phones and 4-8 lakh cell phones per year in the initial years of the Perspective Plan.

However, if the past performance of private operators is any guide, where the private operators have provided only 2,15,284 fixed phones against their commitments of 20,17,809 fixed phones the Committee apprehends that the targets will not be reached even in the foreseeable future.

#### **Action Taken by the Department**

The Perspective Plan (2000-2010) has projected that the private operators, will provide 131.76 lakh fixed phones and 374.15 lakh mobile phones during the plan period. At the time of mid term review of Ninth Five Year Plan it was observed that the pace of providing fixed phones by private operators was very slow due to various reasons. Thus the targets of providing fixed phones by private operators was revised to 20 lakhs from the initial estimate of 52 lakhs and the DEL's targets of the DoT and MTNL were enhanced from initial estimate of 185 lakh to 222.7 lakhs.

The private operators have already provided 3.7 lakh fixed phones and 48 lakh mobile phones upto 30.09.2001. The contribution from private sector will increase further with private sector providing services in more and more circles with the new licenses that have been given under NTP 99. The tele-density as on 30.9.2001 has already reached 3.76 per 100 persons. The targets of providing DEL's by BSNL and MTNL are being increased every year. The targets for the year 2001-2002 for BSNL and MTNL have been increased to 72.3 lakhs.

BSNL Network has 281.13 lakh telephone lines (Tele-density 2.81) as on 31.3.2001. The total telephone lines is likely to reach 349.43 lakhs with the fulfillment of target of 68.3 lakh lines set for this year. Tele-density of BSNL Networks alone will be 3.49 phone per hundred population by 31.3.2002.

DoT has fixed a target of 834 lakh total DELs during the Tenth Five Year Plan period. Out of this 434 lakh are to be provided by BSNL & MTNL and remaining 400 lakhs are to be provided by private operators.

It is expected that it will be possible to provide telephone on demand by 31st March 2002 and to achieve a tele-density of 7 by the year 2005 and 15 by the year 2010 AD.

Those who have defaulted in fulfilling the roll-out obligations have been imposed Liquidated Damages (LD), which have been recovered from them as per the relevant provision of License Agreement. Further, Government, as a licensor has taken strict measures to ensure that the private service providers meet the terms and conditions of the licence. Before issuing licence, the licensees are mandatory required to submit No Dues Certificate in respect of all payments arising out of any licence granted under section-4 of Indian Telegraph Act, 1885 (including Indian Wireless Telegraphy Act, 1993) to an applicant company or any promoter/partner thereof or associate/sister concern.

In addition to the condition mentioned above, the following conditions are also required to be complied with before signing the Licence Agreement in case the applicant company or any promoter/partner thereof or associate/sister concern, is holding licence in terms of Section-4 of Indian Telegraph Act, 1885 (including Indian Wireless Telegraphy Act, 1993):—

- (i) Furnishing of an unconditional and unequivocal undertaking in the form of an indemnity bond (in the prescribed format) to guarantee compliance for fulfilling the pending roll-out obligations without any reservation or deviation, otherwise indemnify the licensor of the costs involved.
- (ii) Submission of an additional performance bank guarantee (PBG), valid for two years (in prescribed format), for a sum equivalent to total of various PBGs stipulated in different Licence Agreements having unfulfilled roll-out obligations. However, in respect of existing Basic Telephone Service Licence, the figure of rupees fifty crores shall be added for this purpose.

For the new licensees, the provision to ensure strict adherence to the minimum network roll-out obligations, have been made more efficacious and result oriented. The performance is now on the basis of Point of Presence in Short Distance Charging Areas (SDCAs). The time period for 100% fulfilment of minimum network roll-out obligations, have been divided into four phases. Before signing the License Agreement the company is required to submit three separate Performance Bank Guarantees for amounts equivalent to 20%, 30% and 50% of the total amount of stipulated Performance Bank Guarantee valid for a period of 3, 5 and 7 years respectively which would be released only on completion of II, III and IV phases subject to

fulfilment of the network roll-out obligation by establishing Point of Presence in SDCAs. A direction has been issued by Telecom Regulatory Authority of India (TRAI) to provide telephone on demand.

Any shortfall below the percentage of network coverage & Phase II, III & IV will result in encashment/forfeiture of the particular Bank Guarantee relatable to that phase.

#### **Comments of the Committee**

Please See Para No. 13 of Chapter-I.

#### **Recommendation (Para No. 30)**

The Committee feels that in the case of BSNL and MTNL also, because of resource constraint owing to corporatisation of BSNL and its liability to pay taxes and levies to Government, it will be difficult to achieve the growth rate envisaged in the Perspective Plan. According to DOT's own estimation, BSNL and MTNL will require Rs. 2,54,179 crores during the period 2001-10 AD. The resources expected to be generated after meeting all the liabilities will be to the tune of Rs. 1,69,000 crores. The resource gap of about Rs. 85,000 crores is planned to be bridged by way of borrowing from the market which again in turn reduces the surplus. Thus, it will be very difficult to add 60 lakh plus fixed phones every year till 2006 because of the lesser availability of resources, if timely corrective steps are not taken urgently. The projections made in the Perspective Plan are likely to go haywire if resource constraint is not addressed to properly. The Committee, in this context strongly endorses the plea of the DOT for tax relief to Bharat Sanchar Nigam Limited, so that it may be expected to fulfil its assigned role.

#### **Action taken by the Department**

The total requirement of funds for BSNL and MTNL for the Perspective Plan period (2000-2010) has been estimated at Rs. 254179 crore. The plan expenditure will be met by internal resources and market borrowing where necessary. No assessment of internal resources has been made for the perspective plan period.

However BSNL/MTNL is entering into various new avenues of additional revenue generation. These include mobile phones and several value added services which are likely to give boost to the volume of tariff which will compensate for the revenue loss due to reduced tariff etc. and is expected to increase the revenue. The overall revenue of BSNL and MTNL will be monitored closely as the new services penetrate more into the network.

In order to make the contribution expected from BSNL in meeting the targets as per projections in the Perspective Plan w.e.f. 2001 onwards, financial support has been sought for the provision and operation of VPTs, Rural and Urban uneconomic connections. A package of measures are to be implemented to ensure that the viability of BSNL and is not impaired because of implementation of any socially desirable but uneconomic activity undertaken at the behest of the Govt. These measures are under discussion with Finance Ministry and Planning Commission.

#### **Comments of the Committee**

Please See Para No. 16 of Chapter-I.

#### **Recommendation (Para No. 32)**

The Committee notes that as per the projections made in the perspective plan, annual requirement of fixed phone will gradually decrease by the year 2004 and that of mobile phone will steadily increase. After 2006, growth in demand of mobile phones is projected to outstrip that of fixed phones. The Committee will like to be apprised of the underlining assumptions in these projections. It seems to the Committee that the projections are based on the growth model achieved in the developed countries, which have much higher per capita income. In these countries, an average domestic subscriber, as per studies made in this regard, spends only one percent of per capita income whereas in our country, it is more than 20 percent. So it is debatable whether demand for mobile phones will outstrip that of fixed phone when the former is costlier and subscriber is required to pay substantial sum for handset also.

#### **Action Taken by the Department**

The growth figure has been projected based on the figure now available with Mobile operators for provision of such telephones in the Mobile sector. The demand for Telephone particularly in the Mobile Sector is likely to go up in view of reduced tariff announced by MTNL as well as by BSNL and the resultant impact on tariff for cellular mobile service in general.

It is expected that the volume will pick up from the price elasticity which will be available due to competition & thereby reduction in cost. There is another feature which is becoming increasingly popular among mobile users viz. the Short Messaging Service (SMS). At the moment it is being offered free, but likely to yield a substantial amount of revenue after it becomes popular. The growth will be supplemented by WLL technology in urban areas which is having the same tariff as fixed phone but it is having limited mobility. This growth figure will

be reviewed in the year 2003-04 in accordance with the guidance given in the perspective plan & at that time we will be in a position to project more accurately.

The following table shows the growth rate of mobile phones *vis a vis* fixed phones. This indicates that the growth rate of mobile phones is more than two times the growth rate of fixed phones.

Year	Cumulative mobile phones (lakh lines)	AGR of mobile phones (% age)	AGR of fixed phones (% age)	Comparison w.r.t. fixed phones
31.3.1998	8.8			
31.3.1999	12.0	36.36	21.40	1.69 times
31.3.2000	18.8	56.66	23.32	2.42 times
31.3.2001	35.7	89.89	22.73	3.95 times
31.8.2001	42.8	19.88 *	3.4 *	5.85 times
31.3.2002 (Expected)	55.8	56.30	23.90 #	2.36 times

\*The growth rate achieved till 31.8.2001.

#The targets have been added on the status as on 31.3.2001 to calculate the growth rate.

Advantages of mobile telephone service like very high reliability, availability with the user at all places, many phone plus facilities, value added services, are the reasons of high growth rate. New services/technologies, offering better facilities even if it is comparatively costlier but within reach also generate demand. Telephone services are becoming cheaper with competition and introduction of cost effective technologies in the network. With the large scale deployment of equipment of cellular services, per line cost is coming down resulting in the affordable service.

With all the above facts, it is anticipated that the total number of mobile phones will outstrip the total fixed phones by 2006. As per the growth rate trends, demand of mobile phones is higher and is also expected to be higher in future than the fixed telephones.

### **Recommendations (Para No. 58)**

The NTP' 1999 envisages to increase rural tele-density from 0.4 per cent at present to 4 per cent by 2009-2010. It requires on average an addition of 30 lakh rural telephones with 54 lakh switching capacity each year. For this purpose, BSNL and MTNL are expected to provide total fixed phones on the range of 60 lakh to 70 lakh each year during the period 2001-06 and the private service providers 13 lakh to 15 lakh phones each year. However, the actual achievement of BSNL and MTNL in the previous year was 59.33 lakh DEL. The six private service providers who has committed to provide about 20 lakh phones in the first 3 years of their operations, miserably failed to honour their commitment. They could provide only 2,15,284 telephones in all. The Committee is at loss to understand, how BSNL with their dwindling surpluses and private operators because of their own problems would be able to expand their network to the extent mentioned above. In the absence of any convincing evidence, the Committee is inclined to believe that projected availability of telephones in NTP' 1999 will merely remain a tall claim particularly in rural areas.

### **Action Taken by the Department**

DOT has fixed a target of 834 lakh total DELs during the 10th Five Year Plan period. Out of this 434 lakh are to be provided by BSNL and MTNL and 400 lakh are to be provided by private operators. This means that almost equal phones are to be provided by PSUs and private operators in Urban and Rural areas.

Considering the requirement of annual addition of nearly 30 lakh rural phones in the country, the availability of internal resources with BSNL as well as government support expected, heavy investment in rural areas and the negligible returns from rural phones, BSNL has plans to provide 15-16 lakh phones (Nearly 50% of annual requirement each year) with total addition of 77 lakh rural phones during the 10th plan period. BSNL network has 66.87 lakh rural DELs (Tele-density 0.9 per 100) likely to reach 83.87 lakh (Tele-density 1.11) by 31.3.2002. By the end of 10th Plan BSNL will have nearly 160.87 lakh rural phones (Tele-density 1.98 per 100 Population)

Rural Tele-density is likely to reach 4 per 100 population by 2010 with the active participation by private operators. With the policy initiatives like permitting use of WLL for basic operators, the private operators are also likely to provide more rural telephones.

The six private operators have now provided more than 3.75 lakh connections, doubling within one year. With new operators setting up their network, their contribution for provision of phones will further increase. Further the roll-out of private operators have been stipulated in terms of setting up of points of presence in equal proportion in urban, semi-urban and rural areas.

#### **Recommendations (Para No. 59)**

The Committee notes that out of 607491 villages in the country, 378460 villages were provided with village public telephones (VPTs) by the end of year 2000. The six private service providers who have set up their infrastructure altogether provided only 562 VPTs against the commitment of 97806. Obviously, they are not interested in VPTs as it is losing preposition. The BSNL has left most of the remaining VPTs for private operators because as per the licensing agreement, they are required to provide 10% of the requirement in the rural areas. The DOT has argued that service providers expanding network in the rural areas would get funds from Universal Service Obligation Fund (USO). However, the Committee is not at all impressed by this line of reasoning since quantum of USO itself has not yet been spelt out by the regulator, not to speak of availability of funds. Again the realization from license fee would be only a small fraction of the funds required to extend telecom operations in 2 lakh leftover villages which are mostly remote and difficult. Moreover, BSNL will be obliged to provide an priority basis the reliable telephony in those areas where MARR telephones have gone out of order and require to be replaced immediately.

#### **Actoin Taken by the Department**

Out of 607491 villages in the country 411321 villages have been provided with Village Public Telephones as on 31.8.2001. The balance villages are targeted to be provided with public telephones by December 2002. Bharat Sanchar Nigam Limited has to provide public telephones in about 140854 villages and in remaining about 55000 villages to be covered by the private basic service operators in six States.

Out of 143255 VPTs targeted to by BSNL to fulfil its share of the project BSNL has so far provided VPTs in 2399 villages. One lakh Village Public Telephones are planned to be provided by using Wireless in Local Loop system. The roll out of WLL public telephones will be much faster as compared to wired technologies. As the Wireless in Local Loop (WLL) equipment for providing VPTs has started coming in, the progress during the balance period for the year will be faster.

BSNL has plan to replace 28,978 MARR based faulty irreparable VPTs by Wireless in Local Loop (WLL) technology during the current financial year. 18000 new VPTs will be provided in the year 2002-2003. Replacement of 2 lakh MARR based VPTs will also be done from 2002-2003.

Status of USO is indicated in the reply to para 32 above.

Action taken by the Govt. to ensure fulfilment of targets by the private operators is same as mentioned against para-61.

#### **Recommendations (Para No. 60)**

The Committee finds that six private service providers had committed to provide 97,806 VPTs in the first three years of operation from September, 1997 to September, 2000. However, they provided only 562 VPTs upto 30 June, 2001. Hughes Telenet Com (India) Ltd., Reliance Telecom Ltd. and HFCL Infotel Ltd. who have the licences to operate in Maharashtra, Gujarat and Punjab did not provide even a single VPT though made commitment for 25,760 VPTs, 8,635 VPTs and 5,442 VPTs respectively. Bharati Telenet Ltd., provided 348 VPTs against the commitment of 16,500 in Madhya Pradesh, Tata Tele Service provided 5 VPTs and that too, in the fourth year of their operation, out of the commitment of 9,635 VPTs in Andhra Pradesh and Shyam Telecom 209 VPTs out of the commitment of 31,834 in Rajasthan. Strangely, the DoT did not take any punitive action against them even though the licence agreement provides for the same. The DoT owe an explanation to the Committee on this account. Obviously, the people in rural areas of all six States mentioned above have been denied telecom facilities to that extent for inaction on the part of DoT.

#### **Action Taken by the Department**

Liquidated Damages (LD) was charged and recovered in terms of licence agreement from all the six private operators in respect of unfulfilled performance obligations for providing Direct Exchange Lines (DELs) and Village Public Telephones (VPTs). The Government as licensor has impressed upon the existing licensee companies to furnish unconditional and unequivocal undertaking in form of Indemnity Bond to guarantee compliance for fulfilling the said pending roll-out obligations without any reservation or deviation. Further, provision for taking additional Performance Bank Guarantee (PBG) for unfulfilled roll-out obligations has also been made.

For the new licensees, the provisions to ensure VPTs have been made more efficacious and result oriented. The following conditions are required to be complied with before signing the Licence Agreement in case the applicant company or any promoter/partner thereof or associate/sister concern, is holding licence in terms of Section-4 of Indian Telegraph Act, 1885 (including Indian Wireless Telegraphy Act, 1993):—

- (i) Furnishing of an unconditional and unequivocal undertaking in the form of an indemnity bond (in the prescribed format) to guarantee compliance for fulfilling the pending roll-out obligations without any reservation or deviation, otherwise indemnify the licensor of the costs involved.
- (ii) Submission of an additional performance bank guarantee (PBG), valid for two years (in prescribed format), for a sum equivalent to total of various PBGs stipulated in different Licence Agreements having unfulfilled roll-out obligations. However, in respect of existing Basic Telephone Service Licence, the figure of rupees fifty crores shall be added for this purpose.

The performance is now on the basis of Point of Presence in Short Distance Charging Areas (SDCAs). The time period for 100% fulfilment of minimum network roll-out obligations, have been divided into four phases. Before signing the License Agreement the company is required to submit three separate Performance Bank Guarantees for amounts equivalent to 20%, 30% and 50% of the total amount of stipulated Performance Bank Guarantee valid for a period of 3, 5 and 7 years respectively which would be released only on completion of II, III and IV phases subject to fulfilment of the network roll-out obligation by establishing Point of Presence SDCAs. A direction has been issued by Telecom Regulatory Authority of India (TRAI) to provide telephone on demand.

Any shortfall below the percentage of network coverage & Phase II, III & IV will result in encashment/forfeiture of the particular Bank Guarantee relating to that phase. There will be no carry forward of the unfulfilled network obligation from one phase to another after expiry of that particular period. In order to ensure Public Telephones in rural areas SDCAs have been divided into three categories *i.e.* Urban, Semi-urban and Rural.

### **Recommendation (Para No. 61)**

The Committee deeply concerned to note that in Orissa, out of the 46,989 villages only 24,965 villages *i.e.* 53% of the total villages have been provided with VPTs upto 31 March, 2001. Providing VPTs in 22,024 left over villages in the remaining one year *i.e.* upto 31 March, 2002 as envisaged in the NTP 1999 is an uphill task which is impossible to be accomplished as the required resources are stated to be not available. It is ironical that knowing all these facts, DoT is still reiterating again and again in Parliament as well as outside, that the commitment made in NTP 1999 with regard to VPTs will be achieved.

### **Action Taken by the Department**

To achieve the desired target in Orissa, 64,000 lines of WLL systems have been allotted to the Circle. Part of the equipment has already been received by the Circles and is under various stages of installation. The remaining WLL equipment is likely to be delivered by the end of December, 2001. All out efforts are being made to achieve the targets in Orissa.

Villages that cannot be covered by any terrestrial media and require satellite media are planned to be covered by satellite technology by December 2002.

However, non-availability of stable power supply is a major constraint in rural areas.

### **Recommendation (Para No. 71)**

The Committee finds that no indepth study has been made to achieve the objectives of availability and affordability of telephones as enunciated in the NTP' 1999. The Policy document promises to make telephone available on demand by the year 2002 and also make it more affordable in rural areas by suitable tariff structure and making rural communication mandatory for all fixed service providers. However, the steps required to be taken in this direction have not been spelt out in clear terms. As has been discussed earlier, surpluses of BSNL and MTNL are bound to come down because of corporatisation, competition and reduced tariff. The surpluses generated has already come down by 30% last year alone in spite of indirect upward revision of local charges by adjusting pulse rate from 5 minutes to 3 minutes. If tariff is further reduced, it will make more dent in their profits and investible funds to that extent will not be available

for expansion of telecom network. It will adversely affect growth and projections made in the Perspective Plan of 7% tele-density by 2005 and 15% by 2010 will never be realized. It is also impossible for the Government to make funds available from general revenues, given the state of affairs of Central revenues. Nor the deficiency can be overcome by cellular mobile phones which are much more costly.

#### **Action Taken by the Department**

Tariff for long distance calls have been reduced twice by TRAI—1st time w.e.f. 1.5.99 & 2nd time w.e.f. 1.10.2000 along with increase in rental. DTS/BSNL has also given number of concessions in rental, call charges, free calls etc to telephone subscribers. Recently BSNL has reduced the tariff w.e.f. 26.01.2001 in respect of intra circle calls and marginally adjusted the rental (within the ceiling prescribed by TRAI) under a package.

It is hoped that with better management and cost effective technologies by BSNL and MTNL and the increased participation of private sector, sufficient investment will be available for achievements of desired goals as provided in the NTP 1999 and projection made in the perspective plan.

It is however pointed out that the power for tariff fixation in respect of various Telecom Services has been delegated to Telecom Regulatory Authority of India (TRAI) under section 11 (2) of TRAI Act, 1997 and all service providers are bound to implement the tariff notified by TRAI.

It is presumed that the NTP 99 would be given due regard and all aspects taken into account by TRAI while fixing the tariff.

With the increase of number of subscribers, the revenue of the operator will increase which in turn will also increase the USO levy that the operator would be paying.

#### **Recommendation (Para No. 72)**

On the other hand, as has been brought out by some Expert studies, our average annual telephone charges being 20% of the per capita Gross Domestic Product (GDP) of \$400 is very high as compared to developed countries where an average subscriber spends less than 1% of per capita (GDP) on telecom services. The rural scenario is still worse. Even at the current rates of tariff, it will be difficult to sustain the projected demand for a span ranging upto 10 years as envisaged

in the Perspective Plan. Therefore, in all probability, tariff will have to be reduced as the TRAI has done in recent past to generate more demand. The Committee, therefore, recommends that indepth studies be undertaken expeditiously to resolve the dichotomy if promise made to common man in the NTP' 1999 has to be realized. The Committee will like to be apprised of the action taken in this regard.

#### **Action Taken by the Department**

It is pointed out that the power for tariff fixation in respect of various Telecom Services has been delegated to Telecom Regulatory Authority of India (TRAI) under section 11 (2) of TRAI Act, 1997 and BSNL and other service providers are bound to implement the tariff notified by TRAI.

We are however hopeful that, with the proper management and adoption of cost effective technologies the surplus and resources available can be better stretched. Tough competition will further reduce the rates. This will make telephone more affordable resulting in more demand.

The impact of reduction in tariff on BSNL's finances has been projected to TRAI in the process of consultation on its tariff proposals as well as its consultation paper on USO. The work of marketing has been taken in hand recently and its impact is yet to be assessed.

DoT is committed and is making sincere efforts to work towards fulfillment of the promise made to common man as envisaged in the NTP'99.

#### **Recommendation (Para No. 79)**

The Committee is unable to subscribe to view that Revenue Sharing regime decided on the basis of 17000 responses after a national debate on Internet is an improvement over the earlier scheme of licence fee. In fact, the Committee is convinced that change over to Revenue Sharing scheme has been devised to bail out the private telecom service providers who without undertaking any indepth study quoted astronomically high bids to garner, as much as possible, telecom licences to establish private monopolies at a later date. It cannot be said that they lacked experience as all of them had collaborated with foreign companies in the field of telecom as per the licencing conditions. It appears that 17000 responses were procured by those who after securing

licences at exorbitant bids wanted to extract concessions from the Government at the cost of exchequer. Even after four years of their operations, they are still unwilling to honour their commitment to the nation made in terms of VPTs and rural telephony. Even in the urban areas, they are far behind their commitments. Private Service Providers have so far confined themselves to metropolis and cities which gives an impression that they are after the creamy layer to make windfall profits at cost of BSNL and MTNL—the two public sector undertakings. Thus, the Revenue Sharing Regime ushered by the NTP' 99 has no way benefited the nation. It has only absolved the private service providers of their commitment to pay licence fee. The Committee desires that penalties as envisaged in the licence agreement for non-fulfillment of roll out obligation be realized from defaulting licensees who took the nation for a ride by their false promises.

#### **Action Taken by the Department**

While permitting migration of existing basic and Cellular Operators to revenue sharing regime roll-out obligation has not been diluted. The penalty (Liquidated Damages) for not fulfilling the required roll-out as per licence agreement has been levied/recovered from all existing cellular operators in respect of working Cellular Licences (except M/s Koshika Telecom for UP-East Circle). The migration to revenue sharing regime has translated into accelerated growth of cellular subscribers in the country. Presently, the cellular subscriber base is growing at the rate of about 2 lakhs subscribers every months; the cellular customer base has grown from approximately 12 lakhs as on 31.07.1999 to approximately 48 lakhs as on 30.09.2001. The tariff has also come down drastically after introduction of revenue sharing regime which makes the cellular phones within the reach of common man.

Under the migration scheme the licences are issued on non-exclusive basis resulting into competitions among the telecom industries, which will ultimately reduce cost and improve quality of service, thus benefiting the consumers. Apart from that, there has been tremendous growth in the provision of DELs, which is on 30.09.2001 more than 3.7 lakhs as against 56990 on 30.09.1999 by six private basic service operators. The migration policy has effectively addressed the problems faced by the telecom industries. Serious financial losses, if not bankruptcies, of the telecom companies and mounting non-performing assets of the financial institutions have been checked and averted.

Resolutions to the problems of the telecom industries have resulted into withdrawal of a number of court cases. However, wherever default has occurred appropriate action has been taken.

Last but not the least, the uniform application of NTP'99 all over the country has opened a gateway for India to merge as IT super power.

#### **Recommendation (Para No. 80)**

The Committee finds that under the earlier licencing system, private service providers were under compulsion to expand their telecom network to spread fixed cost over a large base. However, there is no such compulsion under the Revenue Sharing Regime. This fact has been amply borne out by the performance of six service providers who have installed only 2,15,284 DEL against the commitment of 20,17,809 during the first three years of their operation. It is of no use saying that existing operators have to roll-out obligations for provisions of DELs and VPTs when these are not enforced with punitive action. Provision of strict penalties could not make them complaint. The Committee is not convinced of the reasoning that due to stiff competition in the market, no licensee could afford to slack in quality of service, coverage and competitive prices.

All these factors are to be decided by the Regulator. If past experience is any guide, private service providers would operate in those areas only, where they are able to maximize their profits.

#### **Action Taken by the Department**

Under the New Telecom Policy'99, the applicant company is required to submit a detailed roll-out plan indicating the name of Short Distance Charging Areas (SDCAs) in a particular telecom circle for coverage in four phases. Before signing the License Agreement, three separate Performance Bank Guarantees (PBGs) are required to be submitted for amount equivalent to 20%, 30% & 50% of total amount of stipulated PBG valid for a period of 3 years, 5 years & 7 years respectively. These PBGs would be released only on completion of II, III & IV phase in the manner described therein subject to fulfilling the network roll-out obligations by establishing Point of Presence in SDCAs as specified in the license agreement. However, all new licensees should cover 80% SDCAs individually but beyond 80% SDCAs in a Service Area may be covered jointly by new licensees. Provided always, it

will be the obligation of all new licensees to ensure coverage of 100% SDCAs and bank guarantees after 4th phase will be released only after ensuring fulfillment of this condition.

Hence, this system will certainly ensure better performance in the provision of DELs and VPTs.

#### **Comments of the Committee**

Please See Para No. 13 of Chapter-I.

#### **Recommendation (Para No. 104)**

The Committee observes that Cellular Operators through their base stations have extended telephone facilities to about 60,000 villages which don't have the telephone facilities. However, they are constrained to do so further because of certain conditions imposed by the Department of Telecom. The Cellular Operators Associations of India (COAI) has represented that as envisaged in NTP'99, direct inter-circle connectivity between service providers should be allowed. Direct connectivity through VSNL should also be permitted as it would make the international call much cheaper. Cellular Operators have desired that Cellular and fixed operators should be allowed direct connectivity with each other in order to optimally utilize the infrastructure. However, DoT clarifying the position has stated that NTP'99 stipulates service area for national long distance service providers as service area beyond service area of the access providers, i.e. cellular mobile telephone service providers and basic telephone service providers. The inter-connectivity between the two service providers in different service areas may not be provided as it is within the scope of Nation Long Distance (NLD) Service Providers. However, Cellular Operators are free to form consortium as an alternative NLD service providers so as to provide cheaper and better service to consumers of the country and may obtain a licence for the same after fulfilling the eligibility conditions.

#### **Action Taken by the Department**

As per the terms and conditions of licence agreement, the cellular operators are required to cover only 10% of district headquarters in the first year and 50% of district headquarters (or any other town in lieu of district headquarters in the same district) within 3 years of the effective date of licence. Rural coverage is not mandatory for cellular operators. However, there are no restrictions on the cellular operators

providing rural coverage. In terms of the existing guidelines the cellular operators cannot be allowed to encroach into the jurisdiction of NLD service providers, however, cellular operators may obtain licence of NLD service by forming for consortium and after fulfilling the eligibility conditions.

#### **Recommendation (Para No. 105)**

The optimally utilize the existing infrastructure by the Cellular Operators, the Committee is informed that Cellular and fixed operators are allowed direct inter-connectivity with each other within the service area. A cellular operator can have direct inter-connection with fixed operators for terminating the traffic, as the transit traffic to other service area is to be routed through National Long Distance (NLD) service providers. Direct inter connectivity with VSNL can not be provided in view of the NLD service provider who has the right to carry long distance calls within the country.

#### **Action Taken by the Department**

Direct Interconnectivity among all service providers in a service area is permitted. The number of point of inter-connection (POIs) of Cellular Mobile Service Operators with Basic Service Operators shall be as per mutual agreement subject to compliance of prevailing determination, regulation or direction issued by TRAI under the TRAI Act 1997.

Basic Service Operators were advised to use infrastructure created by Cellular Operators to provide Village Public Telephones (VPTs) subject to their mutual arrangements. However, as per the recommendations for International Long Distance Service, the Access Providers will be allowed to interconnect with ILD service provider directly in situations where ILD gateway switches and that of access providers (GMSC/Transit Switch) are located at the same station of Level-I TAX.

#### **Recommendation (Para No. 106)**

The Committee is unable to understand the rationale in creating artificial obstructions in various networks in which Cellular Operators

are unable to have inter Circle connectivity nor they can directly access VSNL gateways. Such restrictions are unduly leading to high costs to subscribers through sub-optimal utilization of infrastructure. The Committee strongly feels that while inter-connection charges should be equitable cost based and non discriminatory, routing the calls should be such that to ensure optimum utilization of infrastructure and delivery of services at most economic rates. The Committee also finds no acceptable reason as to why the Cellular operators should not expand cellular services in the villages which are covered by their base stations. However, any factor still deterring the affordability facility to the consumers should be looked into.

#### **Action Taken by the Department**

Same as mentioned against para 105 and 106 above.

#### **Recommendation (Para No. 107)**

The COAI has further represented that recommendations of the Group of Telecom & IT Convergence like an equalization of long distance revenue sharing of WLL Mobile Operators and Cellular Operators, determination of Entry Fee to remain within the domain of TRAI, allocation of spectrum to be considered inextricably linked to performance and sub-classification of SDCAs into urban, semi-urban and rural and requirement to cover them equally at each stage of the roll-out obligations, represented a very significant departure from the position advocated by TRAI and the stance adopted by the Government in the matter of WLL based mobility for fixed operators. TRAI recommendations on the introduction of WLL based mobility for FSPs were qualified recommendations and were conditional to that WLL mobility is not the same as that of the cellular mobile services and the disturbances expected to be created in the level playing field by introducing this service can be evened out by making some necessary policy changes.

#### **Action Taken by the Department**

TRAI recommendations in respect of use of hand held sets in wireless access system by the basic service providers were not qualified recommendations. TRAI has suggested certain measures to create level playing field in this regard. This includes bringing licence fee for cellular operators in various categories of circles at par with that of basic service operators, more points of interconnection, provision of

fixed phone by the cellular operators, retention of 5% of long distance revenue by cellular operators. These recommendations were accepted by the Government. Further, GOT-IT examined the issue of level playing field in detail and it has recommended that revenue share in respect of long distance calls made by the subscriber using hand held sets in wireless access system may be at par with that of the cellular operators. BSNL as long distance provider has started the process for the same.

#### **Recommendation (Para No. 108)**

COAI also contended that GOT-IT tacitly acknowledged WLL mobility as a mobile service and also called for an equalization of terms between two mobile services. Therefore, the principle of equalization is one of the fundamental principles of level playing field and this must be applied to all aspects of competition in a particular service.

#### **Action Taken by the Department**

Same as mentioned against para 108 above.

#### **Recommendation (Para No. 109)**

For the quantum of Entry Fee, the group had noted that the submission that the decision to allow limited mobility to fixed service providers without prescription of an additional entry fee remains within the domain of TRAI. TRAI had recommended that there was no need to have separate additional entry fee for WLL Mobility services as the objective of entry fee was mainly to deter non serious players. The TRAI had also justified Nil entry fee on grounds that tariff for "WLL Mobility" services would be the same as the fixed telephony. However, Cellular Operators held this presumption as untenable since the monthly rental of Rs. 450-550 fixed by TRAI completely demolishes the argument of affordability. The Rs. 10,000/- deposit for the mobile handset coupled with the high monthly rentals in fact makes WLL Mobile, one of the most expansive telecommunication services in the country. The Committee finds merit in the logic advanced by COAI and recommends sympathetic consideration.

#### **Action Taken by the Department**

At the time of issuing the guidelines, it was made clear that for the subscriber using hand held set in wireless access system, the tariff shall be cost based. However, the call will be charged at Rs. 1.20/- per three minutes without any charges for incoming calls and air time.

Consequently, the TRAI has prescribed the monthly rentals of Rs. 450-550/- per month. The subscriber is free to use his own instrument or from the service provider. The deposit of Rs. 10,000/- is required only in case the instrument is taken from the service provider. With the increase in volume, the costs are likely to be reduced to comparable level with that of GSM hand set at present. It is worthwhile to mention that initially when cellular services were introduced, the price of hand set used to be of the order of Rs. 20,000/-. It will not be out of context that as per the standard package of TRAI, for 3 incoming & outgoing calls per day each for 3 minutes duration, the total cost to a subscriber comes to Rs. 2635/- while in case of WLL limited mobile it comes to only Rs. 568/-. It is not only rentals which has an impact on the tariffs but the incoming and outgoing charges stipulated further on cellular services.

Also in respect of cellular service, the entry fee paid by the existing cellular operators in metros is very low as compared with the entry fee paid by the 4th cellular operator.

#### **Recommendation (Para No. 110)**

COAI has further stated that if the new entrants are allowed free entry into mobile service, it would give the new entrants a significant competitive advantage over the existing players. TRAI has accordingly recommended that the licence fee of existing fixed operators be waived for 4 years in an attempt to neutralize the disadvantage. Despite a referral back from the Government to reconsider this recommendation, the TRAI had maintained back its view. COAI has desired that the issue of the entry fee should be re-examined. The Committee endorses the views of the TRAI in this regard.

#### **Action Taken by the Department**

Migration package offered to Basic Service Operators envisage multipoly regime without any protection. The time limit of five years for duopoly regime in service areas where licence was already issued, was provided in NTP-99 but the migration package did not provide for the same. All the Basic Service Operators have accepted the migration package unconditionally without any deviation or reservation. Neither NTP-99 nor the migration package envisage waiving of the licence fee even for limited period. In view of the commitments in the court of law at the time of offering of the migration package as well as in view of acceptance by the operators of migration package, it is not possible to justify and the scrutiny of the Court for waiving the licence for any period for existing licensees.

### **Recommendation (Para No. 111)**

On the issue of allocation of spectrum, the Committee is informed that TRAI had recommended that the basis for charging for WLL frequency spectrum in the CDMA band and the cellular mobile spectrum in the GSM band should be identical. TRAI further stated that in the long run frequency spectrum being a limited resource may have to be auctioned both for CDMA based WLL systems and GSM based GMS. However, according to the present policy, the fixed operators would be getting spectrum on a first come first serve basis, while the cellular operators would have to go through a three stage bidding process to acquire the same.

### **Action Taken by the Department**

GOT-IT has gone through the question of level playing field in the depth and has suggested that for the subscriber utilizing limited mobile facility from the basic service operator, BSO shall be allowed to retain only 5% of the long distance charges from the long distance revenue earned from such subscriber. However, this a matter between the two operators failing which TRAI interferes and appeal lies in TDSAT. The issue of allocation of spectrum on first come first served basis was also reviewed *vide* para 25 of the GOT-IT Report. It is noted that first come first served on true interpretations only means that allocation of spectrum is and must be considered to be inextricably linked to performance and it is incorrect to state that cellular operators have to go for a three stage bidding process to acquire the same. On the contrary, there is no such stringent roll out obligation for the cellular operators for getting the spectrum as well as additional spectrum to the tune of 6.2 MHz.

### **Recommendation (Para No. 112)**

The Committee is of the view that WLL Based Mobility for fixed operators, the connections expressed by the Cellular Operators on the equalization of long distance revenue sharing for WLL mobile cellular operators and Cellular Operators, determination of Entry Fee to remain within the domain of TRAI, allocation of spectrum to be considered inextricably linked to performance and sub-classification of SDCAs into urban, semi-urban and rural and requirement to cover them equally at each stage of the roll-out obligations needs to be considered. The apprehensions shown by the COAI cannot be ignored as the same may affect the consumers interest.

### **Action Taken by the Department**

All these concerns were expressed by COAI before GOT-IT, who took them into account before framing the group's recommendations in the best interest of consumers.

## **CHAPTER IV**

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

#### **Recommendation (Para No. 28)**

The Department of Telecom has admitted that licence fee regime ushered in the 1994 Telecom Policy has proved to be faulty decision on the part of the Government as well as Private Service Providers who quoted astronomical bids devoid of ground realities. No proper market survey was done nor enough information was collected about the likely response of the market. Assumptions made about the revenue generation also proved to be incorrect. However, the Committee finds that some well-meaning experts had conducted indepth studies, but the DoT did not pay any heed to their views. Private Operators with a view to have the largest market share gave offers which proved to be totally unreal, as subsequently proved. The private operators were expected to invest Rs. 5,00,000 crores in basic and cellular services and also to pay Rs. 1,06,000 crores to Government in the form of various levies. When asked about the capacity of the private sector to raise resources of this magnitude, the Department stated that "viability has to be worked out by entrepreneurs along with their funding institutions". Evidently, such a simplistic approach on the part of DoT has already cost the nation heavily when target sets set for 1997 about provision of telecom services in the country were deferred by 5 years to 2002. The Committee hopes DoT will draw lesson from the lapse made in the past.

#### **Action Taken by the Department**

Participation of private sector in the telecom service field was a first time and new experience both for Government as well as the private companies. The licences were granted to private companies for providing telecom services (Basic and Cellular Services etc.) by following a transparent method of bidding for the licences. In the strict sense, due diligence market survey was required to be done by the private companies who had entered the arena. No doubt, the private companies quoted high licence fee to outbid each other; they could not sustain it later. DoT has since decided not to go for open ended bidding for licence fee; instead for the 4th Cellular licence, it adopted an informed multi layer bidding process to avoid a similar situation.

#### **Comments of the Committee**

Please See Para No. 8 of Chapter-I.

### **Recommendation (Para No. 31)**

Committee further notes that Universal Service Obligation (USO) has to be enforced on those telecom service providers who do not fulfil their quota of rural telephony. As almost all the private operators have so far failed to provide rural telephone (they have provided only 562 VPTs against the commitment of 97,806 VPTs in the first 3 years of the operation), they should be asked to make payment immediately, so that the resources of BSNL may be augmented. It is perturbing to note that quantum of USO has not yet been spelt out in clear terms nor any realization has been made so far. If timely appropriate amount of compensation is not paid to BSNL in this regard, it may affect adversely its financial health in the long run.

### **Action Taken by the Department**

As per NTP' 99, the resources for meeting the Universal Service Obligation (USO) would be raised through "Universal Access Levy" which would be percentage of the revenue earned by all the operators with various licenses. The Government in consultation with the TRAI will decide the percentage of revenue share towards "Universal Access Levy". TRAI has been addressed on this issue and necessary inputs on this account have also been furnished to TRAI. Recommendation of TRAI, dated 3.10.2001 has come and same are under consideration of the DoT. The issue of obtaining appropriate amount of compensation to BSNL, for meeting Social Objectives which involve uneconomic activities, has been taken up with Planning Commission.

### **Comments of the Committee**

Please See Para No. 20 of Chapter-I.

### **Recommendation (Para No. 33)**

The Ninth Five Year Plan envisages that BSNL will provide telephone on demand in the country by March, 2002 and achieve tele-density of 7 by 2005 and 15 by 2010 with the participation of private operators. In this context, it is pertinent to note that while waiting list in urban areas has come down during the last three years, in rural areas it is rising. It has increased from 10.53 lakh as on 1st April 1999 to 16.55 lakh on 1st April, 2000 and 17.07 lakh on 1st April, 2001. Evidently, demand which was suppressed due to non-availability of phones is coming to fore with its availability in rural areas. Rural areas, normally being difficult and inaccessible, also have scattered demand which adds to the cost of rural telephones. In view of all the circumstances and keeping in view the fact that one-third of the villages have yet to be reached, the Committee apprehends that promise of telephone on demand by 31 March, 2002 is most unlikely to be fulfilled.

### Action Taken by the Department

The year-wise status of Rural DEL's Growth Rate & Waiting List of Rural DEL's from 31.3.98 to 31.3.2001 is given below:

As on	Status of Rural DELs Growth Rate		Waiting List
31.3.98	28.4 lakhs	25.06%	12.12 lakh
31.3.98	36.5 lakhs	28.52%	10.53 lakh
31.3.2000	48.2 lakhs	32.05%	48.47 lakh
31.3.2001	66.9 lakhs	38.79%	17.08 lakh

Thus it will be seen from above that the average growth rate of rural DELs during the last three years has been above 30% and rural tele-density has increased from 0.4% in 1997-98 to 0.93% by 31.3.2001 and is likely to cross 1% by 31.3.2002.

The rural-telephony is to be provided in a cost effective manner, taking advantages of the recent developments in access technologies. The remaining VPT's are to be provided by Wireless in Local Loop (WLL), Inmarsat and C DOT PMP technologies.

It has been seen in the past that private operators were prepared to pay penalty for non-fulfillment of rural obligations rather than making investments that they perceive will be unprofitable. In the licenses issued recently to the basic service operators, it has been stipulated that point of presence (POP) has to be established by the operators in equal proportion in rural, semi urban and urban short distance charging areas (SDCAs).

Various measures are being taken up to provide telephone on demand in rural areas also by 2002.

### Comments of the Committee

Please See Para No. 25 of Chapter-I.

### Recommendation (Para No. 73)

The Department of Telecommunications has advocated that better management, proper marketing of telephone services and increased growth of usage/traffic would result in lower operating cost and it would arrest decline in surplus. In the absence of any empirical study,

it is nothing but a wishful thinking which can jeopardize all the projections of Perspective Plan. The Committee is, therefore, inclined to believe that objective of NTP'99 are mere pious wishes of the Government devoid of ground realities. Concrete steps are required to be taken expeditiously to reduce the cherished goal.

#### **Action Taken by the Department**

Considering Indian scenario the reduction in long distance tariff on two occasions by TRAI were very steep. Further as a service provider DTS/BSNL has allotted some concessions at different points of time including concessional call rates for intra-circle calls. It is therefore observed that market will take some time to stabilize and respond positively. The work of marketing has been taken in hand recently by BSNL and its impact is yet to be assessed.

#### **Comments of the Committee**

Please See Para No. 28 of Chapter-I.

## CHAPTER V

### RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES ARE INTERIM IN NATURE

#### **Recommendation (Para No. 84)**

The Committee is perturbed to note that some of the telecom companies through complex engineering measures have circumvented the policy provisions and the management control has been passed on in favour of foreign companies. This has been done by resorting to preference shares' route to raise financial resources. As per the policy announced by the Department of Economic Affairs, if the preference shares are non-convertible, the same do not attract sectoral cap. Based on this policy guidelines, some companies have allotted 100% non-convertible preference shares to their foreign promoters. Thus, under the Companies Law, management control under certain conditions, may go in the hands to preference shareholders and, therefore, the condition that "management control must necessarily rest with Indian shareholders" may not be adhered to even if a stipulation to that effect is made while giving approvals. The DoT is stated to have taken up the matter with the Ministry of Commerce and Industry and Department of Economic Affairs. The Committee takes a view that the matter requires utmost attention of the Government at the highest level with a view to bring loopholes in the policy and the management control should rest with the Indian shareholders.

#### **Action Taken by the Department**

Action to rectify the situation is at an advanced stage of processing in Government.

NEW DELHI;  
17 June, 2003  
27 Jyaishta, 1925 (Saka)

SOMNATH CHATTERJEE,  
*Chairman,*  
*Standing Committee on*  
*Information Technology.*

## APPENDIX I

### MINUTES OF THE NINETEENTH SITTING OF THE STANDING COMMITTEE ON INFORMATION TECHNOLOGY (2003)

The Committee sat on Thursday, 12 June, 2003 from 1100 hours to 1300 hours and from 1500 hours to 1545 hours in Committee Room 'B', Parliament House Annexe, New Delhi.

#### PRESENT

Shri Somnath Chatterjee—*Chairman*

#### MEMBERS

##### *Lok Sabha*

2. Shri Pawan Kumar Bansal
3. Shri T. Govindan
4. Shri Jawahar Lal Jaiswal
5. Shri K.K. Kaliappan
6. Shri A. Krishnaswamy
7. Shri Balrama Krishna Murthy
8. Shri Bhartruhari Mahtab
9. Shri K.A. Sangtam
10. Shri C.N. Singh
12. Rajkumari Ratna Singh
13. Shri Nikhil Kumar Chowdhary
14. Shri Vanlalawma
15. Smt. Kanti Singh
16. Shri Amir Alam Khan
17. Dr. Bikram Sarkar

##### *Rajya Sabha*

18. Shri Suresh Pachouri
19. Shri K. Rama Mohana Rao
40. Shri Rajeev Shukla
20. Shri Kartar Singh Duggal

#### SECRETARIAT

- |                     |   |                           |
|---------------------|---|---------------------------|
| 1. Shri S.K. Sharma | — | <i>Joint Secretary</i>    |
| 2. Shri S.K. Sharma | — | <i>Deputy Director</i>    |
| 3. Shri B.D. Swan   | — | <i>Under Director</i>     |
| 4 Shri D.R. Shekhar | — | <i>Assistant Director</i> |

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| 2. | *** | *** | *** |
| 3. | *** | *** | *** |
| 4. | *** | *** | *** |

6. \*\*\*

*The Committee, then, adjourned.*

## APPENDIX II

[Vide Para 5 of Introduction of Report]

### ANALYSIS OF ACTION TAKEN BY GOVERNMENT ON THE TWENTY-SEVENTH REPORT OF THE STANDING COMMITTEE ON INFORMATION TECHNOLOGY (THIRTEENTH LOK SABHA)

- (i) Recommendations/Observations which have been accepted by the Government:

Paragraph Nos. 34, 62 and 63

Total: 3

Percentage: 10.34

- (ii) Recommendations/Observations which the Committee does not desire to pursue in view of the reply of the Government.

Paragraph Nos. 27, 29, 30, 32, 58-61, 71, 72, 79, 80, 104-112

Total: 21

Percentage: 71.41

- (iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration:

Paragraph Nos. 28, 31, 33 and 73

Total: 4

Percentage: 13.79

- (iv) Recommendations/Observations in respect of which replies are of interim nature:

Paragraph No. 84

Total: 1

Percentage: 3.44