

Telecom Reforms

Why in news?

The Cabinet has approved a set of structural and procedural measures to address the issues faced by the telecom sector.

How did the financial condition of the telecoms deteriorate?

- In 1999, the government decided to shift from a fixed to a revenue-sharing model for the telecom sector.
- Telecom players would pay a certain percentage of their Adjusted Gross Revenue (AGR), earned from telecom and non-telecom revenues, as licence and spectrum fee.
- In 2003, the Department of Telecom (DoT) raised the demand for AGR payments altering the calculation of AGR.
- The telcoms approached the Telecom Disputes Settlement Appellate Tribunal (TDSAT) in 2006 which rejected the government's contention.
- The Centre moved the Supreme Court where the court held that DoT's definition of AGR was the correct one, and that the telcoms must pay the AGR, interest and penalty on non-payment.
- The judgment came when the telecom sector was reeling under stress due to intense competition from Reliance Jio Infocomm.

What are the key reforms?

Structural Reforms

- A **four-year moratorium** on payment of dues on adjusted gross revenue (AGR) and on payment of spectrum purchased in past auctions, barring the 2021 auction
- Option to telecoms to pay the interest amount arising due to the deferment of payment by way of equity.
- Rationalization of Adjusted Gross Revenue (AGR) - Non-telecom revenue will be excluded from the definition of AGR.
- Rationalization of Bank Guarantees (BG) - Huge reduction in BG requirements (80%) against License Fee and other similar Levies.
- Rationalization of interest rates and removal of penalties.

- Tenure of spectrum has been increased from 20 to 30 years.
- **100% Foreign Direct Investment (FDI)** under automatic route permitted in Telecom Sector
- **No Spectrum Usage Charge** for spectrum acquired in future spectrum auctions

KEY ANNOUNCEMENTS

Moratorium on payments: On AGR and deferred spectrum payment. Both payments, if telcos opt for it, will have to be done four years later.

Rationalisation of AGR: The legacy pain point of telcos, which was the inclusion of non-telecom revenues for calculation of adjusted gross revenue, has been done away with.

100% FDI through automatic route: This liberalisation makes it easier for telcos to find global investors.

Rationalisation of spectrum ecosystem: A fixed calendar for auctions, doing away with the need for bank guarantees.

Charges on spectrum removed: Government does away with additional 0.5% SUC that was charged on spectrum sharing, while also allowing telcos to hold the spectrum for 30 years, instead of 20.

Procedural Reforms

- Auction calendar fixed - Spectrum auctions to be normally held in the last quarter of every financial year.
- Cumbersome requirement of licenses were replaced with self-declaration
- Paper Customer Acquisition Forms will be replaced by digital storage of data
- Know Your Customers (KYC) reforms such as permission of Self-KYC (App based)

What will be the impact of the reforms?

Impact on telecoms

- It will provide relief by easing liquidity and cash flow.
- The four year moratorium will provide short-term relief to debt-laden Vodafone Idea and Bharti Airtel.
- Streamlining of auction calendar and removal of spectrum usage charges might bring down the dues outgo and help telcoms plan their auction purchase.
- Ease of doing business promoted by removing the requirement of licenses.
- 100% FDI under automatic route will promote investments.

Impact on Government

- It will face some revenue loss in the next four financial years because of the moratorium.
- Receipts from spectrum usage charges, licence fee levies and other levies will have to be forgone for the next 4 years.
- Option of converting the due into equity will be a challenge for the government to sell the stake later if market conditions do not improve.

Source: The Indian Express, PIB