



## DRAFT NATIONAL TELECOM POLICY 2011: IN THE RIGHT DIRECTION, ROADMAP FOR IMPLEMENTATION WOULD BE CRUCIAL

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### Overview

The draft National Telecom Policy 2011 (NTP 2011) has been announced recently. The policy document gives a vision for the Indian Information Communications Technology and Electronics industry, but falls short of giving any concrete policy measures towards achievement of the same. NTP 2011 lays out the direction and progressive targets that the government wants to achieve for the industry, which, as of now, is beset with a lot of regulatory uncertainty. However, a comprehensive policy is awaited. The key highlights of the draft NTP 2011 are as follows:

### Key Objectives

- Create 'One Nation - One License'/Unified licensing regime across services and telecom circles.
- Facilitate consolidation in the telecom service sector while ensuring sufficient competition.
- Increase rural teledensity from current ~35% to 60% by 2017 and 100% by 2020.
- Provide broadband on demand by 2015 and to achieve 175 million and 600 million broadband connections by 2017 and 2020 respectively at a minimum 2 Mbps download speed.
- Promote domestic production of telecommunication equipment to meet 80% of Indian telecom sector demand by 2020. Further, providing preferential market access to domestically manufactured telecommunication products to address strategic and security concerns of the government.

### Policy Initiatives

- Delink spectrum from licences in respect of grant of all future telecom licences. Spectrum shall be made available at market determined prices.
- Enact a separate Spectrum Act to deal with issues related to wireless (spectrum) licences, their re-farming/ withdrawal of allotted spectrum, spectrum pricing, cancellation or revocation of spectrum licence etc. The proposed Spectrum Act would allow spectrum pooling, sharing, and trading for optimal and efficient utilisation of spectrum.

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- Make available additional 300 MHz spectrum for telecom services by the year 2017 and another 200 MHz by 2020.
- Lay down a roadmap for availability of additional spectrum every 5 years with provision for periodic audit of spectrum utilisation to ensure its efficient use.
- Delink the licensing of networks from the delivery of services to the end users to facilitate faster roll out of services. The technology neutral unified licenses are to be classified in two separate categories:
  - a) Network Service Operator (NSO) who would be licensed to set up and maintain networks capable of delivering various types of services, and
  - b) Service Delivery Operator (SDO) who would be licensed to deliver any/ all services to the end user
- Frame an appropriate exit policy for the licensees.
- Extending intra-circle mobile number portability facility on nationwide basis and removal of roaming charges across the nation.
- Recognizing telecom industry as an “infrastructure sector”.
- Establish a special purpose Telecom Finance Corporation as a vehicle to mobilize and channelize financing for telecom projects and include telecom sector projects within the ambit of financing from existing financial institutions.

## ICRA's View

### Spectrum Availability and Other Spectrum Related Issues

The Indian mobile service market is one of the fastest growing in the world and also the second largest globally by subscriber base. In line with the growth of subscribers, the need for spectrum to service these subscribers has also increased. As a matter of fact, India has the lowest spectrum allocations on a per operator basis leading to fragmented spectrum allocation and inflated cost structures for the industry players. Further, with the implementation of new technologies and high bandwidth applications, significant amount of additional spectrum would be required in future in order to fulfil the consumers' needs. Telecom Regulatory Authority of India (TRAI) estimates indicates that the total spectrum of approximately 800MHz in various bands would be required in the next three years to support various telecom services.

The NTP 2011 proposes to enact a separate spectrum act to put in place policies for spectrum management, especially covering aspects like spectrum pooling, sharing and trading, which are not permitted in industry as of now. These practices, when implemented, will lead to optimal and efficient utilization of spectrum between various operators, across telecom circles and across services. It would also help the telecom operators in faster roll out of services, savings on initial capital expenditure and benefit from the economies of scale. However, the issues with respect to spectrum usage charges and roll out obligations of operators need to be resolved before permitting the sharing/trading of spectrum.

In the wake of controversies surrounding the Second Generation (2G) spectrum allocation in 2008, the industry faces a lot of uncertainty on future pricing of spectrum. This is especially relevant as the initially awarded spectrum to the incumbent operators is due for renewal from 2013 onwards. Thus an objective framework for the pricing of spectrum is critical for the profitability of the operators and the overall growth of the industry.

Delinking of spectrum and license would allow the operators to provide telecommunication services without having to incur the capital expenditure for spectrum and network rollout. Also, demarcation of licensees as NSO and SDO would pave the way for the entry of Mobile Virtual Network Operators (MVNO)<sup>1</sup>.

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<sup>1</sup> MVNO is an entity that provides mobile phone service but neither has its own spectrum nor the entire infrastructure required to provide mobile telephone service. MVNOs operate through commercial arrangements with licensed service providers and buy bulk minutes of traffic and resell them to their own subscribers in their own brand.

## **Exit Policy to Operators**

After the award of 2G licenses in 2008, the Indian telecom industry now has twelve to fourteen operators in a given telecom circle which is significantly higher as compared to the global average of five to six operators in a circle. New telecom operators have been rolling out services across circles to meet the roll-out obligations and are aggressively setting tariff rates to garner subscriber market share. However, with the tariffs in India already the lowest in the world, there is limited scope for competing on the pricing front. Thus, substantial upfront capex requirements coupled with high proportion of low Average Revenue per User (ARPU) subscribers are likely to result in depressed return and profitability indicators for these new operators. Against this backdrop, an exit framework for the operators is likely to lead to consolidation in the industry.

## **Facilitating Funding; Recognition of Telecom Industry as Infrastructure Sector**

Given the regulatory uncertainties, increasing debt burden for telecom operators, and tapering profitability, funding for telecom operators has been constrained in the recent past. Thus, the establishment of a Telecom Finance Corporation, recognition of the industry as infrastructure sector, and inclusion of telecom projects within the funding ambit of infrastructure specific financial institutions is expected to facilitate financing for the telecom projects and investments in the sector. Moreover, recognition of telecom industry as infrastructure sector could entail tax benefits for the industry.

## **Unified Licensing Regime, Mobile Number Portability and Free Roaming**

'One Nation – One License' policy or unified licence regime across services and telecom circles would result in merging of all the telecom circles and would enable operators to provide any service including voice, data, video, broadband etc. Moreover, country-wide number portability and free roaming would benefit the customers, albeit resulting in a loss of revenue and pressure on profitability for the telecom operators. Nevertheless the removal of roaming charges would be carried out in a phased manner which will give time to telecom operators to adjust the loss of revenues.

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