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Member of Standing Committee on Information Technology
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Respected Rame Yuisew,

Sub: Government's public policy objectives of Affordability, Teledensity and Competition which were used to justify giving away spectrum in 2008 at 2001 prices without auctions, are now being reversed.

Over the last several months, many members of the Government have used the public policy objectives of affordability, teledensity and competition as a justification to defend the indefensible act of giving away 2G spectrum in 2008 at 2001 prices, without going through the process of auctions.

Apart from the fact that the 2G spectrum scam has already resulted in a massive loss to the exchequer, involves allegations of criminal conspiracy between a Union Minister, Government bureaucracy and large businesses, and has shaken investor confidence and credibility of our country – it is now increasingly obvious that even the residual public welfare excuses put forth by members of the Government – such as the former Minister of Communications & IT, the current Minister of Communications & IT and the Chairman, Planning Commission – were false and a mere eyewash. In reality, no public interest has been served whatsoever.

Ex- MoCIT's Press Release dated 31.10.2008 (Relevant Extracts):

"The basic aim and principles governing the sector is proliferation of telecom services in a competitive environment at affordable tariffs for the common people and specially the rural masses."

Current MoCIT's Press Release dated 07.01.2011 (Relevant Extracts):

"Government policy is formulated with a view to maximize public welfare, and not merely to maximize Government revenues."

"If at the time of issuing licenses, the Government charges a very high entry fee, it would reduce the resources available to the operators to undertake the necessary creation of infrastructure. It would also eventually impact the prices charged by the operators and thereby limit the services to those who can afford higher services."



"It is important to emphasize that the Government's decision on spectrum pricing was not merely a mechanical continuation of the policies put in place by previous Governments. It is one that was felt on merits to provide a balance between multiple objectives, namely, increasing tele-density, promoting competition, and ensuring a level playing field."

Even before three years are over, the three key arguments have already proved to be false and are being reversed. In fact, given the market share (below 5%) of the new entrants, it is clear that almost the entire increase in teledensity has come from incumbent operators and the new entrants have done little, if anything, to act as an effective competitive force in the telecom sector. Please review the following:

1. Affordability is on the decline:

Over the last two months, multiple operators have already announced a tariff hike of 20% and have issued open threats by taking refuge under the argument of serving rural consumers. This in spite of the fact that consumers already pay 5% of their total bill towards the USO Fund, aimed at serving the rural consumer. Given that the tariffs have been raised by operators who control nearly 60%-70% of the subscriber base, it is quite clear that neither the Government's claim of effective competition to lower prices nor that of sustained affordability holds true, and in fact, stands reversed.

2. Teledensity increasing at a sharply declining rate:

Teledensity is a factor of :

- Network rollout (69 of the 121 new licenses are under Show Cause); and
- Affordability (has been reversed as above)

The most important indication of increase in teledensity is the new subscriber additions on the mobile network. 69 of the 121 licenses issued by the former MoCIT have already been recommended for cancellation by the TRAI in November 2010 due to violation of rollout obligations. Surely, the new entrants with less than 5% market share and under the threat of license cancellation for failing to roll out networks have contributed nothing significant to increasing teledensity.

An even more significant indication of the failure to advance teledensity is the declining subscriber addition numbers indicated by the TRAI during 2011. These have fallen steadily from over 18 million in January 2011 to 13 million in May 2011 and further down to a mere 6.67 million in July 2011. Clearly, teledensity is suffering as operators who have no networks and even those who have networks are making a conscious decision to not serve the most vulnerable section of consumers and have rapidly reduced their willingness to serve the unserved markets. Therefore, the loss to the Exchequer is now combined with a prolonged



legal fight expected between the Government and defaulting operators, which will eventually hurt public interest.

3. Expected Consolidation will sharply decline the level of Competition:

While I am a firm supporter of enhanced competition and will continue to be so, it is clear that the Government's ploy to cite the excuse of enhancing competition from 7-8 operators per circle to 12-14 was a short-lived charade to counter the immediate criticism of the 2G scam. Surely, the same objective could have been met through auctions. It is now clear that the sector is headed towards consolidation.

In fact, the Hon'ble MoCIT has publicly gone on record stating, *"It's time for us to consolidate industry. We can't afford 12-13 players in a circle."* (The Financial Express, 7th September 2011). This is a U-turn from the Government's own stated policy objectives of just three years ago.

Apart from the fact that this was an eyewash, it also falls upon the Government to explain as to why auctions could not have been used to enhance competition, or what has changed now for it to believe that the original level of competition was sufficient, especially since new entrants have hardly any networks, a handful of subscribers and no impact on holding down tariffs.

I am sure the Government will be tempted to find new arguments to justify the reversal of all its previous arguments, even though nothing in the marketplace justified its decisions of 2008. While I realize that you may have been repeatedly misled on various occasions by other members of your Government, I wish you had scrutinized these issues based on fundamental economic principles - and not technology or regulation.

In conclusion, with this undisputable evidence at hand, pointing to the fact that all gains cited by members of the Government have either come to a grinding halt (affordability, competition) or have no relationship to the new 121 licenses given by former MoCIT (teledensity), I urge you to comprehensively review the public statements and claims made by the Government in this regard.

Yours sincerely,

RAJEEV CHANDRASEKHAR

Dr. Manmohan Singh
Hon'ble Prime Minister
Government of India
New Delhi



Enclosed:

1. Article in the Times of India article of 9th September 2011 titled 'After 15 years, mobile tariffs head north' – analyzing the affordability argument at the heart of the 2G scam.
2. Article in the Financial Express of 7th September 2011 titled 'Mobile tariffs to pinch more, warns Mittal' – citing telecom operators' threats of future hikes in telecom tariffs in the name of rural consumers.
3. Article in the Financial Express of 7th September 2011 titled 'It's time for industry to consolidate: Sibal' – documenting Hon'ble MoCIT Shri Kapil Sibal's public statement for the need to reduce the level of competition in the telecom sector.
4. TRAI subscriber numbers (January 2011 and July 2011) – showing decline in net additions, indicating a sharply declining rate of increase in teledensity.