

Telecommunications

9.27 Under the New Telecom Policy, 1999, with provision of affordable and effective communication as its core vision and goal, the telecommunication sector in India has achieved a lot in recent years. With rapid growth, tele-density levels have surpassed the targets set. The total number of telephones (basic and

mobile) rose from 22.8 million in 1999 to more than 125 million at the end of December 2005 (Table 9.9). While 21.83 million telephones were added during 12 months of 2004-05, the first nine months of 2005-06 saw an addition of 27.47 million phones. Overall, tele-density has risen from a mere 2.32 in 1999 to 11.32 in December, 2005.

Table 9.9 : Growth of telephones over the years

Sl. No.	Year	Fixed, in million			Per cent of PSUs	Mobile (including WLL), in million			Per cent of PSUs
		PSUs	Pvt.	Total		PSUs	Pvt.	Total	
1.	2001-02	37.90	0.52	38.42	98.65	0.26	6.28	6.54	3.98
2.	2002-03	40.53	1.10	41.63	97.36	2.64	10.35	12.99	20.32
3.	2003-04	40.49	2.36	42.85	94.49	5.99	27.70	33.69	17.78
4.	2004-05	41.11	5.09	46.20	88.98	10.97	41.20	52.17	21.03
5.	2005-06 (first 9 months)	40.70	7.01	47.71	85.31	16.48	61.60	78.08	21.11

9.28 Although India's 125 million strong telephone network, including mobile phones, is one of the largest in the world, the telephone penetration rate continues to be low at about 11.32 phones per hundred population. The country offers vast avenues for growth, and by the end of 2007 the total number of phones are targeted to reach 250 million. Some of the major policy initiatives in the telecom section are listed in Box 9.3.

9.29 The drivers of telecom growth have undergone a significant change in terms of mobile versus fixed phones, as well as public versus private service providers. During 1999, both mobile phones and the private sector separately accounted for only 5 per cent of the total number of phones. However, in December 2005, the shares of mobile phones and the private sector in total phones were

61.97 per cent and 54.45 per cent, respectively. Mobile phones are increasingly being regarded as an effective tool of empowerment of the common man. It is no longer considered a luxury item and, in recent years, with lower capital expenses of mobile technology, it has become the technology of choice for low-priced telephony.

9.30 The two PSUs in the telecom sector — Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Ltd. (MTNL) — have been losing their market shares in fixed telephony. From 98.65 per cent in 2001-02, their combined share declined to 85.31 per cent in December 2005 (Table 9.9). In the past two years, PSUs have actually seen a decline in the number of fixed lines, while such lines have grown in the private sector. However, they have improved their share in

Box 9.3 : Major policy initiatives

- BSNL announced 33 per cent reduction in call charges for all the countries for international calls.
- Annual licence fee for National Long Distance (NLD) as well as International Long Distance (ILD) licences reduced to 6 per cent of Adjusted Gross Revenue (AGR) with effect from January 1, 2006.
- Entry fee for NLD licences reduced to Rs.2.5 crore from Rs.100 crore prospectively, i.e. date of issue of amendment to the existing guidelines to that effect.
- Entry fee for ILD reduced to Rs.2.5 crore from Rs. 25 crore.
- NLD service provider shall be permitted to carry intra-circle traffic with mutual agreement of originating service provider. Agreement with terminating service provider shall not be required.
- Mandatory roll out obligations for future NLD licensees as well as existing NLD licensees waived off.
- No more mandatory roll out obligations for ILD service licensees except for having at least one switch in India. Roll out obligations for existing ILD service licensee stands waive off from the date of issue of orders.
- Networth and paid up capital of the applicant company for NLD as well ILD service licence shall be Rs.2.5 crore only and while counting the networth, the networth of promoters shall not be counted.
- NLD service providers can access the subscribers directly for provision of leased circuits/closed user groups and can provide last mile connectivity. The ILD service providers can access the subscriber directly only for provision of leased circuits/closed user groups.
- Access service provider can provide internet telephony, internet services and broadband services. If required, access service provider can use the network of NLD/ILD service licensee.
- No more IP-II and IP VPN licences to be issued with immediate effect as these licensees are allowed to migrate to NLD/ILD service licence.
- Internet service provider (ISP) with internet telephony (restricted) to be charged licence fee at 6 per cent of AGR with effect from January 1, 2006.
- Annual licence fee in respect of VSAT commercial to be charged at 6 per cent of AGR with effect from January 1, 2006.
- FDI Ceilings raised from 49 per cent to 74 per cent. 100 per cent FDI is permitted in the area of telecom equipment manufacturing and provision of IT enabled services.

mobile telephony from 3.98 per cent to 21.11 per cent of the market.

9.31 One of the important sources of the substantial financial investment required for the growth of tele-density has been FDI. In pursuance of the Government's commitment to liberalise, the FDI ceiling in telecom sector was enhanced from 49 per cent to 74 per cent in certain areas (such as basic, cellular, unified access services, national/international long distance, Very Small Aperture Terminal (VSAT), Public Mobile Radio Trunk Services (PMRTS), Global Mobile Personal Communication Services (GMPCS) and other value added services). The total 74 per cent FDI ceiling includes direct and indirect foreign holding in the licensee company. The formal guidelines enhancing the ceiling was issued by Department of Industrial Policy and Promotion on November 3, 2005. FDI up to 74 per cent, subject to licensing and security requirements, is also allowed in the areas of internet services with Gateways, Infrastructure providers (Category II) and Radio Paging Services. 100 per cent FDI is allowed in respect of Internet services without Gateways, Infrastructure Providers (Category I), Electronic Mail and Voice Mail services subject to condition that companies providing such services would divest 26 per cent of the equity in favour of Indian public in 5 years, if these companies are listed in other parts of the world. 100 per cent FDI is also permitted in the area of telecom equipment manufacturing and provision of IT enabled services.

9.32 Total FDI approved for the telecom sector up to September, 2005 was Rs. 41,551 crore. Hutchison, Singtel, AT&T and Distacom are the major investors in the telecom services sector. Telecom major Vodafone has announced its entry into the sector with acquisition of 10 per cent shares in Bharti Televentures for a consideration of Rs. 6,700 crore. The agenda for having world renowned Telecom and IT companies set up their R&D/manufacturing base in India has been aggressively pursued to ensure timely delivery, high quality, cost effective supplies and very good after sale services.

The next frontier : broadband

9.33 There has been a significant growth in broadband subscribers from 0.49 lakh in December 2004 to 7.50 lakh in November 2005. These numbers would, however, need to increase substantially to look comparable with other Asian countries. Ability to emulate the success of many other Asian countries in the broadband area will have major implications for smoothing intra-India commerce and industry, knowledge flows into India, e-governance, greater integration into the world economy through international voice and videoconferencing traffic and lower prices for National Long Distance (NLD) and International Long Distance (ILD) traffic, and services exports such as software and "business process outsourcing".

9.34 With the increase in volume and competition of broadband services, the cost of these services has already decreased. BSNL and MTNL are offering broadband services at monthly rentals of Rs.250 and Rs.199, respectively. Internet bandwidth will become cheaper to the extent that domestic traffic is switched within the country and servers accessed by Indian users are located within the country. The National Internet Exchange of India (NIXI) has been set up by DIT to ensure that Internet traffic, originating and destined for India, is routed within India.

The electromagnetic spectrum

9.35 The electromagnetic spectrum is a scarce natural resource which needs to be allocated efficiently to maximize its economic value. Radio frequency spectrum has become an essential ingredient in modern telecommunication with its emphasis on mobility; and the Government has adopted a technology-neutral policy in the telecom sector.

9.36 Efforts are being made to introduce newly emerging radio communication technologies, without unduly constraining the other existing operations. There has been an ongoing process of addressing bottlenecks in spectrum availability as and when they are encountered. Automated spectrum management system commenced from January, 2005.

Trends in telecom tariff

9.37 There has been a dramatic fall in telecom tariffs with increased competition. The tariffs for local calls, particularly for cellular, have fallen considerably in recent months (Table 9.10). The peak long distance tariff between Delhi and Mumbai has come down from Rs. 30 per minute in 2000 to less than Rs. 2.40 per minute in 2004 (Table 9.11). In the same fashion, international call charges have also come down drastically from Rs. 61.20 per minute in 2000 to Rs. 7.20 per minute from April 2004 onwards for the American continent (Table 9.12). Mobile telephony prices have dropped from Rs. 16 per minute to Rs. 1.20 per minute. The public sector operators (BSNL

and MTNL) have launched the 'One-India Plan' with effect from March 1, 2006. This new plan will enable the customers of BSNL and MTNL to call from one end of India to other at the cost of Rs. 1.00 per minute, any time of the day to any phone.

Rural telephony

9.38 As on December 31, 2005, 5,39,572 villages were connected using a Village Public Telephone (VPT). Under the Bharat Nirman Yojana, a total of 66,822 villages are to be provided with VPTs by November, 2007. Against this target, 17,182 villages have already been covered. In the rural areas, more than 2 lakh public call offices (PCOs) and 14.18 million phones have been provided.

Table 9.10 : Minimum effective charge for local calls

	June 2003	June 2004	Sept. 2004	Dec. 2004	March 2005	June 2005	Sept. 2005
Fixed (Re./min.)	1.39	1.00	1.00	1.00	1.00	0.85	0.85
Cellular (Re./min.)	2.37	1.90	1.90	1.20	1.20	1.20	1.20

Note: Minimum effective charge derived for an outgoing usage of 250 minutes/month.

Table 9.11 : Tariff for national long distance (NLD) calls

Distance	<i>(In Rupee per minute)</i>					
	1999-2000	2001	2002	March 2003 onwards	April 10, 2004 onwards	With effect from September 10, 2004
Up to 50 Kms	1.20	1.20	1.20	1.20	1.20	1.20
50 to 200 Kms.	6.00	4.80	4.80	2.40	2.40	2.40
200 to 500 Kms.	15.60	12.00	4.80	4.80	3.60	2.40
500 to 1000 Kms.	21.60	18.00	9.60	4.80	3.60	2.40
Above 1000 Kms.	30.00	24.00	9.60	4.80	3.60	2.40

Table 9.12 : Tariff for International Long Distance (ILD) calls

Country	<i>(In Rupee per minute)</i>			
	October, 2003 to April 9, 2004	April 10, 2004 to October 20, 2004	October 21, 2004 to May 20, 2005	From May 21, 2005 onwards
United Kingdom	7.20	7.20	7.20	7.20
USA and Canada	9.60	7.20	7.20	7.20
Rest of Europe	9.60	9.60	9.60	9.60
South East Africa	12.00	9.60	9.60	9.60
SAARC countries	21.18	18.00	18.00	12.00
Sri Lanka	21.18	18.00	12.00	12.00
Rest of the World	24.00	18.00	18.00	12.00