



Crisis in the Telecom Sector

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This article is based on **India's 'self-goal' in telecom, How to untangle India's telecom mess, A telecom crisis, once again, What new govt order changes in AGR crisis, A royal mess: on the turmoil in telecom industry**. It talks about the current crisis in the telecom sector in India.

On October 24 2019, the Supreme Court of India upheld the Department of Telecom (DoT)'s interpretation of **Adjusted Gross revenue (AGR)**. This meant a huge blow to telecom service providers, as the telcos had to pay an estimated ₹1.4 lakh crore to the government.

The definition of AGR has been such a contentious issue because it has huge financial implications for not only telcos, government but on the Indian economy at large.

Significance of the Telecom Sector

- Telecom sector forms a key part of the infrastructure of any economy as it provides Information and Communication Technology.
- Services sector forms the lion's share of India's economy, the whole services sector heavily relies on ICT.
- It plays the role of key enabler in several welfare schemes related to health, education, agriculture, transport, energy and financial inclusion.
- Apart from it, the Telecom sector provides these services in a cost-effective and environment-friendly way.

What is AGR issue?

- The telecom sector was liberalised under the **National Telecom Policy, 1994** after which licenses were issued to companies in return for a fixed license fee.

- To provide relief from the steep fixed license fee, the government in 1999 gave an option to the licensees to migrate to the revenue sharing fee model.
 - Under this, mobile telephone operators were required to share a percentage of their AGR with the government as **annual license fee (LF)** and **spectrum usage charges (SUC)**.
 - License agreements between the Department of Telecommunications (DoT) and the telecom companies define the gross revenues of the latter.
- The definition of AGR has been under litigation for 14 years. In 2005, **Cellular Operators Association of India (COAI)** challenged the government's definition for AGR calculation.
- However, DoT argued that AGR includes **all revenues from both telecom and non-telecom services**.
- The companies claimed that **AGR should comprise just the revenue accrued from core services** and not dividend, interest income or profit on the sale of any investment or fixed assets.
- In 2015, the **TDSAT (Telecom Disputes Settlement and Appellate Tribunal)** stayed the case in favour of telecom companies and held that AGR includes all receipts except capital receipts and revenue from non-core sources such as rent, profit on the sale of fixed assets, dividend, interest and miscellaneous income.
- However, setting aside TDSAT's order, Supreme Court on October 24, 2019, upheld the definition of AGR as stipulated by the DoT.
- Given the slowdown in the Indian economy and this huge financial liability under AGR rules, many telcos are on the verge of collapse. This may have far-reaching ramifications for various stakeholders.

Impact on the various stakeholders

Telecom Sector

- When the AGR issue, first went under litigation there were about 15 operators. However, until now 10 of them have either closed operations or are undergoing insolvency proceedings in the last 14 years.
- Further, at the current juncture, profits for telcos are under pressure from severe competition and the falling ARPUs (Average Revenue Per User). Given this, AGR due will seriously hurt financial stability of whatever telecom companies are doing business in the Indian market.
- Also, Telecom equipment suppliers may also go down as their dues will not be paid.

Indian Consumers

The failure of a few large players could lead to one or two players emerging near-monopolies. This may leave the Indian consumer vulnerable to high pricing, sub-standard products and lack of options.

Banks

- The AGR issue has triggered panic in the banking industry, given that the telecom sector is highly leveraged.
- Failure of the cascading effect will be felt across the economy as banks face the consequences of the company going bankrupt (non-performing assets will rise).
- The AGR issue may add to the vulnerability of an already fragile banking system.

Indian Economy

- Apart from impacting the banking sector, the collapse of the telecom sector may increase unemployment, and reduce investment, adding to our economic and social problems.
- The Telecom industry is critical to the government's plans for a digital economy, including from the upcoming 5G spectrum auctions.
5G forms the part of critical infrastructure.

Government

On the positive note, If companies are ready to pay AGR dues, it will lead to a higher contribution to the public exchequer. This could help bridge gaps in the fiscal deficit and bolster government revenues to rescue the slowing economy.

Way Forward

In response to save stressed telecom sector, DoT has directed all government departments to not take any action against telecom operators if they failed to clear AGR-related dues as per the Supreme Court's order. While there was no change in the amount they had to pay, it did buy them time as they hoped for relief from the Supreme Court.

In this context, there is a need for a holistic set of reforms to save the telecom sector from this crisis.

- The government should give up demanding AGR as a lump-sum amount, rather, it can be broken in instalments to be paid over the period.
Also, penalty and interest on penalty can be waived, as the Supreme Court recognises that there was no willful defiance of the law that is an essential ingredient to attract the levy of penalty.
- As this is a commercial matter, the government and telcos should also explore **Alternative Dispute Resolution (ADR)** mechanism.

- Since the telecom industry is crucial to India's next wave of growth through digitalisation and the government should not be blinded by short-term revenue considerations that imperil long-term prospects.

In this light, the Government should consider accepting the Telecom Disputes Settlement and Appellate Tribunal (TDSAT) ruling of 2015 on AGR.

- Further, the government needs to actively facilitate shared infrastructure with policies and legislation. One way is through consortiums for network development and management, charging for usage by authorised operators.

Drishti Mains Question

The telecom industry is crucial to India's next wave of growth through digitalisation and the government should not be blinded by short-term revenue considerations that imperil long-term prospects. Discuss.