



## Reforms in Telecom Sector

### Why in News

Recently, the Union Cabinet has approved a **number of structural and process reforms in the Telecom sector.**

- These reforms **include a redefinition** of the much-litigated concept of [Adjusted Gross Revenue \(AGR\)](#), a four-year moratorium on Telecom Service Providers' (TSPs) dues to the government, among others.



## Relief and reforms

- Rationalisation of Adjusted Gross Revenue: Non-telecom revenue will be excluded on prospective basis from the definition of AGR
- Huge reduction in Bank Guarantee (BG) requirements (80%) against licence fee and other similar levies. No requirements for multiple BGs in different Licenced Service Areas (LSAs) regions in the country. Instead, one BG will be enough
- From October 1, 2021, delayed payments of licence fee (LF)/Spectrum Usage Charge (SUC) will attract interest rate of SBI's MCLR plus 2% instead of MCLR plus 4%; interest compounded annually instead of monthly; penalty and interest on penalty removed
- For auctions held henceforth, no BGs will be required to secure instalment payments
- In future auctions, tenure of spectrum increased from 20 to 30 years
- Surrender of spectrum will be permitted after 10 years for spectrum acquired in the future auctions
- No Spectrum Usage Charge (SUC) for spectrum acquired in future spectrum auctions
- Additional SUC of 0.5% for spectrum sharing removed
- To encourage investment, 100% FDI under automatic route permitted in telecom sector. All safeguards will apply



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## Key Points

- **About the Reforms:**
  - **Spectrum Related Reforms:** [Spectrum auctions](#) will be normally held in the last quarter of every financial year (fixed calendar).
    - The future spectrum auctions will be done for a **period of 30 years instead of the current 20 years.**
    - A telco will be allowed to surrender its spectrum after completing a 10-year lock-in period from the date of purchase.
    - Spectrum sharing is being encouraged and the additional SUC (Spectrum Usage Charges) of **0.5% for spectrum sharing is removed.**
    - Spectrum relates to the radio frequencies allocated to the mobile industry and other sectors for communication over the airwaves.
  - **Rationalization of AGR:**
    - AGR was previously interpreted as being based on all revenue, rather than just that associated with a company's core telecom business.

- The government has accepted that this interpretation was problematic, which will reduce the future financial burden on companies.
- Telecom companies have to **pay a pre-fixed percentage of AGR (excluding non-telecom revenues) to the government** as statutory levies but this **will apply prospectively**.
- **Moratorium on AGR Dues:** The **earlier definition of AGR**, backed by the Telecom Department and upheld by the Supreme Court in 2019, had **made telcos liable to pay Rs. 1.6 lakh crore**.
  - This payment has cash-strapped the telecom sector, which led to the losses of business to telecom companies like Vodafone and established a duopoly (reliance Jio and Bharti Airtel).
  - In order to revive the telecom sector, a four-year moratorium on all spectrum and AGR dues has been approved.
  - However, those TSPs opting for the moratorium **will be required to pay interest** on the amount availed under the benefit.
- **Interest Rates Rationalized and Penalties Removed:**
  - The interest which is compounded monthly on the Spectrum Usage Charges (SUC) will **now be compounded annually** and also the interest rate will be lowered, based on **MCLR + 2%** instead of MCLR + 4%.
    - MCLR refers to the lowest lending rate banks are permitted to offer - the Marginal Cost of funds-based Lending Rate.
    - Additionally, the penalty and interest on penalty stand removed.
- **FDI Reforms:** **Foreign Direct Investment (FDI)** in the sector has also been allowed up to 100% under the automatic route, from the existing limit of 49%.

## Adjusted Gross Revenue

- AGR is a **fee-sharing mechanism** between the government and the telcos who shifted to the 'revenue-sharing fee' model in 1999, from the 'fixed license fee' model.
  - In this course, telcos are supposed to share a percentage of AGR with the government.
- 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).
- In 2005, Cellular Operators Association of India (COAI) challenged the government's definition for AGR calculation.
  - 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.
- The Supreme Court upheld the definition of AGR as stipulated by the DoT (revenues from both telecom and non-telecom services) in October 2019.
- **Significance of these Reforms:**
  - **Reviving Competition:** Four years' Moratorium would encourage companies to invest in customer service and new technology.
  - **Promoting Ease of Doing Business:** The allowance of 100% FDI in the sector (through the automatic route) came shortly after the government decided to **scrap a controversial retrospective tax**.
    - Together, these signal the return to an investor-friendly climate.
  - **Promoting Digital India:** The telecom sector is one of the prime movers of the economy and the measures announced by the government would enable the industry to achieve the goals of **Digital India**.
  - **Further Technological Advancement:** Together, these measures would pave the way

for large scale investments into the sector, including for 5G technology deployment, and generate more jobs.

## Way Forward

Moratorium on AGR dues and spectrum dues would only provide temporary relief with these deferred dues to be payable eventually with interest. Thus, all the stakeholders involved should find a way to develop a sustainable tariff policy.

**Source: TH**

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