

BSNL in a soup again

[Surajeet Das Gupta of Business Standard]

That the state-owned Bharat Sanchar Nigam Ltd has a penchant for getting into controversies when it comes to awarding equipment contracts is well-known. The last time it was in the middle of such a controversy was in 2006 when there were allegations that then minister of communications Dayanidhi Maran had opted for high-cost equipment — by the time the contract was being processed, A Raja was at the helm in the ministry and he cut the 45-million mobile phone line order by half. US equipment-firm Motorola went to court, but later withdrew the case. This time around, the controversy is over the 93-million-line tender that was finalised just a few days before the new government took over — and, after the government-formation, one of the first things Raja, who is once again the communications minister, needs to do is to deal with the problems. With a delay of over 18 months in the first tender, BSNL was severely capacity-constrained and its market share fell from 18.5 per cent in July 2007 to 13 per cent today.

The first problem with the new tender came up when BSNL rejected the bids of firms like Nokia-Siemens, Alcatel and Chinese firm ZTE — Nokia-Siemens has approached various courts as well as the Competition Commission (the latter refused to hear the case). If this isn't bad enough, the home ministry and the Intelligence Bureau (IB) have also raised objections. After rejecting other bidders, Chinese firm Huawei was the only one left in the southern and western zones (Ericsson is the lowest bidder in the north and the east). The home ministry and the IB say that Huawei has been set up by the People's Liberation Army in China and has close links with that country's military set up —they argue Huawei has been blacklisted by various countries like the US for this reason.

BSNL has responded to the security objections with a new formula — Chinese vendors will not get contracts in states with international borders. The southern zone, using this logic, can be populated with Huawei equipment. Whether this will wash is not known. The problem, however, is that government policy towards Chinese companies hasn't been quite straightforward either.

In 2006, telecom firm Orascom, which had an indirect 19 per cent stake in Vodafone-Essar (then Hutchison-Essar), wanted to get on to the board of the company in India. The Ruias, who hold a 33 per cent stake in the joint venture, opposed this citing security grounds — they argued Orascom operated telecom networks in both Pakistan and Bangladesh. This was accepted by the government and Orascom was not allowed to enter India. But when Norwegian telco Telenor wanted to pick up a majority stake in Unitech Wireless, no security concerns were raised despite the fact that Telenor also operated in these so-called sensitive countries. And Telcordia, which was awarded the Mobile Number Portability contract for the entire country by the Department of Telecommunications a few months ago, was not rejected on security grounds either — it too has MNP contracts in both Pakistan and Bangladesh.

And that's just one part of the story. Chinese manufacturers like Huawei and ZTE are already well-entrenched in the country — so, if they can supply equipment to private sector firms whose market share, at 85 per cent, is significantly higher than that of BSNL, why can't they supply to BSNL? Huawei, for instance, has already delivered on contracts of over \$1 billion in India last year — between Huawei and ZTE, the two Chinese companies control around 12 per cent of the Indian market. Huawei supplies equipment to all the top Indian private sector telcos which include Reliance Communications, Sistema-Shyam, and Aircel, in even the so-called sensitive border states.

You could argue, as some do, that getting a BSNL contract is different since these phones are even used by army brass. But Huawei, for instance, has tied up with state-owned ITI and is already supplying GSM equipment to BSNL in south India. ZTE has, in the past, won orders from BSNL for its fixed-land phones that use CDMA technology.

It gets worse. At one point, BSNL contracts said that those bidding for them had to have fully-owned manufacturing units in the country — but when, in 2004, the FIPB did not clear a Huawei proposal to set up a fully-owned manufacturing unit, BSNL deleted the clause on local manufacture in its last two bids.

Experts say the government has to decide whether it wants to respond like the US which simply doesn't allow Chinese firms to enter the telecom sector, or whether it wants to be like the Europeans who have had no problems buying equipment which is cheaper and is of global quality. Huawei's attempt to buy into 3Com.Corp last year came a cropper when the US Congress raised objections saying the company was closely involved with the Chinese military — so, since 3Com did work with the US military, this could compromise military secrets. The US also has a special body which reviews foreign acquisitions that might be a threat to their national security.

In Europe, on the other hand, Huawei has been one of the key suppliers of telecom equipment, especially in the 3G space, despite competition from European biggies like Ericsson, Alcatel and Nokia-Siemens, to name a few — in 2007, Huawei got contracts worth over \$2 billion from clients which included Vodafone and British Telecom.

The Nokia-Siemens case will get played out in the country's courts. In response to the Nokia-Siemens petition, the Andhra Pradesh High Court has said that no decision can be taken on BSNL's tenders in south India until the case has been decided. But if the government wants its security concerns to be taken seriously — right now, most think these are fashioned at the behest of rival equipment suppliers — it needs to come out with a consistent policy, and then apply it uniformly. It is not just BSNL that is in the dock. It is the government's credibility as well.