

PMO rejects telecom fee cut

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NEW DELHI: The prime minister's office (PMO) has shot down the decision of the communications ministry to slash the licence fee for telecom operators with large networks by up to a third, saying the ministry did not obtain the Cabinet's clearance before announcing the cut.

Last year, the department of telecom (DoT) had announced that the proportion of revenues telecom operators pay as licence fee to the government would be cut by up to 33% from April 1, 2009, if operators' services are available in 95% of the residential areas in a state or a telecom circle. The move was intended to give a Rs 2,000 crore annual benefit to the industry.

Following the PMO's directive, the DoT will recall its notification announcing the reduction in licence fee. In a missive to the communications ministry, the PMO said the telecom department did not follow procedure and obtain Cabinet clearance before announcing the reduction in licence fee. If the proposal were to be put up before the Cabinet, it would not have been cleared due to opposition from departments of expenditure and economic affairs of the finance ministry, it said.

The cut, which was to be effective from April 1, could not be implemented due to opposition from the finance ministry which said it had not been consulted on this issue. The department of telecom, in its defence, had said the licence fee cut was based on the recommendations of telecom regulator Trai.

At present, telcos pay 10% of their revenues as licence fee in category 'A' circles (Tamil Nadu and Maharashtra, among others) 8% in 'B' zones (Kerala, Punjab and Haryana, among others) and 6% for 'C' circles (Himachal Pradesh, Bihar and Orissa, among others). As per last year's announcement, these would have come down to 8%, 6% and 4% for operators with networks covering over 95% of the residential areas in a circle.

The licence fee cut would not have impacted the exchequer as DoT had planned to reduce telcos' contribution to the Universal Service Obligation Fund (USOF) for rural telephony, which is paid out of the licence fee.

Currently, all operators pay a flat 5% of their total revenues towards USOF. This means half the licence fee of an 'A' circle player goes to USOF, while almost 85% of a C circle operator's licence fee goes to fund rural telephony. This was to be reduced to a flat 3% for those players whose services are available in over 95% of the residential areas.

As of 2007-08, the size of USOF was Rs 20,500 crore and it is now estimated to have crossed Rs 25,000 crore. And, as of September 2008, just 27% of the amount has been utilized, according to telecom regulator Trai.

The PMO, while admitting that about Rs 14,000 crore remained unutilised in the USOF as on February 28 this year, also said this amount can be used for ambitious schemes for subsidising telecom infrastructure in rural and remote areas.

“Most of these schemes relate to support for shared towers, optical fibre cable infrastructure in the North East and broadband expansion in rural areas including subsidising customer premises equipment. These initiatives are capital intensive, crucial for broadband penetration and will require huge funds,” the PMO said in its communication to the communications ministry.