



Press Information Bureau
Government of India
Ministry of Communications & Information Technology

07-January-2011 18:12 IST

Text of the Press Statement given by Shri Kapil Sibal on 2G Spectrum Issues

Following is the text of the Press Statement given by the Union Minister of Communications & IT, Shri Kapil Sibal here today on 2G Spectrum issues:

“The report of the Comptroller and Auditor General (CAG) on the 2G Spectrum Issue has criticized certain aspects of the decision making process related to Spectrum allocation. One of the criticisms relates to an alleged large loss to the national exchequer in the allocation of 2G spectrum. Others related to the process of implementing the first come first served policy.

“The criticism of large revenue loss has received a great deal of attention in the Press because of the size of the loss stated by CAG. This estimate is based on the assumption that spectrum should have been auctioned or sold in some other manner which would have fetched the Government the highest possible price. However, the logic underlying this estimate is completely flawed. Government policy is formulated with a view to maximize public welfare, and not merely to maximize Government revenues. The pricing of different natural resources is often done in a manner that meets this objective. For instance, land is given free of cost to infrastructure projects such as construction of highways, coal prices are kept much lower than global prices in order to ensure that the cost of power remains reasonable; fertilizer prices involve significant subsidy as do the prices of wheat, rice, kerosene oil, etc. supplied through the Public Distribution System. In all these cases if the objective of the Government were only to maximize revenues, much higher price would be charged, but there are good reasons why that is not done.

“The rationale of the pricing decision for 2G must be seen in the background of the Telecom Policy as it has evolved over many years.

Background of Telecom Policy

“It is well established in the case of the telecom sector that the objective of the Government has always been to ensure that telecom services are available to citizens across the country at reasonable prices. It is worth recalling that it was in this context that the terms and conditions of licences which were originally awarded on a bidding basis, after the National Telecom Policy 1994 introduced the private sector into telephony, were completely changed by the then Government in 1999 under the New Telecom Policy. The new policy explicitly recognized the need to bring greater competition in the telecom sector in both urban and rural areas and to provide a level playing field for all players. Critics of the change in policy had argued at the time that the change in the contractual terms resulted in a loss to the exchequer of about Rs. 40,000 crore. . Similarly, the reductions in licence fee in January 2001 and again in April 2004 can also be interpreted as benefiting select players at the expense of the national exchequer by the then Government.

“Yet, these measures have helped to increase tele-density and reduce prices of mobile services for the *Aam Aadmi*. The resultant benefits to the economy as a whole are well known. The provision of telecom services involves large investments. This is particularly so when we wish to cover the entire length and breadth of the country. If at the time of issuing licenses, the Government charges a very high entry fee, it would reduce the resources available to the operators to undertake the necessary creation of infrastructure. It would also eventually impact the prices charged by the operators and thereby limit the services to those who can afford higher services.

“It is in this background that successive Governments have chosen to allocate telecom licences and spectrum on a basis other than revenue maximization. It should also be noted that with the enactment of the

Telecom Regulatory Authority of India Act, 1997 the recommendations of the independent regulator are a very high important factor in deciding these matters. The TRAI has consistently taken the view that revenue generation should not be a major determinant of the policy governing the telecom sector and this is also the view taken when the 10th Plan was finalized in 2002.

Recent Decision Regarding 2G

“In the run up to the recent 2G spectrum allocation, the Prime Minister had received several suggestions to consider change in policy in 2007, including a switch to auctions. The Prime Minister wrote to the Minister of Telecom on 2nd November, 2007 forwarding a summary of the suggestions received and requested the Minister to consider all these aspects carefully. This has been wrongly interpreted in the CAG report as a direction to act in a particular manner on the issue of pricing. The only direction given by the Prime Minister was that the Ministry should act in a fair and transparent manner and keep the PM informed.

“The issues raised in the note forwarded by the Prime Minister were responded to by the Minister of Telecom who pointed out that in the interest of ensuring a level playing field between existing operators, who had obtained licences and spectrum at very reasonable rates, and the new operators, and to ensure that new entrants could provide effective competition for the healthy growth of the sector, it would be appropriate to continue with the extant policy.

“The Prime Minister was also informed that the issue of pricing of spectrum was discussed extensively between the Ministry of Finance and the Department of Telecommunications in line with the earlier decision of the Cabinet in 2003 which left the issue of spectrum pricing to be decided by the two Ministers. The Minister of Telecom also consulted the then External Affairs Minister who was the Chairman of the EGoM on spectrum issues. Based on these consultations PM was informed that the Finance Minister and the DoT after considering all options, had come to an agreement that the 2G pricing should continue as before, which 3G Spectrum would be auctioned. The Prime Minister accepted this outcome regarding spectrum pricing.

“It is important to emphasize that the Government’s decision on spectrum pricing was not merely a mechanical continuation of the policies put in place by previous Governments. It is one that was felt on merits to provide a balance between multiple objectives, namely, increasing tele-density, promoting competition, and ensuring a level playing field. The Prime Minister was informed of the TRAI report of August 2007. In its August 2007 report, TRAI recommended that spectrum in 2G bands (800, 900 and 1800 MHz) should continue to be priced as before for new entrants and that in future, all spectrum, excluding spectrum in the 2G bands should be auctioned. TRAI also recommended ‘no cap’ on new entrants.

“It may be thought that the decision to auction 3G spectrum makes out an automatic case that 2G spectrum should also have been auctioned. This would not be valid conclusion. 3G spectrum is typically used for providing value added services, such as video and large amount of data. These services are primarily availed by companies and individuals who have large paying capacity. Additionally, in the case of 3G there is neither an issue of level playing field nor one of needing to ensure that prices are within the reach of people in the lower income brackets. Just as the Government charges a toll for the use of highways, but the use of rural road is never tolled, similarly, a high price for 3G spectrum services can be accepted but Government needs to ensure that basic telephony remains available to the common citizen at the lower possible rate.

“The fact that Government policy over the years, while abandoning revenue maximization, has yielded benefits is clearly visible. The average tariff came down from almost Rs.17 per minute in 1999 to about Rs. 3 per minute in 2004 and, by March 2010, this became as low as 57 paise per minute while today it has reached a level of 30 paise per minute. This is a direct and tangible benefit. The benefit of this reduction in tariff is estimated at over Rs. 150,000 crore per annum to the consumers.

“For all these reasons the CAG’s criticism that the policy of awarding licences and spectrum at reasonable rates involved a large loss to the exchequer has no merit. However the CAG’s findings regarding procedural irregularities in the implementation of the first-come-first-served policy are in a different category and

must be taken very seriously. Indeed, the Government depends upon the CAG to highlight such issues and there is a well laid down procedure for dealing with such findings.

“In this case in view of the nature of the lapses, criminal investigations are also under way. The Government is totally committed to take stringent action against any person found guilty of corruption or misconduct.”

Text of the power point presentation made by Secretary, Department of Telecommunications, Shri R. Chandrashekhar is available on the PIB website i.e. pib.nic.in.

[Click here to see presentation](#)

SP/AT/AS