

**THE NATIONAL TELECOM POLICY  
AND ITS IMPLEMENTATION**

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**FORUM OF FREE ENTERPRISE**

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"Free Enterprise was born with man  
and shall survive as long as man  
survives".

**-A.D. Shroff**  
1899-1965

Founder-President  
Forum of Free Enterprise

# THE NATIONAL TELECOM POLICY AND ITS IMPLEMENTATION

By

T.H. Chowdary

The historic New Telecommunications Policy (NTP) announced on May 13, 1994 further carries forward the de-monopolisation of the telecom sector in India that started in the mid 1980s when production of telecom equipment and telephone cables, till then reserved only to the PSUs, was thrown open to private sector. The May 13 policy de-monopolises the network construction and operation and provision of (basic) telephone services also by allowing private sector companies into that area. Just as equipment and cable production de-monopolisation has led to private capital investment of Rs. 1000 crores (2.5 times the PSUs invested in 47 Years) and competition with beneficial consequence of abundance, lowered prices, improved quality and quicker deliveries, service de-monopolisation would also lead to such beneficial results to customers, existing and potential. We would soon see the end of waiting lists and emergence of varieties of new services

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\* *The author was formerly Chairman and Managing Director of Videsh Sanchar Nigam Ltd. and is presently Director, Center for Modern Management, Secunderabad. The text is based on a talk delivered by the author on 24th June 1994 in Bombay under the joint auspices of the Forum of Free Enterprise and Mumbai Grahak Panchayat.*

available elsewhere in the world and direly needed for Indian companies to be competitive at home and abroad.

**The evil results of the earlier monopolistic regime have been :**

- \* Increasing shortage of telephones. The waitlisted at the end of every 5-year plan were more than at the beginning. The demand-supply gap had no parallel, e.g. power shortage has been 10% whereas the telephone shortage had been 25 to 40%!
- \* Prices (rentals, call charges, lease-rates) had been increasing continuously while elsewhere in the world growing electronification has been leading to lower prices for telecoms.
- \* The quality of service, especially attitude to customer requests and complaints, had been deteriorating.
- \* New services becoming available due to convergence of computers and telecommunications all over the world have not been introduced in India.
- \* There was miserable failure of R & D resulting in repeated import of technologies (four generations of switches) and equipment and cables.
- \* The manufacturing PSUs had been invariable product companies, hardly developing anything in-house.

## **NTP de-monopolises, does not Privatisise :**

Let us get one thing clear. This is not privatisation. ITI, HCL, HTL, MTNL and VSNL, the PSU's, have not been sold to private people. They continue but face competition. So would the DOT continue, most likely as a number of State-wide PSUs, to be able to face competition. The most important character of telecoms is net-working. A telephone from whichever company and whatever country it is taken must be able to reach and interwork with every one of the 800 million phones in the world's 200 countries, without the subscriber putting in any special efforts. This is what is happening at the international level with well established standards and inter-network payments. Those mechanisms and procedures have to be adopted within the country with multiple service providers and wire-line and wireless systems as is happening in the UK, Japan, New Zealand, USA, Malaysia, Thailand, Srilanka, Pakistan, etc.

The earlier (1991) decisions to entrust value-added services (actually new services like cellular mobile radio telephony, radio-paging, electronic mail, audio and video conferencing VSAT-based data networks, on-line database access and other information services) only to the private sector and still earlier (1986 to '91) actions that have, over the last eight years, allowed private sector companies to produce all types of telecom equipments and cables, the telecom sector is now de-monopolised, across the board.

Value-added services have however not been established by private companies even after 30 months of Government decision because the DOT has been structurally unable, attitudinally unwilling and practically adversarial to let private enterprise establish itself in the network and services sector. Unless political leadership, that is the Minister, decisively and unhesitatingly implements the NTP, private sector presence in the basic telephone services will be even more delayed and almost made impossible. We should note that a non-telecom person had to be placed at the head of the Telecom Commission because the technical bureaucracy was dead-set against reforms and demonopolisation. The internal opposition from officers and workers still continues (as it was in all countries) and is sometimes encouraged by reported reservations at higher level. We should hope that the resolve of the Government to persist in and extend liberalisation would brook no "go-slow" or obfuscations of telecom sector reforms. We shall see what are the implications of the NTP and how they should be addressed.

In 1989 I proposed a National Telecom Policy. (A Policy Framework : What Government Policy Should Be, Published as a booklet by the Forum of Free Enterprise in February, 1990). It was endorsed in the main by the Institution of Electronics and Telecom Engineers (IETE) in 1992. The NTP contains all the important elements proposed in 1989 but is wanting in specifics, which unless thought through and implemented, could reduce it to another piece of paper.

However lofty and well crafted a policy may be, it is in implementation that we have to show knowledge, understanding, fairness, pro-activity, promotion and wisdom. In the following paras, I have spelt out some of the crucial issues and how they can be addressed. They are the result of my over thirty years' involvement in communications, study of reforms and experiences in over twenty countries and my over ten-year long advocacy of reforms in the telecom regime in India. Besides these implementational issues, we will have the telecom workers, officers, their unions and affiliations and importantly, the ideologically inspired political parties. The Nation consists of all but not merely privileged, entrenched, vested interest groups. Consultation, transparent sincerity, non-injury to the incumbent, consumer good and National interest should steer us clear of calamities and confrontations. The issues and possible answers are listed below.

### **Implementational Issues :**

#### **An independent Telecom Regulatory Body :**

This is elementary ethics and fair play. How can one of the service providers be a licensor and arbitrator of its rivals ? Even if there is no direct rivalry, (as for example between radio pager and cellular mobile radio companies on the one hand and the DOT on the other) *DOT can not be humanly fair because it was deprived of the opportunity to provide those services. No service provider can be a regulator, a player and an umpire. It would distort everything.* For example,

the DOT prescribed quality of service parameters and penalties for default on the cellular mobile and other new services licencees. DOT itself has not set any enforceable quality of service parameters. This is unabashed abuse of monopoly power and colourable and unethical exercise of government power. It is to avoid this miscarriage of justice and violation of ethics that the European Community Countries have under E.C. directives, by law, separated regulatory functions from service provision functions. We too must have a separate Regulatory Body. Its main functions would be to determine the field, pace and extent of competition; lay down public service obligations like rural and public telephones, interface standards for terminals and inter-connecting networks, price-capping and relating prices to quality of services, laying customer-grievance redressal procedures, allotment of radio-frequency and telephone number blocks for different service providers, evaluating the capabilities of contending licence-seekers and recommending the most appropriate enterprise to the Government ensuring adequate, timely and efficient interconnection of different providers, networks at appropriate points and arbitrating upon disputes between the service providers and providers and customers.

The Regulatory Body must be separate from and independent of the DOT and not include former bureaucrats who were opposed to demonopolisation and reforms except in subordinate, assistive roles. Like the Election Commission, it should have three Members, one of whom would be the Chairman and head of the



Body. It should have talents in law, cost accounts, financial analysis, economics and public primarily. Telecom persons with broad vision and record of publicly acknowledged services and eminence and people-oriented past record could be an advantage in the formative years. It can have different divisions which can contract consultants and advisers for tangled or complicated issues.

However, the emergence of a Statutory Regulator, involving legislation should not be an excuse for delaying the demonopolisation. The Director General, in exercise of his statutory power (Indian Telegraph Act 1885, Section 4, Subsection 2) and in disassociation from monopoly addicts and change-resisters could be trusted for a little while, to launch the demonopolisation of basic telephone-services by letting in private sector enterprises.

### **DOT should be Corporatised :**

By any fair reckoning and reasoning it ought to be Corporatised in its own interest also. With an independent Regulator, shorn of its monopoly, beset with a burden of hundreds of pages of rules, scores of procedures, myriad ministries advising it, how can it play against people sector companies? The Athreya Committee has given enough reasons why it should be corporatised and the reasons become all the more powerful, insistent and unpostponable in view of the post-Athreya millieu of liberalised, demonopolising, globally opening Indian economy.

A second reason is : how can even a Statutory Regulator prevail over a government department like DOT vis-a-vis a private company? What can he do if the Government department (DOT) does not accept his ruling? Whether the PSU is a real or pseudo company is a different matter. But pseudo-companies like the PSUs may be driven by an inexorable dynamic of competition to change their character.

However, either there is an independent regulator, or a liberalising Director-General, in order not to delay the demonopolisation, the Corporatisation of the DOT may be left to be demanded by the DOT themselves, for sometime at least.

### **Number of Public Telephone Operators (PTOs) in any given area :**

The DOT or its successor company would be the incumbent company. In view of the complexity of interconnections and the need to get quick resolution and get started, I suggest we should have duopoly (as in the UK) for five years at least or until the second licensee gets 10 to 15% of the total volume of business (measured primarily by the number of DELs), whichever is more. During this duopoly period, we may prescribe the teledensities to be attained year after year, default of which would invite penalties including cancellation of the licence. We can have a review after 5 years whether duo-poly would be persisted or leave the number of PTOs to the market.

## **The area of franchise / licence.**

A state is the logical unit. Only in respect of the North-East and North-West we may group the States as follows:

NE : Assam, Meghalaya, Arunachal, Nagaland, Mizoram, Tripura, Manipur, Sikkim.

NW : Himachal, Punjab, Haryana, J&K.

Goa should be treated as part of Maharashtra, Pondicherry as part of Tamilnadu (Yanam as part of AP; Mahe as part of Kerala) Diu and Daman should be part of Gujarat & Andamans as part of Tamilnadu. MTNL may be confined to Delhi. Bombay, Calcutta and Madras and must be treated as parts of their parent states of Maharashtra, West Bengal and Tamilnadu.

If for any political reasons or to appear that we are not excluding medium-sized Indian companies or that we want a number of small Indian Companies, then we may split up bigger or richer states into regions as follows:

Andhra Pradesh : Coastal, Rayalaseema & Telangana.

Madhya Pradesh : Madhya Bharat, Mahakoshal, Chatteesgarh

Uttar Pradesh : East and West

Rest of the states should not be regionalised.

## **Licencing a company in more than one area :**

There should normally be no objection. The contiguity of the States to a licensee is desirable and makes

the new enterprises more viable. In order to give a chance to significant numbers, it would be desirable to limit the number of states to any one franchisee to say 3 or 4.

*As local revenues are at best 33%, domestic long-distance about 40% and international about 27%; state-wide franchises, enabling intra-state long distance traffic to be carried by the franchisee, make the new enterprises not totally dependent upon the mercies of long distance carriers, for financial viability.*

**Plain Old Telephony only or every telecom/information service to be licenced, in the area assigned?**

It would be odd that so important a provider of services as telephone is not allowed to provide other services like cellular mobile radio phones, radio-paging, trunked private mobile radio, audio/video conferencing, store and forward fast FAX, packet-switched data, V-SAT, base private networks, on-line data-base access etc. DOT was not allowed is understandable because it had a monopoly in telephony. When once monopoly is ended, then DOT as well as the licenced public telephone operators should be allowed to provide every service, old and new. To be fair to the PTOs, both DOT and the PTOs may be required to provide non-voice services through subsidiaries to prevent cross-subsidies that can kill competitors.

There is one ethical question concerning the already licenced CMRT, radio-paging and E-Mail private companies. They could say that they quoted certain licence fees to the DOT and agreed to certain price caps on

the understanding that DOT or new PTOs would not provide the services. Their market share could now dwindle and their financial viability jeopardised. There is strength in their apprehension. To meet that adequately, the DOT/new PTOs should be allowed to provide any of the non-voice services only if the pre-1994 Aug. Licencees are not providing the services in a reasonable time and that too only in such areas where their coverage has not extended in that time.

### **Foreign alliances for the companies to be licenced:**

Unlike in developed countries, the reason for demonopolisation and that too in the basic telephony, is to quickly extend the network, create capacity ahead of demand and at the same time introduce new services. The objectives call for :

(a) large investments.

(b) new technologies to reduce investment required per line, especially the connection of customer premises to the exchange called "access" must get over the need to dig the roads to lay cables by multiple enterprises.

(c) a new work culture totally focussed on and dependent upon customer and his needs.

(d) network management, operation, maintenance and service skills, all totally dependent upon software. While Indian engineers and equipment may respectively be intelligent and versatile, it is the *"man-machine*

interaction in the interest of efficiency, economy and customer satisfaction that is totally absent in the Indian telecoms (and other services too).

(e) India needs direct foreign investment (and not loans) to supplement our invisible resources.

From all these points of view, foreign alliances bringing in equity and technology (like wireless in the loop) and management tools, are desirable. Besides, unless the new enterprises competing with DOT/ its successor PSUs are 3 to 5 times more efficient and customer-oriented, they cannot hope to decisively gain customers in preference to the incumbent. A brand name (like BT, AT&T, Baby Bells, France Telecom, Telstra, Bell Canada) would give confidence to new customers. Foreign alliance is therefore in the interest of the challenger-licencees also.

Which is costlier for India -- foreign direct investment in the form of equity or GDRs or loans, when Indian investment is to be supplemented? May be some professionally managed and reputed Indian companies can, without a foreign brand name association, outperform the DOT in regard to service to customer, attention to his grievances, carrying out installations, shifts, restorations and transfers by appointments, providing operator assistance which is helpful and not sinecure. In the light of these considerations, we may leave foreign direct investment, equity, alliances etc. *as optional and not obligatory.*

**Build-Transfer-Operate (B.T.O. or B.O.T or B.O.O.T.) or clearcut separate entities operating competitively in the same area :**

B.T.O., B.O.T., B.O.O.T. appears to be less objectionable politically and from the labour-union point of view. *It promotes the fiction that the DOT / its PSUs are in charge; the private company is after all used merely to bring in investment money and operate the network under our management control. For those very reasons the efficiencies, the customer and market-oriented cultures, the consequences of competition (like less costs, lower prices, customer choice, disciplinability of the company for failing to meet quality of service or grievance settlement conditions) cannot be realised easily.*

*Therefore, in balance, it is desirable to bring into being and foster a competitive telecom environment and not perpetuate an exploitative, collaborative, monopoly comprising the incumbent and a private company assured of the required revenue. Monopoly has no incentive to bring new technologies into cost and price cutting service.*

**Choosing the licencees -- case by case or through publicly known, predetermined criteria and transparent procedures?:**

"Case-by-case" determination fosters corruption; leads to higher costs; (deadly in case of a cosy B.O.T.

system of assured revenues/remunerativeness) and favouritism. The nation has been having enough of them. It is an extension of the *permit-licence-quota* system which we sought to abolish by the new policy of liberalisation.

If we leave it to Government to invite tenders for service franchises, they may take so long frustrating the private initiatives. Private enterprises may on their own submit proposals (as indeed there are already more than a score) but the offerings will be so diverse that one can not be compared with the other. What is called 'pilot' project is a matter of literary understanding in the absence of criteria. A reasonable compromise between tenders being called and private offerings being considered "case by case" is that the Ministry/Regulator gives a public notice requesting for proposals (RFPs), to be submitted within 60 days of such notice with information content as :

(a) Specify the areas

(b) the investment levels year-by-year over a 5/10 year period or tele-density levels to be achieved.

(c) proportion as between urban and rural lines, until telephones are given on demand and public telephones as a matter of policy, irrespective of cost, for habitations with population over a certain figure, the figure to be less in remote and inaccessible areas.

(d) extent of foreign exchange involved and how it would be arranged (Equity, GDR, loan, suppliers credits, deferred payments etc.) (say 49% of investment).



(e) who are the foreign allies if any, areas and what their operational experience is.

(f) local loop or access technology to be implemented (no repeated digging of roads)

(g) what other services (eg. cable TV) are intended to be provided.

(h) what interconnections are required, radio spectrum wanted, how traffic to areas other than the franchised area, is planned to be carried and what obligations are expected from Government / DOT.

(i) how soon would the system be up to give say 50K, 100K, 200K lines.

Each of these criteria should be given a publicised pre-determined weightage.

### **Revenue Sharing or Public Service Obligation Sharing:**

When a condition like they should provide a certain proportion of lines in rural, remote and inaccessible areas is imposed, they are sharing the public service obligation burden. *Therefore there is no ethical justification to require them to share their revenue or pay a hefty royalty.* After all they would be paying income taxes on their profits, to the Government. However, in lieu of providing the rural lines, they may be asked to contribute certain sums, not in the first year, but after they get significant cash-flows, in discharge or default of public service obligations.

The radio-spectrum may be required to be paid for. But the payments should not be extortionist. The idea is : we want private sector in, to roll out service, to take risks, to compete. Therefore we act in a facilitative manner for a few years, not in an inhibitive and repellent manner. We view private investment, enterprise and efficiency in a mutually beneficial relationship.

### **Demonopolising domestic long distance and international services :**

In developed countries it is in these sectors that demonopolisation and competition began. Traditionally, revenues from long distance services (which were priced far above costs) enabled large cash-flows and profits to extend the network and to, later on, subsidise local services, especially the "local only" callers. *In India, that would still be desirable but it must decline i.e. price must be driven down towards costs, gradually.* The object can be achieved by having a cap on long distance prices but at the same time ending monopoly in these sectors also.

We need to expand the intercity network so that the revenue-generating traffic is not choked. Just as we want more investment to extend the network, we need investment to remove the long-distance bottle-neck also.

While we had over 40 trunk circuits per 1000 DELs, the figure seems to have come down to about 25!

We see the result -- busy tones too often, for too long on STD and ISD. This is yet another reason for demonopolising and attracting investment into long distance.

Besides, we want the benefits of competitive culture. *So we must have demonopolisation of intercity service and facility provision also.*

**Duo-poly or market-sustained multiplicity in long-distance :**

Historically (to be precise since mid 1960s when microwave radio came to be the dominant intercity medium) it is in long distance that the validity of natural monopoly became unsustainable. Developments in optical fibre and satellite communications have dramatically brought down capital costs per circuit kilometre. SPC digital time division exchanges have led to obliteration of the difference between local and trunk exchanges. Therefore entry into long distance by new companies is very easy, involving not much capital.

Secondly, unlike a network of access lines and structured hierarchy of switches, intercity-links can be stand-alones, between pairs of stations. Therefore like courier or airline services, companies can offer long-distance circuits and/or services between pairs of cities or countries; or to some selected cities.

Thirdly, there are already incipient and potential intercity facility i.e. circuit providers. These are the Railways

and Electricity Boards (State, Central) and ONGC (Oil and Natural Gas Commission telecoms along their pipelines). They could provide circuit capacity or even switched traffic distribution by putting marginal investments in the existing infrastructure. That would provide reduced cost circuits and that too quickly.

Fourthly, the private companies with local area franchises should not be hostages to any (single) monopoly long distance company and become their "bonded" local service company, with their financial survival dependent upon it.

Therefore we should demonopolise long distance facility provision and switched service also. The former enables customers to have leased circuits and private networks at competition.

The companies licenced for local services should not be barred from becoming long distance carriers but they should be allowed through a subsidiary or a separate company. The reason is that duopoly is not true market competition and semi-monopolists, like monopolists should not be competitive long distance carriers.

### **The Indian Telegraph Act 1885: Amendment or Re-enactment :**

It is good to write/enact a new Telecom Law as a majority of the world's countries have done. But to get a new Law is not immediately necessary to implement the New Telecom Policy as sub-section 2 of section 4 could be used to licence private companies.

Only if we want a Statutory Telecom regulator we may need a Law. But if the telecom operations are corporatised then, the Ministry which would have the telecom PSUs at arm's length could be a Regulator, although imperfectly in the beginning. As more and more of the "old-habit" telecom engineers leave the Ministry either by opting to the Corporations or by retirement, the Ministry may have a different composition, predominantly economists, cost accountants, financial analysts, lawyers, public policy experts who could, with advice from engineers, better regulate a utility.

So I hold that a new Telecom Law or many amendments to the *existing Law are desirable but the NTP need not wait or depend upon such a happy event.* The Director-General, Telegraph, to whom Government has delegated the power, could, if he has faith in the NTP, implement it in the way it ought to be, in tune with new technologies, in fulfilment of India's needs and in accord with what is happening everywhere in the civilised and achieving countries of the world.

### **Transparency in Decisions and Public Involvement:**

*Should the implementational methodology have public involvement, of the concerned constituents or could it be left to the sole judgement and wisdom of DOT officers who are known to have opposed corporatisation, new Telecom Law and also the crucial element of the NTP, namely demonopolisation of service provision*

by allowing private companies into basic telephone service? I think telecoms are too vital, too precious to be left to techno-bureaucrats or only any set of exclusively Government officials who had the monopolistic privilege of administering them.

It would be good if the implementation scheme is published, circulated and presented to representatives of trade and industry, consumer and workers, economists and public policy groups; their comments are heard and then a final decision taken. However, in the name of such public consultation, *if studies are undertaken in depth and till death, then that would be the end of implementation of the NTP.*

*The views expressed in this booklet are not necessarily those of Forum of Free Enterprise*

**"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".**

**-Eugene Black**

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## FORUM OF FREE ENTERPRISE

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