



CELLULAR MOBILE SERVICE

- LICENCE FEES AND SPECTRUM CHARGES

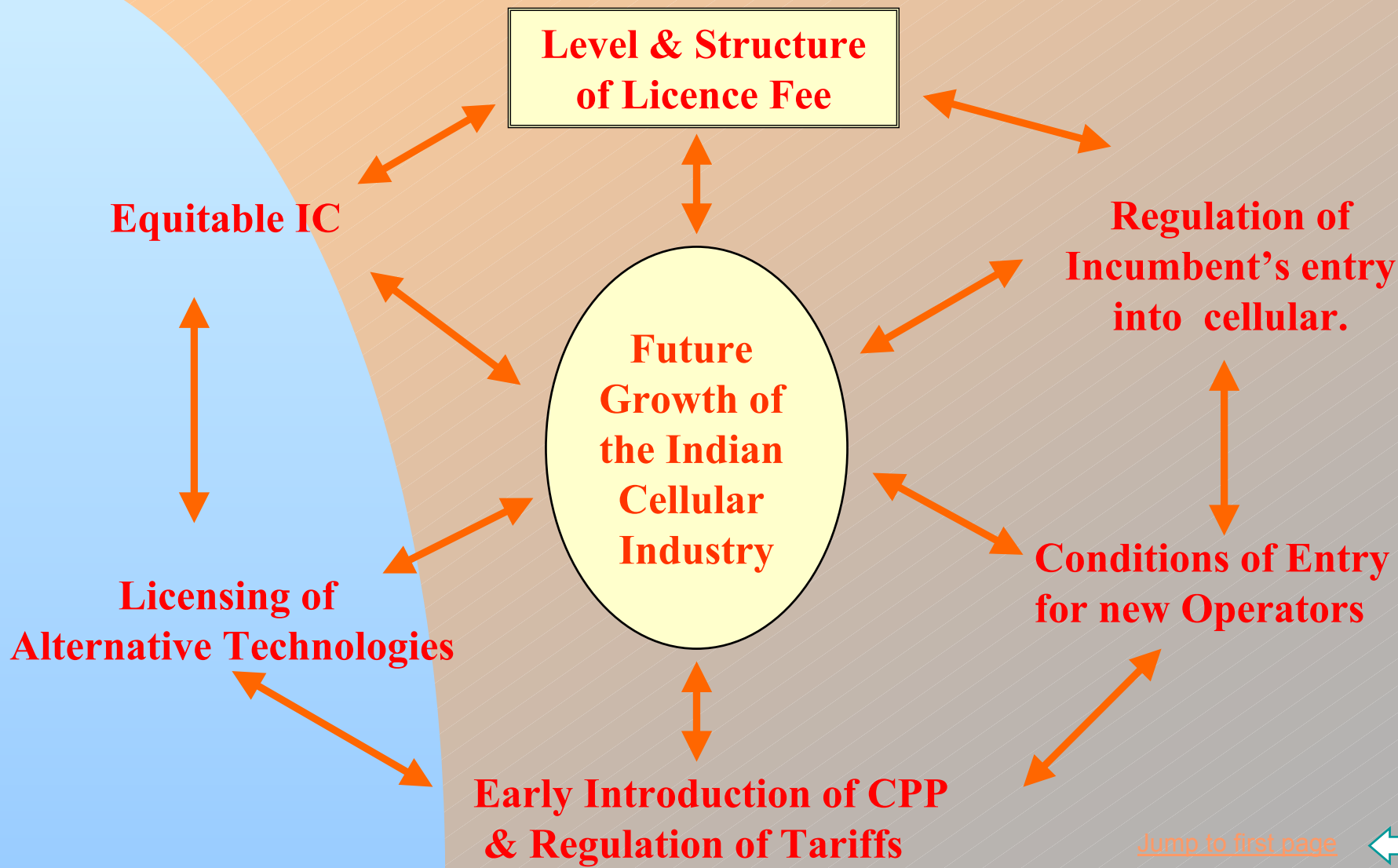
Presentation to TRAI

April 18, 2000, Mumbai





Growth of Cellular - Key Factors



Investments in Cellular

- **Cellular accounts for 50% of actual FDI inflow into telecom.**
- **Investments in cellular till date ~ Rs 13,000 crs.**
- **Potential exists to attract nearly Rs 20,000 crs in next five years.**

To Go Forward

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The Authority's recommendation as regards annual licence fee for cellular is one of the urgent key requirements of the industry for companies to achieve financial closure and to attract investments, both domestic as well as foreign.

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Licence Fee Philosophy..... And The Four Commandments

NTP 99 OBJECTIVES

1. “Affordable & effective telecommunication.....is at the core of the vision....”
2. “Create a modern & efficient telecom infrastructure...”
3. “Transform the telecom sector to a greater competitive environment providing equal opportunities & level playing field...”
4. “Enable Indian companies to become global players...”

RECOMMENDATIONS

1. Necessitates licence fee determinations that would keep tariffs low.
2. Incentivise huge investments required for the same.
3. Ensure application of level playing field principles for all players (public & private) ; critical for healthy competition.
4. Licence fee to be in line with best international practices; Provide them the competitive atmosphere in India to ensure success elsewhere.

The Key Message

Adopt a low licence fee structure and ensure that the benefits are passed on to the consumers by way of lowered tariffs.

- essential for market expansion

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**Financial Ratios not to be the criteria for
Licence Fee fixation.**

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Nowhere does NTP view Telecom as a means of addressing Fiscal Deficit.

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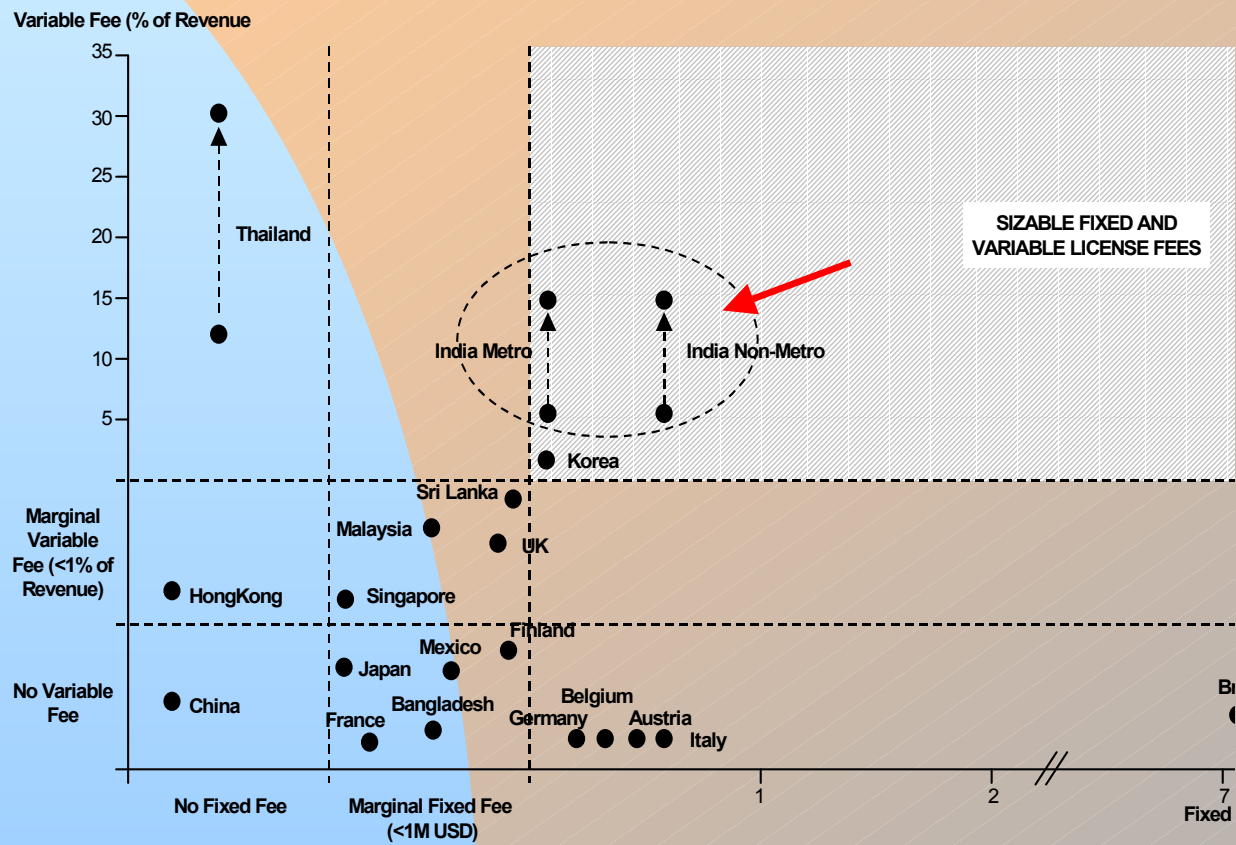
Indian Telecom to aim to merge with the global stream of best practices.



LICENCE FEES LEVELS.... WHAT HAPPENS IN OTHER COUNTRIES ?



International Benchmarks.....

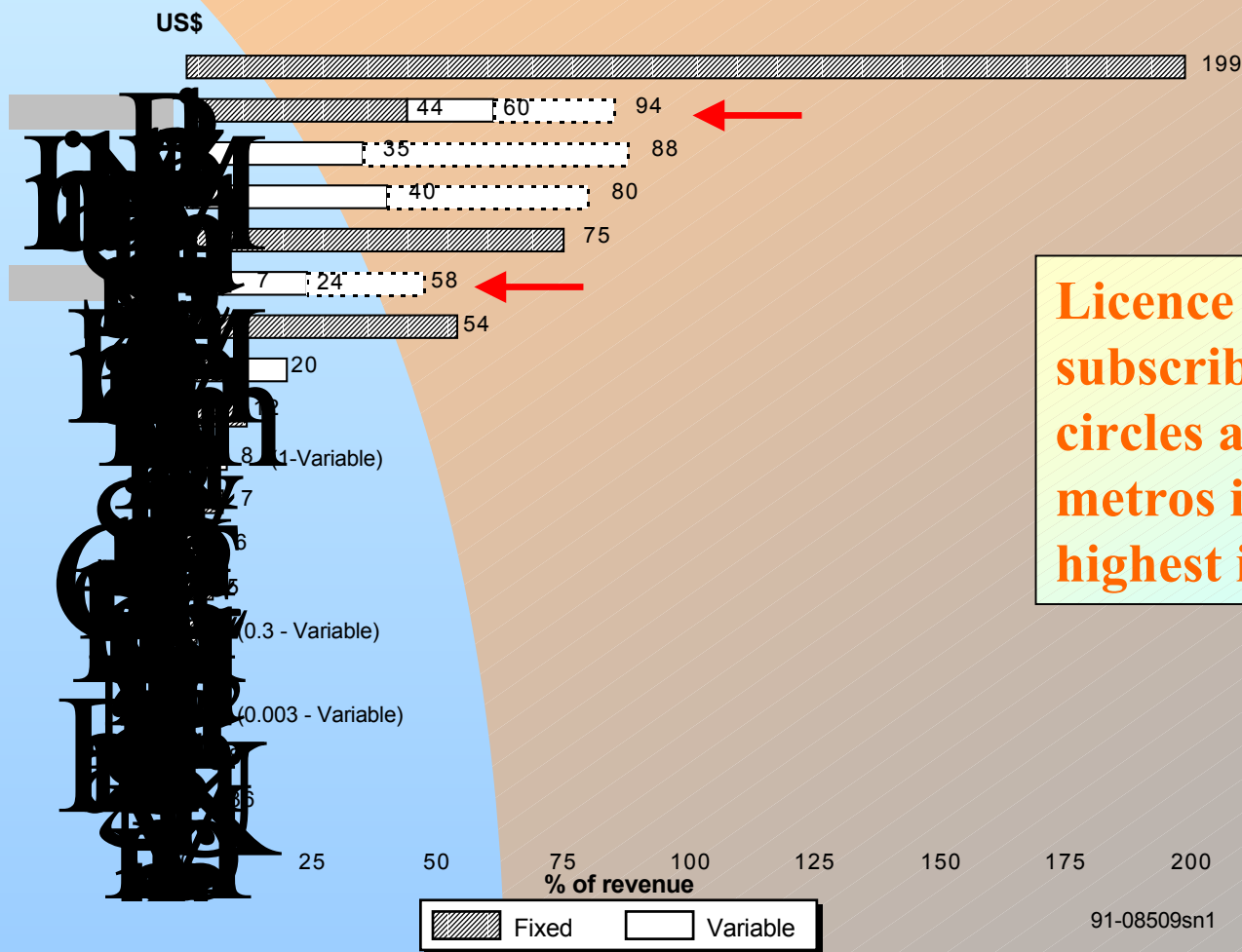


Licence fee in India is one of the highest in the world.....

And has severely hampered growth in the last 4 years.



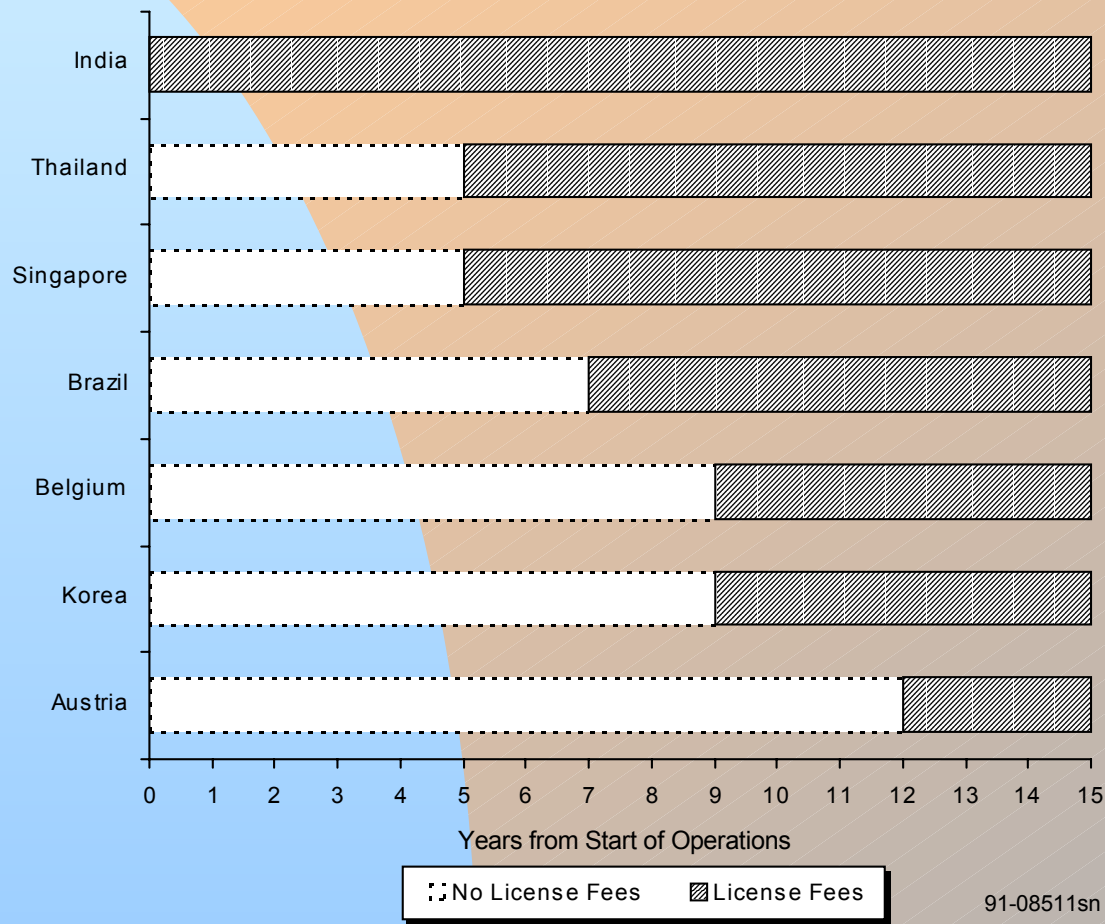
Licence Fee on a per subscriber basis.....



Licence fee on a per subscriber basis for circles as well as metros is one of the highest in India.



No Licence Fee burden during the market development period....



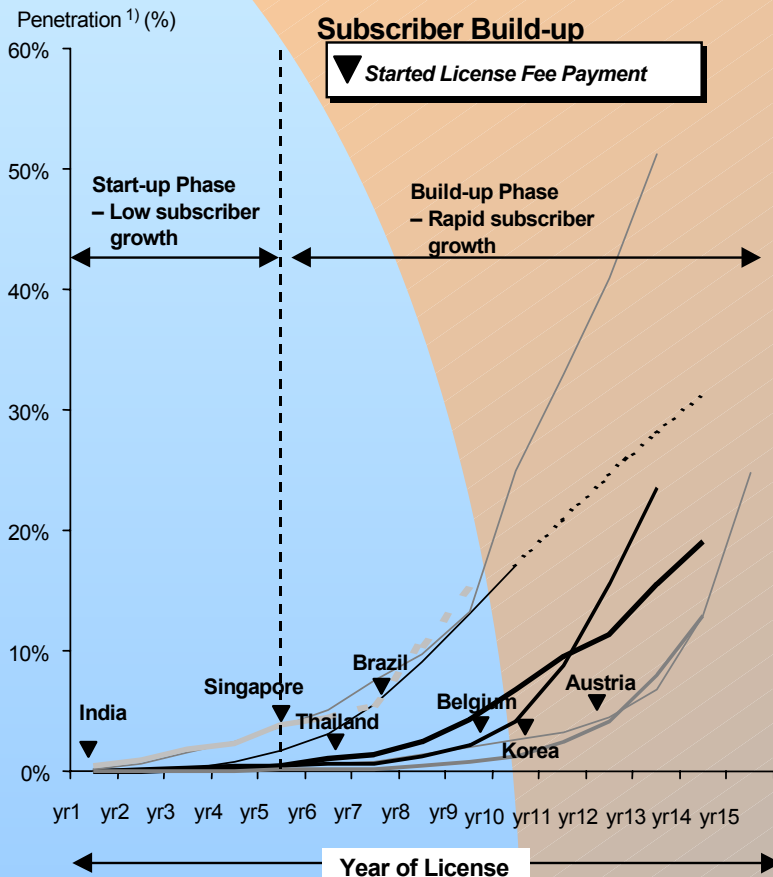
In majority of the countries where cellular services have been introduced, no licence fee has been charged during the market development period.



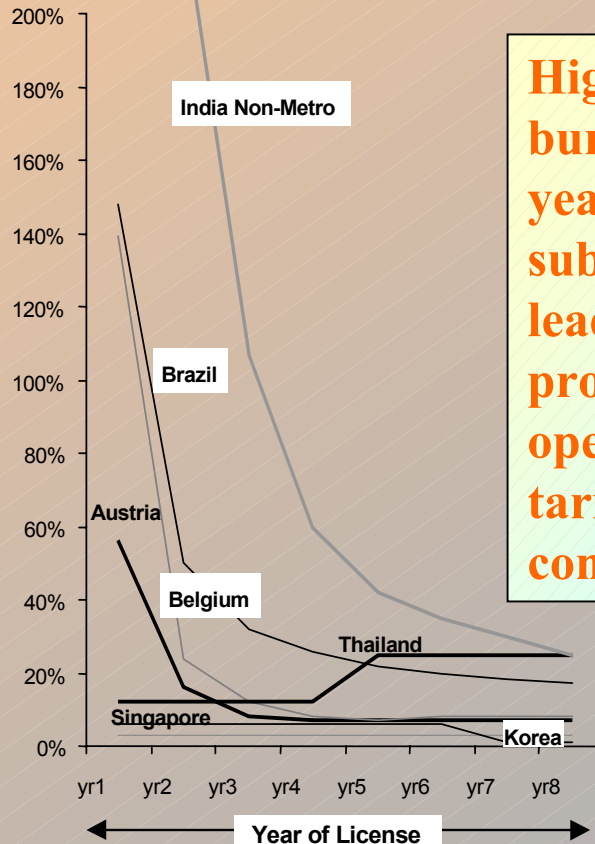


High licence fee adversely effects viability

Rapid Subscriber Growth in Later Years...



...Helps Drive Down License Fee Levels Quickly
License Fee As % of Revenue for New Entrants



High licence fee burden in the initial years of slow subscriber buildup leads cash flow problems for the operators and higher tariffs for consumers.





Spectrum Fee : International Practices

1. European Practices

(in ECU)

	Licence fee		Spectrum fee		Total
	Entry fee	Yearly fee	yearly/chan.	total yearly	combined yearly
Average	53,930,484	141,817	25,386	1,221,874	1,363,691
INR Crs.	226.5	0.60	0.11	5.13	5.73
Max.	289,348,00	740,135	90,758	9,977,632	10,717,767
INR Crs.	1215.26	3.11	0.38	41.9	45
Min.	Nil	Nil	Nil	Nil	Nil

Database : 17 European countries & sample population of 36 entries (max.) per parameter.

Source : ETO report dated July 1999 for the EU.



2. Asia Pacific Practices

- I. **Except Australia & NZ, other Asia Pacific countries have cost-based pricing schemes**

- II. **Singapore :**
 1. **The fee recovers full cost & is tied to bandwidth, ie., wider the bandwidth, the larger the fee.**
 2. **There is a one-time administration & processing fee to cover the cost of processing the application.**
 3. **The annual frequency management fee would cover the costs of frequency coordination with regulatory agencies.**
 4. **Even the regular licence fee is only 1% of revenue share**

Lessons from International examples

On an international comparison the combined effect of Indian Licence fee is one of the highest, and.....

..... is levied early on in the market development process, increasing the risk profile of the operators

In view of the above, a high revenue share licence fee level will reduce the investible surplus with the operators.



RECOMMENDATION

Revenue sharing licence should be set at levels which allow for project bankability as well as affordable tariffs.

COAI's View

**Annual Licence
Fee to be based
on the costs of
administering &
regulating the
licence**



**Full benefits to be
passed on to the
consumers on the
basis of cost
based tariffs**

COAI's view ; Licence Entry Fee....

1. Existing Operators have paid huge entry fees.
2. The sunk costs including accumulated losses has a heavy adverse effect on cash flows and DSCR.
3. Financial closure has been difficult due to the above.

The Authority should ensure level playing field conditions as well as lower cost structure for existing as well as new operators.

The COAI's Committment

The COAI and all its members are committed to providing the best possible mobile services to the largest number of customers at the lowest possible prices



**COAI requests earliest possible
Regulatory support in the matter**

Thank You

