

# Comments on Uniform License Fee

(Consultation paper No. 6/2009)

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**( Views are personal)**

This section in the consultation paper talks about issues related to uniform license fee. But there are two separate issues in this section which will require different approaches/answers to the questions raised for consultation.

1. Section 2.64 talks about license fee related to access (Basic/UASL/CMTS) and other services like NLD/ILD/ISP/VSAT etc. which ,currently , depends on type of license and categorization of the circle ( Metro, A, B or C) of operation. The issue is whether this can be made uniform or not across all services and all circles.

2. Section 2.65 talks about issues related to recurring spectrum fee which is currently applicable to only cellular (GSM/CDMA) services and does not depend on categorization of the circle. The issue here is whether recurring quarterly/annual spectrum fee can be made uniform irrespective of the amount of spectrum held by operator. Here also the issue is further different from section 2.64 as it involves both existing 2G operators and upcoming 3G operators with different entry fee and different mechanisms for obtaining spectrum.

**The comments offered here relate to only section 2.64 of consultation paper.**

## **Q42. What are the advantages and disadvantages of a uniform license fee?**

The advantage of uniform license fee is uniformity, avoiding possible arbitrage, reducing unnecessary work of segmenting revenues and above all providing level playing field for all standalone operators.

Non uniform license fee can lead to cross subsidisation and possible arbitrage by the operators. Both these issues are discussed below.

## **Cross Subsidisation of Licence Fee between Metro, A, B and C Circles**

The licence fee for basic, mobile and Universal Access Service Licence (UASL) depends on type of circle as per the categorization of circles as Metro, 'A', 'B' or 'C'. Initially this percentage was fixed in three slabs (10%, 12% and 15%) of revenue depending upon the category of the circle as 'A', 'B', 'C' or Metro. Although there have been reduction in the percentage of revenue to be shared due to increased revenues, the differential slabs for licence fee continue. With effect from 1st April 2004, the licence fee for basic, mobile and UASL, excluding spectrum charges, is 10% of AGR for Metro service areas and category 'A' circles, 8% of AGR for category 'B' Circles and 6% of AGR for category 'C' Circles.

The differential licence fee structure was based on the perception that there is inherently higher revenue potential in Metro & 'A' circles followed by 'B' circles compared to 'C' circles. In case of bidding system exorbitant licence fees were bid by operators in decreasing order of Metro, 'A', 'B' and 'C' circles. When licence fee as revenue share was implemented from 1<sup>st</sup> August, 1999, the differential percentages of revenue share, in decreasing order of Metro, 'A', 'B' and 'C' circles, were also fixed in accordance with revenue potential of different circles. While differential amount of licence fee through bidding was right, continuing differential licence fee arrangement while migrating to revenue share arrangement was flawed right from the beginning. In the case of bidding for a circle the quoted licence fee was based on the expectations or net present value of future revenue stream expected during the currency of licence period and is to be calculated in advance at the time of bidding. Once the fixed licence fee is replaced with the fee based on actual revenue earned, future positive (or negative) expectations are variables and inbuilt into the system. As can be seen from Table-1, average revenue from 'A' type circles is better than the Metro circles contrary to the assumption that Metro circles are highest revenue earning circles. Hence compared to Metro circles higher licence fee gets collected from 'A' circles for same revenue share of 10% for both. Licence fee, even with a fixed common percentage of revenue shares, will automatically be more for higher revenue earning circles and lower for lower revenue earning circles. Hence there is no need of differential licence fee between circles. We can see from Table-1 that licence fee for customers of 'A' and Metro circle works out much higher than the customers of 'B' and 'C' circle. Since licence fee is an element of cost, and assuming other cost structure similar across circles, it implies that cost of serving customers from A and Metro circles

will be higher compared to 'B' & 'C' circles. But we observe that almost all operators have same or similar tariff schemes for all type of circles which are perhaps based on average cost structures. With average licence fee being Rs 16 per customer per month, differential licence fee results in subsidies for customers of Metro and 'A' circles, whose licence fee are above average, being funded by customers from 'B' and 'C' circles.

**Table-1. Distribution of Licence Fee ( Basic/UASL/CMTS) by Type of Circle**

Circle type	Number of circles	Quarterly Gross Revenue (Rs. crore)	Quarterly Adjusted Gross Revenue (Rs crore)	Average Quarterly Adjusted Gross Revenue per circle (Rs. crore)	Licence fee per Quarter (Rs. crore)	Average lines in million (Apr-June 09)	Licence fee per subscriber per month (Rs.)	Licence fee as percentage of AGR	Expected License fee at uniform rate of 8.5% of AGR	Increase(+) / Decrease(-) between variable (6-10%) vs fixed (8.5%) license fee ( Rs. crore)
Metro	4	6697	4979	1245	494	71	23	10%	423	-71
A	5	11294	9152	1830	908	158	19	10%	778	-130
B	8	10208	8202	1025	655	169	13	8%	697	42
C	6	3041	2547	424	154	53	10	6%	216	62
All	23	31240	24880	1082	2211	450	16	8.9%	2115	-97

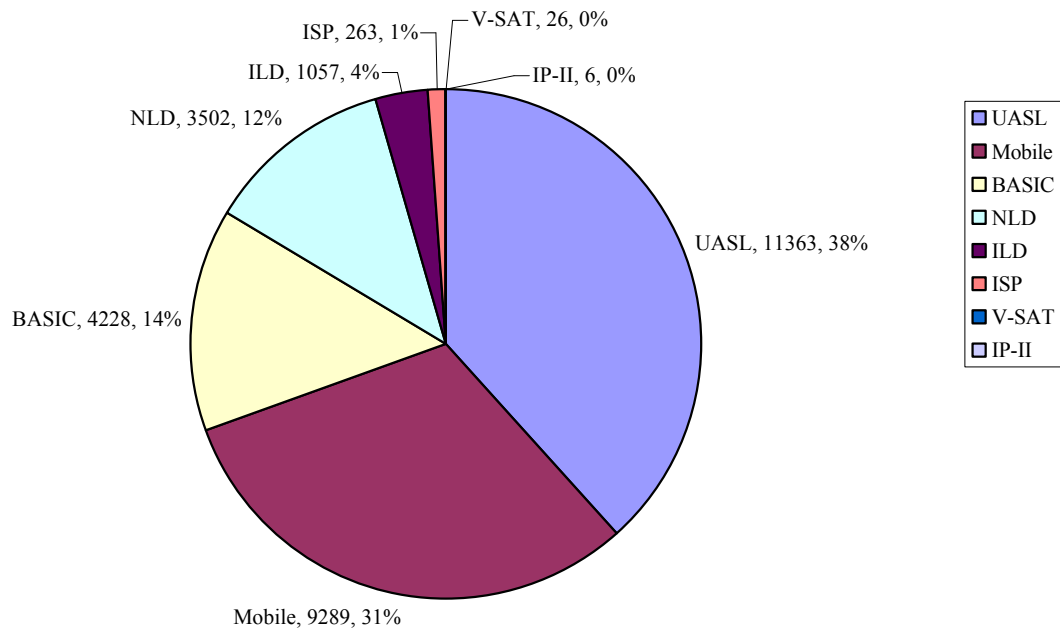
Source: Calculations based on TRAI reports for April-June 09 quarter

### **Arbitrage in Licence Fee between Licences**

Uniform licence fee can avoid possible arbitrage by integrated operators to load up maximum revenues on licences like NLD, ILD and ISP segment in which licence fee is only 6% of revenue earned compared to 6% to 10% in case of basic, CMTS and UASL. As per TRAI report for the quarter ending March 2009 for wireless segment, which covers more than 90% of subscriber base, of total Minutes Of Usage (MOU), 86.6% comes from local or intra-circle minutes and only 12.9% and 0.47% MOU are consumed as NLD and ILD minutes respectively. Figure-1 shows that adjusted gross revenues from NLD and ILD segments constitute 12% and 4% respectively. Revenues of 16% from NLD and ILD for 13% of MOU are more or less in line, considering the fact that the difference in tariff between NLD and local MOU, although fast disappearing, still exists. Therefore, arbitrage is not clearly visible from the data. However, there

could still be a possibility of arbitrage if data of MOU between local, NLD and ILD minutes and corresponding revenues are managed simultaneously by the integrated service provider. Therefore, licence fee for NLD and ILD can be made in line with other licences for uniformity, avoiding possible arbitrage, reducing unnecessary work of segmenting revenues and above all providing level playing field for all standalone operators. This is more practical now as entry fee for both NLD and ILD have been brought down from Rs. 100 crore to Rs. 2.5 crore.

**Figure-1. Quarterly Adjusted Gross Revenue by Licence Type (Rs. crore)**



Source: Calculations based on TRAI quarterly report for April-June quarter

**Q43. Whether there should be a uniform License Fee across all telecom licenses and service areas including services covered under registrations?**

Yes, there should be a uniform license fee across all licenses and service areas. There is a view that uniform license fee will have adverse impact on small or standalone operators. The analysis shows that the impact will be marginal, positive or negative, on operators as discussed below

## **Impact on operators**

It appears from Table-1 that Metro and 'A' circles will gain and operators operating in 'B' and 'C' circles will lose out if government goes ahead with the proposed 8.5% uniform licence fee. Therefore argument being given against uniform licence fee is that it will favour operators operating in 'A' and Metro circle at the cost of operators operating in 'B' and 'C' circles ,whose outflow on licence fee will increase on average by Rs. 42 crore and Rs. 62 crore per quarter respectively. Average licence fee for basic, mobile and UASL works out 8.9% (Table-1) and hence another argument could be that government will lose out Rs. 97 crore per quarter from basic, mobile and UASL operators by making uniform fee of 8.5%. Both these arguments become out of support, if we analyse the situation further. First, no operator is operating only in 'B' and 'C' circles; they operate in combination of Metro, 'A', 'B' and 'C' circles. Therefore, the increase in outflow in licence fee from in 'B' and 'C' circles will be compensated by reduction in licence fee in Metro and 'A' circles. As regards loss of 97 crore per quarter to government, this will be compensated by increase in licence fee from NLD and ILD operations, which is currently only 6% of AGR. As all major players are integrated players, operating in all segments of the market, their gains due to overall reduction in licence fee from basic, mobile and UASL operations will be neutralised by increased outflow of licence fee from NLD , ILD operations ( Table-2 and Table-4). However, the slight gain or loss for individual operator will depend upon the portfolio of circles it provides the service and scope of operations in segments other than fixed and mobile (Table-3) . BSNL is expected to lose the highest, Rs 35 crore per quarter, as it does not operate in Metro and Vodafone stands to gain the maximum by Rs 21 crore per quarter on account of higher revenues from Metro and 'A' circles.

**Table-2. Impact of Uniform Licence Fee on Operators for Different Categories of Licences**

<b>Company</b>	<b>No of Circles operated</b>	<b>Quarterly AGR (Rs. crore)</b>	<b>Quarterly Licence Fee (Rs.crore)</b>	<b>Average Licence fee across circles</b>	<b>Expected Licence fee at at 8.5% (Rs. crore)</b>	<b>Increase(+) / Decrease(-) in Licence fee outflow (Rs. crore)</b>
Bharti Airtel	23	6935	610	8.8%	589	-21
Bharti Airtel (NLD)	All India	1122	67	6.0%	95	28
Bharti (ILD)	All India	113	7	6.0%	10	3
BSNL	21	5461	465	8.5%	464	-1
BSNL(NLD)	All India	986	59	6.0%	84	25
BSNL(ILD)	All India	278	17	6.0%	24	7
BSNL(ISP)	All India	177	11	6.0%	15	4
Vodafone	23	4226	389	9.2%	359	-29
Vodafone (NLD)	All India	324	19	6.0%	28	8
Idea	15	2313	208	9.0%	197	-11
Reliance	23	2290	200	8.7%	195	-5
Reliance (NLD)	All India	547	33	6.0%	47	14
Reliance(ILD)	All India	182	11	6.0%	15	5
Tata	23	1449	135	9.3%	123	-11
Tata (NLD)	All India	287	17	6.0%	24	7
Tata (ILD)	All India	126	8	6.0%	11	3
MTNL	2	984	98	10.0%	84	-15
Aircel	18	734	63	8.5%	62	0
Spice Communication	2	255	22	8.7%	22	-1
Loop Mobile	1	121	12	10.0%	10	-2
Etisalat DB Telecom	13	51	5	9.6%	4	-1
HFCL Infotel	1	27	2	8.0%	2	0
Sistema Shyam	6	22	2	8.0%	2	0
Unitech Wireless	22	13	1	8.4%	1	0
Others(NLD)	All India	236	14	5.9%	20	6
Others(ILD)	All India	359	21	6.0%	30	9
Other ISPs and VSAT providers	All India	117	7	5.9%	10	3
All		29732	2502	8.4%	2527	25

Source: Calculations based on TRAI reports for April-June 09 quarter

**Table-3. Operator wise Overall Impact of Uniform License Fee**

<b>Company</b>	<b>Quarterly AGR ( Rs Crore)</b>	<b>Quarterly license fee ( Rs Crore)</b>	<b>Expected license fee at 8.5% (Rs Crore)</b>	<b>Overall increase (+) /decrease(-) in license fee ( Rs. Crore)</b>
Bharti	8170	684	694	10
BSNL	6902	551	587	35
Vodafone	4550	408	387	-21
Idea	2313	208	197	-11
Reliance	3019	244	257	13
Tata	1861	159	158	-1
MTNL	984	98	84	-15
Aircel	734	63	62	0
Spice Communication	255	22	22	-1
Loop Mobile	121	12	10	-2
Etisalat DB Telecom	51	5	4	-1
HFCL Infotel	27	2	2	0
Sistema Shyam	22	2	2	0
Unitech Wireless	13	1	1	0
Others(NLD)	236	14	20	6
Others(ILD)	359	21	30	9
Others (ISPs and VSAT )	117	7	10	3
All	29732	2502	2527	25

Source: Calculations based on TRAI reports for April-June 09 quarter

#### **Q44 If introduced, what should be the rate of uniform License Fee?**

The average license fee works out to be 8.4% (Table-4). There should be a mechanism to bring down the license fee with the revenue growth. It could currently be fixed at 7.5%. Further the license fee could be revised every year as License fee in previous year - X% , where X is a function of (revenue growth, inflation).

There is negligible or negative growth in landline segment. The costs, both CAPEX and OPEX, are higher in landline but it has to compete with mobile segment with same or similar tariffs. The

investments in the landline segment are decreasing year by year. As license fee is an element of cost, reduction or elimination of license fee for landline segment could offset some of the cost disadvantages for this segment. Government could provide concession in license fee till cost effective broadband on mobile platforms are available in both urban and rural areas. This could provide some breather to landline segment.

The impact on government's revenue for both 7.5% and 8.5% uniform license fee is discussed below.

### **Impact on Government's Revenue and Scope for Reduction in Licence fee**

With rapid growth in telecom sector fuelled by robust demand, revenues are continuously growing. Revenues growth is primarily fuelled by wireless segment which is growing rapidly. As licence fee depends upon the revenue earned, government is receiving increased licence fee every quarter. The sector revenues from services par of telecom, which were less than 10,000, crore per annum during 90's, has crossed around 1.3 lakh crore now. Government, in fact, is now earning much higher licence fee than would have come through fixed licence fee based on bidding amount. Apart from spectrum fee of around 875 crore, which is also based on revenue share, around Rs. 2500 crore is collected by government every quarter from operators as licence fee (Table-4). With the auction of third Generation (3G) mobile around, government is expected to earn more revenue both from licence fee and spectrum fee. In spite of increasing revenues the total taxes and levies on telecom sector continue to be around 31% which are quite high compared to other countries. Therefore, there is a scope for reduction in licence fee and government should also bring down the licence fee while making uniform licence fee.



**Table-4. Licence wise Impact on Government's Revenue Due to Uniform Licence Fee**

Licence Type	Quarterly Gross Revenue (Rs. crore)	Quarterly Adjusted Gross Revenue (AGR) (Rs crore)	Licence fee per Quarter (Rs. crore)	Average Licence fee as % of AGR	Expected Licence fee at uniform percentage of 8.5%	Increase (+) / Decrease (-) in licence fee between existing vs fixed (8.5%) license fee ( Rs. crore)	Expected Licence fee at uniform percentage of 7.5%	Increase (+) / Decrease (-) in licence fee between existing vs fixed (7.5%) licence fee ( Rs. crore)
UASL	14674	11363	994.6	8.8%	966	-29	852	-142
Mobile	11712	9289	835.9	9.0%	790	-46	697	-139
BASIC	4854	4228	380.9	9.0%	359	-22	317	-64
NLD	4380	3502	209.9	6.0%	298	88	263	53
ILD	2215	1057	63.3	6.0%	90	26	79	16
ISP	1241	263	15.7	6.0%	22	7	20	4
V-SAT	27	26	1.6	6.0%	2	1	2	0
IP-II	6	6	0.3	6.0%	0	0	0.4	0
ALL	39108	29732	2502.2	8.4%	2527	25	2230	-272

Source: Calculations based on TRAI reports for April-June 09 quarter

The overall average licence fee for all licences is around 8.4% (Table-4). If government makes uniform fee of 8.5%, it will gain marginally by 25 crore per quarter. If it brings licence fee for all type of services at 7.5%, it will lose Rs 272 crore per quarter. With current spectrum fee of around 850 crore per quarter and licence fee of Rs 2500 crore, both of which are likely to increase due to growth momentum and launch of 3G, it will take only 12-15 months for government to bridge this gap. But surely the reduction in licence fee need to translated by service providers into still more affordable tariffs increasing the likelihood for covering the population which still remains uncovered.

Further details on this can also be referred in my article in the current issue ( 7<sup>th</sup> Nov to 13<sup>th</sup> Nov) of Economic and Political Weekly (EPW). The article is attached herewith and can also be accessed at following links.

<http://epw.in/epw/uploads/articles/14126.pdf>

or

<http://epw.in/epw/user/fullContent.jsp>

# Uniform Licence Fee in Telecom: Way Forward

RAJKUMAR UPADHYAY

Telecom service providers are required to obtain a licence before starting any kind of service in India. They pay a certain percentage of their revenue as a licence fee to the government on a quarterly basis and the percentage of revenue to be shared depends on the type of service offered and the area of operation. This article argues that such a differential system of licensing is flawed and leads to cross subsidisation and possible arbitrage. It estimates the impact on individual operators and the government's revenue, in case the government implements a uniform licence fee for all services in each area and also argues for a reduction in the licence fee in line with revenue growth.

Consequent to liberalisation, there has been tremendous growth in the telecom sector with the participation of the private sector. The government and the Telecom Regulatory Authority of India (TRAI), at various stages, have taken necessary steps to maintain the growth momentum. When the telecom sector was opened to competition initially, operators, to gain entry, had bid an exorbitantly high fixed licence fee for telecom circles depending upon the perceived revenue potential of each circle. These licensees were to pay a fixed amount of licence fees annually, based on the agreed amount during the bidding process. The licence fee per customer worked out to around Rs 500 per month in the beginning. As the revenues were meagre, it became difficult for the operators to pay the instalments of licence fee and the industry was on the brink of the collapse. To bail the operators out, the then National Democratic Alliance government scrapped the predefined fixed licence fee, which was based on a very high amount offered during bidding process, and gave way to a revenue sharing model. Accordingly, operators were permitted to migrate to the New Telecom Policy (NTP) 1999 regime, wherein they were required to pay a licence fee as fixed

percentage of revenue share and a one-time non-refundable entry fee equal to the pending licence fee payments before a new regime came into effect.

## Licence Fee as Revenue Share

The payment of licence fee as a fixed percentage of actual revenue earned came into effect from 1 August 1999. For segments like national long distance (NLD) and international long distance (ILD) also, which were opened to a competition later, the licence fee was required to be paid as a percentage of actual revenue earned. The licence fee and the entry fee for various types of services are shown in Table 1. The licence fee for basic, mobile and universal access service licence (UASL) depends on the type of circle categorised as Metro, "A", "B" or "C". Initially, this percentage was fixed in three slabs (10%, 12% and 15%) of revenue depending upon the category of the circle as A, B, C or Metro. The revenue to be taken into account is the adjusted gross revenue (AGR). The AGR is calculated after excluding all interconnection charges, roaming charges, access charges being paid to other operators for using their network and revenues like through handset sale. Although there has been a reduction in the percentage of revenue to be shared due to increased revenues, the differential slabs for licence fees continued. With effect from 1 April 2004, the licence fee for basic, mobile and UASL, excluding spectrum charges, was set at 10% of AGR for Metro service areas and category A circles, 8% of AGR for category B circles and 6% of AGR for category C circles (Table 1). Currently, in

**Table 1: Entry and Licence Fee for Various Types of Services**

Type of Service	Service Area	Entry Fee	Annual Licence Fee (% Revenue Share)
Basic, mobile and universal access service licence	Circle	Different for each circle	Metro and A - 10 B - 8 C - 6
International long distance	International	Rs 2.5 crore	
National long distance	National	Rs 2.5 crore	6
Very small aperture terminal	National	Rs 30 lakh	6
Internet service providers	National, circlewise, SSA wise	Nil	Rs 1 (6 for internet telephony)
Global mobile communication by satellite	International	Rs 1 crore	6
Public mobile radio trunked service	Citywise and circlewise	Nil	5
Infrastructure providers Cat I	National	Nil	Nil
Infrastructure providers Cat II	National	Nil	6

Source: Based on various guidelines on different licences on Department of Telecom's web site.

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**Table 2: Distribution of Licence Fee by Type of Circle**

Circle Type	No of Circles	Quarterly Gross Revenue (Rs Crore)	Quarterly Adjusted Gross Revenue (AGR) (Rs Crore)	Average Quarterly Adjusted Gross Revenue Per Circle (Rs Crore)	Licence Fee Per Quarter (Rs Crore)	Average Lines in Million (Apr-June 09)	Licence Fee Per Subscriber Per Month (Rs)	Licence Fee as Percentage of AGR	Expected Licence Fee at Uniform Rate of 8.5% of AGR (Rs Crore)	Increase(+)/Decrease(-) between Variable (6-10%) vs Fixed (8.5%) Licence Fee (Rs Crore)
Metro	4	6,697	4,979	1,245	494	71	23	10%	423	-71
A	5	11,294	9,152	1,830	908	158	19	10%	778	-130
B	8	10,208	8,202	1,025	655	169	13	8%	697	42
C	6	3,041	2,547	424	154	53	10	6%	216	62
All	23	31,240	24,880	1,082	2,211	450	16	8.9%	2,115	-97

Source: Calculations based on TRAI reports for April-June 2009 quarter.

addition to two state-owned operators, Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Limited (MTNL), there are 20 private operators providing fixed, cellular, NLD, ILD, very small aperture terminal (VSAT), internet service provider (ISP) and infrastructure provider (IP) services and paying approximately Rs 2,500 crore per quarter as licence fee to the government.

Recently there have been a few news items in the print media about the proposal of the department of telecom (DOT) to consider a uniform licence fee. In reaction, TRAI has apparently written to DOT, asking to be consulted before doing away with the variable licence fee structure presently followed. TRAI feels that the issue has wider implications for the sector and the government's revenue, and hence, the views of all stakeholders must be taken into consideration.

The aim of both the government and TRAI should be to ensure that interests of all stakeholders are taken into account before a final decision is taken. Hence, there is a need to debate this matter incorporating various viewpoints, while keeping the consumer's welfare in mind. This article is a step in that direction.

**Cross Subsidisation of Licence Fee**

The differential licence fee structure was based on the perception that there is an inherently higher revenue potential in Metro and A circles followed by B circles compared to C circles. In the bidding system, exorbitant licence fees were bid by operators in decreasing order of Metro, A, B and C circles. When licence fee as a revenue share was implemented from 1 August 1999, the differential percentages of revenue share, in decreasing order of Metro, A, B and C circles, were also fixed in accordance with the revenue potential of different circles. While differential

licence fees through bidding was right, a continuing differential licence fee arrangement when migrating to revenue share arrangement was flawed right from the beginning. In the case of bidding for a circle, the quoted licence fee was based on the expectations or net present value of future revenue stream expected during the currency of the licence period and was to be calculated in advance at the time of bidding. Once the fixed licence fee was replaced by the fee based on actual revenue earned, the future positive (or negative) expectations are variables and inbuilt into the system. As can be seen from Table 2,

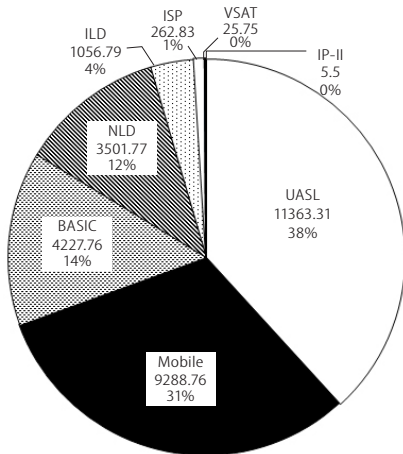
the average revenue from A type circles is higher than in the Metro circles, contrary to the assumption that Metro circles are the highest revenue earning circles. Hence, compared to Metro circles a higher licence fee gets collected from A circles for the same revenue share of 10% for both. The licence fee, even with a fixed common percentage of revenue shares, will automatically be more for higher revenue earning circles and lower for lower revenue earning circles. Hence, there is no need of a differential licence fee between circles. We can see from Table 2 that the licence fee for customers of A and Metro

**Table 3: Impact of Uniform Licence Fee on Operators for Different Categories of Licences**

Company	No of Circles Operated	Quarterly AGR (Rs Crore)	Quarterly Licence Fee (Rs Crore)	Average Licence Fee across Circles (in %)	Expected Licence Fee at 8.5% (Rs Crore)	Increase(+)/Decrease(-) in Licence Fee Outflow (Rs Crore)
Bharti Airtel	23	6,935	610	8.8	589	-21
Bharti Airtel (NLD)	All India	1,122	67	6.0	95	28
Bharti (ILD)	All India	113	7	6.0	10	3
BSNL	21	5,461	465	8.5	464	-1
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BSNL (ILD)	All India	278	17	6.0	24	7
BSNL (ISP)	All India	177	11	6.0	15	4
Vodafone	23	4,226	389	9.2	359	-29
Vodafone (NLD)	All India	324	19	6.0	28	8
Idea	15	2,313	208	9.0	197	-11
Reliance	23	2,290	200	8.7	195	-5
Reliance (NLD)	All India	547	33	6.0	47	14
Reliance (ILD)	All India	182	11	6.0	15	5
Tata	23	1,449	135	9.3	123	-11
Tata (NLD)	All India	287	17	6.0	24	7
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MTNL	2	984	98	10.0	84	-15
Aircel	18	734	63	8.5	62	0
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Sistema Shyam	6	22	2	8.0	2	0
Unitech Wireless	22	13	1	8.4	1	0
Others (NLD)	All India	236	14	5.9	20	6
Others (ILD)	All India	359	21	6.0	30	9
Other ISPs and VSAT providers	All India	117	7	5.9	10	3
All		29,732	2,502	8.4	2,527	25

Source: Calculations based on TRAI reports for April-June 2009 quarter.

**Figure 1: Quarterly Adjusted Gross Revenue by Licence Type (Rs crore)**



Source: Calculations based on TRAI report for April-June quarter.

circles works out to be much higher than in b and c circles. Since the licence fee is an element of cost, and assuming other cost structures are similar across circles, it implies that the cost of serving customers in the Metro and A circles will be higher compared to b and c circles. But we observe that almost all operators have the same or similar tariff schemes for all type of circles which are perhaps based on average cost structures. With the average licence fee being Rs 16 per customer per month, the differential licence fee results in subsidies for customers of Metro and A circles, whose licence fee is above average, being funded by customers from b and c circles.

**Arbitrage in Licence Fee between Licences**

The government considers a possible arbitrage by integrated operators as one of the main arguments for a uniform licence fee. It feels the uniform licence fee can avoid possible arbitrage by integrated operators to load up maximum revenues on licences like NLD, ILD and ISP segment in which licence fee is only 6% of revenue earned compared to 6% to 10% in basic, mobile and UASL services. As per the TRAI report for the quarter ending March 2009 for the wireless segment, which covers more than 90% of the subscriber base, of the total minutes of usage (MOU), 86.6% comes from local or intra-circle minutes and only 12.9% and 0.47% MOU are consumed as NLD and ILD minutes, respectively. Figure 1 shows that AGR

from NLD and ILD segment constitutes 12% and 4%, respectively, of the total. Revenues of 16% from NLD and ILD for 13% of MOU are more or less in line, considering the fact that the difference in tariff between NLD and local MOU, although fast disappearing, still exists. Therefore, arbitrage is not clearly visible from the data. However, there could still be a possibility of arbitrage if data of MOU between local, NLD and ILD minutes and corresponding revenues are managed simultaneously. Therefore, the licence fee for NLD and ILD can be made in line with other licences for uniformity, avoiding possible arbitrage, reducing unnecessary work of segmenting revenues, and above all, providing a level playing field for all standalone operators. This is more practical now as the entry fees for both NLD and ILD have been brought down from Rs 100 crore to Rs 2.5 crore.

**Impact on Operators**

It appears from Table 2 that Metro and A circles will gain and operators operating in b and c circles will lose out if government goes ahead with the proposed 8.5% uniform licence fee. Therefore, an argument being given against a uniform

**Table 4: Operatorwise Overall Impact of Uniform Licence Fee (in Rs crore)**

Company	Quarterly AGR	Quarterly Licence Fee	Expected Licence Fee at 8.5%	Overall Increase (+)/ Decrease (-) in Licence Fee
Bharti	8,170	684	694	10
BSNL	6,902	551	587	35
Vodafone	4,550	408	387	-21
Idea	2,313	208	197	-11
Reliance	3,019	244	257	13
Tata	1,861	159	158	-1
MTNL	984	98	84	-15
Aircel	734	63	62	0
Spice Communication	255	22	22	-1
Loop Mobile	121	12	10	-2
Etisalat DB Telecom	51	5	4	-1
HFCL Infotel	27	2	2	0
Sistema Shyam	22	2	2	0
Unitech Wireless	13	1	1	0
Others (NLD)	236	14	20	6
Others (ILD)	359	21	30	9
Others (ISPs and VSAT)	117	7	10	3
All	2,9732	2,502	2,527	25

Source: Calculations based on TRAI reports for April-June 2009 quarter.

licence fee is that it will favour operators operating in the A Metro and A circles at the cost of operators in the b and c circles, whose outflow on licence fee will increase on average by Rs 42 and Rs 62 crore per quarter, respectively. The average licence

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**Table 5: Licencewise Impact on Government's Revenue Due To Uniform Licence Fee**

Licence Type	Quarterly Gross Revenue (Rs Crore)	Quarterly AGR (Rs Crore)	Licence Fee Per Quarter (Rs Crore)	Average Licence Fee as % of AGR	Expected Licence Fee at Uniform Percentage of 8.5 (Rs Crore)	Increase (+)/Decrease (-) in Licence Fee between Existing vs Fixed (8.5%) Licence Fee (Rs Crore)	Expected Licence Fee at Uniform Percentage of 7.5 (Rs Crore)	Increase (+)/Decrease (-) in Licence Fee between Existing vs Fixed (7.5%) Licence Fee (Rs Crore)
UASL	14,674	11,363	994.6	8.8	966	-29	852	-142
Mobile	11,712	9,289	835.9	9.0	790	-46	697	-139
BASIC	4,854	4,228	380.9	9.0	359	-22	317	-64
NLD	4,380	3,502	209.9	6.0	298	88	263	53
ILD	2,215	1,057	63.3	6.0	90	26	79	16
ISP	1,241	263	15.7	6.0	22	7	20	4
V-SAT	27	26	1.6	6.0	2	1	2	0
IP-II	6	6	0.3	6.0	0	0	0.4	0
ALL	39,108	29,732	2,502.2	8.4	2,527	25	2,230	-272

Source: Calculations based on TRAI reports for April-June 2009 quarter.

fee for basic, mobile and UASL works out to 8.9% of the AGR (Table 2), and hence, another argument could be that the government will lose out Rs 97 crore per quarter from basic, mobile and UASL operators by setting the uniform fee at 8.5% of AGR. Both these arguments are not valid. First, no operator is operating only in B and C circles; they operate in combination of Metro, A, B and C circles. Therefore, the increase in outflow in licence fee from B' and C circles will be compensated by a reduction in licence fee in Metro and A circles. As regards loss of Rs 97 crore per quarter to the government, this will be compensated by an increase in licence fee from the NLD and ILD operations, which is currently only 6% of AGR. As all major players are integrated players, operating in all segments of the market, their gains due to overall reduction in the licence fee for basic, mobile and UASL operations will be neutralised by the increased outflow of licence fee from NLD, ILD operations (Table 3, p 72 and Table 5). However, the slight gain or loss for the individual operator will depend upon the portfolio of circles in which it provides services and the scope of operations in segments other than fixed and mobile (Table 4, p 73).

BSNL is expected to lose the highest, Rs 35 crore per quarter, as it does not operate in the Metro circles and Vodafone stands to gain the maximum by Rs 21 crore per quarter on account of higher revenues from Metro and A circles.

### Scope for Reduction in Licence Fee

With a rapid growth in the telecom sector fuelled by robust demand, revenues are continuously growing. The revenue

growth is primarily fuelled by the wireless segment which is growing rapidly. As the licence fee depends upon the revenue earned, the government is receiving an increased licence fee every quarter. The sector revenues from services, which were less than Rs 10,000 crore per annum during the 1990s, have crossed around Rs 1.3 lakh crore now. The government, in fact, is now earning a much higher licence fee than would have come through fixed licence fee based on bidding amount. Apart from the spectrum fee of around Rs 875 crore, which is also based on the revenue share, around Rs 2,500 crore is collected by government every quarter

from operators as licence fee (Table 5). With the auction of third Generation (3G) mobile round the corner, the government is expected to earn more revenue from both licence and spectrum fees. In spite of increasing revenues, the total taxes and levies on the telecom sector continue to be around 31%, which are quite high compared to other countries. Therefore, there is a scope for reduction in the licence fee and the government should also make it a uniform licence fee.

The overall average licence fee for all licences is around 8.4% (Table 5). If the government makes a uniform fee of 8.5%, it will gain marginally by Rs 25 crore per quarter. If it sets the licence fee for all type of services at 7.5%, it will lose Rs 272 crore per quarter. With current spectrum fee of around Rs 850 crore per quarter and the licence fee of Rs 2,500 crore, both of which are likely to increase due to growth momentum and launch of 3G, it will take only 12 to 15 months for the government to bridge this gap. But surely, the reduction in licence fee needs to be translated by service providers into still more affordable tariffs, increasing the likelihood for covering the population which still remains uncovered.

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