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Respected Prime Minister,

26 November, 2010

Sub. : Huge 2G Spectrum Losses – Need for Urgent Government Action

This is in continuation to my various letters addressed to you on the subject and particularly, the letter written to you dated 11 May 2010 (copy enclosed herewith).

You will agree that Governments and Parliaments have a moral duty to act in Public Interest, and for any Government that lives by this belief - as I am sure your Government does - it must be its priority to identify the wrongdoers and recover the monies lost as a consequence of the cheap sale of spectrum.

There are many ways of recovering moneys from the different types of operators (new and old) relating to spectrum (new spectrum and additional spectrum). Some of the options available to the Government are :

- a. Windfall taxes for those who have gained by resale of their cheap licenses.
- b. Cancellation of licenses and re-auction of spectrum for illegal licenses. An alternate to cancellation and re-auction is to give the licensees the opportunity to pay up the balance license fees (calculated as the difference between the 3G license fees and what they have paid for 2G).
- c. Existing operators to pay for extra spectrum at 3G benchmark rates or surrender them and buy them back through a re-auction of spectrum.

If the Government is serious about its obligations to public interest, then they would pursue the above instead of relying on arguments that are already being made expectedly to sweep this under the carpet.

The two arguments that are being used, i.e., investor interest and consumer interest, should not be allowed to come in the way of the action to achieve the twin objectives outlined above.



I would like to make the following points for your consideration:

I. Argument of Investor Interest

The argument of investor interest should not be used and has no place in whatever action is decided by the Government.

- (a) Telecom investors the world over and in India understand the need to currently pay market prices for spectrum – in a market like India which has little or no market or sectoral risk, and is poised to become one of the largest in the world. Those investors that do not understand the need to pay the market price for spectrum must be asked to learn that it is the case. The Government, and indeed the taxpayer, is not obliged to provide backstops for investors who take investment decisions based on illegal licenses and spectrum giveaways. Maybe there is an argument to improve the quality of investors we are attracting to our country and a change in the perception that robber baron investors are the ones that succeed in India.
- (b) It is clear, according to the CAG report, that several of these companies have made false representations to acquire spectrum fraudulently. Clearly, those who made such false representations cannot be spared.
- (c) The CAG has also pointed out that many existing Operators also have excess spectrum. As you are aware, these are all highly profitable companies with significant market capitalizations and value. Paying for this extra spectrum will be insignificant for their economics and true investors understand the need to pay market value for Spectrum.
- (c) Moreover, any sector will do well to improve the quality of investors – especially from amongst those who have never been interested in investments. Majority of these new Telecom licensee companies had bought the license to sell it at a profitable value. Their interest is of no consequence since they would sell in any event. On the other hand, it is the buyer / operator whose interest is paramount, and under the circumstances, a cleaning up of the system and removal of such unwanted and undesirable elements would only add to the investor confidence – both Indian and global.
- (c) Also, since vast majority of these companies have not made any significant rollouts, they have no case for arguing that their licenses are kept intact. Apart from TRAI recommendations based on lack of rollout, there is clear evidence that several companies have merely met the rollout obligations on paper – thus fooling the Government with a view to sell the licenses on the completion of three years, as per the current merger guidelines. Most companies will reach that stage by January / February 2011.



- (d) Since the DoT has already circumvented TRAI's explicit recommendations that no M&As should take place till rollout obligations were met, by dropping the ban on acquisitions and modifying the merger guidelines to three years from date of license, rather than rollout – it is clear that these companies have, in collusion with officials in the Department, set out a dangerous plan which the Government must prevent with immediate effect.

II. Argument of Consumer Interest

The argument of consumer interest is, in any event, a non-issue for multiple reasons including :

- (a) These companies hardly have any consumers in their circles. Their combined market share is in a lower single digit percentage.
- (b) Each of these circles has multiple operators, and therefore, consumers can easily switch between operators and will have plenty of choice even if all the fraudulently acquired licenses / spectrum are withdrawn.
- (c) With Mobile Number Portability on the anvil, every single subscriber with such dubious operators can simply change their operator with their current number intact, cost of such migration can be borne by the licensee.

So in conclusion, there is absolutely no case made out either for investor interest or consumer interest that will come in the way of the action that Government must take to recover the moneys and penalize the wrongdoers in this Spectrum Scam.

I hope that this communication will help forewarn the government of a second resultant scam, unless immediate steps are taken.

Yours Sincerely,

RAJEEV CHANDRASEKHAR

Dr. Manmohan Singh
Hon'ble Prime Minister
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New Delhi