

INDIAN CELLULAR INDUSTRY – A SNAPSHOT

+ 110 million subscribers – Overall Tele density of ~15

➤ Growing at more than 5 million subscribers per month

+ 133 state-of-the art networks on air

➤ with 6-7 Operators in Every Service Area

+ > Rs. 60,000 crores Investments

➤ Growing @ 12% per annum

+ Services in over **8000** towns & cities & around **1 lakh** villages.

+ Lowest Tariffs in the World



A Proud Flag Bearer of the Indian Reforms Process

ECONOMIC & SOCIAL BENEFITS OF MOBILE SERVICES

❖ For the individual

- Improved Connectivity - anytime, anywhere access
- Higher Productivity
- Tool of social empowerment
- Lifeline in case of an emergency

❖ For the Country/Nation

- Increased Employment
- Platform to offer e-initiatives
- Bridging the Digital Divide – connecting rural India
- Higher revenues
- Improved Economic Growth

ECONOMIC & SOCIAL BENEFITS OF MOBILE SERVICES

Employment

- ❖ **82 lakh jobs generated directly or indirectly**

Government Revenues

- ❖ **Rs. 33,000 crores per annum generated by Mobile Industry for the Government**

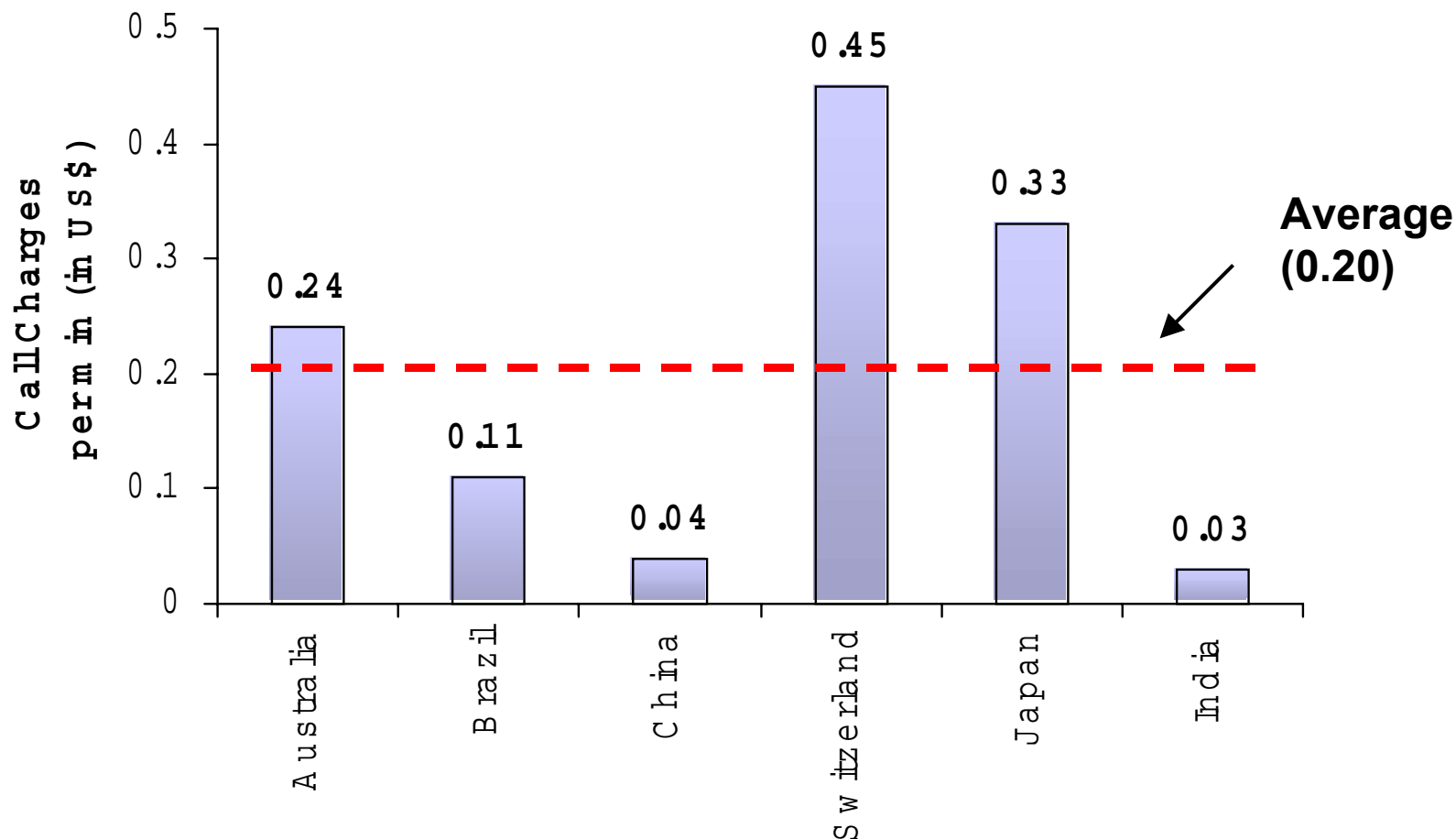
GDP

- ❖ **The mobile services industry generates an annual GDP contribution of Rs. 71,000 crores**

Based on OVUM Report

It is generally accepted that a 1% increase in tele-density will lead to a 3% increase in the rate of growth of GDP

MOBILE TARIFFS IN INDIA ARE LOWEST WHEN COMPARED TO GLOBAL BENCHMARKS



- **Tariffs have fallen further to around 0.01 levels.**

Source: TRAI Recommendations on Growth of telecom services in rural India, October 3, 2005

AND HAS BECOME AN INTEGRAL PART OF EVERYDAY LIFE



BUT PENETRATION IS STILL VERY INADEQUATE

- ❖ **Mobile Tele-density is still at 11% is still far below global benchmarks.**
- ❖ **Most of the Rural India, with > 70% population is still deprived of the benefits of telecom revolution with Rural teledensity being abysmally low.**
- ❖ **Thus, improved rural connectivity is one of the highest priority items for our Government.**
- ❖ **A major factor hampering spread of service to rural areas is the high level of levies.**

THE INDUSTRY CARRIES A BURDEN OF HIGH LEVIES

	Pakistan	Sri Lanka	China	Malaysia	India
Regulatory charges	% age of revenue	%age of revenue	% age of revenue	% age of revenue	% age of revenue
Service tax, GST	GST	VAT	3%	5%	12.2% + GST
License Fee	0.5% + 0.5% R & D	0.3% turnover (t.o.) + 1% of capital invested (inv)	Nil	0.5%	5 – 10%
Spectrum Charge	Cost recovery	~1.1% to t..o	~0.5%** (China Mobile)	Nil	2 ~ 6%*
USO	1.5%	Nil (only on ISD calls)	Nil	1%	Included in license fees
Total Regulatory charges	2.5% +GST+ cost recovery	1.3% t.o.+1% inv+VAT	0.5%+3% (Tax)	6.5%	17%~26% + GST

* Backbone spectrum charges extra GST – Goods & Service Tax

** Estimated from spectrum fees & revenue of China Mobile

❖ **Levies and duties on Indian telecom sector are one of the highest in the world.**

(Source: ITU Forum TRAI Spectrum Policy Recommendations, 13th May, 2005 &)

“It does seem strange for countries to say that telephone access is public policy goal and then put special or punitive taxes on telecom operators and users”

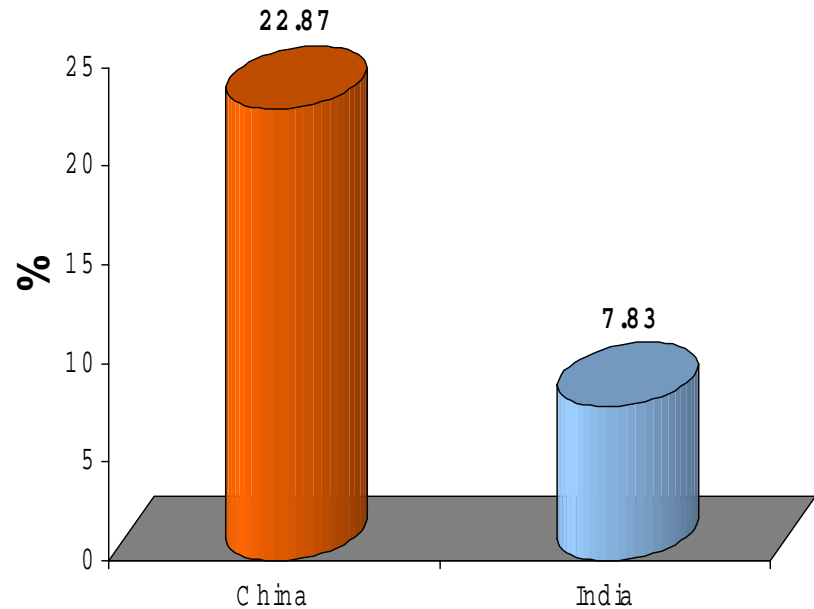
“It is a case of sin taxes on blessed product”

- Charles Kenny, World Bank

HIGH LEVIES ADVERSELY IMPACT VIABILITY

- ❖ **Telecom requires massive ongoing capital investments; to expand network and meet the increasing demand.**
- ❖ **High levies mean a very low return on capital.**
- ❖ **ROCE for Mobile service in China much higher at 22.8% as compared to 7.8% for India.**
- ❖ **As a result, not enough funds are available for RE-INVESTMENT in network expansion.**
- ❖ **Levies TAKE AWAY funds which could be used for expansion of network and coverage.**

HIGH LEVIES RESULT IN LOW ROCE



	China	India
Regulatory charges	% age of revenue	% age of revenue
Service tax, GST	3%	10% + GST
License Fee	Nil	5 – 10%
Spectrum Charge	~0.5%* (China Mobile)	2 ~ 6%**
USO	Nil	Incl in license fees
Total Regulatory charges	0.5%+3% (Tax)	17%~26% + GST

* Backbone spectrum charges extra GST – Goods & Service Tax

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Source: TRAI Study paper on Telecom Industry of India and China June 2005

LOWER LEVIES IS AN ESSENTIAL PREREQUISITE FOR SPREAD OF SERVICE

- ❖ Population coverage of mobile has reached 60% whereas penetration of mobile service is just 11%.
- ❖ It is evident that there can be many more users of mobile service.
- ❖ There is a pressing need to facilitate take-up of service OR Usage of Service.
- ❖ Lowering of levies is an essential prerequisite in order to facilitate take-up of service.
- ❖ And levies can be lowered without any loss of revenue to the government.

REVENUES TO THE GOVT. WILL CONTINUE TO RISE IN SPITE OF LOWER LEVIES

- ❖ **Mobile revenues have grown at a compounded rate of 58.5% y-o-y from March 04 to March 06.**
- ❖ **Thus even a annual reduction of 50% in the rate of revenue share license fee will not reduce the revenues to the government.**
- ❖ **On the other hand, because of rise in gross revenues of the sector, revenues to the government will continue to rise.**
- ❖ **Similarly, the quantum of USO contributions to the govt. will also rise.**

REMOVE MULTIPLE LEVIES TO FACILITATE GROWTH

- ❖ **At present, multiple levies are imposed on the telecom sector.**
- ❖ **Various levies imposed by the Central and State Govts like, Licence fee, Spectrum Charges, ADC, Service Tax, Entry Tax, Octroi and Stamp duties.**
- ❖ **All these levies at various points of incidence stifle growth and hamper spread of service.**
- ❖ **All these levies should be removed and replaced by a single levy, implemented in a transparent manner.**

KEY RECOMMENDATIONS

- ❖ **The revenue share licence fee should be reduced to 6% as is applicable in the case of NLD/ ILD licence. Since the revenues to the government are protected because of increase in revenues of the telecom sector, even this levy of 6% should be progressively brought down in the coming years.**
- ❖ **All multiple levies on the sector, which act as a bottleneck and stifle growth, should be removed. We should have in place a simple industry-friendly and investor–friendly tax structure.**

To unleash the growth potential for mobile services, there is an urgent need to remove multiple levies and lower the burden of levies on the sector.

Tax Proposals