

For Most Urgent Kind Attention, Please

TVR/COAI/070
June 4, 2003

Shri Pradip Baijal
Chairman
Telecom Regulatory Authority of India
A 2/14, Safdarjung Enclave
New Delhi 110029

Dear Sir,

**TRAI Consultation Paper on IUC Issue
Concerns on the Calculation of Access Deficit**

This is with reference to the aspects of ADC estimation in the Authority's Consultation Paper on IUC Issues to which all parties are required to respond to by June 6, 2003.

We believe that the subject of Access Deficit is a vital element of the present IUC exercise. However, for reasons laid out later in this submission, we respectfully disagree with the Authority's approach for derivation of the Access Deficit. As shown in Table I of Annexure-2, the huge Access Deficit of Rs 13000 crores is exaggerated, incorrect and untenable. In fact it is shown that there is no deficit at all.

As was averred by us at the Open House Discussions held on June 3, 2003, we cannot believe that there is an Access Deficit for BSNL as the Balance Sheet / Annual Report of BSNL continues to show surpluses year after year. **In year 2001-02, BSNL has shown a profit of around Rs. 6,300 crores. In fact, the cumulative surpluses of BSNL from 1991-92 to 2001-02 amount to about Rs. 53,453 crores** (See Annexure-1). These surpluses cannot be ignored and the continued profitability of BSNL year after year clearly shows that there is no justification for an ADC levy.

These surpluses are on account of BSNL's consolidated accounts whereby BSNL's low revenue-high-cost activities (rural DEL's, VPTs, etc) are funded through the huge surpluses earned by it through long distance revenues, etc. BSNL has also been enjoying other benefits such as waiver of licence/spectrum fees, financial support from Central Exchequer, etc on account of its social obligations. It is a well-known fact that at present, there is no legal, structural or financial accounting separation for BSNL's various product lines. We submit that till this task is completed, it would be virtually impossible to accurately identify the access deficit, if any, accruing to BSNL on account of local access.

We disagree with the Balance Sheet approach adopted by the Authority, as we firmly believe that the cost data required for such computations cannot be arrived at from the balance sheet. However, in the absence of accounting separation, even if the Balance Sheet data is relied upon, it must be looked at in a holistic manner – considering both the costs as well as the revenues of the organization and not by looking at the costs on account of rentals and free calls alone. We have carried out **some calculations based on BSNL's Annual Report (see Table I of Annexure-2), which clearly show that there is no net deficit to BSNL.**

In the context of Access Deficit, we would like to draw the attention of the Authority to the proposal made by Tata Teleservices Limited at the OHD on June 3, 2003 that as the issue of Access Deficit was the key complication in the IUC exercise, this issue should be kept pending for a period of 3-months. We fully concur with this proposal.

Thus, while we believe that the IUC exercise must be carried out expeditiously, we respectfully submit that the Authority needs to carry out a more thorough and complete analysis in establishing the scope and extent of the Access Deficit. We submit that irreparable harm would be done to India's telecom reforms process if this crucial issue were dealt with in a hasty and fragmented manner. **We therefore urge the Authority to carry out a separate and comprehensive consultation exercise on the all-important issue of Access Deficit.** A brief note highlighting the various issues that may be considered in such an exercise is enclosed as Annexure-2.

In the interim, the issue of Access Deficit may be kept pending and the tariffs approved by the Authority must be IUC compliant without taking into account the ADC component.

In conclusion we would like to submit that :

- i. We disagree with the approach adopted by the Authority to compute the Access Deficit.
- ii. We believe that BSNL does not have any Access Deficit as is evident from the surpluses in its Balance Sheet / Annual Report
- iii. We believe that Access Deficit cannot be accurately identified till there is accounting separation of BSNL.
- iv. We believe that there is a need for a separate and exhaustive Consultation exercise on the issue of Access Deficit and that till the same is concluded, the issue of Access Deficit should be kept pending
- v. In the interim, the tariffs approved by the Authority must be IUC compliant without taking into consideration the ADC component.

We seek the Authority's most urgent consideration and requisite actions with regard to the above.

Kind regards,

Sincerely yours,

**T V Ramachandran
Director General**

**Cc : All TRAI Members
: Secretary, TRAI
: Advisor Economics, TRAI
: Advisor (MN), TRAI
: Advisor (FN), TRAI**