

- 6.1** Drawing upon NTP 99, a policy framework was established in November 2003 to chart the course for implementation of a Universal Licensing Regime. The Department of Telecommunications of the Ministry of Communications and Information Technology did not make mid course review/modifications, based on the collective wisdom of Government. The recommendations of Telecom Regulatory Authority of India were not followed in spirit, resulting in a transitory phase of the licensing regime continuing for years together without true value of 2G spectrum being realised, while 3G spectrum, a similar resource, was allocated at market price discovered through auction, generating revenues of ₹ 67,718.95 crore. While targeted growth in tele-density had already been achieved, and a reduction in tariff in the telecom sector had benefitted the customer, as envisaged in NTP-99, a policy to ensure optimal utilisation of spectrum and a method to discover its market price was not considered. Given its scarcity value and increasing demand, a comprehensive evaluation of available spectrum was required which was not done. With the UAS policy and its subsequent amendments being implemented in a weak and indeterminate manner and with the reluctance on the part of the Department of Telecommunications to address the issue of pricing of 2G spectrum, it was only natural that 2G spectrum was not allocated at its correct market value.
- 6.2** The entire process of allocation of UAS licences lacked transparency and was undertaken in an arbitrary, unfair and inequitable manner. The Hon'ble Prime Minister had stressed on the need for a fair and transparent allocation of spectrum, and the Ministry of Finance had sought for the decision regarding spectrum pricing to be considered by an EGoM. Brushing aside their concerns and advices, the Department of Telecommunications, in 2008, proceeded to issue 122 new licences for 2G spectrum at 2001 prices, by flouting every cannon of financial propriety, rules and procedures. The DoT did not follow its own guidelines on eligibility conditions, arbitrarily changed the cut off date for receipt of applications post facto and altered the conditions of the FCFS procedure at crucial junctures without valid and cogent reasons, which gave unfair advantage to certain companies over others.
- 6.3** The Department of Telecommunications also did not do the requisite due diligence in the examination of the applications submitted for the UAS licenses, leading to the grant of 85 out of 122 UAS licences to ineligible applicants. These companies, created barely months ago, deliberately suppressed facts, disclosed incomplete information, submitted fictitious documents and used fraudulent means for getting UAS licences and thereby access to

spectrum. Owners of these licences, obtained at unbelievably low price, have in turn sold significant stakes in their companies to the Indian/foreign companies at high premium within a short period of time. The premium earned by these new entrants to the telecom sector was nothing but the true value of the spectrum, which should have normally accrued to the public exchequer, had the transparent and fair market mechanism been followed for the allocation of UAS licences.

**6.4** Dual Technology was also introduced by the DoT in October 2007 in a hasty and arbitrary manner and in-principle approval was given to 3 operators on a day prior to the announcement of the policy, which gave the perception of discrimination against other players in the field. Further this decision was in contravention of the Cabinet decision of 2003, resulting in additional spectrum being allotted to certain operators at 2001 price.

**6.5** The correct value of 2G spectrum allotted to 122 licences in 2008 and the 35 licences under dual technology, also in 2008, could have been determined only by a market driven process, if adopted. However, its presumptive value, based on various available indicators has been indicated in the Chapter 5. In addition, the value of additional spectrum allotted beyond the contractual amount to existing nine operators, based on various indicators has been shown in the Chapter 4 and 5.

**6.6** In conclusion, it is observed that despite having themselves sought the opinion of the Ministry of Law and Justice, the Department of Telecommunications decided to ignore the advice received. The concerns of the Ministry of Finance were also not addressed for reasons which are not convincing. In fact, the directions of the Hon'ble Prime Minister evoked a response from the Hon'ble Minister of Communications and Information Technology on the same day. The letter contained assurances with regard to the availability of spectrum for all applicants as also with regard to the strict adherence to the FCFS policy for allocation of spectrum. The assurances, however, were not adhered to. The methodology for allocation of 2G spectrum, a scarce finite national asset and for which there was an unprecedented demand for allocation, was not deliberated upon by the full Telecom Commission. Audit is of the view that such discussion with different stake holders represented in the Telecom Commission would certainly have benefitted Department of Telecommunications in arriving at a more credible and transparent procedure for allocation as also for ascertaining the true value of 2G spectrum. The entire implementation process does not withstand the test of scrutiny, and hence, the widely held belief that it has benefitted a few operators and has not been able to maximise generation of revenue from allocation of such a scarce resource. This has now been confirmed in Audit. The role of Telecom Regulatory Authority of India would also appear to have been reduced to that of a hapless spectator as its recommendations were either ignored or applied selectively. The entire process of allocation of 2G spectrum raises serious concern about the systems of governance in the Department of Telecommunications which need to be thoroughly

reviewed and revamped. The fact that there has been loss to the national exchequer in the allocation of 2G spectrum cannot be denied. However, the amount of loss could be debated. To ensure that such lapses do not occur in any Ministry or Department of the Government, there is an imperative need to fix responsibility and enforce accountability for the lapses highlighted in the Audit Report.



**New Delhi**  
**Date: 8 November, 2010**

**(R. P. SINGH)**  
**Director General of Audit**  
**Post and Telecommunications**

**Countersigned**



**New Delhi**  
**Date: 8 November, 2010**

**(VINOD RAI)**  
**Comptroller and Auditor General of India**