

## BSNL-MTNL merger: Does govt want to repeat Air India folly?

by May 13, 2013

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Two headlines today - one talking about the proposed trifurcation of the BSNL-MTNL public sector telecom business, and another about the sharp drop in teledensity - point to the utter mismanagement of the telecom sector under UPA, both 1 and 2.

Remember, the 2G scam happened in UPA-1, even though it is in UPA-2 that the stuff hit the fan.

However, while A Raja will be thrilled to hear that the telecom business is going bust (“after me the deluge”), the rise and fall of telecom has less to do with his so-called brilliant policy of keep tariffs low by scattering licences and spectrum to cronies than policy paralysis and uncertainty.



] to BSNL and MTNL.

The GoM is not quite on the right track when it comes

In fact, the sector's bleak outlook has more to do with the fact that the government is unable to take a final view on a comprehensive telecom policy, with large parts of it - high reserve prices for spectrum, ban on 3G roaming, and still-to-be-declared rules for mergers and acquisitions - still to be put into effect. Communications Minister Kapil Sibal has been more keen to show that the CAG was wrong in estimating the 2G spectrum losses under Raja at Rs 1.76 lakh crore than in fixing what's broken in the sector. As for the fate of the public sector T-Rexes, the less said the better: they are on their way to financial extinction.

A [Business Standard report](#) says MTNL and BSNL are going to be merged after their network infrastructure and land assets are spun off into separate companies. Thus, we will have one infrastructure company, one land company and the third will be the merged telecom services entity. The report says a Group of Ministers (GoM) will consider the trifurcation proposal apart from two other plans to infuse cash in the two companies. Infusing cash means refunding them the fees collected for the broadband wireless access (BWA) spectrum they were given in 2008.

During the 3G/BWA auction in 2010, BSNL and MTNL were allotted spectrum at the top rates bid by private parties -

but this sent both of them into steep losses, and they asked the government to take back the spectrum in several circles.

The GoM is not quite on the right track when it comes to BSNL and MTNL - both on the issue of merger and the return of spectrum. Refunding Rs 11,259 crore to the duo is hardly going to help them when their combined losses run into Rs 38,440 crore.

Merging the two is no recipe for revival either, when the problem is overstaffing and lack of managerial autonomy.

If one has to draw any parallel, it is with Air India.

Under Praful Patel as Civil Aviation Minister, [the idea of merger was similarly sold to the Union cabinet](#) and we know how it all ended. No thought was given to how people issues were to be handled after the merger. Net result: overstaffed Air India needed a Rs 30,000 crore bailout last year.

Another parallel: the main reason for Air India's downfall was wrong commercial decision-making influenced by political meddling. Under Patel's tutelage, Air India contracted for a huge aircraft deal that it could ill afford. From a original plan to buy 28 aircraft, Air India opted for 68, and then sank under the resultant debt.

In the case of BSNL and MTNL, the government pretended to favour them by announcing that [they would get BWA spectrum in all circles](#) even without bidding at the auction prices. This was pricey benevolence, since getting high-priced spectrum without any clear plan to use it commercially effectively sank both of them.

It is said that if you dislike someone but still want to give him a gift for an outward show of love, gift him an elephant. The costs of maintaining the pachyderm will kill him.

That's the case with both BSNL-MTNL and Air India. They were crippled by ministerial meddling masquerading as benevolence. The only remedy for them is autonomy. Trifurcation under the same dispensation is tantamount to slow poisoning.

But this problem relates not to Raja, but the entire government and its attitude to the public sector.

Two years ago, the [Prime Minister got a letter from two BSNL unions](#) who put their fingers on the problem correctly.

The Sanchar Nigam Executives Association (SNEA) and the All-India Graduate Engineer Telecom Officers Association wrote to Manmohan Singh that there was no way BSNL could revive under the current dispensation.

“This company cannot survive under such servile management, which, we are sure, cannot rise above the interests of the lords (ministers and babus). Thus, the issue fundamentally boils down to the induction of the rarest of rare talent on the board, definitely not through the orthodox and primitive mechanism that the Public Enterprises Selection Board has in place at the moment,” the SNEA said in its letter. It added: “The criterion cannot be just be... seniority, based on redundant performance mechanism” for selecting the “top slots to run a gigantic company, virtually in shambles today.”

Since then, both BSNL and MTNL are in a bigger shambles. Neither has the PM acted, nor has Communications Minister Kapil Sibal done anything to put the two on the road to recovery.

Which brings us to the second headline: on declining teledensity in the country.

According to [BusinessLine](#), teledensity has fallen from 79.6 percent in June 2012 to just 72.9 percent in February 2013 - a sharp 6.7 percent decline in nine months.

Two reasons are likely to be at the heart of this decline: rising tariffs and policy uncertainties.

Clearly, Kapil Sibal's entry has done nothing to restore the industry's falling confidence in itself. He should get a move on.