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The Prime Minister's Office (PMO) has entrusted a committee of secretaries with the task of working out a solution that will allow the Centre to partly pick the tab for pension of MTNL employees after the company said it may find it difficult to meet this obligation due to mounting losses, an official aware of the development told ET.

The PMO intervened after this issue snowballed into a huge controversy, possibly impacting other public sector companies in sectors where there are wage differentials. With several departments expressing differences of opinion over a bailout for MTNL, with regard to pension, the PMO said the committee of secretaries (CoS) must resolve the issue and place possible solutions before the Union Cabinet, the official quoted above said.

MTNL, which offers communication services in Delhi and Mumbai, pays its employees at a higher grade when compared to sister concern BSNL. Under this deal, MTNL was to take care of pensions by itself.

The central government picks up BSNL's employee pension bill.

Some government departments fear that if the Centre were to partly pay MTNL's pension bill, this would lead to demands from BSNL's 3,00,000 employees for parity in the compensation structure. The department of pension and pensioner's welfare has said that even if parity in compensation structures were established between BSNL and MTNL, there could be wider ramifications as it could result similar demands from PSUs in the same sector, which have wage differentials. But, the department of expenditure has said it does not agree with these observations.

ET also reviewed internal department of telecom notes which detailing the position of different ministries as well as that of the PMO asking that the CoS resolve the issue.

MTNL declared a loss of `2,514 crore for the year ended March 2010, and said this was largely due to a one-time expense of providing retirement benefits. Again, for the three months ended June 2010, the company registered a loss of `451.4 crore, 10 times more than the corresponding period last year, citing rising staff costs and setting aside provisions for retirement benefits as reasons for the decline.

The telco, which is 56% owned by the government, had also sought the latter's permission to reduce its staff strength by two-thirds, as one the possible steps to arrest a massive decline in revenues and profits. The telco also added that going forward, the pension component would increase further and it would be impossible for the company to bear this cost in a competitive market crowded with aggressive rivals.

The telecom department has blamed MTNL for the current impasse: "Had MTNL agreed to the creation of a pension fund, as repeatedly demanded by DoT in the past, government would have made significant one-time payment to the fund, thereby giving relief to MTNL in meeting this expenditure. However, DoT is taking all steps to get the matter cleared by the Committee of Secretaries and the cabinet," an internal note of the communications ministry dated September 20 said.