



## **AUSPI'S COUNTER COMMENTS REGARDING AUCTION OF SPECTRUM**

### **Without prejudice to our Members' rights to have Spectrum up to 6.2 / 5 MHz GSM/ CDMA as part of Contractual Commitment between Government and operators**

#### **A) RE-FARMING OF SPECTRUM IN 900 MHZ BAND**

Some of the stakeholders have recommended that re-farming of 900 MHz band should not be done at this stage and some stakeholders have also suggested that spectrum in 900MHz is their legal right.

##### **AUSPI's View:**

- 900MHz is a platinum band which has various advantages of savings on capex and opex. Spectrum already allocated to incumbent operators in this platinum band has created issues of level playing field. The intrinsic value of 900 MHz band is much higher than 1800 MHz band as it has much better propagation properties and indoor coverage.
- Re-farming of 900 MHz spectrum will significantly increase overall profitability of the sector, create a level playing field as well as drive growth and innovation. The growth will be accelerated as new entrants launch products in this band. Presently, they are unable to do so due to the fact that 90% of the total 25 MHz Spectrum in 900 MHz band is held by only three incumbent operators.
- The 900 MHz band should be re-farmed immediately as sufficient spectrum is available in 1800 MHz to relocate existing operators. It will not be possible to carryout re-farming subsequently as spectrum to relocate incumbents in the 1800 MHz band spectrum band would not be available.
- There is no legal right conferred upon any Licensee to get spectrum in 900 MHz band. The incumbent GSM operators in addition to having no legal rights cannot be allowed the perpetual advantage of 900 MHz band. As per Licence condition for the 4<sup>th</sup> Cellular operator, the spectrum allocation was provisioned for 1800 MHz band only. This has resulted in creating a non level playing field within the operators, incumbent operators got spectrum in more efficient band i.e. 900 MHz band even beyond 6.2 MHz which was in violation of the DOT's own order dated 1.2.2002.
- A stake holder has stated in its response that they have legal right on extended license period. In this regard, Para 4.1 in the license agreement which deals with the extension of the license is reproduced below for reference which does not bestow any legal right on extension of license.

*Quote:*

*"4.1 The LICENSOR may extend, if deemed expedient, the period of LICENCE by 10 years at one time, upon request of the LICENSEE, if made during 19<sup>th</sup> year of the Licence period on terms mutually agreed. The decision of the LICENSOR shall be final in regard to the grant of extension"*

Unquote



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### **B) LIBERALIZATION OF 2G BANDS**

Some of the stakeholders have recommended that 2G band must be liberalized immediately for UMTS/LTE and some operators have also stated that 2G band is already liberalized for these technologies.

#### **AUSPI's View:**

- By proposed so called 'liberalisation' TRAI seems to suggest that we leave 5 MHz behind in the hands of the operators who hold the 900 MHz band spectrum today with the intention of their offering future services on LTE in that spectrum. Our contention is that this would be further unfair to newer operators who only never got the benefit of the 900 MHz spectrum for even 2G use. This is the equivalent of creating a differential access right (practically a right of first refusal) to some operators for future generation telecom services and for the totally unrelated reason that they were the first bidders for 2G 15 years earlier. This would be a further major distortion of the level playing field principles.
- 2G band is being utilized for providing CDMA and GSM services. Liberalization of 2G band for advanced UMTS/LTE is beyond the scope of SC judgment. The trigger for 2G auction is Supreme Court judgment and 2G spectrum should be auctioned as per the principles and direction enunciated in the judgment and for this 2G band must be used for GSM and CDMA services only.
- First step should be to ensure the level playing field amongst the existing 2G players by helping all of them to have access to 6.2 MHz each and ensure that partial quantum of 900 MHz spectrum is equally distributed among all operators.
- A stable and sustainable 2G industry is a must for a possible 4G launch where in the available 2G NW Infra of Towers, BTS / Backhaul and the Core N/W are supposed to be exploited.
- 4G Auction needs to be entirely separate exercise spreading across the 2 bands of 700 and 2500 MHz. In any case Auction of spectrum for advanced 3G/4G at this stage will change the dynamics of the market. It should be done through a separate consultation process.
- Liberalisation will only distort competition in the market. The option of Liberalised use of existing 2G spectrum bands for UMTS/LTE services may be considered only after 2G spectrum is equitably distributed to meet the 2G Auction objectives as outlined above.
- We would also like to state that currently 2G band is not liberalized for use of UMTS/LTE as it is clearly mentioned in the License agreement the spectrum bands and the technology to be used in that bands are GSM and CDMA.



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### **C) RESERVE PRICE**

Some of the stakeholders have suggested that the reserve price for 1800MHz band should be as follows:

- 1) Same as of the reserve price of 3G
- 2) Indexed with SBI PLR
- 3) Reserve price of 3G auction with adjusting the inflation
- 4) CDMA 2G spectrum reserve price should be 1.5 times of the GSM 2G spectrum reserve price

#### **AUSPI's View:**

Some of the stakeholders have recommended very high reserve price for 2G spectrum to oppose the entry of new entrants, which is anti competitive and also not in the interest of "Aam Admi" as it will result in high tariffs.

At this juncture, for the purpose of arriving at a reserve price for 2G spectrum, which is both equitable for the operators to justify a minimum return on investment and a conducive investment environment in infrastructure, it is imperative that the following points be carefully considered:

- The value opportunity in 2013 for the bidder will be a fraction of the value opportunity that was in 2001.
- ARPU is at around Rs 100 compared to Rs 600 in 2001.
- Spectrum acquisition cost is higher and usage charges have also gone up. MW spectrum charges have also increased considerably.
- Tariff levels are one of the lowest in the world and ARPUs continuously coming down. Talk time in MoU on per month basis is coming down.
- Churn at 3% per month and prepaid subscriber retention is lower than 6 months.
- Cost of regulatory compliances on account of security, MNP, UCC etc have significantly increased.
- Price benchmark requires discounting for various competitive indices mentioned above having impacted the telecom sector since 2001.
- Cost of Finance has increased.
- AUSPI suggest the following reserve price for 6.2 MHz of GSM spectrum circle wise based on the practical business model assumption:



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<b>Circle</b>	<b>Reserve Price for 6.2 MHz of GSM Spectrum Rs Million</b>
<b><i>Metros</i></b>	
Delhi	1,190
Mumbai	1,345
Kolkata	194
<b><i>Category A</i></b>	
Maharashtra	1,091
Gujarat	1,216
AP	1,449
Karnataka	920
TN	1,166
<b><i>Category B</i></b>	
Kerala	837
Punjab	565
Haryana	55
UPW	907
UPE	1,031
Rajasthan	1,063
MP	469
WB, A&N	22
<b><i>Category C</i></b>	
HP	36
Bihar	358
Orissa	74
Assam	360
North East	210
JK	301
<b><i>Total Value</i></b>	<b><i>14,860</i></b>

- There is neither any ground nor logic to link the price of 800MHz spectrum with any spectrum band of GSM since the two streams are different and have no link in any manner. In no case, reserve price of CDMA spectrum should be kept 1.5 times of reserve price of GSM spectrum. The mobile services on CDMA platform and GSM platform have totally different ecosystems associated with them and the revenue/MHz are significantly different. This has direct bearing on spectrum valuation. There are disadvantages of CDMA spectrum in 800 MHz, such as lower adoption rate, ecosystem, CDMA equipment and devices having much higher prices than GSM devices, lower CDMA ARPU, lower CDMA market for international roaming. Therefore, the reserve



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price of CDMA should not be more than that of the 1800 MHz spectrum. Thus, the value of 800 MHz is less than 1800 MHz and much lower than 900 MHz GSM spectrum.

### **D) ELIGIBILITY AND CAP ON THE AMOUNT OF 2G SPECTRUM**

Some of the stakeholders have suggested that auction should be open to all and a maximum cap of spectrum holding should be 25% of the assigned spectrum in the service area.

#### **AUSPI's View:**

- Auction should be open to all eligible except those operators holding spectrum in excess of the licence mandated quantity. By restricting those operators for participating in the auction who have more than or equal to 8/10 MHz GSM spectrum (in circle and Metro respectively) from participation in the forthcoming Auction will help achieve the objective of equitable distribution of spectrum.
- An entirely free and open auction allowing all the players without limits has a substantial risk in that the incumbent operators who already have large spectrum holdings beyond the Contracted and Prescribed Limits may resort to such practices in auction preventing entry of new operators thus reducing the scope of fair competition. These incumbent operators are also likely to affect the possibility of additional allocation of Spectrum within the Contracted and Prescribed Limits to the new existing operators by bidding for more spectrum beyond these limits and thus inhibit the competition in the 2G. Competition is to be promoted through 2G spectrum Caps.
- Similarly, the CAP on the amount of spectrum one can hold should be fixed at the prescribed Limit i.e 8/10 MHz for GSM 2G spectrum for circles and metros respectively as has already been recommended by the TRAI and 5/6.25 MHz for CDMA in circles and metros respectively to have a level playing field among operators.

### **E) 700 MHZ BAND**

Some of the stakeholders have suggested that auction of the entire spectrum in 700 MHz band should be done along with the auction of spectrum in 800/1800 MHz.

#### **AUSPI's View:**

- 700 MHz band spectrum should be independently auctioned separately.
- At present the plan of action should be the auction of 2G spectrum. Issues regarding 700 MHz band may be taken up as a separate consultation process focussing on the details regarding the technical and commercial aspect of 700 MHz band.

### **F) SPECTRUM USAGE CHARGE**

Some of the stakeholders have suggested uniform spectrum usage charge of 1% or less.



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### **AUSPI's View:**

The policy of escalating spectrum usage charges for high allocation of spectrum is to discourage substitution of physical infrastructure by spectrum as well as to ensure efficient utilisation of spectrum. This is in line with the basic principle of paying more for more quantity, like the electricity charges where we pay more for more consumption.

There is no logic to impose or to agree to a uniform spectrum usage charge irrespective of their spectrum holding. This suggestion of incumbent operators will create inefficient utilisation of spectrum by the operators providing enormous regulatory benefit for operators holding large chunk of spectrum. A move to levy uniform spectrum charge of 1% or less result in the Government losing thousands of crores of rupees and would provide huge benefit to the operators holding 8 to 10 MHz spectrum in most service area. AUSPI suggest that no change is required in the spectrum usage charge upto 2x5 MHz for 800 MHz and 2x6.2 MHz for 900/1800 MHz. Beyond this amount, spectrum usage charge should be as follows:

> 6.2 MHz – 10 MHz	:	7%
> 10 MHz – 12.4 MHz	:	10%

### **G) PAYMENT OF SPECTRUM AUCTION FEE IN INSTALMENTS**

Some stakeholders have suggested upfront payment of auction fee.

#### **AUSPI's view**

- These stakeholders stand is not in the interest of healthy growth of the telecom sector. 2G auction has been forced at this stage due to Supreme Court judgment and directives to ensure level playing field. Hitherto in the recent decade there have been no instances of upfront payment for any 2G spectrum auction. 2G industry in India is facing an unusually high debt levels. At the same time access to global capital and lending market is very much restricted.
- 2G market realities indicate huge challenges with reference to sustenance due to intense competition, much lower market access, lower ARPU levels, increased OPEX, much lower growth rates and much lower EBITDA levels. To be able to cope up with all these financial challenges, we strongly recommend the phase payout of auction discovered price. This in turn would create a level playing field as this auction is forced upon by the Supreme Court judgment considerably impacting the later entrants compared to the incumbents.

**In view of the above, it is suggested that TRAI may recommend auction fee may be payable in instalments.**

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