



a step ahead

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Dated: 28th March 2012

The Chairman
Telecom Regulatory Authority of India
Mahanagar Door Sanchar Bhawan
Jawaharlal Nehru Marg
New Delhi – 110001

Subject: Response to the comments on Consultation paper on “Auction of spectrum”

Respected Sir,

1. At the outset, we would like to state that the consultation paper issued on 7th March, 2012 was very comprehensive covering wide ranging issues and industry participants have diligently responded within stipulated deadline of 21st March. It is imperative that the auction process be initiated quickly and completed at the earliest so as to remove many uncertainties threatening the growth of the industry in India today.
2. In context of the responses provided in the consultation process, we reiterate the following points which we consider are of utmost importance in relation to the forthcoming auction
3. First and foremost, there appears to be an overwhelming consensus among most industry stakeholders, that 1800 MHz and 800 MHz auctions need to be treated as two separate and distinct auctions and we assume that this is also the intention of TRAI as is clear from the question No. 16 of the consultation paper. The aforesaid question is based on the underlying understanding that the 1800 MHz and 800 MHz spectrum bands are treated distinctly with two distinct auctions. We fully endorse and support this view. It would be complete travesty to link 800 MHz spectrum pricing to auction discovered prices of 1800 MHz spectrum because of the very fundamental and inherent distinction between the two bands and therefore both cannot be put on the same Pedestal in the proposed auction for discovery of the true valuation of the same.. The two spectrum bands have inherently different ecosystems and cannot be substituted by one for other . Hence a price discovery mechanism applied to one band cannot be translated for discovering the price of the other band. The earlier TRAI recommendation of pricing 800 MHz band at 1.5 times the price of 1800 MHz band is based on simplistic coverage related assumptions only (Radio Propagation). No consideration was given to the market realities and associated ecosystem issues with the two bands in consideration.. As has been pointed out by several operators, and a view that we strongly endorse is, that **a distinct price discovery mechanism through separate auctions for spectrum blocks in 800 MHz and 1800 MHz bands needs to be undertaken.**
4. With regards to the reserve price for the 1800 MHz auction, some operators have suggested that reserve price for the 3G auction be taken as a benchmark for 1800 MHz auction . We believe that 3G related benchmarks should not be made applicable in the case of 2G spectrum auctions. While 3G spectrum will service the relatively more affluent section of the society at least in the medium term, 2G spectrum is used to deliver basic mobile services to vast majority of common people. While historically 3G spectrum has suffered from unrealistic pricing in several countries including India, the government, regulators and society in general can ill afford artificially high 2G spectrum

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pricing. The credit for penetration of 2G goes to the ECO system and affordable tariff plans. Needless to mention that rural penetration is still at lower levels. The actual penetration can be easily determined through the VLR figure which proves that actual penetration is still at 60% levels than what is being reported. This explains the need for promoting 2G and the requisite regulatory support for 2G auction.

It is important to acknowledge that 1800 MHz and 800 MHz spectrum bands are different and as such their reserve prices ought to be different. As mentioned before the economic potential associated with each of these bands is different and that difference need to get reflected in the reserve price set for each of these spectrum bands. The disadvantage of the CDMA ecosystem associated with 800 MHz band relative to GSM ecosystem associated with 1800 MHz band are several – lower adoption rate, weaker ecosystem, higher procurement price for equipment and devices, lower ARPU, smaller market for international roaming etc. This has resulted in a steady decline for CDMA share of subscriber and revenue in overall mobile telephony market in India for last three years. It is to be noted that there were no takers for 800 MHz spectrum even in 2007-08. The last assignment of spectrum in 800 MHz was in 2006 before allotment to SSTL and in 3 circles for TTSL. Accordingly, while determining and benchmarking the minimum reserve price for 800 MHz, TRAI ought to consider the demand of this Particular band in the market for commercial harnessing and quantity available with DOT for allocation in the proposed auction. It may be appreciated that while bands proposed for auction should receive a fair valuation but at the same time the framework of the proposed auction should not lose sight of the realistic sectoral environment and market dynamics. Therefore, the framework so formulated by TRAI should be rational, and Pragmatic thus, subsuming the concerns articulated herein-before.

To substantiate, if one were to build a model based on the current scenario the reserve price should in fact be at 25% of the 2001 prices for the same quantity of the spectrum because of the following reasons.

- The value opportunity has fallen to a fraction of what it was in 2001. The addressable market size in totality has fallen from 600 Mln in 2001 to around 250 Mln at current levels.
- The share of CDMA market has fallen from 25% of the total net ads to 10% of the total net ads at current level.
- The ARPU has fallen from Rs. 500 in 2001 to Rs. 71 currently.
- The MOUs have fallen from 600 Minutes per month in 2001 to 230 Mts currently.
- The Opex has gone up substantially, and in CDMA there is a huge subsidy on the part on the handsets.
- Taking all these into consideration, including the fact that the new customers are going to be from bottom of the pyramid, we strongly feel that the reserve price should be 25% of the entry price paid in 2001.

Keeping into consideration the above mentioned factors, 800 MHz reserve price should ideally be at 25% of the entry price paid in 2001 as per the revenue per MHz potential. If for any reason TRAI is unable to fix the reserve price at 25% of 2001 entry price, then at best this can be equal to, the levels of 2007 i.e. Rs 1659 crores for 5 MHz of spectrum & Pro-rata for the initial and add on spectrum.



a step ahead

5. With regards to eligibility for participation in this auction several operators have supported the concept of a separate 'start up' and an 'add on' round of spectrum auctions. However some others have suggested all spectrum be auctioned at one go with all existing and new operators being allowed to participate. It is pertinent to mention here that after the Hon'ble Supreme Court's order, we have come to a situation of 2007 level with regards to competition. It is in this scenario that the Govt. had raised the issue of issuance of New Licenses, and TRAI had recommended "No Cap". Therefore TRAI must facilitate entry of new operators, which cannot be done without "Start up" Spectrum. In this regard, we would like to point out that new operators have played a significant role in enhancing competition thereby pushing the price down to an affordable level for the general consumer. Several regulators in different spectrum auctions across the globe have taken initiatives to facilitate entry of new operators in order to usher in healthy competition in the sector and for creating world class Telecom Infrastructure. It is also to be noted that the Supreme Court judgment is an indictment of the policies and procedures followed by the government to issue licenses in 2008 and the intent and purpose of the judgment is not to stifle competition or to unfairly penalize operators who have rolled out networks in due compliance with the prevailing laws of the land. In this context we would like to reiterate to TRAI our request to consider a two step process for the auction – Step 1 for "Start up spectrum" and Step 2 for "Add on spectrum". Operators whose license have been cancelled by Honorable Supreme court and new players who want to enter the market but does not have any spectrum should be the only eligible bidders for the start up spectrum. For add on spectrum auctions, all existing operators holding below the contracted level of spectrum along with the winners of "Start up spectrum" auction rounds should be allowed to participate. It is to be noted that any existing operator holding above the contracted spectrum limits should not be allowed participate in the spectrum auction. Such an approach would ensure level playing field, enhance competition and increase overall consumer welfare.
6. With regards to block sizes for auctioning, a range of suggestions have come from the operators. This includes operator's suggestion that start up spectrum blocks be at 2x1.25 MHz /2x2.5 MHz for 800 MHz spectrum and 2x4.4 MHz/ 2x6.2 MHz for 1800 MHz spectrum. We reiterate that "start up" spectrum block for 800 MHz spectrum should be 2x3.75 MHz (Excepting in AP, where only 2.5 MHz of spectrum is available as per TRAI, this should be blocked for "Start Up" spectrum). This is to ensure fair play and justice among operators pursuing different technology options like GSM and CDMA. If the suggestions made by us and some operators in respect of start up blocks for 1800 MHz spectrum range be accepted, then a new operator will have to bid for one block of startup spectrum and subsequently for one block of add on spectrum to reach the contracted level of spectrum holding. In contrast CDMA operators will be required to buy two blocks of add on spectrum after buying one block of startup spectrum to reach the contracted level of spectrum holding. Thus in keeping with the principles of level playing field among market participants, 2x3.75 MHz spectrum blocks can be considered for 800 Mhz spectrum band while 2x4.4 MHz spectrum blocks can be considered for 1800 MHz spectrum blocks for the "Startup spectrum auction" rounds. For the "Add on spectrum auction", we support the suggestions made by many participants to have 2x1.25 MHz blocks for 800 MHz band and 2x1.8 MHz for the 1800 MHz band.



a step ahead

7. Regarding number of blocks to be auctioned as per Hon'ble Supreme Court's Order, fair opportunity needs to be given to operators whose licenses have been cancelled, therefore TRAI should put a fair number of "start Up" spectrum blocks in the auction. However as regards 800 MHz, we would like to suggest that, wherever spectrum is available beyond 2 X 7.5 MHz, two blocks of "Start up spectrum" as described above to be auctioned and the balance to be part of "add on" spectrum block. However in case the availability in a particular circle / metro is less than 2 x 7.5 MHz of spectrum then we recommend that one block of "Start Up" Spectrum to be put for auction and the balance to be part of add on spectrum block. (Excepting in AP, where only 2.5 MHz of spectrum is available as per TRAI, this should be blocked for "Start Up" spectrum)

8. We do hope that the comments of SSTL contained in this letter and our earlier response on 21st March 2012 to the TRAI consultation paper on "Auction of Spectrum" will be taken into consideration before finalizing the recommendations.

Thanking you

Yours faithfully
For **Sistema Shyam Teleservices Limited**

T. Narasimhan
Dy. Chief Executive Officer