



Confederation of Indian Industry

CII Response to TRAI consultation on Valuation and Reserve Price of Spectrum

General

CII would like to compliment TRAI for their efforts in bringing out this exhaustive consultation paper on Valuation & Reserve Price of Spectrum. It is indeed an opportune time for the Indian telecom sector to revisit the issue of spectrum pricing. CII would like to provide its comments on TRAI's Consultation Paper and some of the issues raised therein.

Also, CII sincerely appreciates efforts of TRAI and DOT for uninterrupted and continued growth of telecom sector and introduction of modern telecom services, towards building the national economy. The success of many Government programs and initiatives aimed at achieving inclusive growth through use of ICT in Education, Health, MSME, Banking & Finance, E-Governance, etc. heavily depends upon the growth and larger penetration of Mobile services, including mobile broadband. The provision of affordable services is crucial for the Indian masses taking up those services in an inclusive manner. This is one of the objectives of the National Telecom Policy also.

For affordable tariffs, it is essential that various ingredients, including the RF Spectrum, which is a crucial ingredient for the mobile services, should be available to the telecom service providers at reasonable costs/ prices. Tariffs, which are affordable for a common man, are important as telecom is increasingly becoming an integral part of delivering key services to the disadvantaged (through direct cash transfer, remittances through mobile payments - particularly by migrant labour, general financial inclusion, health-care and education delivery, skill development, etc), especially through NOFN/ broadband. The resulting socio-economic benefits that affordable telecom can bring, will far outweigh the revenues that might accrue through sale of spectrum. Therefore CII strongly suggests that the valuation and reserve price for spectrum should be reasonable keeping in mind the larger national interest to derive maximum socio-economic benefits for the country from this natural resource. The reserve price should be reasonable to ensure fair discovery of the market price of spectrum.

Further, towards this objective, the policy guidelines and regulations should encourage sharing and discourage duplication of expensive infrastructure by multiple players in all areas. Also, it is important that concrete steps be taken to support/ fund infrastructure in difficult rural or remote areas where operators may not see immediate revenues or find such areas as economically non-viable. Such areas are in critical need of development for inclusive growth. In order to develop telecom facilities in such areas, the Universal Service obligation Fund or the Government funds must facilitate the creation of such infrastructure. This will ensure that end users in such areas do not have to wait indefinitely for telecom services which could facilitate development and governance in such areas that need them most.

Some general comments about the nature of RF Spectrum and its Management, including pricing, which appear necessary in the Indian context, are also provided and underline CII response to various questions.

It is globally recognized that the RF Spectrum is a complex natural resource, having multiple dimensions - frequency, time, space, etc. Its regulation, including pricing, is a complex and involved issue. Even a perfect spectrum valuation in one country may not work in other countries.

Also, demands on this limited natural resource have increased manifold during last two decades due to the extremely large growth of cellular mobile services. Hence, this resource has to be used optimally by all users/ usages - government or public, commercial or captive.

Further, the RF Spectrum is a public property and capable of delivering immense socio-economic benefits to the people. Hence, allocation and use of this resource must be objective, transparent and achieve maximum public welfare. In this regard, the Hon'ble Supreme Court (in Secretary, Ministry of Information & Broadcasting, Govt. of India v. Cricket Assn. of Bengal, ((1995) 2 SCC 161) had observed that:

“....There is no doubt that since the airwaves/frequencies are a public property and are also limited, they have to be used in the best interest of the society....”

“.....the fact remains that airwaves are public property that they are to be utilised to the greatest public good.....”

Response to Specific Questions:

Q.3. Is any restriction required to be imposed on the eligibility for participation in the proposed auction?

CII View: Any one should be able to participate in the proposed auction, subject to the fulfillment of the laid down criteria/ conditions.

Q.5. Should roll out obligations for new/existing/renewal/quashed licenses be different? Please give justification in support of your answer.

Q.6. Is there a need to prescribe additional roll-out obligations for a TSP who acquires spectrum in the auction even if it has already fulfilled the prescribed roll-out obligations earlier?

CII View: The roll out conditions in the existing UASL licenses are fairly well defined, though some difficulties have been faced in their implementation. Hence, these roll out conditions should continue for all TSPs and no additional roll out conditions are required. The TSP Test Procedures/ should be unambiguous and clearly defined well in time.

In cases, where the licensees have already fulfilled the roll out conditions, there should be no further requirement/ conditions of roll out.

Also, for early roll out of services in rural areas, incentives in the form of reduction in licence fee and contribution towards USO Fund, easy finance availability, etc. should be considered by the Government.

Q.9. Would it be appropriate to use prices obtained in the auction of 3G spectrum as the basis for the valuation in 2013? In case the prices obtained in the auction of 3G spectrum are to be used as the basis, what qualifications would be necessary?

CII view: CII is of the view that 3G auctions were held in a different environment and circumstances. Hence, these should not be taken as the basis for valuation and auction of spectrum in 800/ 900/ 1800 MHz bands. Further, as stated at various other fora and in earlier submissions, reasonable pricing of spectrum is essential for affordable services and their inclusive growth. In view of above, the second part of the question is not relevant.

Q.10. Should the value of spectrum for individual LSA be derived in a top-down manner starting with pan-India valuation or should valuation of spectrum for each LSA be done individually?

CII View: The valuation of spectrum for each LSA should be assessed independently and separately, as the parameters of demography, economy, etc. which are important factors for the business case, are different for each LSA. CII therefore suggests that the Authority should recommend a bottom-up valuation of spectrum capturing the unique potential of each individual LSA.

Q.11. Is indexation of 2001 prices of 1800 MHz spectrum an appropriate method for valuing spectrum in 2013? If yes, what is the indexation factor that should be used?

CII View: The market potential, level of competition and various other conditions, etc. were totally different in 2001 as compared to today. Hence, the prices of 2001 have no relationship with the valuation today. Therefore indexation of 2001 prices to determine the valuation today is not appropriate. In view of above, second part of the question is not relevant.

Q.12. Should the value of spectrum in the areas where spectrum was not sold in the latest auctions of November 2012 and March 2013 be estimated by correlating the sale prices achieved in similar LSAs with known relevant variables? Can multiple regression analysis be used for this purpose?

CII View: Linking the valuation to any earlier auction(s) is neither appropriate nor suitable. Each LSA has different set of parameters of demography, economy, etc. which are important factors for the business case. Also, the scenario and business case is continuously changing with time. The profitability has come down in recent times. In view of above, the second part of the question is not relevant.

Q.13. Should the value of spectrum be assessed on the basis of producer surplus on account of additional spectrum? Please support your response with justification. If you are in favour of this method, please furnish the calculation and relevant data along with results.

CII view: The system planning of mobile networks is dependent on a large number of factors, spectrum being one of those. Hence, spectrum valuation by this method was not considered realistic. In view of above, the last part of the question is not relevant.

Q.14. Should the value of spectrum in the 1800 MHz band be derived by estimating a production function on the assumption that spectrum and BTS are substitutable resources? Please support your response with justification. If you are in favour of this method, please furnish the calculation and relevant data along with results.

CII view: As mentioned in the context of earlier questions, the system planning of mobile networks depends on a large number of factors. Various assumptions have to be made for these, which can introduce significant errors. Hence, spectrum and BTS are not substitutable resources a majority of circumstances and the proposed method is not practical. In view of above, the last part of the question is not relevant.

Q.15. Apart from the approaches discussed in the foregoing section, is there any alternate approach for valuation of spectrum that you would suggest? Please support your answer with detailed data and methodology.

CII view: The classical/ Discounted Cash Flow (DCF) method of spectrum valuation, based on business model and revenues of an average operator in a particular LSA, may kindly be considered for assessment of spectrum valuation. The DCF method is learnt to be used most commonly for this purpose internationally. However, here too, various assumptions would need to be realistic and validated to be confident about the outcome. As stated on many occasions, the spectrum price has to be reasonable for the healthy growth of the sector, keeping in view the lowest tariffs and consequential low revenues. The reserve price should be reasonable to ensure fair discovery of the market price of spectrum.