

Auctioning spectrum already in use can be tricky, as it can impact consumers in terms of service discontinuity, in case the serving operator fails to retain its existing spectrum. Also, the operator defending its spectrum without a viable alternative will be under unreasonable pressure from its peers who will perceive spectrum in auction as “new spectrum” and with no existing business to protect. Further, we can not forget that closure of a particular service in a given area amounts to writing off functioning assets which, though owned privately, are after all national assets.

Going through various comments on the Consultation paper floated by Trai, I find that all comments favour the need for more spectrum but barring some individuals or consultants, no one has quite appreciated the complexity of the situation. In fact, one of the Corporates seems to imply that there will hardly be any impact of this ‘survival’ factor on the auction since a very small territory will face this issue.

Various operators will enter the bidding process with one or more of the following objectives in their mind:

- To protect existing 2G operations
- To enter 2G or 3G operations
- To fill 3G/4G holes in their existing 3G or 4G spectrum holdings

Different considerations will predominate for different operators in different circles. Consider the case of an incumbent operator who loses his 900 MHz spectrum in the upcoming auction. While the government is not obliged to protect any particular operator’s interest at the time of renewal of license, to ensure optimal price discovery and prevent distortion in the auction process, it is important to increase the supply of “new spectrum” which can act as viable alternatives for all the participating bidders. Putting up just the withdrawn 900 MHz spectrum for auction is not enough opportunity. It is interesting to note that the quantum of “new spectrum” offered in 9 important circles viz. Bihar, Gujarat, Haryana, Maharashtra, Punjab, Rajasthan, UP (East), U.P.(West) and West Bengal, after taking together the spectrum auctioned in February, 2014 , works out to be substantially less than the 900 MHz spectrum which will come up for

renewal. This is due to the fact that 17% (67 MHz) of the total spectrum offered in 1800 MHz band is “partial”. (‘Partial’ spectrum is no substitute since 900 MHz spectrum service is pan circle and cannot be replaced by a ‘partial’ coverage service). For example, in Maharashtra Circle, the total availability of 1800 MHz spectrum in the February 2014 and the upcoming auction later this year is 6.8 MHz against 14 MHz of 900 MHz and 2 MHz of 1800 MHz spectrum with the two incumbents, leading to a shortfall of 9.2 MHz despite the incumbents participating in the auction in February, 2014.

In short, in these 9 important circles all participating operators, especially the incumbents will be under huge pressure due to lack of supply of “new spectrum” in alternate spectrum bands. Such a situation is ripe for a bloodbath because for the incumbent it becomes a ‘must win’ situation which can lead to “winners curse” due to unreasonable bidding by a challenging operator, who ~~is~~ has no existing business to defend, and decides to dig in or decides to drop out at the last minute. Also pressure can be from an operator who finds no other alternate spectrum for expanding 3G/4G services. Nor can the government rejoice even with the possibility of a windfall increase in spectrum auction revenue since spectrum sold at excessive prices will see depressed roll out (especially in rural in semi urban areas) due to limited funds left to be spend on infrastructure procurement.

It is thus evident that while the government’s aim for auctioning the reclaimed spectrum is to determine the current market price, the determined price as a result of this proposed auction would have been modulated by the ‘survival’ factor and therefore could be quite different from that determined in a fair auction un-encumbered by any other factor except open market forces.

What then is the option for ensuring the growth of broadband services in the country and decent revenue for the government while ensuring a fair auction?

Offering additional supply of “new spectrum” in alternate spectrum bands is obviously the only solution. This could be done by finding fresh spectrum in 900/1800 MHz band by releasing spectrum in use from defence and other telecom users. Also creating 3 more 2x5 MHz slots in 2100 MHz band by putting

through the spectrum swap proposal already on the table will ease the situation and help manage the intensity of auction, as it will enable alternative spectrum for participating operator for enhancing broadband networks coverage and capacity. This will also result in more revenues for the government as well, and better services for the consumers, thereby creating a win-win situation for all.