



## Spectrum Auctions

### Why in news?

Recently Department of Telecommunications announced that 4G spectrum auctions for different bands will begin from March 1, 2021.

### What are spectrum auctions?

- Cellphones & wireline telephones require signals to connect from one end to another & they are carried through airwaves at designated frequencies to avoid any kind of interference.
- These airwaves are called spectrum which are subdivided into bands having varying frequencies & are owned by the union government.
- These airwaves are sold by Central government through auctions for a certain period of time (20 years) after which validity lapses.
- With the expansion in the number of cellphone, wireline telephone & internet users, more space is required for signals to come.
- Hence Central government auctions the airwaves to companies which are willing to set up required infrastructure to transport these waves from one end to another.

### What is the history of spectrum auctions?

- Spectrum auctions were conducted since 2010 (except in 2015) but they are largely unsuccessful due to the high reserve price fixed by the telecom regulator.
- In 2012, 1800 MHz & 800 MHz bands which were put up for sale only a small percent of 1800 MHz band was sold & 800 MHz was unsold completely.
- This unsold spectrum & additional spectrum of 900 MHz band which were auctioned in 2013 but the prices did not change significantly.
- In the 2014 auction, spectrum prices for the 900 MHz and 1800 MHz bands in the metros were much higher than international average.
- In 2016, though the bids were invited for over 2000 MHz spectrum was fixed Rs 5.3-lakh crore, it received only Rs 65,789 crore.

- Nearly 60% of the airwaves put on the block did not find any takers & there was not a single bid for the 700 MHz band due to the high reserve price.

### **Why is spectrum being auctioned now?**

- The last spectrum auction was held in 2016 & government offered 2,354.55 MHz at a reserve price of Rs 5.60 lakh crore.
- Government managed to sell only 965 MHz (40% of the spectrum put up for sale) & the total value of bids received was just Rs 65,789 crore.
- The validity of the airwaves bought by companies is set to expire in 2021 & there was a need for new spectrum auction.
- On March 1 government plans to sell spectrum for 4G in the 700, 800, 900, 1,800, 2,100, 2,300, and 2,500 MHz frequency bands.
- The reserve price of all these bands together has been fixed at Rs 3.92 lakh crore which can go up based on the demand.

### **Who are likely to bid for the spectrum?**

- Private telecom players- Reliance Jio Infocomm, Bharti Airtel & Vi -are eligible to buy additional spectrum to support the users on their network.
- Apart from these three, foreign companies are also eligible to bid for the airwaves.
- However foreign companies have to either set up a branch in India & register as an Indian company or tie up with an Indian company to retain the airwaves after winning them.

### **What will the bidding cost the three existing companies?**

- Bidders can either buy new spectrum or renew the old spectrum licences which they already have.
- Analysts expect that Bharti Airtel will renew some of its old spectrum & not bid for new spectrum.
- Vi may not participate in this auction as it faces constraints in cash flow.
- However Reliance Jio will renew its existing 44 MHz spectrum & bid for additional spectrum in the 55 MHz band.
- It will incur a total capital expenditure of Rs 240 billion at reserve prices & it has to make an upfront payment of nearly Rs 60 billion if it opts for the long term deferred payment plan.

### **How will the deferred payment plan work?**

- As per this plan, bidders of sub-1 GHz bands 700, 800 and 900 MHz have to pay 25% of the bidding amount now & rest later.
- For the above-1 GHz bands of 1,800, 2,100, 2,300, and 2,500 MHz, bidders

have to pay 50% upfront & rest can be paid in equated annual instalments.

- However successful bidders have to pay 3 % of Adjusted Gross Revenue (AGR) as spectrum usage charges excluding the wire line services.

### **What will the concern in the upcoming auctions?**

- Though the final reserve price for 800 MHz spectrum is 18.5% lower than the 2016 price, the price for 1800 MHz & 2300 MHz is 14.5% and 17.5% higher respectively.
- The spectrum price for 700 MHz was cut by 43% still it remains very expensive.
- The operators need to spend nearly Rs 65,000 crore to own 10 MHz of spectrum pan-India.
- Hence none of the existing operators will be in a position to place such an expensive bet with a collective debt of Rs 5- lakh crore.

**Source: The Indian Express, The Business Line**



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