

DO. No. 103-5/2008-MN

Date: 12th July 2008

Dear

The Telecom Regulatory Authority of India (TRAI) had submitted its recommendation to DoT on "Allocation and pricing of spectrum for 3G and BWA services" vide letter No. 101-36/2006-MN dated 27th September 2006. DoT's first reference on these recommendations was made vide their letter dated 10th April 2008. The Authority sent its recommendations on the reference vide letter of even No. dated 25th April 2008 (**Annex**).

2. Now DoT vide its letter No. P-14047/09/2005-NTG (Pt.I) dated 1st July 2008 has proposed certain additional modifications in the above referred recommendations (Allocation and pricing of spectrum for 3G and BWA services dated 27th Sep 2006) with regard to 3G services and has requested TRAI for its considered recommendations / comments on proposed modifications as per the proviso under section 11(1) of TRAI Act 1997 as amended from time to time.

The recommendations of the Authority on the proposed modifications are as below:

3. Amount of Spectrum to be allocated

3.1 With reference to para 4.24 of TRAI's recommendations, DoT has proposed that *"Due to non-availability of spectrum in 450 MHz and 800 MHz bands it is proposed that spectrum will be allocated only in 2.1 GHz band. Blocks of 2 x 5 MHz in this band will be auctioned telecom service area wise. Each bidder shall be allocated only one block in each telecom service area"*.

3.2 The above proposal for allocation of spectrum in 2.1 GHz band is in line with the Authority's recommendations.

3.3 In regard to spectrum allocation in 800 MHz and 450 MHz bands, the Authority had earlier given the following recommendations:

"3.40 Government should conduct trials to verify practical feasibility of coexistence of mixed band allocations at the earliest. In case the coexistence is found feasible and economically practicable, then it should work towards re-farming of the PCS 1900 band, specifically 2x10 MHz in the near future in order to allow the expansion of both 2G and 3G cellular services in India."

"3.41 The Authority recommends that the Government work with operators to alter the existing 800 MHz band plan, adjusting guard bands to add one additional 1.25 MHz carrier. At least two carriers, i.e. 2 x 2.5 MHz, can still be dedicated for EVDO services in the 800 MHz band even in these circles."

"3.42 Keeping the long term requirements and possible growth of CDMA services in mind, the Authority recommends that the Government should look into vacating 2x5 MHz of spectrum in the 900 MHz band in order to re-farm GSM operations within the band, and then allocate an additional 2 x 5 MHz for CDMA operations in the 800 MHz band."

"3.43 The Authority recommends that 450 MHz band should also be identified for CDMA operators on a separate plank with rural roll out commitment. The chapter on pricing has discussed in detail the allocative criterion for 2x 5 MHz spectrum in the 450 MHz band for EVDO operations".

3.4 DoT in its letter has conveyed non availability of spectrum in 450 MHz and 800 MHz bands. However, the Authority is not aware of the actions / decisions taken by DoT on its recommendations quoted above. It is also learnt that the DoT has formed a committee to finalize the spectrum allocation policy. The exact availability of spectrum in 800 MHz shall be known after the finalization of the spectrum allocation policy. The Authority recommends that after the implementation

of spectrum allocation policy, if extra spectrum is available in 800 MHz spectrum band, then it should be allocated for 3G services at appropriate price through auction.

3.5 In the 1900 MHz band, the Authority had earlier recommended for a mixed band trial. It is learnt that the trial has been conducted a few months back. The Authority recommends that the DoT should analyse the results of the trial and if it is satisfied regarding the feasibility of mixed band operation, then it should explore the possibility of allocating spectrum in this band.

3.6 It is mentioned in DoT's letter ".....Due to non-availability of spectrum in 450 MHz and 800 MHz bands it is proposed that spectrum will be allocated in 2.1GHz band. Blocks of 2 x 5 MHz in his band will be auctioned telecom service area-wise. Each bidder shall be allocated only one block in each telecom service area." In the above referred para, it is suggested that **the last sentence may be modified as ".... Each successful bidder shall be allocated only one block in each telecom service area."**

4. Reserve Price for Spectrum Auction

4.1 With reference to para 4.74 of TRAI's recommendation, DoT has proposed that *"Based on the experience of successful 3G auctions in certain countries, it is proposed that the reserve price for a block of 2 x 5 MHz in the 2.1 GHz band should be 0.5% of GDP, which in the case of India, would come to US\$ 0.5 billion or about Rs. 2,100 crores, which is twice that recommended by TRAI. Thus the reserve price should be as follows:*

Circle	Reserve Price (Rs. Crore)
<i>Mumbai, Delhi & Category 'A'</i>	<i>160.00</i>
<i>Chennai, Kolkatta & Category 'B'</i>	<i>80.00</i>
<i>Category 'C'</i>	<i>30.00</i>

4.2 The above proposal of DoT is based on the estimate that the reserve price for a 2 x 5 MHz block in 2.1 GHz band, should be 0.5% of GDP which in case of India will be about Rs.2,100 crores. As per the Economic Survey 2007-2008, the GDP at current price is Rs. 42,83,000 crores. Taking 0.5% of GDP as the reserve price for a block of 2x 5 MHz, the amount will be around Rs. 21,415 crores. DOT may like to revisit this assertion.

4.3 The reserve price proposed by DoT in its letter is double the amount recommended by the TRAI in its recommendations dated 27th Sep 2006. The Authority feels that between GDP and growth of telecom, it is very difficult to specify “which is the cause and which is the effect”. Growth of telecom should be treated as vehicle for transformation of economy and society as a whole and therefore is complementary and cannot be estimated as standalone contribution. The Authority is of the view that incidence of financial burden should be estimated in totality and isolated or piecemeal hikes with a view to mopping up additional revenue may hurt the growth of infrastructure and in the long run the telecom sector itself. However, as the reserve prices are only to fix the minimum price and the final price is determined through the auction process, therefore, the Authority in order not to further delay the process of roll out of 3G services in India agrees with the reserve price proposed by DoT.

5. Auction Process

5.1 With reference to para 4.59 & point 8 of Annexure ‘N’ of TRAI’s Recommendation, DoT has proposed that “ *in place of the above, it is proposed that when the number of bidders left is equal to the number of blocks of spectrum being auctioned, in any service area, the action will end. All the bidders will have to match the bid of the highest bidder, H1. In case they do not match, then that block would be offered to the next highest bidder at the highest bid price, H1. If any block is left vacant, then the block would be re-auctioned. This would ensure*

that all successful bidders pay the same amount for the same 3G spectrum blocks”.

5.2 TRAI, in principle, agree with the DoT on the proposed auction process. However, the Authority suggests that DoT should maintain a waitlist of the operators, who are eliminated in the previous rounds. In case successful bidders (H2-H5) do not match the bid of the highest bidder (H1), and if any block is left vacant, then, instead of repeating the whole process, which may take time and effort, this H1 amount, be offered to remaining bidders as per the priority in the waitlist.

This letter is also being placed on TRAI’s website www.trai.gov.in as required in terms of transparency under TRAI act.

Yours sincerely,

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