



2G Auction Failure: Flawed Execution the Problem; not Auctions itself!

New Delhi, 14th Nov 2012: The 2G auctions have ended, on a flat note, and the COAI observes that the results have been exactly what the industry had predicted. All along the COAI has maintained that the reserve price was guaranteed to have a detrimental impact on the auction. The COAI had stated that the high reserve price would ensure that there would be limited players coming into the market to bid, and had also indicated that there would be extremely muted bidding with several circles that would have no bidders at all. The auctions have concluded on the exact note as predicted.

According to the COAI, the root of the problem lies in the procedure adopted by the government in executing the auctions. COAI is in agreement with the Supreme Court that auction is the best and the most transparent way to determine the allocation and market price of a resource as rare as spectrum for commercial use. The 2G Spectrum Auction that was just concluded indicates different causes that contributed to the problem.

First and foremost among the many causes, is the clear recognition that **an artificially high reserve price that bore no congruence to market realities was the key reason for the failure!** In spite of the industry consistently highlighting the many flaws in the assumptions and predicted outcomes, the government appeared bent on plunging ahead on these dubious grounds.

The second factor is that the majority of the bidders are actually operators who have lost their licenses and are compelled to participate in the auctions despite the high prices and the limited availability, simply in order to sustain their customers, businesses and to protect their years of investments.

Finally, the limiting of spectrum available for auction, which contrary to the Supreme Court ruling (to auction the entire spectrum related to the quashing of the impugned licenses), added to the sense of uncertainty and fear of “irrational bidding” for many potential bidders. The artificial scarcity created by holding back spectrum, combined with the high reserve price, dampened any enthusiasm for aggressive bidding by the operators. In fact, only about **35%** of the total spectrum (only **27%** in terms of reserve price) put up for auction was actually bid for. So the amount of freed spectrum now held by the government (413 MHz) is a waste of precious national resources that could have been put to good use in driving tele-density and innovation in the telecom sector in the country. Any price discovered through this auction cannot be termed as market determined price for any future decisions due to: (i) The complete spectrum put to the auction could not be sold; and (ii) It was distressed buying to save the investments already made by the operators whose licenses have been cancelled.

The so called “liberalization of spectrum” to justify high spectrum prices was another red herring as, in our opinion, all spectrum held by GSM operators has already been liberalized as per the existing License

conditions. On the issue of no bidders for CDMA 800 MHz spectrum, we believe that if the government had harmonized the spectrum to international standards and allowed for Extended GSM to be provided on the 800 MHz spectrum, there certainly would have been bidders.

The weakened financial plight of all operators that were faced with declining margins and profitability, could hardly justify the additional financial burden of one time spectrum charges and spectrum re-farming charges proposed by the government, and all these factors combined to provide for a subdued bidding effort in the auctions.

About COAI:

The Cellular Operators Association of India (COAI) was constituted in 1995 as a registered, non-governmental society dedicated to the advancement of communication, particularly modern communication through Cellular Mobile Telephone Services. With a vision to establish and sustain a world-class cellular infrastructure and facilitate affordable mobile communication services in India, COAI's main objectives are to protect the common & collective interests of its members. (<http://www.coai.in/>).