

**M1'S RESPONSE TO IDA'S CONSULTATION PAPER ON
THE ALLOCATION OF 3G SPECTRUM IN THE 1900/2100 MHZ FREQUENCY
BAND**

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M1'S RESPONSE TO IDA'S CONSULTATION PAPER ON THE ALLOCATION OF 3G SPECTRUM IN THE 1900/2100MHz FREQUENCY BAND

1. M1 has been providing cellular mobile services to the Singapore market since 1 April 1997 and in 2000, we launched our international telephone services. In February 2005, M1 took the lead in launching 3G services in Singapore, followed by our Mobile Broadband service in 2006. We became a full-fledged broadband player with the introduction of M1 Fixed Broadband service in 2008, transforming M1 from a single-play mobile operator to a dynamic multi-play operator, with interests in both the mobile and fixed sectors.
2. M1 welcomes the opportunity to participate in the consultation on the allocation of 3G spectrum in the 1900/2100MHz frequency band. While we support IDA's move to make available more 3G spectrum for the industry, we seek to address the need for additional 3G spectrum by existing operators as well as the most cost-efficient approach of allocation in enhancing consumer welfare and promoting industry growth.

New Entrant unlikely

3. The telecommunications industry is characterized by high sunk cost and is a massive investment requiring significant upfront cost. Specifically, the mobile communications business builds upon a capital-intensive business model with extended payback periods. On average, it costs more than hundreds of millions to supply, install and deploy 3G networks in Singapore. Hence, it makes a difficult business case for any new entrant given the short payback period (ie. 11.5 years).
4. The reality of the Singapore telecommunication landscape is that the mobile market has reached market saturation point with a high penetration rate of 137.6% as of February 2010. There is stiff competition amongst established and entrenched operators, all of which are full-fledged players with more than a decade's experience in the market offering both fixed and mobile voice and broadband services. Furthermore, these companies have already moved on in upgrading their networks to 3.5G and beyond. Hence, competition is no longer at 3G level, but 3.5G and beyond. Given the intensity and dynamics of competition in the mobile market, any potential new entrant will be up against the existing operators who can be expected to aggressively defend their bases.
5. A new entrant would also have to deal with the challenges in network implementation and deployment, which range from negotiating coverage with building owners, to paying hefty rentals for base station sites etc., apart from design complications where the older buildings are incapable of supporting additional weight of base stations by more operators. New entrants will also have the obligation to implement radio coverage in MRT/tunnel and full mobile number portability which require further upfront capital outlay as well as recurring costs.
6. In light of the above, our view is that the anticipated returns are far too low to compensate for the significant risks of operating in a highly penetrated and competitive market. Our view is also supported by various factual evidence:
 - Only the existing mobile operators participated in the previous 3G auction even though there was available spectrum for a new entrant;
 - Although the moratorium period ended more than 5 years ago, there were no takers for the remaining 3G spectrum which is still available to date.

Additional Spectrum allocation for Existing Operators

7. Additional spectrum is needed by all the existing operators to facilitate the expansion of radio capacity to meet the surging demands due to substantial growth in data traffic. The increasing upward trend in data usage is triggered by positive user experience as well as the introduction of more smart phones in the market with more data intensive applications. Therefore, to meet the increase in demand for more data centric services, all existing operators have taken their own initiative to upgrade their existing networks to 3.5G/HSPA+ and have implemented various measures to manage the growth in traffic.
8. Going forward, existing operators are facing a situation whereby we are unable to further expand our 3G capacity due to spectrum constraint and hence, the decision by IDA to offer additional 3G spectrum is timely. Additional spectrum is necessary for existing operators to avoid a situation of congestion due to radio resources whereby both the industry and consumers will be negatively impacted.
9. Allocation of the remaining 3G spectrum to existing operators will be a move in the right direction. The Singapore mobile market is already competitive and additional player is not needed. IDA should focus on enabling the existing operators to respond to the still-evolving consumer interest in advanced services and encourage further investment to this end. Consumers will in turn get to continually benefit from the cost and operational synergies that existing operators possess. This approach will more effectively achieve IDA's objective of delivering innovative services at competitive prices rather than by issuing additional licence to a new entrant.

Administrative Cost-based Allocation of Spectrum to Existing Operators

10. As highlighted, the existing operators require additional 3G spectrum. However, there is no need for an auction for there is:
 - ✓ Sufficient supply to cater for the demands of ALL existing operators
 - ✓ Unlikely demand from a new entrant
 - ✓ No technological changes making available competing demands from new services or new operators
 - ✓ No significant differences in the proposed 3 spectrum lots; hence, allocation can be done on an equitable basis, preserving competitive parity among existing operators.
11. The conduct of a spectrum auction would not be the most cost-effective approach in this scenario as it unnecessarily complicates and delays the entire allocation process. Also, spectrum auctions tend to artificially inflate and distort the cost of the spectrum, maximizing revenue at the expense of assuring efficient and effective use for the consumers and the industry.
12. We note that the above factors are similar to those observed in the 3G Spectrum Right allocation process in Y2001 where only the existing mobile operators participated. The auction framework applied then did not proceed beyond the initial offer stage. The outcome is an indication that the market clearing price ought not to be higher than administrative cost-based allocation since supply is sufficient for demand.
13. As such, our view is that administrative cost-based allocation of spectrum will assure maximum benefits for customers and a win-win situation for both consumers and the industry.

Conclusion

14. The telecommunications industry in Singapore has reached its saturation point where it is unfavourable for any new entrants to enter given the market conditions and significant investment costs. The rapid growth in demand has called for a need for existing operators to acquire additional 3G spectrum to ensure that consumers continue to receive optimal 3G experiences at low prices. New entrants are not necessary to bring the benefits of competition to consumers. More importantly, IDA should ensure that existing operators have comparable access to the remaining 3G spectrum through administrative allocation to facilitate greater investment in 3G/3.5G and beyond service applications. M1 strongly urges IDA not to rely on an auction process to allocate the remaining 3G spectrum. Such an approach would create economic burdens and inhibit commercial flexibility. IDA's goals of increased customer choice, facilitating innovation and maintaining robust competition will be best served through an administrative allocation of the 3G spectrum to the existing operators.