

Regulators fear an LTE spectrum bubble

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Regulators round the world are expressing concern that LTE spectrum prices, which started modestly in the first round of auctions, are now spiralling, risking a bubble effect, and making it hard for new entrants to gain licences.

In March, the Czech regulator suspended its spectrum auction when prices got too high and will restart it with tougher rules to protect new applicants. Now similar issues have arisen in Austria and Taiwan, and many fear inflated price wars will become a feature in countries which did not manage to sell their 4G spectrum in the early days of the market, when prices were hit by uncertainty about the business model and global recession.

Austria's three main operators are complaining that they have paid among the highest prices for spectrum in Europe, even though their market has some of the lowest mobile tariffs in the region.

And once again, Hutchison Whampoa's 3 group failed to win any spectrum in the coveted 800-MHz coverage band.

In many European markets, there have been only three low frequency licences on offer for four established cellcos, and generally it has been the smallest operator (3 is in that position in several countries), as well as new entrants, that have lost out. The losing player will often have to merge with a rival to gain sufficient LTE spectrum to remain viable, as seen in Germany, where 800MHz loser E-Plus is combining with Telefonica O2.

Such events strengthen the arguments of those who believe there is too much competition in many European markets, although consolidation has started to take place in some, such as the UK. In Austria, the situation is even more extreme as there are only three incumbent cellcos, after the recent merger of 3 Austria and Orange Austria, but only two managed to get 800-MHz concessions. That may reduce the competitive capability of 3 despite its merger, though at least it will be relieved that no new player was ushered in by the auction process.

Market leaders A1 and T-Mobile gained 2x10MHz apiece in the 800-MHz band, plus 2x15MHz in 900-MHz (where 3 gained just 2x5MHz). Also on offer was 75MHz in the 1.8-GHz GSM band, which is being refarmed in many countries for LTE and is considered the optimal spectrum for balancing coverage and capacity, and for international roaming. T-Mobile and 3 won 2x20MHz each while A1 got 2x35MHz.

All three cellcos complained of the high prices, and the rise in these since the first Austrian LTE auction, in 2.6GHz. A1, part of Telekom Austria, paid €1.03bn for four 5MHz blocks of 800MHz spectrum, three blocks of 900MHz and seven blocks of 1.8GHz. Telekom Austria and A1 CEO Hannes Ametsreiter said: "The high price we had to pay is a bitter pill to swallow." His chagrin was

mirrored by his CTO, Marcus Grausam, who said “we ended up paying one of the highest prices in Europe, which slightly dampened the joy over this success.”

The operator has said it will finance the spectrum acquisition via existing cash as well as additional debt, which sent its credit rating at Moody's down to Baa2 from Baa1, but analysts believe the leader is taking a gamble on squeezing 3 out of the most valuable bands, 800-MHz and 1.8-GHz, leaving the small player over-reliant on 2.6-GHz, which is good for building capacity but very expensive for achieving broad coverage.

T-Mobile Austria paid a total price of €654.5 million (\$903.7 million), and criticized the way the auction was structured, with CEO Andreas Bierwirth saying: “The auction was designed in such a way that the fees would end up being especially high, despite the weak earnings situation in Austria.” 3 Austria, put a brave face on matters, saying it “got off lightly” by paying the lowest fee of €30 million for its five blocks. “Compared to competitors we managed to minimize the financial damage to the company,” said CEO Jan Trionow in a statement but he added: “However, the outcome of the auction is a disaster for the industry as a whole.”

Taiwan's concerns

Meanwhile, the long-running Taiwanese 4G auction last week reached total bids of TW\$104.76 billion (\$3.54 billion) for 12 blocks of LTE spectrum – three times the reserve price set by the regulator, NCC - and legislators are [concerned that the spiralling costs will push up mobile prices](#) as operators pass on the spectrum fees to customers.

According to *Digitimes*, lawmakers are calling on the NCC to apply rollout requirements to insist that 4G licensees cover 50% of the population within five years. It may also introduce a cap, limiting maximum 4G tariffs to the same level as 3G. Such restrictions could dampen carrier enthusiasm, and therefore willingness to push spectrum prices ever higher.

Bidding has been highest for the 1.8GHz band (1755-MHz to 1770-MHz for upload; 1850-MHz to 1865-MHz for download), and reached TW\$24.935 billion on 21 October, more than eight times above the reserve price of TW\$3 billion. Competition for the five 1.8-GHz units on offer has been far more intense than for the four 700-MHz blocks and three 900-MHz blocks.

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