

Competition Commission of India

**Experiences of 3G Spectrum Auction
&
Reforms in Public Procurement**

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3G Auction– Introduction

- GOI concluded the highly successful 3G and BWA spectrum auctions in June 2010
- All objectives of Government from auction process met
- Overall auction proceeds at Rs.106,262 crore exceeding all expectations

Learnings from the 3G and BWA Auctions could be implemented across various other auction situations

3G Auction- Objectives of the Auction

Objectives of the auction were clearly laid down upfront by Government



- Obtain a market determined price of 3G/ BWA spectrum through a transparent process
- Ensure efficient use of spectrum and avoid hoarding
- Stimulate competition in the sector
- Promote rollout of 3G and Broadband services
- Maximise revenue proceeds from the Auctions
- Resolve congestion issues related to second generation (“2G”) mobile services

Upfront statement of objectives by Government greatly facilitated the auction process

3G Auction - *Development of auction design ...*

- Appointed a reputed auction advisor to conduct the process
- Drew from lessons learnt from spectrum auctions in other countries
- Auction design developed following extensive consultation among all relevant stakeholders
- Inputs received from international experts incorporated in auction design

3G Auction- Key features of Auction Framework

1 **Electronic or e-auction**

2 **Robust security features**

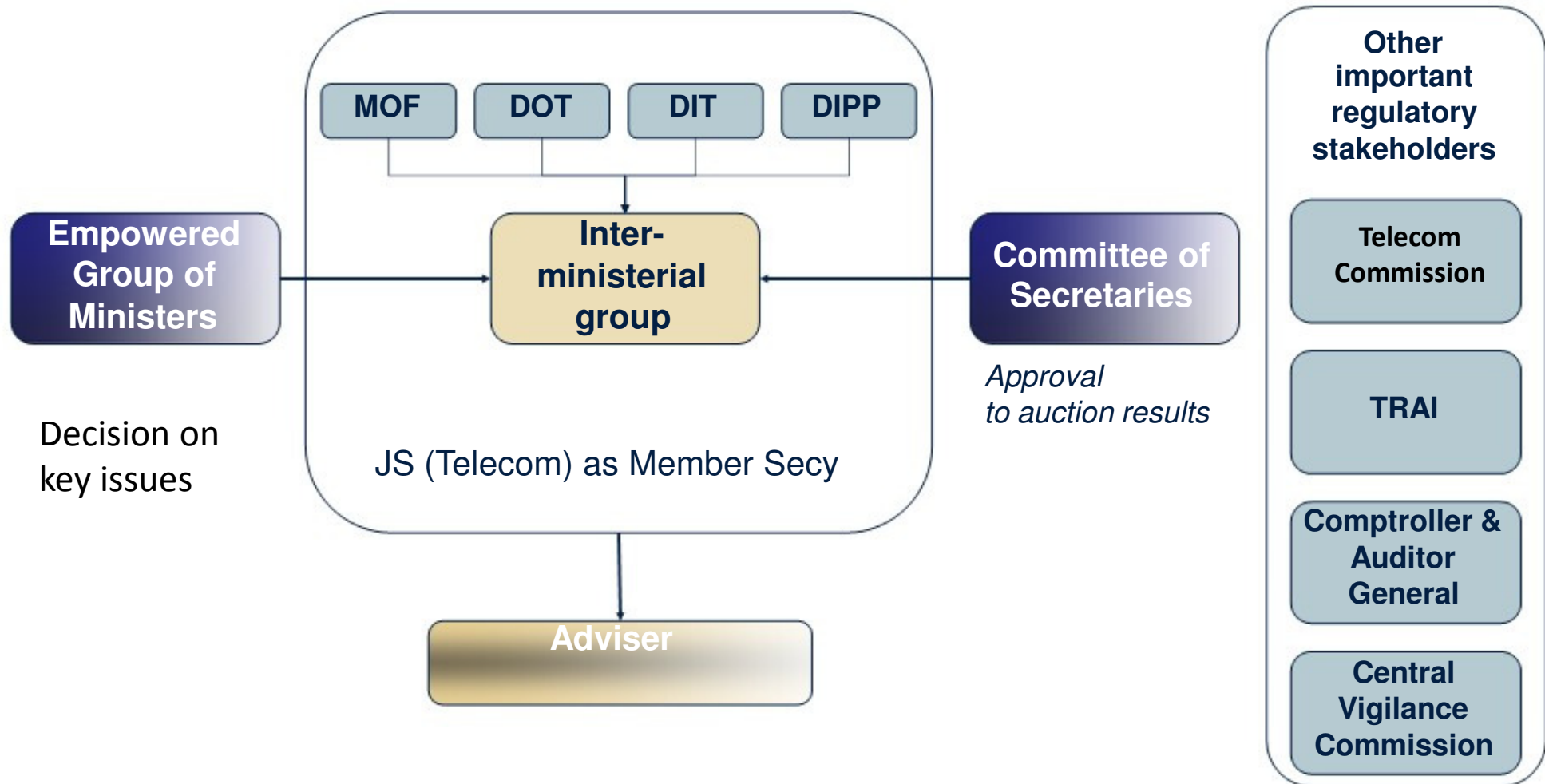
3 **Price setting by auction system**

- Important safeguard against potential collusion and risk of irrational over-bidding

4 **Simultaneous auctions, with switching flexibility**

5 **Confidentiality, with transparency**

3G Auction- Governance Structure

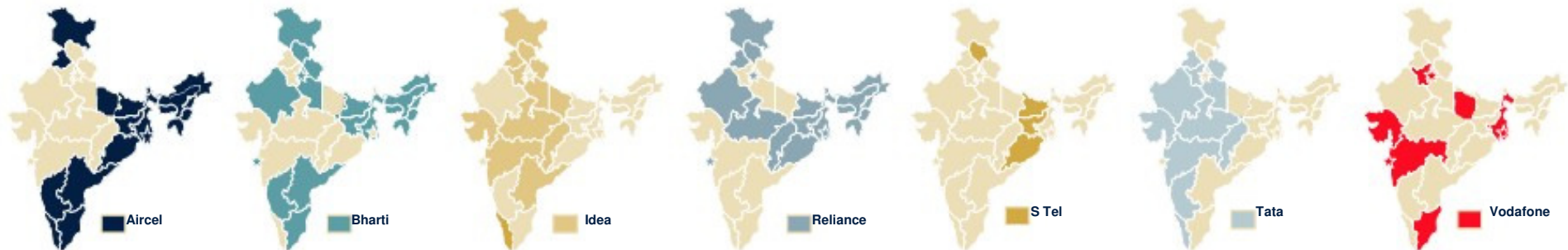
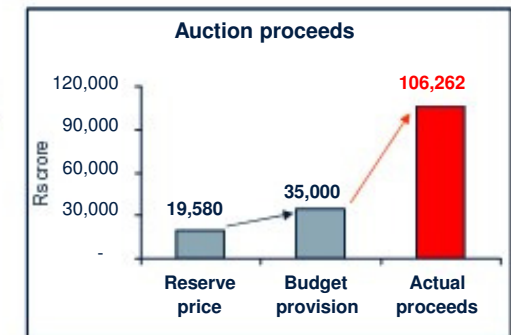


3G Auction-Role of Administrative Ministry

- Design of auction through wide consultations
- Conduct of auction with the assistance of an Adviser
- Rules and procedures decided in advance and notified
- Single point of contact with auctioneer and an inter-Ministerial group to monitor the process

3G Auction - Meeting the key objectives.....

- The process maximized earnings for the Government, while following a fair and transparent process
- No single bidder/ operator dominated auctions



- All stakeholders satisfied with the sanctity of auction process

3G Auction - Stakeholder response

“ One of the major developments that took place in recent times is the auction of 3G spectrum. The auction finally began on April 09 and culminated on May 19 after 34 days of a **highly competitive and transparent bidding process**”

 CRISIL Ratings

“ . . . **Transparency is there.** The Government had already put all the information regarding the auction on its website in October. It is a commercial transaction and all the norms were followed.”

Delhi High Court

“ the conclusion of auction for spectrum for third generation (3G) telecom services takes India's telecom sector a step forward. **The conclusion of 3G auction adds to the success of India's telecom sector and its growth story** and takes it a step forward. We are happy that it has concluded in the estimated time.” COAI director general Rajan S. Mathews told IANS”



“ The 3G guidelines have been structured **to eliminate any potential arbitrage opportunities** for carriers, and will **lead to a fair and transparent auction process**”



 THE FINANCIAL EXPRESS

**Clock auction worked superbly
Best of breed telecom auction**

 THE ECONOMIC TIMES

**Auction sends the right signal:
Govt is maharaja
FOOLPROOF MECHANISM**

Business Standard
**3G, BWA auction: no
scope for unrealistic bids**
**Telcos have no problem
with e-auction of 3G
spectrum**

DECCAN
Chronicle

3G auction: It's a win-win for all

 THE HINDU

**The spectrum bonanza
Bidders express faith in 3G e-
auction**

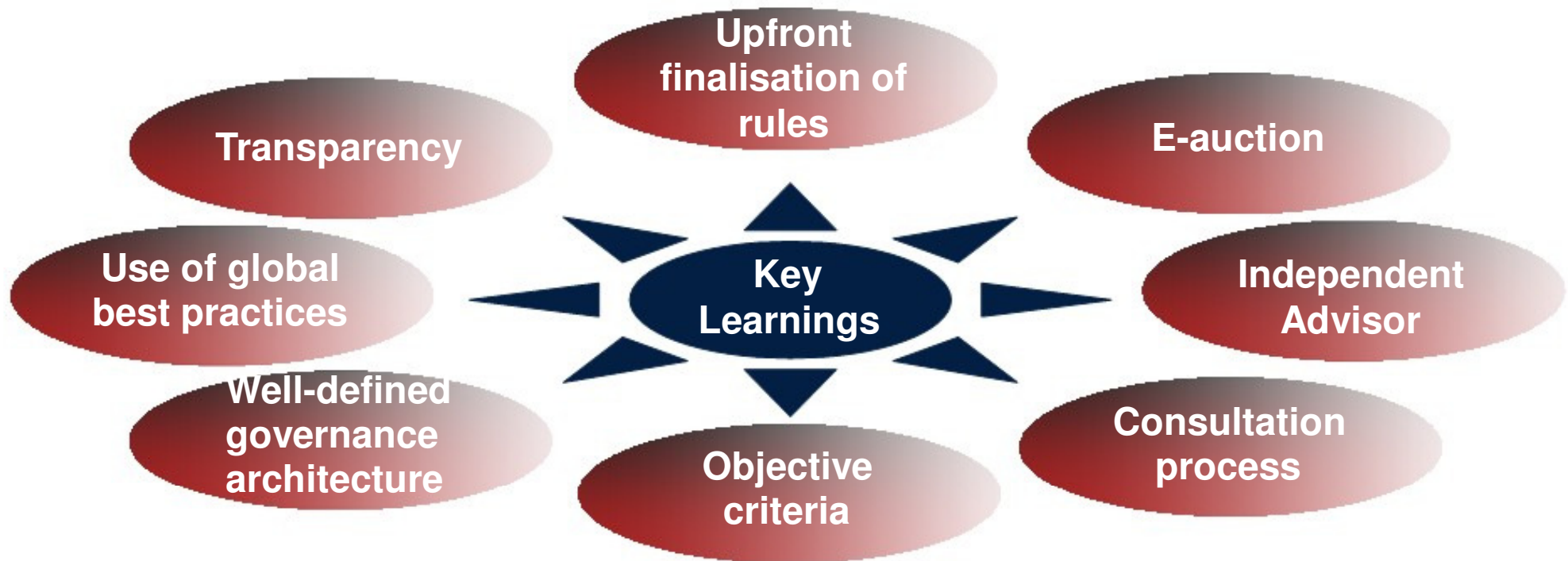


3G and BWA, which was taken over by an Group of Ministers (eGoM), is **one of the most efficient, transparent, well-organized and enlightened public policy initiatives** which will benefit the exchequer and improve telecom penetration and broadband access for consumers all in one stroke. Behind the auctions is a set of ministers and bureaucrats who worked tirelessly, combining vision, guts and some serious political manoeuvring to ensure its success.

 FT .com
FINANCIAL TIMES

**India's 3G auction - a clean process brings in
some needed cash**

3G Auction - *Key learnings*



While all auction processes have peculiarities, we should aim to implement key experiences and learnings in future auctions

Replicability of the Auction Process -

Underlying requirements

- Scale of auction
- Competitive situations
- Price uncertainty
- Standardized assets/limited opportunity for due diligence
- Multiple related assets

Replicability of the Auction Process –

Some Possibilities

- Coal/ mineral mines/ oil and gas blocks
- Land parcels
- Road and highway projects
- Airport/ port privatization
- Power generation projects, such as UMPPs
- Liquor contracts
- Large construction contracts (descending clock auction)

Customized approach will be required for large and important processes involving sale of Government resources and assets

Reforms Relating to Public Procurement

- Public Procurement – key economic activity of Government
- Large number of items procured through centralised Procurement System
- Reform in Public Procurement is a key requirement for good governance and can result in huge savings for the government
- Need for a Public Procurement Policy and a Public Procurement Law
- Urgent short term measures required

Short Term Interventions

Expert Guidance to Procurement Agencies

- study best practices in procurement of goods, services and work contracts and disseminate them
- scan and make available case law related to procurement
- Implement a helpline to provide expert advice to procurement agencies in real time
- appropriate log shipping feature to preserve the integrity of the advisory system

Short Term Interventions

Transparent System

- ensure wide publicity of all procurement enquiries by mandating compulsory publication on a designated website
- publish all tender results on the website
- interactive website to ensure receipt of complaints and forwarding them to competent authorities for examination and redress
- monitoring of delays in processing and decisions on tenders and contracting efficiency

Short Term Interventions

Oversight Mechanism

- fixing of specifications to ensure that no particular supplier is favoured
- no negotiations so that bidders give their best offers in the bids
- compulsory process audit of all contracts of more than Rs.100 crores by an independent agency

Short Term Interventions

Expansion of e-Procurement

- disclosing business opportunities by publishing tender enquiries
- making bid documents available
- making bidding rules and contract texts public
- disclosing bid results
- making e-payments for items procured
- making e-procurement compulsory by 31 March 2011

Short Term Interventions

Best Price Indicator for Small Value Contracts

- web based service wherein the best price of small value items with particular specifications is maintained vendor-wise on the website Time taken for processing tenders and finalizing contracts
- useful for commonly used items like office equipment
- save time and improve efficiency by abridging lengthy procurement procedures

Capacity Building

- procurement is a technical function and requires specialised skills.
- urgent need for building of capacity of managers at different levels in government.
- standardize processes, systems and documents
- create a cell/group in public sector capacity building organisation
- adopt latest best practices
- develop India-specific case studies.

Long Term Interventions

Public Procurement Policy

- Primary objective - a transparent Public Procurement Policy in a competitive environment to obtain the best value for money.
- increased efficiency will lead to sourcing cost effective high quality products and services and consequential budgetary savings.
- comprehensive Public Procurement Policy will provide additional benefits - encouragement to domestic industry, compliance of green norms by organizations, encouraging industries in disadvantaged regions, promoting SMEs , indigenization and meeting security concerns.
- a transparent and competitive environment will go a long way in reducing corruption in Government.

Long Term Interventions

Public Procurement Law

- need for formulating legal framework for procurement policy by covering both substantive and procedural issues.
- absence of Public Procurement Law has resulted in lack of clarity, high frequency of emergency procurements abridging competition requirements, culture of negotiations inducing vendors not to quote their best prices in their initial bids resulting in huge loss to Public Exchequer.
- urgent need to formulate, legislate and implement a Public Procurement Policy and Law although it is time consuming.

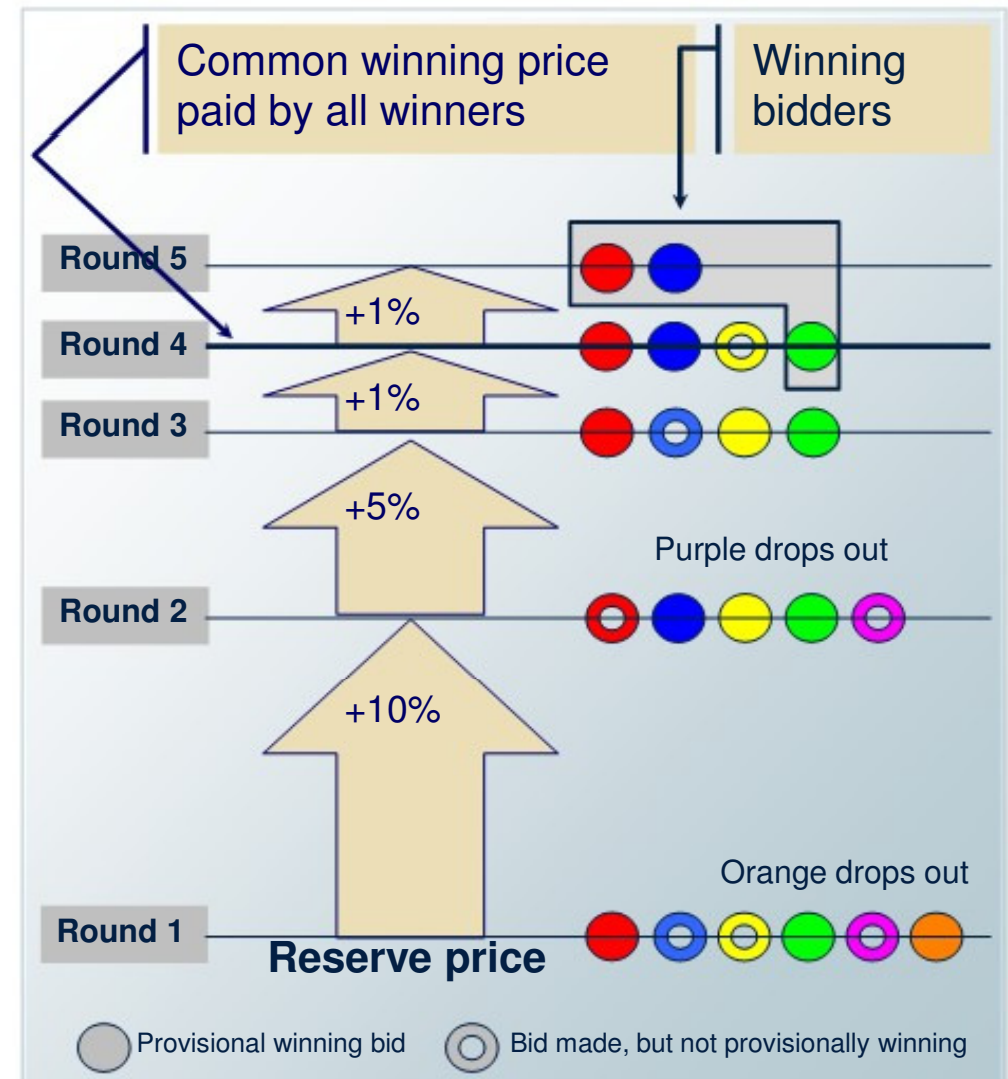
Back-up slides

Learnings from other auctions

Auction	Nature of Issue	Mechanism in 3G & BWA Auction
New Zealand TV licences (1988)	<ul style="list-style-type: none"> ▪ Second price auction (successful bidder pays price of second highest bidder) ▪ Auction failed due to weak competition 	<ul style="list-style-type: none"> ▪ Successful bidders paid same amount ▪ Low price increments between rounds
FCC/ German spectrum auctions (1990's)	<ul style="list-style-type: none"> ▪ Code bidding for collusion 	<ul style="list-style-type: none"> ▪ Prices set by system as per pre-declared algorithm
Turkish 1800MHz auction (2000)	<ul style="list-style-type: none"> ▪ Reserve price for second lot at sale price of first lot ▪ Bidder drove up price to level where it was profitable as monopoly but not as duopoly 	<ul style="list-style-type: none"> ▪ Successful Bidders paid same amount ▪ Low price increments between round
Australia TV licences (1993)	<ul style="list-style-type: none"> ▪ Two small bidders won with massive bids and then defaulted costlessly 	<ul style="list-style-type: none"> ▪ EMD requirement ▪ Pre-qualification criteria
Swiss Local Loop Licences (2001)	<ul style="list-style-type: none"> ▪ Sequential auction of similar licences ▪ Massive price variations observed ▪ Bidders unable to aggregate regions 	<ul style="list-style-type: none"> ▪ Simultaneous auctions ▪ Bidding flexibility
Swiss 3G auction (2000)	<ul style="list-style-type: none"> ▪ Joint-bidding agreements allowed, essentially officially sanctioning collusion ▪ Auction failed due to limited demand 	<ul style="list-style-type: none"> ▪ Specifically prohibited any collusion ▪ Government retained right to cancel or postpone auction at any time

3G Auction - Auction design

- **Open ascending clock auction**
 - Price set by auction system; bidders to only indicate willingness to buy at that price
 - Increments based on pre-disclosed formula
- **Common Winning Price**
- **Simultaneous auctions across all areas with flexibility to switch**
- **Activity rule through “eligibility point” system**
- **Designation of Provisional Winning Bidders to minimise unsold lots**
- **Extension time budgets to guard against technical issues**
- **Ownership restrictions**
- **EMD requirement**



Auction procedure

Inter-ministerial group

- **IMG, chaired by Member(F), co-ordinated the overall auction process**
 - Responsible for guiding day-to-day auction-related activities
- **IMG was instrumental in finalising auction framework in consultation with the auctioneers**
 - Thorough review of all auction documents
 - Extensive debate on auction rules and algorithm - Chairperson suggested reduction in price increments after deliberations in IMG following comments from an auction expert
- **IMG monitored the process - Chairperson always available while auction process was going on to take any important decisions**
- **Single point of decision making, IMG, highly effective for clarity and punctual progress of auction process**
 - Restricted and controlled dissemination of information
 - Specialised groups formed for specific activities (eg application review committee)