

4G Licenses Expected by 4 Operators

By [The Moscow Times](#)

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Nikiforov says providing Internet to poor people in the regions is a priority.

The Big Three mobile-phone groups and a state-controlled operator are expected to entrench their positions Thursday by winning valuable fourth-generation mobile licenses, which promise fast download speeds already enjoyed in other countries.

Developing the technology sector was a priority under iPad-wielding former President Dmitry Medvedev as part of efforts to diversify Russia's \$1.9 trillion economy away from its dependence on energy.

President Vladimir Putin, who returned to the Kremlin in May, is no tech geek. But he is a backer of state capitalism, and the auction will position a state-backed player in a sector previously dominated by private players.

Russia's growing middle class is buying more smartphones and tablet computers, swelling annual mobile industry revenues to \$30 billion. Next-generation services, designed for data rather than voice, will more than double download speeds.

"This is a much-needed service," said Stanislav, 35, a customer at a cell phone shop in Moscow. "I often travel on business and need fast Internet on a smartphone or iPad."

The 4G rollout creates a business opportunity but also a political headache for Russia's leaders. They are being challenged by affluent, opposition-minded urban dwellers who have used social networks to organize large-scale protests against Putin's re-election.

Seeking to stay ahead of the curve, Putin appointed 29-year-old Nikolai Nikiforov as his new minister for communications. Nikiforov has made a priority of reducing "digital inequality" by helping poorer people in Russia's regions get online.

Russia launched a tender last month for licenses for the technology, known as LTE, short for long-term evolution.

MTS, MegaFon, VimpelCom and state-controlled Rostelecom are expected to beat out smaller rivals in a contest that follows similar moves in the United States and Europe.

Unlike many global operators, the winners of Russia's LTE tender will not pay to acquire their licenses but must commit to investing at least 15 billion rubles (\$457 million) annually until 2019 in network rollout.

Analysts say the capital-expenditure requirement should be comfortable for the operators, who will also incur the costs of clearing the spectrum, currently held by the military.

More than 70 operators worldwide have launched commercial 4G services since Sweden-based Teliasonera pioneered the technology in 2009.

Telecom regulator the Federal Mass Media Inspection Service pledged to choose winners to encourage fast deployment of 4G and provide wide access to mobile broadband services for consumers.

In Russia, mobile broadband is popular in areas where high-speed broadband is not available and among tech-savvy consumers who use smartphones to download photos and videos and make video calls on the go.

Although real consumer demand for high-speed mobile broadband has yet to develop, the 4G licenses will be crucial for operators' future growth.

With mobile penetration above 150 percent in a country of 140 million, there are few new subscribers to recruit, so growth will come from getting people to spend more on mobile packages.

While analysts say the tender is unlikely to significantly change the competitive landscape, it will benefit some and leave others in weaker positions.

For IPO hopeful MegaFon, whose billionaire owner, Alisher Usmanov, is combining his stake with state-backed 4G operator Scartel, winning its own 4G license may give it an advantage.

A joint venture is being set up to hold Usmanov's 50-percent-plus-one-share stake in MegaFon and 100 percent of Scartel. Usmanov will control more than 80 percent of the new

group, although all operators will have equal access to Scartel.

"Although Scartel should continue to be an independent company, the alignment of interests of MegaFon's shareholders with those of Scartel's may lead to MegaFon eventually benefiting from Scartel's frequency allocation," said Igor Semyonov, a Moscow-based analyst at Deutsche Bank.

Alexander Vengranovich at Otkritie said MegaFon and Scartel will jointly control more than 50 percent of the 2,500- to 2,700-megahertz LTE frequency range, which could create a long-term infrastructure advantage.

Operators that own more spectrum can offer faster download speeds and more reliable service to customers.

In Moscow, a key market for mobile operators, MegaFon and MTS already have frequencies in that band.

"VimpelCom looks weaker than its competitors in the long term. Unlike MTS and MegaFon, which managed to convert their WiMAX frequencies in Moscow, it does not have such additional resources," Semyonov said.

UniCredit said the smaller number of 3G base stations — usually used as a basis for 4G network — in VimpelCom's network suggests that it could be a laggard in the LTE rollout.

MegaFon launched LTE in Moscow in May using Scartel's network, and Rostelecom plans to do so in September under an infrastructure-sharing contract with Scartel.

Owning a 4G license will also help the predominantly fixed-line player Rostelecom to bridge the gap with the Big Three.

Now fifth in the mobile market, Rostelecom wants to challenge established players as part of efforts to offset falling sales in its core business.

Other companies joined the tender but are expected to miss out on the LTE licenses.

They include Nordic group Tele2; TTK, the telecom unit of Russian Railways; and Summa Telecom, part of Russian investment and trading group Summa.

Bank of America Merrill Lynch expects the tender to speed up the Big Four's market formation, with Rostelecom edging closer to MTS, MegaFon and VimpelCom, while keeping Tele2, Russia's No.4 mobile group, "looking for a different solution."

The tender has already prompted speculation that Tele2 could put itself up for sale.

Other options include waiting for the regulator to auction off regional licenses or adopting "technology neutrality," which allows the use of current GSM spectrum in Russia to offer 3G and 4G service.

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