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Mobile Operators Look to Scartel for 4G Help

By Rachel Nielsen

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Established 4G wireless provider Scartel is talking with the big three mobile operators — MegaFon, VimpelCom and Mobile TeleSystems — about forming a company to develop and run 4G infrastructure on their behalf.

The companies have been discussing the creation of the infrastructure business on the back of the Scartel division of Yota Networks, according to Vedomosti, which first reported the development Tuesday. The newspaper cited top executives from the mobile companies who had participated in the negotiations and an associate of billionaire Alisher Usmanov, who owns MegaFon's majority shareholder, Garsdale.

Under the proposal, each of the big three operators would acquire a stake in a joint venture and fork over to this new entity the 4G spectrum that it was awarded by the Communications and Press Ministry last summer.

In return, Scartel would build and maintain a 4G network for all three operators.

The attraction for the big three could be Scartel's experience: MegaFon, MTS and VimpelCom are just beginning to develop their networks for 4G, or next-generation wireless, while Scartel has been providing 4G service under its Yota brand since 2009.

Some industry watchers believe that the operators must cooperate in 4G development and form an entity to manage 4G infrastructure across all of the operators if they are to successfully deploy the spectrum awarded in July.

Ksenia Arutyunova, an analyst with Rye, Man & Gor, said that is a realistic assessment given Scartel's "very good infrastructure."

Turning over development to Scartel would let the big three focus on business segments where they already have expertise, she said. Scartel's network is highly developed and consists of "pretty big coverage" in Moscow and several regions.

However, combining Scartel's WiMax network with the frequencies awarded by the ministry would require serious effort for ironing out technical issues. "It wouldn't be done overnight," Arutyunova said.

What's more, last summer's tender laid out strict spending requirements and timelines for the winning operators, and it isn't clear whether joining forces with Scartel would put them in violation of those terms.

The government stipulated that each winning company must spend at least 15 billion rubles ($500 million) per year on developing its 4G network until it has completed its rollout. The companies have until the end of 2019 to finish the job.

If the big three rely on Scartel's infrastructure, they might end up spending less money to develop their own 4G networks. But it's conceivable that the ministry could alter the requirements because of the changing market, Arutyunova said.

Also unclear at this point is how such a deal between the major mobile players and Scartel would affect Rostelecom, the state fixed-line monopoly and the only other winner of 4G spectrum last summer.

Contact the author at r.nielsen@imedia.ru

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