

Squaring the 'mobile licence renewal' circle: lessons for the Middle East from European trends

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The 15- to 20-year mobile operating licences that were issued in the 2000s are now coming up for renewal in many countries in the Middle East. A number of regulators and governments are therefore considering their options regarding the best way to renew these licences, given their policy objectives. Licence renewal, whether for operating licences or for spectrum licences, causes a great deal of tension due to the interests of the many stakeholders involved.

- Licensees are typically keen to get their licences renewed with the lowest possible financial outlay (and for the longest possible duration), particularly when telecoms markets in the region seem to be close to saturation and 5G investment is on the horizon
- Governments (including ministries of finance) typically expect that licence renewal will raise significant revenue in order to ease government budgets, particularly amid low oil prices and difficult economic times.
- Regulators (that are typically in charge of coordinating the process) may also have other objectives, such as maintaining investment incentives, ensuring the efficient use of spectrum and enhancing competition (for example, making sure that the spectrum allocated supports the market structure).

Traditionally, licence renewals around the world have involved an upfront fee (regardless of whether the renewal takes the form of a spectrum reauction or an administrative process). More recently though, some alternative approaches have been followed. In the Middle East, the following two recent examples are of note.

- **Saudi Arabia.** The mobile operators were given the opportunity to extend their operating mobile licences by 15 years and to receive a unified licence with no upfront fee. The licence renewal payment instead consisted of annual fees formed of 5% of the recurring net income plus 1% of operating revenue.
- **Qatar.** The mobile operating licence of Vodafone Qatar was extended from 20 years (ending in 2028) to 60 years (ending in 2068), reportedly without financial compensation.

In our view, these cases were driven not only by the need to provide more predictability to operators with regards to their operations, but also by the consideration of easing the financial burden of the licence (whether that be by staggering the payment or increasing the amortisation period) on the operators. However, the examples above still appear to be relatively focused licence renewal pricing.

An interesting trend that has recently been seen in Europe is to balance short term revenue gains for the government with longer term societal benefits, brought about, for example, by increased coverage/service obligations applied to operators. This can result in a renewal that requires a lower payment but that has significant additional obligations, either in terms of coverage or QoS. Examples of these deals include the following.

- In France, the ARCEP signed a 'New Deal' with mobile operators that traded a licence renewal fee for the acceleration of the 4G roll-out, reportedly after discussions and negotiations with operators. French mobile

operators expect to have their licences extended by 10 years for no upfront cost provided that they agree to make significant coverage commitments, such as:

- improving the overall quality of service, particularly in rural areas
 - rolling out 5000 new cell sites per operator (including shared sites) in specific areas
 - increasing the coverage on main roads and railways.
- In Denmark, although auction mechanisms have been used to reassign expiring licenses for the spectrum originally used for 2G (1800MHz in 2016 and 900MHz later in 2018), the Danish regulator has been clear throughout the process that the goal was to maximise coverage to the greatest extent possible rather than to raise revenue. As such, the 1800MHz auction raised modest prices but is leading to notable improvements in coverage/QoS; a similar outcome is expected for the 900MHz band.

In conclusion, given the current challenges facing the industry, it seems appropriate for licence renewal approaches to focus on:

- striking the right balance between renewal fees and the longer-term benefits of increased licence obligations
- promoting future investment and innovation by avoiding setting licence fees at an excessive level, and potentially allowing for staggered payments
- ensuring that spectrum continues to be assigned efficiently to those that can make best use of it
- taking the opportunity to review and possibly simplify the licensing framework.

Analysys Mason can help operators, regulators and governments through the process of licence renewal, and can provide assistance in understanding the value of the spectrum and the level and structure of renewal fees that might be appropriate in relation to specific policy objectives. For more information about our services, please contact Johann Adjovi, Principal, at johann.adjovi@analysismason.com or Mark Colville, Principal at mark.coville@analysismason.com.