

CASE STUDY Russia

The Ministry of Communications decided to withdraw previously-allocated spectrum from telecommunications companies, and transfer them to a state-affiliated company for a new national Long Term Evolution (LTE) network. The network would include frequencies in the 700 and 800 MHz bands. The Ministry said it would invest in rolling out 30,000 base stations and the state-owned network would be available to all operators at government-regulated tariffs.

This change was prompted by concerns that operators had taken a “formalistic” approach to rolling out new LTE infrastructure, by concentrating only on the most profitable areas. Over the first year since the auction, operators had built fewer than 1,000 base stations, which was far less than the proposed 30,000 the Ministry proposed to roll out through the new national LTE network.

The Ministry had been concerned that the companies who had won the spectrum auction had been focusing on coverage in larger cities, resulting in multiple overlaps, and without regard for the quality of service. The Ministry believed that spectrum has not been distributed efficiently.¹

Mobile operator Yota (WiMAX operator Scartel, in which the state held an interest²) was allocated 40 MHz of spectrum in the 2.6 GHz band, and given the first licence to offer LTE services, with conditions that wholesale access had to be provided to other mobile operators.³

Thus in March 2010, Scartel (under the Yota brand) reached an agreement with four mobile operators in the country, to roll out one single wholesale LTE network that would be utilised by the four operators on a wholesale basis.

By 2014, the network was expected to cover 180 cities with more than 70 million inhabitants.

The four operators also had the option of a future stake of 20 percent in Yota.

The agreement indicated an arrangement for the separation of network ownership and service provision. The stated aims were to avoid the cost of duplication of infrastructure investment, and to provide users with faster mobile access at lower prices.⁴

Yota received regulatory approval from the telecoms regulator⁵ to abandon WiMAX for LTE in July 2010.

Yota had previously trialled its emergent LTE network in Novosibirsk in December 2011, but had been expected to postpone the Moscow launch until September 2012 after struggling with network upgrades, yet it then appeared that the launch would proceed before that, as planned.

Yota was optimistic. It planned to initiate its new network in Moscow in April 2012. General director Denis Sverdlov said: “There will be no test regime, it will be turned online on the night of

¹ Frontier Economics. Sep 2014. “Assessing the case for Single Wholesale Networks in mobile communications. A report prepared for the GSMA.” Annex 2: Summary of existing SWN proposals. Russia, pp 141–142.

² Government-owned industrial giant Russian Technologies held a 25-percent-plus-one-share blocking stake in Yota. See PRI (Public Radio International), 1 Mar 2011, “Yota, a new kind of Russian company,” Miriam Elder.

³ GSMA. “Wholesale Open Access Networks” (July 2017). “Russia: The initiative failed as carriers couldn’t reach an agreement.”

⁴ OECD Digital Economy Papers, No. 218, 4 Mar 2013. “Broadband Networks and Open Access: The evolving role of satellite networks in rural and remote broadband access,” p 32. A. Diaz-Pines, K. Ido.

⁵ Roskomnadzor.

14–15 April. By September 2012 Yota will connect LTE in all of Russia's cities, as required by the government radio frequencies commission."

Mobile giant MegaFon had reportedly confirmed its intention to "piggyback" as a mobile virtual network operator (MVNO) on Yota's network, to launch LTE services in Moscow in the first half of 2012. The reports followed MegaFon's announcement in November 2011 that it had signed an agreement with Yota to utilise each other's network infrastructure as they built out their respective 4G networks.⁶

But this single wholesale wireless network operator model has apparently not yet been implemented in Russia.⁷

Indeed, even Russia is said now to have abandoned its WOAN plans.⁸

The initiative failed because carriers were not able to reach an agreement and went their own way on LTE, after reportedly insisting on choosing their own vendors.

The main issue was that the government allowed Yota to act as both a wholesaler and retailer, thus limiting Yota's incentives to offer wholesale terms attractive to other operators with which it would compete at the retail level.

It also appeared that a revived plan for a SWN, similar to Rwanda's or Mexico's, has been rejected in Russia, following the roll-out of LTE services by the country's mobile operators.⁹

Some supporters of establishing a single wholesale network (SWN) or a wholesale open access network (WOAN) to deliver mobile broadband services claim that these networks will deliver greater coverage than competing mobile networks can.

However (the GSMA¹⁰ point out), government-mandated wholesale networks have been much slower to expand coverage, perform upgrades and to embrace new technologies such as 3G and 4G, and can be expected to prompt less innovation than network competition.

This is despite the fact that, in order to be built, the SWN or WOAN require forms of support which are typically not available to competing network operators.¹¹

⁶ TeleGeography CommsUpdate. 22 Feb 2012. "Yota targets Moscow LTE launch in April; MegaFon to piggyback as MVNO."

⁷ Webb Henderson, 7 Sep 2015. "Rural solution options for governments in emerging markets to increase broadband coverage in unserved and underserved rural areas." Malcolm Webb.

⁸ ITWeb, Dec 2016. "Cwele in Mexico to talk Internet governance."

⁹ GSMA. "Wholesale Open Access Networks" (July 2017). "Russia: The initiative failed as carriers couldn't reach an agreement."

¹⁰ The GSM Association (formerly the GSM MoU Association, and formerly Groupe Speciale Mobile (GSM)). (The GSMA describes itself as representing the interests of mobile operators worldwide, uniting nearly 800 operators with more than 300 companies in the broader mobile "ecosystem," including handset and device makers, software companies, equipment providers and internet companies, as well as organisations in adjacent industry sectors: <https://www.gsma.com/aboutus/>.)

Its eight Russian full members include the so-called 'big four' Mobile TeleSystems (MTS), OJSC VimpelCom (Beeline), MegaFon, and Tele2 (former state fixed-line monopoly Rostelecom).

See GSMA <https://www.gsma.com/membership/who-are-our-gsma-members/full-membership/>.

(See also Wikipedia, "Mobile phone industry in Russia.")

¹¹ GSMA. "Wholesale Open Access Networks" (July 2017).

Russia's proposal to introduce a single wholesale network operator has been said to be inapplicable to South Africa:

In Russia, the government or even one individual was able to take and enforce decisions and oblige existing operators to go along, in a top-down autocratic way that was inconceivable in South Africa, given the latter country's legal and other institutions and the influence there of the major operators.¹²

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¹² "Can open access wholesale-only wireless networks be viable?" *BMI-T Technowledge White Paper*. Dr Martyn Roetter, Oct 2015.