

# The 3G Debate (HKCC 5th Jan 2001)

John Ure

Director of the

Telecommunications Research Project

Centre of Asian Studies

University of Hong Kong

[www.trp.hku.hk](http://www.trp.hku.hk)

# *The Aim*

- To encourage the fastest take-up of broadband access
- To persuade operators and service providers that revenues lie in mass usage, not premium-priced access

# *The Issue*

A competitive industrial structure

OR

Money for the Financial Secretary

The Issue is *NOT*

To auction

OR

Not to Auction

# Auctions

One method among  
many to allocate a  
relatively scarce  
resource

# Methods Proposed by OFTA

- Upfront payment auction
- Administrative selection  
+ spectrum licensing fee
- Hybrid: pre-selection (tradable licences!) + royalty auction

# Upfront payment auction

- Raises the financial hurdle
- Cost of financing increases/share prices fall
- Raises the margin of risk and lowers incremental buildout to high-risk areas
- Reduces effective regulatory oversight

# Spectrum licensing fee

- Administratively simple
- Ensures return to the public purse  
- but requires departure from  
OFTA Trading Fund ceilings
- Consistent with auction based on  
buildout commitments, etc



# Royalty auction 1

- My own proposal, but based on profits, not revenues
- Profits base builds-in return on capital
- Phases in with ability to pay
- Requires separations accounting

# Royalty auction 2

- OFTA variation of my proposal, because they fear clever accountants will hide the profits
- Revenue base threatens profitability, unless a floor is built into the process
- Requires separations accounting

# Action 1

- OFTA should do everything to drive down the value of the licences
- OFTA should issue 6 licences now
- OFTA should award the additional 5 MHz unpaired spectrum now, but issue it later

# Action 2

- OFTA should announce ahead of any licensing process that the additional 160 MHz of spectrum will be allocated in 2004/5
- OFTA should also announce that additional spectrum may be allocated in the future

# Action 3

- OFTA is right to encourage use of 2G and 2.5G to offer so-called 3G services
- OFTA is right to require the spectrum be open to wholesaling

# Action 4

- OFTA should be prepared to licence any other form of wireless broadband access
- OFTA should aim to make broadband access as cheap and as available as possible - and operators should take note!