

Submission for the Consultation on Licensing Framework for Third Generation Mobile Services

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Date : 20 April 2000

Subject: 3G license

I do not agree with the decision to award 3G mobile licenses by merit rather than by auction as adopted by the U.K.

This is my understanding of the reason for not auctioning the licenses:
Mobile operators will price 3G services higher to reflect the cost of the licenses. In other words, consumers will have to pay more.

This implies that OFTA believes that the price of a service is determined by its cost.

Economists are unlikely to agree with this view. The price of a service is determined by demand and supply. Cost is a factor mobile phone operators would like to consider but if the demand/supply situation is such that the service has to be provided at a loss, then the operators will price it below cost. The best example is indeed the mobile phone service in Hong Kong. Several mobile phone operators have been losing money.

Demand for mobile phone service has nothing to do with the cost of providing the service. Consumers don't care how much it costs the operator to provide the service. Supply of mobile service is fixed by OFTA through the number of licenses it issues. The cost of the license does not affect the number of operators (i.e. supply). If OFTA decides to issue 4 licenses, then there will be 4 operators irrespective of whether the operators have to pay for the licenses. As the price of mobile phone service is determined by demand/supply and both demand and supply are not a function of the cost of the licenses, OFTA should not have the view that consumers benefit from awarding the licenses for free. Awarding licenses by merit simply transfers wealth from the Government to the operators. Consumers do not get the service cheaper.

Look at the Hong Kong property market. There are several examples of property companies selling flats below cost because

1. the property market is poor;
2. they paid too much for the land.

If OFTA's logic of awarding 3G licenses based on merit stands, then the Hong Kong Government should abandon the system of selling land by auction and tender. Instead the Government should award land for free to property developers that the Government believes are capable of producing good quality flats. Home buyers will be able to buy flats cheaper as developers do not have to pay for land. Does this make sense? Of course not. Flats will not be cheaper under this scenario because demand and supply will be exactly the same (as long as the amount of land "awarded" is the same as the amount of land otherwise sold by auction or tender). The only difference is that the developers pocket the money that should have been collected by the Government.

Finally mobile phone service is more expensive in the U.S. because there is less competition, not because the operators paid for the licenses.

I am sure economists can explain better than me how the price of a service is determined.

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