

It seems our Telecommunications Authority need go no further than the pages of the South China Morning Post for the public debate it invited with its consultation period on awarding third generation (3G) mobile phone licences.

Let's have more of your thoughts, folks. This is proving a good forum indeed for the running argument on how we should award these licences.

Your correspondent will not act as moderator, however. He is as opinionated as you expect a columnist to be and prefers slugging it out in the trenches to overseeing it from Olympian heights.

It is time for some of that slugging out again with the latest argument against auctioning 3G licences from the head of regional telecoms research at Credit Suisse First Boston, NiQ Lai.

First of all it is interesting to see a representative of an investment bank arguing against auctions when they would create enormous corporate finance plums. Clearly not all investment bankers are driven by their own commercial considerations.

Mr Lai makes two points worth considering. The first is that 3G licences will go the way of the big boys if they are auctioned to the exclusion of smaller contenders who may offer better services or innovations.

Time for a story. Sunday Communications had the best submission by far in its round of 2G licences. Its application was comprehensive and full of innovative ideas.

Trouble was one of the applicants, a big boy, so big in fact that its licence was already spoken for, had not bothered to do its work properly. The licence awards were therefore delayed to allow it to make a better submission and, in the meantime, the other submissions were published on the Web.

Another existing big network then took Sunday's ideas and made them its own before Sunday could start business.

The moral of a story is a simple one – we don't really reward innovation. We have actually discouraged it. Far better just to swing a lot of weight.

And there you have the truth of the matter anyway. This is a big capital business. You do not belong in it if you do not have the capital and, if you do have it, you can always buy the innovative ideas of others. You can even steal them it seems.

Mr Lai's second point is the one at the crux of the debate. Someone will have to pay for the operators' higher costs if they acquire their licences at auction.

Available space prevents your correspondent from describing again how this someone will not necessarily be the subscriber when usage fees in a fixed cost business are determined by what the market will pay for them, not what they cost, but even Mr Lai agrees "that an operator can only charge what the market will bear."

His caveat, however, is that operators will go bust if it is not enough and the roll-out of 3G services delayed.

That delay is certainly unlikely. The higher the auction cost the greater the incentive to anyone who then picks up the network to roll it out as quickly as possible and get some money through the door to pay off that big up-front cost.

Yes, going bust will sting some banks and original shareholders but that is their tough luck. They made a commercial decision. They won't share their profits with us if they get it right. Why should we share their losses with them if they get it wrong?

Remember also that the sale of Hutchison's Orange network in the United Kingdom valued that network in total at about HK\$350 billion and yet it had never made a cent of profit.

The lead times to payback in this business are immensely long and people who go bust in it will probably do so because they just cannot hang on rather than because they paid more for their licences than those licences are worth.

And that is just another reason why it is a big boys business and we should extract a big boys price from it. Auctioning is the only way to go.