

Should we auction the radio frequency spectrum or should we not? It could be a very big revenue question to the Government next year.

The following is why the Office of the Telecommunications Authority thinks we should not auction the networks for the third generation mobile phones and, of course, your correspondent will not allow OFTA's arguments to go unremarked.

(1) Spectrum auctioning will increase the operating costs for 3G services and such costs will eventually be borne by consumers.

Not so. It may increase the network operators' costs but they will charge their customers what they think the market can bear, which is an entirely different thing from what it costs them.

(2) Given the speculative nature of some investors in Hong Kong, it is possible that prices will be pushed to a high level.

Absolutely, and that will be a nice addition to public revenues. But why should it concern you and me that an operator may bid more than he can recoup from us? He will not share his profits with us. We won't share his losses with him. It's called a market.

(3) The resultant additional high entry cost could have a serious dampening effect on the rollout of 3G services.

No, it won't. It will have the exact opposite effect. An operator who pays a big auction fee up front will have a decided incentive to get to work quickly to recoup his money.

(4) ...the companies which may provide more innovative and advanced services may not succeed in getting a licence.

Once again, the result will be the exact opposite. If customers value these innovations they will pay more for them and the innovators will have an edge. If customers do not value the innovations enough to pay extra for them then why should we have them?

(5) The worries about a small group of companies dominating the telecommunication market will be heightened.

Yes, it is a big money business and the big boys will dominate it. They will whether the spectrum is auctioned or not. But we are not talking about only one licence here. This will not be a monopoly. Why indulge in monopoly talk?

(6) ...it will turn the spectrum into a tradable commodity.

Exactly. Why give it away when we can trade it in for money? It will be traded anyway through the stock market listings of the companies that get the licences.

(7) Some companies may take advantage of this by bidding for the spectrum with a view to speculation rather than operating 3G services.

Let them. If they don't build out their networks they won't have much with which to speculate and giving them licences for free will in any case encourage them to speculate in these licences through the stock market. See (6).

(8) ...the auction method in some overseas countries has seen the default of successful bidders in the process.

So what? Is the public meant to guarantee their success? This is a business risk. If an operator folds because he bid too much and cannot pay the interest charges then someone else will take over the network if it is still profitable on an operating basis and the customers will hardly notice. The banks will absorb the hit of lending the first operator more than they should have for his bid. Their tough luck. See (2).

(9) ...this represents an additional cost to 3G operators and greatly increases their business risk.

Yes, but it's their profits too if they succeed, not ours. If they're smart they won't bid too much. If they're not smart they shouldn't bid at all. See (2) and (8).

The simple fact of the matter is that auctioning is the only way to go. It would be fair, it would be efficient, it would compensate us for the use of our resource and it would get us those 3G networks much more quickly than OFTA's "well established approach".

Ah yes, but it would also limit OFTA's subsequent role in the business. Was this a consideration?