

It is fortunate that we still have the luxury of time in deciding how to award licences for the third generation mobile phones that will allow you to tap anything on the Internet from your pocket.

We can now sit and watch what happens in the United Kingdom as the bidding for these 3G licences goes into fever pitch.

This process is already telling us, however, that the “well established” route preferred by our Telecommunications Authority (TA) of awarding these licences in Hong Kong for free on a merit basis that it defines (a very subjective definition) will not suffice.

The biggest reason for this is simply the money involved. In the UK the auction works on the basis of continuing rounds for five licences that will be awarded only when all but five bidders have dropped out.

At the latest count there was only a hint of one bidder out of 13 dropping out and already the total value of the bids had reached 10.5 billion sterling. Many commentators are now assuming the bidding will not stop before it reaches 15 billion sterling.

Make adjustments for the smaller size of the Hong Kong economy but also the lower costs of installing a network in so dense a territory and the equivalent value of the licences here could be about HK\$27 billion.

This is almost as much as our financial secretary, Donald Tsang Yam-kuen expects to raise from selling half of the Mass Transit Railway Corporation and that privatisation scheme is a pipe dream. Even the full MTRC is not worth that much in the form in which he intends to privatise it.

It has simply become too big a revenue question to ignore. Mr Tsang will have little ground for ever again talking of fixing fiscal deficits if he does not consider it.

But the size of the figure says that there are three other good reasons why we cannot offer these licences for free.

The first is the danger of corruption. Your correspondent makes no allegations of dishonest practices in the TA but when a small group of people working from a non-rigorous definition of merit give away assets worth \$27 billion there is an enormous temptation to bribery.

There is a failing for this sort of thing in our society and such bribes can easily be hidden. So let's not put temptation in the way of these people. An ounce of prevention is worth a pound of cure.

The second reason is that giving away these licences by an uncertain criteria of merit when so much money is involved can result in considerable protest afterwards by unsuccessful applicants who may be induced to seek a judicial review.

This was the experience of the Federal Communications Commission in the United States and was one of the principle reasons that it introduced auctions for these licences. It was also cited by the UK authorities in a paper to the European Union explaining why it opted for auctions.

“To decide between such competing bidders, on the basis of administrative criteria, and to be able to demonstrate the fairness of such a decision, is likely to be extremely difficult,” that paper said.

“At worst, it could lead to judicial challenge by unsuccessful applicants, which could substantially delay the roll out of new services.”

The third reason is that 3G mobile is such a new field that the TA is not really in a position to be able to assess which are the bids with the greatest merit, the reason that it wants to keep its traditional award by merit system.

The money now being bid in the UK certainly says this is a problem. It indicates that the possibilities are much greater than anyone had previously thought, creating an environment in which only a marketplace can sort out what will work and what will not.

It all goes to say that the TA has been much too firm in announcing that it will continue with its merit approach. This needs a rethink at the top levels of our Government.