

You catch your correspondent writing this column just after a taped 30-minute debate for Radio 3 with, among others, the director-general of the Telecommunications Authority, Anthony Wong Sik-kei.

The topic - How should we grant licences for the new third generation (3G) mobile phones that could turn your handset into an on-line television camera and give you super-speed access to the Internet wherever you are?

The United Kingdom's answer was to auction them and the recent results of that auction brought in Sterling 23 billion to the UK treasury when the UK Government would have been satisfied with a tenth that figure. Make adjustments for the size of Hong Kong's economy and they could be worth HK\$35 billion to us.

But Mr Wong is not happy to go the auction route and, during a consultation period that ends May 22, is proposing alternative means of awarding the licences.

Let us leave aside for the moment the question of whether he should not have waited until the consultation period was over before making proposals and listened to other people's proposals until then.

We start with the fact that your correspondent, who favours auctions, shares common ground with Mr Wong. The radio spectrum above our heads is as much a public asset as the ground below our feet and the public should be compensated for the use of it.

The difference is that Mr Wong thinks there are ways other than spectrum auctioning of compensating the public.

His argument is that a network operator who makes a high bid at an auction will seek to recover his cost by charging his subscribers high usage fees. Why not instead forego the auction, mandate low usage fees for subscribers and compensate the public that way?

There are three immediate reasons why not.

The first is the economics of how the mobile phone business works. Almost all the costs of running one - licence costs, network construction, network maintenance and administration - are fixed. If your break-even cost of running one is \$30 million a month with 100,000 subscribers it will be almost the same with one subscriber

So let's say that with 50,000 subscribers you are making only \$15 million a month. You calculate that a 10 per cent reduction in usage fees will make your subscribers use their mobiles more and bring you another 10,000 subscribers, together giving you another \$3 million a month.

You now have the choice between losing \$15 million a month and losing \$12 million. Which do you take?

It is obvious and it is not a theoretical exercise. It is happening in the mobile phone business right now with Hutchison squeezing and smaller operators yelping.

Auction costs will not be reflected in usage fees. The dynamics of a service business with fixed costs are that fees are determined only by what the market will bear. Whether you sell the spectrum or give it away makes little difference to the fees operators can charge.

The second reason Mr Wong is wrong is that 3G mobile phone subscribers will not be synonymous with the general public.

These high speed broadband applications will have their greatest use in finance and multinational corporations, among people who are already rich in other words. Your minibus driver's needs are satisfied by what he has right now and if he starts using a 3G while driving you'll want to get off his bus.

The third reason is that Mr Wong will suffer the biggest headache of his life if he tries to come up with a system that mandates fair maximum usage fees for different operators with different customer bases and different roll-out proposals.

What happens when one offers a better service than another? Can any of them offer special gift inducements? The questions are endless and none of them has an answer that doesn't tie the whole business up in a new tangle of knots. Hasn't fifty years of worldwide experience told us the fate of a command economy?

There is only workable answer to all such questions. Let the market decide.

And if we let the market decide fees then we should side with the way that the rest of the world is now going and let it price the spectrum too. Auctioning is the only way to go.