

Is it possible that your correspondent would not rise to the bait of an argument against auctioning third generation (3G) mobile phones when it appears in the (all mine, you hear) Monitor column?

No, it is not, particularly when he himself invited Dr. John Ure of the University of Hong Kong to publish it there yesterday.

Dr. Ure contends that 3G is different from the 2G mobiles you now use for little more than voice because 3G networks will need to provide their own Web-based content.

This means, he says, that they will have plenty of ongoing variable costs rather than having all their costs up front before the networks are first used.

The basic point of contention here is a crucial one. If operators have all their costs up front their usage charges will be little affected by whether we auction 3G licences as the UK has done or hand them out for free.

While their networks are operating at less than full capacity they will compete fiercely with each other on price even if they do so at a loss. It will make no difference to their costs, which are all already fixed, while every dollar they get through their doors will bring them nearer their break-even target.

Once they reach full capacity, they will get the upper hand over us and charge the most they can get without discouraging usage so much that that it falls below capacity again.

In this scenario the operators' charges do not change with their costs of acquiring licences. The charges are determined only by what the market will bear. In that case let's charge the operators a big sum up front for their use of our public asset in the radio spectrum.

But if their costs change with the services they offer then they may charge less if their costs are less, in which case there is an argument for keeping down both sides of the equation and encouraging high tech communications in Hong Kong.

It still does not work, however. In the first place an auction cost would still be a fixed up front cost and first scenario applies no matter how many Web pages the operators later tack on to their services.

But, more than that, is it really their Web pages you want? Your correspondent has an Internet account and couldn't tell you what that array of blinking lights on Netvigator's home page offers. He breezes right past them as quickly as he can.

The same will go for a 3G network operator. If it tries to limit your access to the Internet you won't sign up with it. If it gives you full access you will treat its home page as just another hindrance on your way to what you really want to find.

Dr Ure is wrong. It is not Web services we want from 3G operators. It is fast Web access. The innovation in this business is in the Web itself and in the 3G technology. We want network operators to connect these two. That is all we ask of them, not their own insignificant innovations.

The basic economics of 3G will be exactly the same as 2G, a fixed cost business with every operator scrambling to undercut charges in order to win customers.

But let us give Dr Ure his due. He recognises that public should get something back if use of the spectrum generates a lot of money for operators. He suggests only that we make it a tax of some sort rather than trying to get it all up front in an auction.

Fair enough if only this argument were not once again couched in terms of "a mechanism needs to be devised..."

And Nirvana needs to be reached. How? Experience elsewhere of trying to do it with 3G licences suggests that every attempt to devise a fairer system just winds up paving the road to hell with more good intentions.

Auctioning the spectrum is like Winston Churchill's definition of democracy – a very bad system indeed but all the others are much worse.