

Submission for the Consultation on Licensing Framework for Third Generation Mobile Services

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Subject : THE SPECTRUM AGENCY IN UK ANSWERS YOUR POINTS

To The Director General
THE AUCTION

1. Why an auction and not comparative selection ("beauty contest") as for 2G licences?

Auctions are a fast, transparent, fair and economically efficient way of allocating the scarce resource of radio spectrum. Government should not be trying to judge who will be innovative and successful.

Compared to the alternative of comparative selection, auctions offer important advantages of:

economic efficiency. A well-designed auction with well-informed bidders ensures that licences are awarded to operators that value them most and can generate greatest economic benefit; fairness. Selection by administrative criteria is more subjective and less transparent; being less unfavourable to new market entrants. Comparative can be seen by some to favour incumbents with established track records. However, auctions are not suitable in all circumstances. For example, they would be impracticable for high volume-low value licences e.g. for private business radio, such as is used by taxis. The Government has made clear that auctions will be used selectively in the UK for new national or regional services where there are more applicants than can be accommodated in the spectrum available.

2. How much will the auction raise?

This will depend on what companies bid in the auction, which in turn is dependent on each of their business cases. We have no sight of these as bidders keep them confidential.

3. Isn't this just about raising money?

No. On 18 May 1998 Barbara Roche, the then Telecommunications Minister, announced to Parliament in a written Parliamentary Question the objectives for the auction. These make clear that proceeds are subordinate to the other aims. The key objectives are for an auction to utilise the spectrum in the most efficient way; to promote effective and sustainable competition; and subject to those objectives to realise the full economic value to consumers, industry and the taxpayer of the spectrum.

4. Won't licence costs be passed on to consumers?

Bidders will be paying a cost determined by the auction based on their valuations instead of a licence fee fixed by the Government. This allows the market to determine the commercial value of scarce radio spectrum. The amount that operators will bid is determined by their overall business plans and the expected prices for 3G services and not the other way around.