Cash 'must decide 3G winners'

Don't use beauty contests to award telecoms licences, expert tells regulator

By Roger Evers
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THE government was warned yesterday not to use the so-called "beauty contest" or "reverse auction" when allocating third generation (3G) cellphone licences.

The warning came from British licence auction expert Professor Paul Klemperer.

He told *iBusiness* both the "beauty contest" and "reverse auction" were "a load of nonsense".

Mr Klemperer, who helped design the British 3G licence auction which raised £22.5 billion (HK$257 billion) for the government, said a beauty contest was tantamount to "giving the telephone operators free money".

And he said a reverse auction was "ridiculous" because there was no way the value of its specifications could be gauged or its rules properly monitored or enforced.

In a "beauty contest", the government grants licences to the companies it thinks are the best. In a "reverse auction" companies bid on how cheaply they can provide specified services to consumers and businesses and how fast they can roll out new technology.

"They are both a load of nonsense," Mr Klemperer said.

"Auctions in my mind and in the minds of almost all economists are clearly better than beauty contests or any other system."

Telecoms regulator the Office of the Telecommunications Authority (Ofta) remains tight-lipped over how it will allocate licences for 3G phone spectrum, which will allow operators to offer fast and full internet access via cellphones. Ofta this week delayed until some time in October an announcement on how it would allocate licences.



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Paul Klemperer, who helped design the highly lucrative British 3G auction, describes as 'a load of nonsense' some of the alternative methods of allocating licences, based on company profiles rather than basic market forces

The regulator has already made it clear it prefers some form of beauty contest.

Phone operators and many Asian observers claim sky-high valuations of licence auctions in the United Kingdom and Germany would cripple the industry with debt and hamper 3G development and broader technological progress.

John Ure, director of the Telecommunications Research Project at Hong Kong University, last month published a paper arguing that auctions could damage Hong Kong's technological development because they encouraged firms to overbid.

Mr Klemperer dismissed these arguments, saying they were drummed up by big business trying to kid regulators into granting cheap licences.

"I can understand beauty contests for TV licensing rights where there is a public interest about the content," he said. "But with telecoms its much harder to differentiate. Financial strength isn't an issue and pricing of products and services is guess-work. We're talking about products that are going to arrive ten years in the future."

"Governments have very little idea how much the licences are worth," he said. "In Hong Kong, the government doesn't know half of what the technology could do."

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■ *3G doubts: B12*