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3G on the line

Operators of third-generation European Union mobile telephone services are, predictably, rattling their begging bowls before the European Commission's policy statement on the industry this week. Given the companies' dire financial straits, their pleas for special favours are unsurprising. Brussels must resist them.

There is no case for bailing out the companies by extending their licences or relaxing their terms, as they want. As the Commission argued in a recent draft paper, any such concessions would be bad regulatory policy and would in any case be unlikely to bring operators much short-term relief.

European telecommunications companies dug themselves into this hole by bidding what many recognised at the time to be

insane sums for licences. Their woes have since been compounded by the failure of demand for 3G services to meet what have proved to be excessively optimistic growth targets.

If operators assumed obligations they cannot now fulfil, they should surrender their licences, which should be auctioned off to other bidders. All business involves risks. That they were grossly misjudged here is no excuse for shielding those responsible from the consequences.

Above all, the Commission must not be bamboozled by nonsense about 3G being a "strategic" growth sector that deserves special treatment. Such arguments led Europe into futile, costly coddling of high-technology industries in the 1960s. Those mistakes must not be repeated.

Avoiding ruinous debt from 3G auctions

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From Mr John Ure.

Sir, As your editorial "3G on the line" (June 10) boldly stated, there is no case for bailing out the companies that overbid for 3G licences; but let us not forget the robust views of Martin Wolf ("Efficient, equitable and highly lucrative", June 26 2000).

I quote: "When critics complain about such auctions, they have to be saying one (or more) of four things: that the government should have made a present of the excess profits - or, more exactly, of the scarcity value of the spectrum - to the likes of Vodafone AirTouch and British Telecommunications; that the managers and owners of these companies are incapable of working out what a licence is

worth to them; that taxpayers should protect shareholders against their own irrational exuberance; or that the interests of taxpayers should be sacrificed to those relatively well-off consumers. These propositions are ridiculous, outrageous, or both."

Well, there certainly are no profits; the managers and owners certainly seem to have paid too much; and taxpayers have, and probably will, lose as much in revenues forgone as they gained from the auction. As for the last proposition, it is interesting to note that using auctions as a form of tax is expressly counter to the intentions of the 1998 Act and the European Union directive on the issue.

In Hong Kong the government adopted my own proposal, namely an auction on royalty payments on gross assessable turnover. In the event there were just four bidders for four licences and the reserve price was paid. The virtue of this arrangement is that it guarantees a return to the public purse for a scarce asset, while at the same time synchronising the need to pay with the ability to pay, thus avoiding a debt overhang that is ruinous to the industry and detrimental to the economy.

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