



Outcomes up in the air

The SMA has placed faith in the efficiency of market outcomes for allocating radiofrequency spectrum. But is this faith justified?

The Government has adopted a radical approach to spectrum management with its decision to auction spectrum licences; which essentially devolves responsibility for spectrum planning in relevant bands to the market. The SMA plans to auction parts of the 500 MHz band in December, followed by the 1.8 GHz band in the middle of next year. However, this timetable is contingent on the post-1997 environment being clear and the government announcing what it use it intends should be made of the 800 MHz band when AMPS is cleared from it in 2000.

The SMA asserts that auctioning spectrum licences is the most efficient means of allocating spectrum, because the market decides the real value of each piece of spectrum and the most efficient combinations of allocation. To assist this process, relevant spectrum bands have been divided into a three dimensional lattice of auction lots, built across geography, bandwidth and time. The size of lots has been designed to reduce barriers to entry to new or niche operators. Although the Radiocommunications Act presently limits licence terms to 10 years, the SMA, following industry lobbying, has recommended to the government that the term be extended to 15 years.

New auction process

In what is expected to result in a sizeable revenue for the Government, spectrum is to be auctioned using the 'simultaneous ascending bid multiple round' system. Under this method, all lots will be auctioned simultane-

ously, with bidders permitted to bid for preferred aggregations, which may be altered during the course of bidding (subject to certain rules designed primarily to maintain the auction's momentum).

The Radiocommunications Act will shortly be amended to permit the SMA to auction encumbered spectrum. Incumbents (there are a handful of fixed links in the 500 MHz band, but over 2800 in the 1.8 GHz band) will have security of tenure until their apparatus licences expire. They will then have several options. They may either bid at auction for a spectrum licence for the space they currently occupy, or negotiate later with the winning bidder. Failing this, they will have to vacate the frequency, either by converting to another delivery system or by relocating as a fixed link elsewhere on the spectrum. If the lot occupied by them is passed in at auction, the SMA plans to charge them an amount based upon prices paid for similar lots.

The 1.8 GHz band is ideally suited to DCS 1800, a derivative of GSM technology and ideally suited to interlink with it. Bidders are therefore likely to comprise existing and aspirant GSM operators (for whom DCS can provide supplementary pockets of coverage) as well as those wishing to establish wireless local loops. Incumbents and speculators are also likely to bid.

The SMA is actively encouraging speculation in spectrum licences (that is, the creation of a 'secondary resale market'), though not to the extent of adopting the 'buy now, pay later' approach used by default in the auc-

tion of MDS licences.

In what could be regarded as an indicator of the government's priorities, the SMA has no plans to impose 'use it or lose it' conditions on licences, which would serve to encourage optimum use of the spectrum but would greatly discourage speculative acquisitions and reduce licence revenues.

Competition issues

The SMA asserts that the 500 MHz auction, planned for December this year, will provide a trial run for the 1.8 GHz band. From a competition policy perspective, however, the 500 MHz auction may provide little foretaste of the form 'market outcomes' will take in the more keenly contested 1.8 GHz band.

While the draft radiocommunications legislation provides for the SMA to impose restrictions on the acquisition of licences, in the longer term the anti-competitive burden may fall largely to the ACCC, whose jurisdiction is to be widened to include spectrum matters. How the ACCC will approach this task, though, is unclear. Since spectrum licences may be used for whatever purpose a licensee chooses and purchased in any aggregation of lots, it may be difficult to conclude the existence of a market in spectrum, or specific portions of it. When taking into account the evolving nature of the communications industry, it may be some period of time before the relevant markets can be discerned. □AG