



International Telecommunication Union

## Global Symposium for Regulators

Geneva, Switzerland  
8-10 December 2004

# License Fee Practices - Historical Practices and Future Trends



Lynne Dorward  
President, LADCOMM

### Topics Discussed in Chapter 4

- Licence Fee Structures
- Licence Duration and Renewal
- Licence Fees Past and Present
- Mechanisms for Setting Fees
- Fees, Policy Objectives and Operator Profitability
- Socio Economic Benefits of Lower Licence Fees
- Factors to Bear in Mind

December 2004

LADCOMM CORPORATION

/2

## Licence Fee Structures

**There are two principal categories of licence fees.**

### One time or non recurring fees

- Generally paid in a lump sum when licence is granted
- Three basic forms:
  - Market set fees (comparative evaluations)
  - Floor prices/minimum bids (auctions)
  - Spectrum evacuation fees (if wireless)

### Annual or recurring fees

- Licence payments in regular intervals typically over the entire term of the licence
- Forms of recurring fees
  - Revenue based
  - Cost recovery
  - Spectrum usage
  - Additional contributions

## Licence Duration and Renewal

**Licence duration and renewal impacts perceived value.**

- Licence term is critical when significant long term investments are needed (e.g., 3G, national fixed line)
- Over the last five years, typical duration has been 15– 20 years
- Renewals and renewal procedures tend to vary by service or technology and are not always clearly defined; some examples:
  - Renewals often in 5 to 10 year blocks
  - Prior to renewal, review to determine compliance history
  - May be subject of public consultation
  - Need to provide advance notice of intention to renew
- In order to achieve greater service concessions, some regulators reduce licence renewal fees
- Recently, some regulators have permitted licence extensions to deal with technology delays (when licences are not technology neutral)
  - 3G initial terms extended to allow for delays in equipment availability
  - 2G terms extended to permit greater time to migrate to 3G
- **In general, this is an area requiring greater focus and transparency**

## Licence Fees Past and Present

**There have been significant fluctuations in licence fees over the last 5 years.**

- Fluctuations primarily attributable to:
  - Rapidly changing expectations for 3G
  - Popping of the bubble in capital markets
  - Use of varying licensing approaches
- Most of licences in past 5 years have been mobile wireless as fixed line has migrated to general authorizations or class licences
- For the most part, fee setting attempts have been less successful with fixed line licences

## Mechanisms for Setting Fees

**Two principal mechanisms: auctions and government determined fees**

- Pros and cons to both mechanisms and often the subject of heated debate
- Auctions typically viewed as most efficient way to ensure that licence fees reflect economic value of the licence
  - Requires careful design and, for the most part, the use of external advisors
- Strong policy arguments for establishing low licence fees and/or payment concessions
  - Fees may consist of spectrum charges plus administrative
- When setting licence fees, mechanism depends on type of licence:
  - Spectrum used on an exclusive basis
  - Non exclusive spectrum

## Fees, Policy Objectives and Operator Profitability

### Licence fees can be used as a policy instrument.

- Easier for regulators to use licence fees as a policy instrument in early market development stage
- Setting lower licence fees may facilitate:
  - Commitments from entrants on issues of social or economic concern
  - Lower barriers to entry resulting in increased competition
- Most important regulatory levers in encouraging new entrants are:
  - Low initial licence fees
  - Stability of recurring licence fees
  - Lessening impact of infrastructure costs through facilities and infrastructure sharing
  - In mobile, mandatory national roaming
  - Level of competition

## Socio-Economic Benefits of Lower Licence Fees

### The social and economic benefits of lower licence fees are indisputable.

- Lower fees allow operators to invest more resources in infrastructure and service innovations; also result in lower prices for consumers
- Lower fees are often combined with other licence obligations
- Need to analyse trade off between fees and other considerations
  - Revenue factors are always capped by market demand
  - Higher licence fees affect business case viability by increasing cost of supply
  - At the same time, excessive socio-economic mandates impact ability to pay fees, viability of business case

## Factors to Bear in Mind

**Licensing practices and fees have become an extremely critical aspect of a country's regulatory regime.**

- Ensure that licence applicants/bidders meet basic qualifications
- Take an incremental approach to licensing especially with new technologies
- Ensure that the regulatory framework is complete before rushing to licence
- Limit possibilities for anti-competitive behaviour
- Licence fees, while critical, cannot be viewed in isolation
- **An overall understanding of the various factors and their impact on market demand and supply costs will contribute to successful licensing initiatives**