



Manufacturer's Perspective on 3G Licensing

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Public Policy Goals of Licensing Commercial Mobile Services

- Competitive Market (e.g., 4-6 carriers)
 - Put spectrum in hands of those who will put it to its best use
 - Fuel growth of an industry sector that is the engine for many other parts of the economy
 - Recover fair and reasonable compensation for use of a public resource, taking into account benefits to economy
 - Impose social and regulatory obligations
- Non-Competitive Market (e.g., 1-3 carriers)
 - Same as above plus stimulate entry by new competitors

Are Auctions Consistent with Public Policy Goals of Licensing ?

Licensing Goal	Are auctions consistent w/ goal?
“Best use” assignment	Usually, but handicaps winners
Economic growth	No, drain capital
Fair and reasonable compensation	No, extract monopoly rents; long term negative impact on economy
Social and regulatory obligations	No, harder for gov’t to justify; difficult to factor into bid due to changing nature of regulation
Competition	Yes in short run, but contributes to consolidation in long run

Proposed Licensing Framework – Competitive Markets

- Award additional spectrum (e.g., 3G expansion bands) to incumbents without using auctions or beauty contests
- Recover value through spectrum fees
 - Level of fees must take into account value of productivity growth, economic development, efficiency gains, and job creation made possible by wireless use
- Make additional entry possible through secondary markets

Proposed Licensing Framework – Non-Competitive Markets

- Promote additional entry through beauty contests, auctions or hybrid approach
 - Regardless of licensing method, excessive license fees will impact speed and scope of network buildout
- Pre-licensing spectrum management decisions strongly influence supply and demand as well as whether operators placed in “win-or-die” situation
 - Number, size and geographic scope of licenses
 - Spectrum caps
 - Flexibility of technical and service rules

Proposed Licensing Framework – Non-Competitive Markets

- Beauty contests enable gov't to ensure entry by new competitors and to set conditions of entry
 - Auctions favor incumbents
 - Debatable whether auctions increase subscriber prices, but beauty contests can guarantee lowest subscriber prices
 - Low prices stimulate demand, increasing benefits to economy
 - Awards based on low price should be coupled with quality of service controls
 - Can be transparent if properly administered
- Hybrid approach may be preferable in more mature markets where differences may depend on more subjective factors
 - Pre-qualification phase can be used to eliminate speculative bidders

Proposed Licensing Framework – Non-Competitive Markets

- Auctions can allow for new entrants but steep entry fee likely to lead to less competition in long run as a result of industry consolidation
- If auctions used, sustained economic growth dependent on finding ways to mitigate high license fees
 - Spread payment over time
 - Tie payment to when spectrum cleared
 - Earmark auction revenue for beneficial use of wireless industry
 - Favorable tax treatment (tax credits; accelerated depreciation)