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SPECTRUM ALLOCATION

TWO KEY ISSUES IN ENFORCING TELECOMMUNICATION POLICY: SPECTRUM TRADING AND PROMOTION OF NEW ENTRY INTO THE MARKET.

There are different methods of spectrum assignment. The most prominent ones are administrative process (e.g. a “comparative hearing”), auctions (e.g. “comparative bidding”), “first come, first serve” and lottery.

Each method has in practice its advantages and disadvantages. The question about the best way of assigning radio frequencies is rather a matter of the best design of the chosen procedure than of the method to be chosen. Auctions as well as administrative processes have some advantages and disadvantages that may make them better suited in some situations than the respective other method. The disadvantages of auctions, for example, become less important when additional radio spectrum for the provision of a specific service is to be assigned only amongst those undertakings that have already been assigned radio frequencies for the provision of this service. In the case of the assignment of radio frequencies for a new service, however, an administrative process might be better suited if the market potential of this service is completely unclear, or if radio frequencies have already been assigned for the provision of a service in the same or in a closely related relevant market by means of an administrative process.

Today, the most common way of allocating spectrum is to organize simultaneous, ascending, multiple – round auctions. This is the case for example in United States, United Kingdom, Chile, New Zealand and Australia.

Other methods were used at first in some countries but problems arose which convinced the authorities to switch to simultaneous auctions.

Some countries have tried to introduce further flexibility into the use of spectrum through a variety of means. For instance, whereas spectrum rights allocated through auctions are generally very precisely defined and specify the type of technology to be used, New Zealand and Australia have developed technology neutral allocation systems which do not specify the exact use to which the frequencies have to be put and which allow the resale of spectrum rights. An important difference between these two countries, however, is that in New Zealand spectrum can be traded by spectrum managers – i.e. operators whose commercial activity is to subdivide the spectrum they acquire through auctions in the manner they consider appropriate and lease it to third party users – whereas this possibility does not exist in Australia.

Public authorities should ensure maximum flexibility in the use of spectrum and should give consideration to two key principles: **i.** Introducing technology – neutral, tradable, spectrum management rights, which leave the spectrum manager complete freedom to determine how the spectrum is to be subdivided and used, and **ii.** Promoting new entry in the market.

There is a trend in many countries towards the development of spectrum trading. One advantage on relying on spectrum managers is that, since these

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operators derive their revenues from leasing their spectrum to other operators, they have every incentive to use the spectrum they own in the most effective fashion. From the point of view of spectrum users, the presence of spectrum managers may also reduce search costs and provide more flexibility to obtain access to the amount of spectrum that suits their need. The New Zealand experience suggests, however, that the successful development of such secondary markets, does not only depend upon the design of licensing regime, but also on local circumstances. In this country, the communications market may have been too small to support successful resale market, a factor that may explain why such resale did not take place.

Finally, local authorities must focus on promoting new entry in the telecommunications market in allocating spectrum. Recent spectrum auctions have been successfully designed in many cases to promote new entry in the mobile market. In May 2000, for example, the UK Government reserved the largest 3G license for a new entrant. In Australia and New Zealand, the latest 3G auctions imposed limits on the amount of spectrum, which could be acquired by a single bidder in order to ensure that new entrants would be allocated part of the spectrum. And in Chile, the antitrust authorities have forced SUBTEL to increase the number of PCS licenses on offer and to reduce the deposit guarantees required from the operators in order to facilitate new entry into the market for wireless local loop services.

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