

(This is the original interview, from which the article was translated.)

UMTS - "It is still fairly risky."

The economist Paul Klemperer has helped the British government to reap an impressive DM 75 billion when awarding mobile phone frequencies. The academic discusses the results of the UMTS auction with Max Bruche from the London office of Gatrixx.

**Gatrixx:** The DM 99 billion raised in the German UMTS auction surpasses even the result of the UK auction. Was this expected?

**Paul Klemperer:** The outcome of the German auction was certainly in the range that I expected – more in absolute terms than the British auction, but less on a per capita basis. It did indeed fall in that range, but at the top end. Based on the UK auction, some analysts predicted an even bigger sum, basing their calculations on the higher per capita income in Germany.

The auction design, however, made it very hard to make an exact prediction. Overall I would say it was a success.

**Gatrixx:** So would you attribute this success in Germany to the auction design?

**Paul Klemperer:** I would not attribute the success of the German spectrum sale to the auction design. I actually think the auction was not very well designed, and the German government was very lucky that it worked out very well in the end.

The auction could easily have ended on Friday, when Debitel had dropped out of the bidding and the total stood at just about DM 63 billion. If the firms had wished to, they could have stopped the auction then and could have received the same slots that they received in the end, but at a substantially lower price.

It seems that some of the firms screwed up by making a very bad bet trying to drive out a second competitor after one had already withdrawn.

The result was that the government in fact was lucky that a large amount was raised, and at the same time a large number of competitors actually received a slot, which will serve to drive down prices later.

**Gatrixx:** More competition, and expensive licences – does this imply that while the German taxpayers and consumers have won, the firms who purchased the slots lost out? Will the expenses be reflected in pricing?

**Paul Klemperer:** The amount should have no effect on pricing. The firms will regard this as water under the bridge – their objective now is to make as much money as they can given the competition they face.

There is no evidence to suggest that the bidders have overpaid. I assume they would have done their homework and know how much a slot is worth. Likewise, this should not have a negative effect on the speed at which technology is put in place.

However, that is not to say that they are not taking a big bet – what they are doing is still quite risky.

**Gatrixx:** Professor Klemperer – thank you very much indeed.