

(translation of article in Il Sole 24 Ore, Tuesday 24 October 2000)

The director and inventor of the English auction: "The Italian model? An announced flop" "Better to use envelopes"

LONDON "Do you want to talk about the Italian flop?" On the telephone, from his study in Nuffield College, Oxford University, Paul Klemperer, the economist who was the main advisor for the British government in the design of the UMTS mobile phone auction mechanism which yielded £22.5 billion, sounds like Gino Bartali. It's all wrong.

Unfortunately, we can not start again from the beginning.

[note: the famous Italian cyclist, Gino Bartali, used to say "It's all wrong. We should start again from the beginning."]

The father of the English auction (together with the other academic Ken Binmore, who was in charge of testing the model) is strongly critical towards the Italian auction. "Much before the auction started, I have said and written that the same auction mechanism does not fit all countries. In Italy, the decision, purely political naturally, to imitate the UK after the success of the English auction did not take into account that the conditions were completely different," Klemperer claims.

"The crucial difference -says the Oxford economist- is that in the UK there were 13 bidders for 5 licenses. In Italy there were just 6 bidders. Therefore, an ascending mechanism was not appropriate. After just one bidder drops out, the auction is over. To understand this it was not necessary to wait for the auction. It would have been better to choose a sealed-bid auction. Last Thursday, if sealed-bids had been used, other bidders would not necessarily have known what was happening to Blu, and they would have been forced to bid a high price in order not to run the risk of being overbid. At least the Government would have had five reasonable offers from the other buyers. It is also possible that Blu itself, having only one shot, would have made a respectable offer. Moreover, a sealed-bid auction could have also increased the number of bidders: it is not clear, for example, that Deutsche Telekom would not have entered an auction with one single offer, even if it was not willing to get involved in a series of successive rounds."

Klemperer stresses the mistake of being influenced by the English success: "I have written- he says- long before the Italian results, that these auctions do not have "one size" fitting all countries. It is necessary to use a "horses for courses" strategy instead, i.e. to choose the right horse for the competition ground. And the Italian ground was completely different from the English one." In the same way, Klemperer criticizes the Dutch government, that aped the English model, even though they had 5 licenses and 5 incumbent firms, which discouraged new entrants (except through agreements with incumbent firms). In that case too, the presence of only a single, very weak, sixth bidder ensured the failure of the auction.

According to the English economist, a reduction of the number of licenses after seeing Blu's weakness would have been a mistake too. "Maybe this could have increased revenue, but it would have created problems with the market structure, leaving too few competitors in the 3rd generation mobile phone market. And this would have been even worse."

In a recent draft article, which is continuously updated on the basis of the various EU experiences (“What really matters in auction design?”), Klemperer stresses the problem of collusion among bidders, not explicit collusion, but rather "tacit (and often legal) cooperation between firms." According to the economist, this is the most serious problem for competition policy given the actual legislation. For this reason, Klemperer is worried by the possibility that some of Blu's partners may re-enter in the UMTS business, by buying shares in a winning bidder. "I would be very worried -Klemperer says- if there were any contacts, even non-explicit [and legal] ones, between a partner of Blu and the other bidders. I am not saying that there were any contacts, but it is clear there should not have been any contacts before the auction was over." In his article, the economist refers to a German auction in 1999, when Mannesmann, by means of low bids in the first round, signaled a non-aggressive behaviour to the competitor T-Mobil, thus minimizing the price paid by both firms.