

De Volkskrant, 29-08-2000

Marcel Canoy

Organising an auction is an art as well

After the UMTS frequencies auction, the impression was created that that way of distributing was not such a good idea. Marcel Canoy observes that mistakes have been made, but is of the opinion that the system is to be preferred to a selection on the basis of submitted plans.

The recent auction of UMTS frequencies for the third generation of mobile telephones has caused confusion among various parties. Before the auction, there were critical remarks about the purpose and necessity of the auction, especially from the telecommunications providers.

In view of the disappointing proceeds (according to some) and the curious result, the impression may be created that an auction was perhaps not such a good idea. Such an anti-auction attitude is not in the interest of Dutch society. If well organised, an auction remains an honest and transparent instrument that offers the best chances of an efficient distribution of frequencies. An auction has great advantages over ‘beauty contests’, in which the government chooses the winner on the basis of submitted plans. This is not transparent and is not conducive to the efficiency of the winners.

An argument often used against auctioning is that it forces prices up, at the consumer’s expense. This is not correct. Optimal auction proceeds equal the sum of the winning parties’ profits. These profits, in turn, depend on the competitive relations in the telecommunications market expected after the auction. These relations do not depend on the bids at the auction.

The (expected) auction proceeds have received a great deal of attention. Yet, the proceeds are of minor importance. Of course, the parties bid the price they are willing to pay for the frequencies, but whether that is NLG 5, 10, or 20 billion does not matter in theory. For it is not the government’s intention to realise proceeds determined beforehand, but to select the most efficient providers. So, did nothing go wrong with the UMTS auction?

One of the world’s leading auction experts, Paul Klemperer (Oxford University) has a

straightforward opinion on this. In an article in this week's *Financial Times*, he argues that the Dutch auction was not well organised. Apart from a few details, the Netherlands organised it in the same way as the U.K. did, but there the auction was a resounding success as far as proceeds are concerned. What is good for the UK, however, need not be good for the Netherlands. As Klemperer rightly argues, details are very important in auctions: each auction deserves its own approach. In the UK, there were four existing providers and five frequencies. In the Netherlands, the situation was five to five. Does that make a great difference? Yes, Klemperer says.

In the UK, one frequency was reserved for newcomers. This supplied enough competition. In the Dutch situation, the British system led to a relative advantage for the existing providers: they were in a position to wait until potential newcomers dropped out, and they obtained the frequencies relatively cheap. This became evident from the KPN's statement, viz., that they had been willing to pay much more for their frequency. Potential newcomers anticipated this regime, which was unfavourable to them. They dropped out beforehand (e.g., Nogenta), joined forces with existing providers (Deutsche Telekom, Hutchinson) or had to wait till the irreversible moment of withdrawal came (Versatel). Could this have been avoided? Yes, again, according to Klemperer.

If the government had opted for a system in which the bids rise until one potential newcomer remains (in order to generate as much intelligence as possible) and, subsequently, the remaining parties are given the opportunity to make one final secret bid, competition is fairer and new parties tend to stay in the race. The stimulus to join forces with existing providers remains, but it is always there. It does not seem logical that this was accepted without any resistance in the Dutch situation, as the actions decrease competition. Here is a clear task for the Dutch *Mededingingsautoriteit* (Competition Authority) in future.

What does this mean for the future? First, that the procedure followed offers no reason to do away with auctions. Second, that the proceeds offer no clue as to the realisation of the goal, an efficient distribution of frequencies. Third, it is difficult to design a good auction model; this has to be done on a case-by-case basis, preferably with the help of people such as Klemperer.

Finally, participating parties should not be allowed to communicate with competitors. The letter that Telfort wrote to Versatel is not in line with current good auction manners. It is hard to deny that the letter was not intended to influence the auction result, a matter which has no precedent in auction circles, as far as I know.

Marc Canoy is head of the ‘Afdeling Regulering en marktwerking’ (Competition and regulation unit) of the Centraal Planbureau (Central Planning Bureau).