



*Singapore Draft 3G Auction Rules
Comments from British Telecommunications plc*

1 Introduction

- 1.1 The Singapore Government's decision to award 3G licenses via an auction mechanism takes into account the consideration that 3G spectrum is a scarce resource and an auction based on market forces would be the most efficient, objective and transparent approach for allocating spectrum to those who value it most. (Minister's speech on 3G licensing, 20 Oct 2000). The success of licensing the best 3G operators thus lies in the success of the auction to allocate 3G spectrum.

The success of the auction in allocating 3G spectrum in the most **efficient, objective and transparent manner** is determined to a large extent on the structure of the auction itself. These are set out in the 3G Auction Rules. Having been given the rules of engagement, all potential new entrants to the 3G market are faced with the same challenge –

- 1) whether to participate in order to win a spectrum right
- 2) whether to wait and see and then negotiate with a winner for use of a spectrum right
- 3) whether to stay out of the market altogether

Prior to making the decision whether or not to participate in the 3G market, it has to make an assessment on its perceived true and fair value for a 3G spectrum right. The decision on whether or not to participate in the 3G auction then is made by determining whether it thinks it is able to purchase the 3G spectrum at or below this fair value during the auction.

In a perfect auction, all bidders behave rationally, giving the appropriate signals as they observe the behaviour of all the other bidders, in order to win a 3G spectrum right at the price they are prepared to pay for it. This will allocate the 3G spectrum in an efficient, objective and transparent manner. The rules that govern the auction therefore should fulfil the following criteria : -

- **Rules should allow bidders to observe other bidder's behaviour as the rounds progress.** Auctions are not static events - the bid prices of 3G spectrum and behaviour of bidders change as the auction progresses. As such, there is a need for bidders to continuously review and revise their bidding strategies accordingly as the auction progresses.
- **Rules should ensure that all bidders are able to bid rationally in order to meet their fair value assessment of the 3G spectrum right.** Bidders need to be given time in advance of the auction to determine their bidding strategies so that they have the most opportunity to bid to win at fair value. This will lead to rational bidding during the auction itself.
- **Rules should discourage and deter bidders who do not participate in the auction for the sake of winning a 3G spectrum right.** In any auction, there will be those who participate for reasons other than to win. High initial barriers to participate in the auction will deter both serious and non-serious bidders; IDA is sensible in pre-qualifying bidders appropriately through the Application Process. However, rules are still required once bidders are allowed in the auction to guide their behaviour. Any bids that they make should not simply be to artificially drive up the demand for the



spectrum. Like all other businesses, 3G operators are not bottomless cash pits and artificially inflated bids will drive up the cost for the serious 3G operator. Since the only revenue for a 3G operator is from the customer, the end result must be that the cost is passed along to the customer, whether directly or indirectly.

- 1.2 BT commends IDA for consulting the public on the draft 3G auction rules at this stage. We are generally content that the principles in the proposed draft rules have been carefully thought out and incorporates lessons learnt from previous 3G auctions. As a general comment, though, we find the draft 3G auction rules verbose, difficult to follow and nearly impossible to extrapolate from. In arriving at our current understanding of the document, we have had to dig deep within each paragraph to find the underlying principle without any assistance from the definitions in Part VII which contrive to confuse even further where they have incomplete sentences or refer back to the paragraph. We respectfully request that IDA re-visits the language and drafting of the Auction Rules in the final iteration to ensure that it is easily understood, as the auction exercise itself is already a complicated one without increasing the potential for misunderstanding the rules through the language used.

Apart from language of the draft, we would like to respectfully submit proposals which we believe will enhance the efficiency of the process even more and allow bidders to arrive at fair value for their 3G spectrum rights.

2 **PROPOSED SUGGESTIONS TO IMPROVE THE 3G AUCTION RULES**

BT offers the following suggestions, to better help achieve the objectives of the 3G auction.

2.1 **Additional Bank Guarantees should be submitted for all Valid Bids but especially the Current Highest Bid in each Round**

An Additional Bank Guarantee serves to confirm that a bidder submitting a Valid Bid has the financial means to pay for the last bid made on a 3G Spectrum Right in that round as well as conferring them the right to continue bidding in the next round. Paragraph 3.2.2 suggests that Additional Bank Guarantees are only required when the bidding amount exceeds a certain \$x. This amount cannot be left open at the start of the auction; hence IDA will have to specify \$x. Doing so, however, is a signal to bidders, that there is a watershed amount of \$x. It is imperative that apart from setting a Reserve Price, which is the amount below which the Government does not want to sell the 3G spectrum, that non-bidding parties do not provide signals as to how the auction should progress. This produces a bias in the auction and compromises the efficiency of an auction in allocating scarce resource. We propose, instead, that since the Additional Bank Guarantee is for the purpose of setting down a commitment to pay for a Valid Bid, that Additional Bank Guarantees are required by every Bidder at the end of each Round.

Proposed change to draft 3G Auction Rules: BT would like to propose that ALL bidders should be required to submit Additional Bank Guarantees, of an amount the difference between their last Valid Bid and the previous Valid Bid. For example, a bidder having submitted a Valid Bid of S\$180 million at the end of Round 1 should submit an Additional Bank Guarantee of S\$30 million and a Valid Bid of S\$200 million at the end of Round 2 should submit an Additional Bank Guarantee of S\$20 million.



2.2 Additional Bank Guarantees should be submitted at the close of each round

The current time-scales proposed for submitting an Additional Bank Guarantee prior to 8.30am of the second Business Day means that there is the potential for 1 or several Rounds to occur, before the Additional Bank Guarantee is submitted. This is because we currently do not know how many Rounds will take place in each session. Given the complex permutations – the Current Highest Bidder (“CHB”) may not bid on any other spectrum right than the one for which he has the Current Highest Bid etc. – it is imperative that the auction does not have to revert to amounts bid in prior rounds simply because a CHB defaulted in providing an Additional Bank Guarantee. Although the IDA becomes the CHB in this instance, it will mean that for this spectrum right, the Minimum Bid will be smaller than it otherwise would have been (had the defaulting CHB not defaulted) and thus skews the auction.

Proposed change to draft 3G Auction Rules: BT would like to propose that Additional Bank Guarantees for the Round before be submitted prior to the start of each new Round.

2.3 Future allocations of 3G Spectrum should require payment of similar amounts, irrespective of which method is chosen to allocate the spectrum

There are several mentions in the draft 3G Auction Rules that for 3G spectrum not allocated at this auction, IDA may allocate them at a later date in "another auction or any other manner as IDA deems appropriate" (clauses 3.4.1, 3.5.1 and 13.4). This suggests a possibility that IDA may use a beauty parade to allocate 3G spectrum not allocated in this auction (with cheaper 3G license fees, perhaps?). BT considers that it would be wise to inform potential bidders who may otherwise wait for the next allocation that the amounts they would pay would not differ greatly between now and then. This encourages bidders to come in now, rather than wait, as they would have more control over the final amounts if they were participating in the auction rather than have other parties determine the outcome of the auction for them.

Reports from operators currently rolling out 3G services have been far from rosy. DoCoMo, who is testing 3G technology currently, is finding it unsuitable for carrying large video or sound clips, one of the services which could provide important new revenue streams for 3G operators. Many European 3G operators are discovering that more base stations are needed for 3G networks than initially forecasted, increasing infrastructure costs. The slow appearance and disappointing performance of WAP and GPRS handsets (even though networks are ready to launch service) spell more gloom on the fate of 3G terminals. In short, operators early in the 3G game bear a great amount of financial and business risk and it is certainly not fair that the later entrants be awarded 3G licenses via a more favourable process.

Proposed change to draft 3G Auction Rules: BT is of the view that IDA should charge similar amounts as that determined by the 3G auction for future 3G spectrum allocations.

2.4 Additional information to be announced before the start of auction

IDA has clarified in question 16 of the Q&A, that before the start of auction, it will announce the identity of the bidders (clause 3.4.4) but not the 3G Spectrum Right put in



by Eligible Bidders in the Initial Offer. BT considers this information is important for bidders as a starting point for their bidding strategy in the first round.

Proposed change to draft 3G Auction Rules: BT would like to request that IDA disclose at the start of the auction, the identity of the bidders and the 3G Spectrum Right put in by those bidders in their Initial Offer.

2.5 Bidders should be given visibility to bids submitted by other bidders while the auction progresses

The events in an auction change dynamically and dramatically. For example, the bid price for each 3G Spectrum Right will change as the auction progresses, a non-Current Highest Price Bidder in one round becomes a Current Highest Price Bidder in another round, bidders change the 3G Spectrum Right they are bidding for etc. Bidders' decisions regarding their next move are made dependently of other bidders and a change in behaviour and bidding pattern of one bidder will affect other bidders. It is critical that bidders have access to information on how the auction is progressing to plan their next move. However, BT notes that the draft 3G rules implies that not all bids will be visible to all bidders; this is information that bidders need in an auction to determine their next bids. Without this information, the auction will resemble a closed tender more than a transparent auction.

Proposed change to draft 3G Auction Rules: BT considers it imperative that bidders should be allowed to view the bids submitted by other bidders in each round, their identities and current bidding status in the course of the round itself.

2.6 Applicants should be required to pay an Entry Fee

BT notes that the draft 3G Auction Rules do not include bidders who are deemed to have withdrawn from the auction (clause 8.8) to be subject to a Forfeiture Notice. This would mean that a non-serious bidder after been satisfied that he has sufficiently drove up bids, is allowed to exit the auction silently without any consequence for his misconduct. This should not be the case and BT is of the view that there should be a cost to bidders who have withdrawn from the auction.

Proposed change to draft 3G Auction Rules: It is common in many auctions to impose an entry fee for participating in the auction. This entry fee becomes the cost that bidders have to bear if they withdraw from the auction. BT would like to suggest that there should be an entry fee for participating in the 3G Auction.

2.7 Information on Application Form - Non-incumbent 2G operators should be assessed on plans for roaming onto an existing 2G operator's network

The 3G regulatory framework offers a 'safety net' for non-incumbent 2G operators in ensuring that these new entrants would be allowed to roam onto the existing 2G networks. To a certain extent, non-incumbent 2G operators are aware that the 3G playing field for them is not all that level due to the lack of a 2G network which they can leverage on to handle voice and low data rate services when 3G services are launched initially. That IDA has in a way 'mandated' roaming onto 2G networks for new entrants



(90-day period for voluntary negotiations, thereafter IDA will intervene) seems to indicate this is the sentiment.

Proposed change to draft 3G Auction Rules: Consequently, BT is of the view that non-incumbent 2G operators should be required to provide information in their application forms on their plans for roaming onto existing 2G operator networks.

2.8 Information Provided at the Information Session and Trial Auction

We note that only the Authorised Representatives are permitted to attend the Information Session and Trial Auction. As the Information Session is the main forum at which bidders can clarify and understand the auction rules, it is important for the bidders to have all the Authorised Representatives present at this session. However, it is inconceivable that an auction requiring such a large amount of investment limits the information provided to only those who are authorised to represent the bidding company in the auction itself. We urge the IDA to impart information provided at the Information Session more freely to others within the bidding company, including other members of staff and their shareholders. This will make it easier for companies to persuade shareholders to arrive at decisions regarding bidding amounts.

Proposed change to draft 3G Auction Rules: BT suggests that the IDA should not limit participants in the Information Session to simply the Authorised Representatives.