

Free to Air Television: 700 MHz and beyond



*In conjunction with the **Oxford Media Convention** today, we are publishing comments from some of the speakers. **Martin Cave**, who is a visiting professor at Imperial College Business School, Deputy Chair of the Competition Commission, and a regulatory economist specialising in competition law and network industries, shares his comments on free-to-air (FTA) television and spectrum management.*

Free-to-air television is currently a very vexing topic, with study groups popping up everywhere, including among the engineers at CEPT and a European group, headed by Pascal Lamy, with a remit to look at the whole UHF band. My remarks try to place this debate in the wider context of spectrum management for the communications sector.

The official UK approach to this issue gives considerable priority to market forces or use of prices to direct spectrum to efficient uses. This would mean use of service-neutral auctions to make or renew awards. In fact this isn't happening, for a variety of reasons. First, technical interference problems are proving intractable. Second, the panic in Europe and elsewhere about the spectrum crunch expected from increased mobile data traffic has created a predisposition to return to 'administrative methods', initially with the 800 MHz band and now with the 700 MHz. The US, as noted below, seems less prone to such a strong reaction.

Even use of pricing where auctions are infeasible has gone into reverse: witness the Ofcom decision not to take up the long-awaited opportunity to charge for broadcasting spectrum – a decision with predictable effects on demand for it.

'Administrative methods' in spectrum always generate create a vigorous market for accompanying 'studies'. These usually rely on optimistic interpretations of demand forecasts. They also identify major beneficial spill-over effects from the clients' activities, which are mysteriously absent or not taken into account in the case of competing applications. Generally more heavily regulated and political sectors, especially broadcasting, are the most experienced and adept at this activity.

I am quite willing to concede that there may be a case for 'emergency' administrative re-farming of some bands, just as there may be a case for the administered 'emergency' decarbonisation of electricity supply. But it is good to try to adhere as far as possible to, and plan to return to, more efficient ways of spectrum allocation.

This involves remembering that it is rarely sensible to achieve service output objectives by distorting input markets. Making spectrum (or electricity, or land) available to producers for nothing is going to do predictable things to the level and efficiency of consumption. Second, input markets are good at shifting resources to achieve roughly equal marginal returns in different sectors – evaluated not by a bureaucracy but by people whose hard won cash is placed at risk by their decisions. In my view, policy makers are well advised to cast a sceptical eye over claims of spill-overs. But the combination of these two principles means that if the above-noted spill-overs had any traction at all, it would be in service not spectrum markets.

One mechanism which meets these criteria very well is the incentive auction. In essence, this is a two-sided auction involving both buyers and sellers. The auctioneer cries out a price, tots up total supply from sellers and total demand from buyers at that price, and adjusts the price accordingly. In the US a simpler variant is proposed whereby the buy-side comes first, with broadcasters bidding in. The government decides how much buy, and then sells it in a separate auction to mobile companies. Surviving broadcasters are then repacked in the band as far as possibly

distant from mobile firms. It is hard to see how this could be accomplished in tightly packed, multi-national Europe, although it is more practicable in the UK. And both DCMS and Ofcom do speak well if vaguely of incentive auctions.

What does this mean for the 700 MHz band? There may be pressure in the UK or from the European institutions for a market solution to be 'replaced' by a subjective, inevitably fractious and imperfect cost-benefit analysis, followed by a more restricted auction. Either of these approaches will play out on the basis of official or unofficial assumptions about the regulatory future of the UHF band as a whole. But spectrum can be repurposed and is not a sunk cost, so narrow assumptions about spectrum use over the medium term may not be too critical to either process.

This article gives the views of the authors, and does not represent the position of the LSE Media Policy Project blog, nor of the London School of Economics.

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