

Budget 2013 – Saorview Switchover a Windfall for Government

By Cormac O’Sullivan

By now most people will have heard about the switch to Saorview, whereby the analogue signal currently used to broadcast TV will be switched off at 10am on October 24th and replaced with a digital signal. Despite the high level of awareness of this event, approximately 100,000 people are yet to prepare themselves for the switchover and one in four do not think it will actually happen. There is, however, a very important reason to believe that the switchover will happen: it’s worth money. The Saorview switchover will coincide with a windfall for the government that could raise €205 million immediately, and double that over the next fifteen years. This note explains how.

We currently receive our terrestrial television broadcasts via an analogue signal. This signal is emitted via the electromagnetic spectrum – the medium through which we communicate wirelessly, be it broadcasting TV and radio or using our mobile phones. The new digital signal that will replace the old analogue one will be more efficient, in that it will use less spectrum to broadcast the same content.

This spectrum is a national resource, owned by us all and regulated on behalf of the government by ComReg, the Communications Regulator. It is also a finite resource: spectrum used for one purpose cannot be simultaneously used for another. This means that the spectrum no longer used by the analogue signal can be redirected elsewhere, with the obvious alternative being to increase the spectrum allocated for use by mobile phones.

The timing is fortuitous: Demand for mobile spectrum is increasing at a rapid clip as we come to expect to be able to download videos, music, books and games while on the move. Furthermore, the latest 4G technologies will require yet more spectrum allocations in order to operate effectively. The particular frequency of spectrum being vacated is of ideal quality for operating a mobile network, as signals travel further for a given energy input, allowing for coverage over a large geographic area at low cost. This confluence of factors, which is occurring right across Europe, has been dubbed the Digital Dividend.

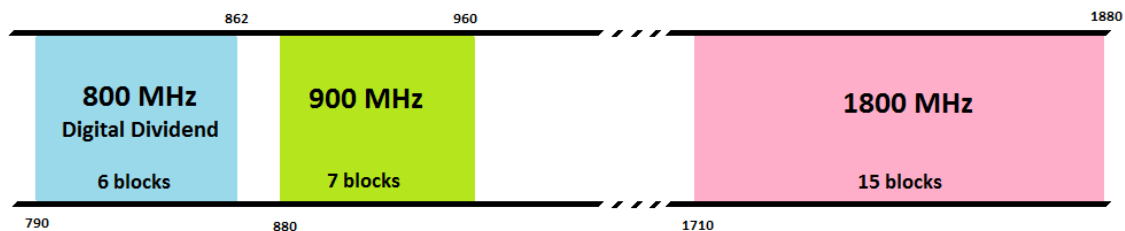
Because the demand for spectrum from mobile network operators exceeds the available supply, it is important that spectrum licences are allocated efficiently. ComReg will seek to do this by holding an auction where operators can bid against each other, thus replicating a free market outcome: the company that values the spectrum the most – and

will therefore be more likely to make the most efficient use of it – will be willing to pay a higher price for it. Although efficient use of scarce spectrum is the overriding objective of the auction, it will also yield valuable revenue for our government.

Determining a Guide Price

As the Saorview switchover is coinciding with the expiration of existing 2G licences, ComReg has decided to hold one multi-frequency auction. The frequencies to be auctioned can be seen in Figure 1 below. They will be divided into 28 blocks – 13 in the more desirable 800-900 MHz range and 15 in the 1800 MHz range.

Figure 1: Spectrum Frequencies Involved in the Auction



ComReg has placed a minimum price on each block of spectrum to be sold, which is to be split evenly between a reserve price – below which the spectrum block will not be sold, ensuring revenue will be generated even if competition at the auction is weak – and an annual usage fee. The minimum price for a fifteen year licence has been set at €20m for each of the thirteen blocks in the 800MHz and 900MHz ranges and €10m for each of the fifteen blocks in the 1800MHz range. Provided all spectrum blocks are sold at auction, this will result in immediate revenue windfall of €205m via the reservation price, and total revenue of €410m over the life time of the licences. To put this in perspective, the value of the government’s share in Aer Lingus is estimated to be in the region of €170m. If competition between network operators drives up the auction price, the windfall could be even greater.

This raises the question of imposing a higher reservation price in order to ensure greater revenues at a time when they are so urgently required. But setting the reservation price too high runs the risk of causing potential bidders to balk and/or spectrum going unallocated. Ultimately the losses of such an outcome will be borne by us as the end consumers of wireless services, and would greatly exceed the extra revenue gained. The true value of this spectrum auction will be the improved products and services that will enhance both our competitiveness and our lives.