

**NEW THIRD GENERATION TELEPHONE LICENCES :
ARE THEY WORTH THE MONEY ?**

With all the hype these days about telecommunication acquisitions, with companies, such as Mr Li Ka Shing's Hutchison Whampoa Ltd (Code: 13, The Stock Exchange of Hongkong Ltd), willing to pay squillions and squillions of US dollars in order to obtain licences in Europe to operate third-generation (3-G) telecommunication centres, the question has to be asked as to whether or not the return on these huge investments is commensurate with the seemingly high entry price of these investment.

After all, the bottom line is simple: One invests one dollar and one expects a net return, on that one dollar, that is superior to that which banks are offering on deposits.

Long term, no doubt the new technology for 3-G mobile telephones will prove successful, but the success, measured in terms of a reasonable return on investment, may be another matter.

A service industry product, traditionally, obtains a relatively low rate of return, but service industry products are aimed at being '*cash cows*' for the operator who, most often, is a long-term player.

The new 3-G mobile telecommunications system, by the way, is said to be more than 35 times faster than transmission through copper lines, thus permitting ease of transacting e-commerce and m-commerce on a wireless platform.

The high-speed technology is rated at having a transmission speed of about 2 megabyte bits per second; it is expected to be launched, late next year.

It will enable high-speed Internet services on mobile telephone units and, also, permit video on demand.

As is plain to see from recent country auctions of 3-G licenses, only the very financially strong will survive this 3-G telecommunications '*war*' because of the huge amounts of money that are required in order to lay the foundations for the new system – as well as meet the avaricious demands of governments that are demanding top dollar for their 3-G licenses.

The billions of US dollars that international companies are willing to pay for the privilege of obtaining the rights to operate 3-G mobile telecommunications systems in various parts of the world has caused Price-Earnings Multiples of many telecommunications companies to reach for astronomical levels.

Recently, the Italian Government reined in about \$US10.16 billion (about \$HK79 billion) for the Italian 3-G licenses.

In April, this year, the UK Government obtained about \$US35.40 billion (about \$HK275 billion) when it auctioned off its 3-G licenses.

And, in August, the German Government mopped up a whopping \$HK46.10 billion (about \$HK359 billion) for its 3-G licenses.

The reason for the high premiums for these licenses is that the telecommunication companies, bidding on the licenses, work on the basis of the costing formula of between 211 euros (about \$HK1,363) and 630 euros (about \$HK4,070) per capita of population of the country in which they are desirous of operating.

Whether or not this is a valid formula, only time will tell.

In the meantime, the moneys, being collected by various governments, are welcome bonanzas.

Since about August 1997, the MSCI Telecommunications Index has risen by about 115 percent, driven, mainly, by euphoria, much of which is, probably, misplaced.

While new and wonderful software packages are on the drawing boards of companies, round the world, they may well be useless if the computing power of central processing units, now being offered to consumers, cannot cope with the required speed which would be necessary for the software to operate, efficiently.

So does the same logic apply to companies that would be in the forefront of 3-G telecommunications technology.

While the speed of transmission of the new generation of telephone may well be 35-plus times faster than conventional transmission of today, the telephone is, still, a device for voice communication, firstly, and all the bells and whistles are of secondary importance.

Even in this age of satellite navigation and Global Positioning System (GPS), ships that go to sea still carry a sextant and air navigation tables, just in case electrically/electronically operated navigational systems should fail.

The idea of being able to conduct e-commerce/m-commerce on one's mobile telephone may appear attractive, on the surface, but it will mean, naturally, that the miniature telephone transceivers of today will become obsolete in the next few years because their display areas will be too small for all information that would be necessary for an e-commerce information platform to operate, effectively.

Back to the drawing boards for manufacturers of mobile telephones and, no doubt, larger information screens will be forthcoming on larger mobile telephones.

Companies that made investments in miniature mobile telephones will find themselves, holding onto the short end of the stick.

If they have not recovered their tooling-up costs, advertising expenditure, distributional costs, and etc, they will suffer losses.

As for advertisers, considering to broadcast and/or flash their messages on mobile telephones, it is questionable as to whether or not that will pay dividends for the advertising dollar.

Internet advertising revenue is difficult enough to obtain as Yahoo! would be more than willing to attest.

International companies, with Internet components, are going belly up on a daily basis, now: Few are making reasonable returns with most of them, losing money.

This is not to suggest that operators of mobile telecommunications, using select radio frequencies – the **Universal Mobile Telecommunication System** licenses – will not obtain a return on their investment dollars, provided that the numbers are correct in respect of the cost of obtaining the country licences and the cost of laying in the infrastructure, but it is unlikely that the payoff will be very high.

With the entrance fee of telecommunications operators, coveting 3-G licenses, being the highest in the history of the world, this is a game for the very big boys, without question.

But, as the saying goes, the bigger they come, the harder they fall.

The chances are that a number of telecommunication companies will go to the wall, or be swallowed up by the cash-rich multinational, which will attempt to obtain a partial monopoly.

It goes without saying that 3-G will lead to 4-G, and 5-G and so on so that telecommunication companies will be on the treadmill for many years to come: That is the nature of the advance of science.

In the meantime, somebody has to pay for the dinner.

***While TARGET makes every attempt to ensure accuracy of all data published,
TARGET cannot be held responsible for any errors and/or omissions.***

-- E N D --

If readers feel that they would like to voice their opinions about that which they have read in TARGET, please feel free to e-mail your views to editor@targetnewspapers.com or targnews@hkstar.com. TARGET does not guarantee to publish readers' views, but reserves the right so to do subject to the laws of libel.