

Crisis could force restart of digital dividend allocation plans

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In 2011 two procedures for spectrum allocation were launched in Italy. The first was a spectrum auction to allocate the external digital dividend (ie, frequencies in the 800, 1800, 2000 and 2600 megahertz (MHz) bands) to telecommunications operators for the purpose of developing commercial terrestrial radio systems and public electronic communications, including mobile broadband networks and third and fourth-generation telecommunications systems.

The second is a 'beauty contest' for the allocation of the internal digital dividend - six digital terrestrial television multiplexes. This process is ongoing, but its future has been thrown into doubt by:

- the withdrawal of one of the main participants - Sky Italia is contesting the final regulation, which it considers to be biased in favour of incumbent operators; and
- the approval of three parliamentary motions requiring the government to restart the relevant spectrum allocation procedure on a basis that takes account of the financial value of the participant's offers.

As a result of these developments, the beauty contest may yet be cancelled, in which case the Communications Authority and the Ministry of Economic Development would be

required to issue new tender rules and to publish an invitation to tender for the allocation of the internal digital dividend.

This update recaps the two allocation procedures and briefly analyses their similarities and differences, as well as the key aspects and business opportunities of the auction and the beauty contest in Italy.

Auction for external dividend

The decision to launch a public auction to allocate the external dividend of telecommunications frequencies was taken on December 13 2010, upon approval of the Financial Stability Law 2011. The ministry published the invitation to tender on June 28 2011, setting a minimum price of €2.4 billion (for all bands), in accordance with Section 1.13 of the law.

Five companies submitted applications and four - Telecom Italia, Wind, Vodafone and H3G - had their applications accepted. The rights were assigned for a total price of over €3.9 billion, exceeding the minimum by over €1.5 billion. (However, the 2000 MHz band attracted no offers and remains unassigned.) Winning operators must fulfill certain obligations by specified deadlines; otherwise, new auctions will be necessary to reallocate their frequencies. In future, changes to the 700 MHz and 1400 MHz frequencies may make new blocks of frequencies available for broadband services.

Internal dividend - beauty contest or auction?

On July 8 2011 the ministry published the final regulations on the procedure for allocating the internal digital dividend for television frequencies. These six digital terrestrial frequencies will be available following analogue switch-off, which is scheduled for early 2012, and will be assigned for the purpose of establishing six national digital television networks.

The regulations specify that the allocation of the internal dividend is not to be carried out by auction; thus, the participants are not to be ranked on the basis of the financial value of their tenders. Instead, they must be assessed on other criteria, such as their technical infrastructure plan, their business plan, and their experience of operating terrestrial television networks.

Eight of the operators that submitted applications before the September 6 2011 deadline have been accepted. They are Canale Italia, Telecom Italia Media Broadcasting, Elettronica

Industriale (part of the Mediaset group), Sky Italia, Prima Tv, Europa Way, 3Iettronica Industriale and Rai.

The allocation has not yet been finalised, but Sky Italia has cast doubt on the procedure by announcing its withdrawal from the contest. It considers the rules of the procedure to be unfair, arguing that they favour the incumbent operators. Moreover, Sky Italia maintains that the procedure is too slow to allow the participants to plan their investments in the long term.

On December 17 2011 three parliamentary motions were approved which require Mario Monti's new government to assign the internal digital dividend on the basis of economic offers. This does not necessarily mean that an auction will be launched for the allocation of the frequencies in question, which could yet be assigned through a beauty contest that takes account of the financial value of the participants' bids - the two approaches are not mutually exclusive.

Comment

The experience of recent months shows that the choice between auction and beauty contest must be based on an assessment of actual needs and circumstances. It is clear that during the current financial crisis, the primary public need is to monetise resources - as much and as soon as possible - from any available source, including the allocation of the internal digital dividend. This need was arguably less urgent or apparent when the beauty contest was launched, but the state of Italy's economy could yet give the plans for Italy's digital networks a decisive twist.