Fair share of 'rare' air

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The depletion of natural resources is inevitable. Their availability, volume and quality differ worldwide. Prudent policy ensures the citizen's fair share of the resources. Radio frequency, also known as spectrum, is a unique resource. This eternal and indestructible atmospheric asset is impossible to import or export. Unlike other resources, spectrum prevails with unvarying quality and quantity worldwide.

Spectrum was emerged as a valuable resource when GSM mobile technology accelerated deregulation in the Western hemisphere during 1990s. Bankers, analysts, vendors and operators have, however, hyped the potentials of mobile phone for something superfluous called third generation or 3G services.

The European regulators vaguely perceived 3G for watching television and making video calls using mobile phone. Without assessing its costs and viability, the powerful governments defied the law of physics and labeled spectrum a "scarce" resource.

"Forget the physics, just look at the arithmetic," the Guardian said after Britain bagged $35.4 billion from auctioning the so-called 3G spectrum in April 2000. Germany forked $45.8 billion subsequently. Washington could raise merely $16.86 billion. Because the dotcom bubble-burst, created by the internet upstarts, rocked Wall Street. Other developing countries altogether made $129 billion from 3G auctions.

The aftermath of this wildfire of public-private greed was devastating. Over $227 billion licence fees eclipsed investments in 3G networks. The bankers -- licking the wounds of dotcom bubble-burst -- could not lend either. "Telecom firms have run up total debts of around $1 trillion," said the Economist in 2002. The European telecom establishments slashed over 130,000 jobs.

"The UK government policy was criminal and short-sighted," the Guardian quoted Finland's wireless entrepreneur Pekka Sivonen in November 2000. "It was just a short-term policy to raise money to build hospitals and roads and was a hidden tax."

Britain, actually, spent the entire $35.4 billion 3G earnings "to pay down government debt," said the New York Times in 2006. The Germans also cleared federal debt from 95 percent earning of 3G auction.

Prolonged auction, tagged with inflated base-price of spectrum, was the real culprit of 3G fiasco. UK and Germany continued respective auction for 52 days and 14 days. Speculation kept multiplying the bid while governments watched the amassing of windfall. Sensible governments avoided the lure.

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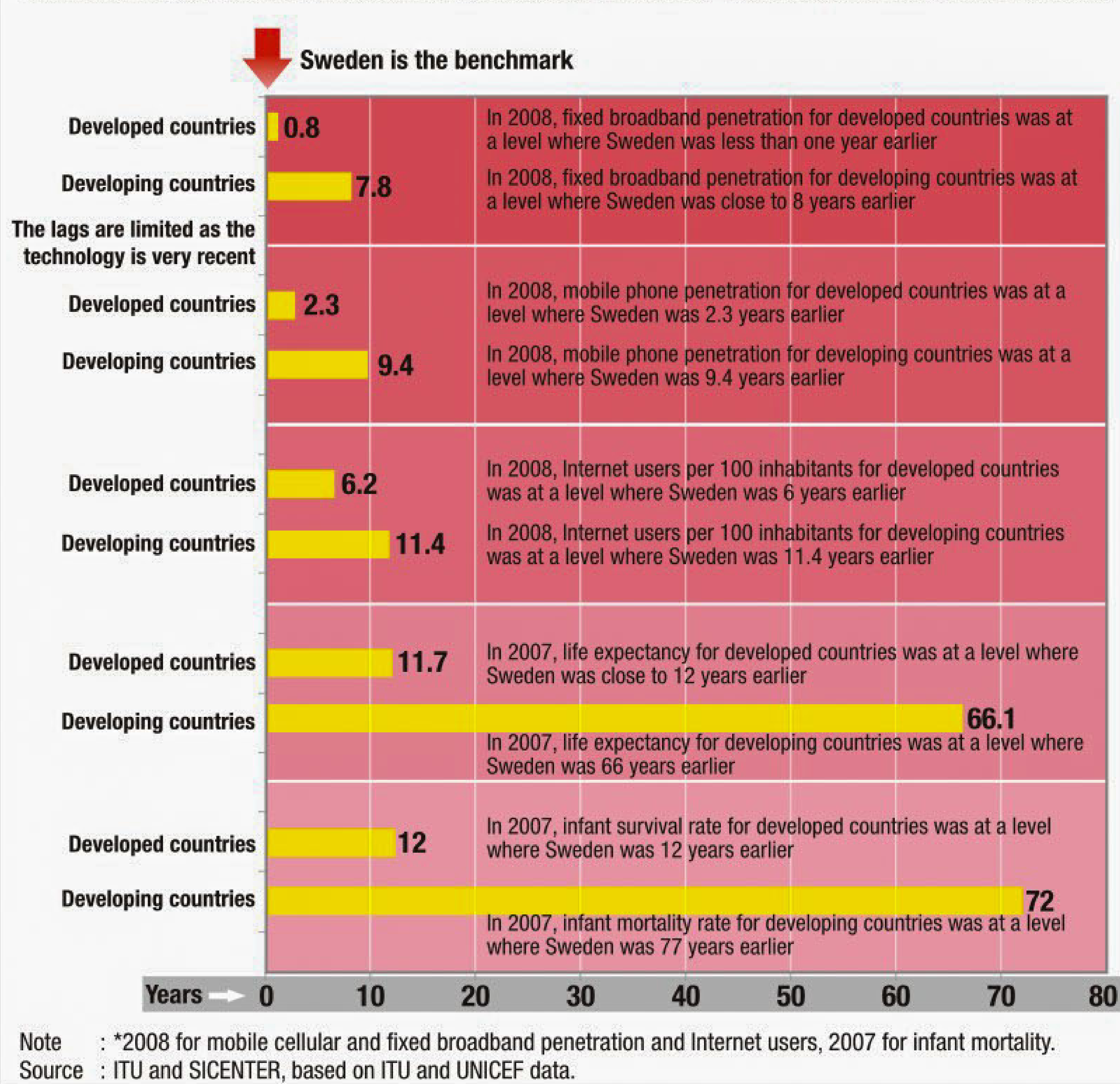

Finland gave away the 3G spectrum free; Sweden asked $10,000 per licence with a share of profits (not gross revenue) and Norway charged $22.3 million each. But the Nordic regulators were 'fanatic' about coverage and quality of service. Sweden disqualified its state-owned operator, Telia, for non-compliance.

The Nordic policymakers do not equate radio airwaves with rare mineral resources. They recognise telephone, regardless fixed or mobile (2G and 3G), as public utility. Such simplification of public policy has been highly rewarding for the citizens as well as for the industry.

Finland is the world's first country where mobile outnumbered fixed phones in 1999. Finnish operator, Elisa, launched the world's first 3G service using the 2G spectrum in 2007. Ficora, the regulator, did not impose any fee although Elisa would be making more profit. That is the taxman's call.

In 2009, Finland declared internet access at minimum (not up to) one megabit per second (Mbps) the birthright of every citizen. Thus it became the world's first country where broadband is a fundamental right. Finland will upgrade the benchmark to (again minimum) 100 Mbps by the end of 2015.

The Nordic governments have carefully avoided the temptation of earning huge upfront tax. As a result, these countries enjoy higher broadband penetration, according to the European Union's 2010 data. The International Telecommunication Union also uses Sweden as yardstick to measure the developed and developing countries' macro-economic indicators.

Norway and Sweden, unsurprisingly, activated the world's first long term evolution (LTE) or the so-called "4G" network in 2009. It offers access to internet from mobile devices at couple of hundred Mbps. The LTE keeps Finland on track to make 100 Mbps every citizen's fundamental right by 2015.

How about the heavyweights? The UK's Vodafone, Germany's Deutsche Telekom and France Telecom have deferred LTE activation until 2012 "partly because they need to reassure investors about their capital expenditure plans," said the Financial Times in February 2009.

Western financial fortresses were flattened after the banks sequentially imploded in September 2008. Overhyping the yield of complex investment products, identical to 3G spectrum in 2001, was central to this financial catastrophe. Regulators and bankers are equally blamed for it.

Kishore Mahbubani, Singapore's public policy pundit, quotes an Indian financial regulator: "After subprime, we are not sure of US regulation; after Northern Rock, British regulation; after Société Générale, French regulation and after UBS, Swiss regulation." Mahbubani concluded, "In short, the West is no longer the gold standard in the field of financial regulation."

All that glitters is not gold. A checklist of pedigree is critical while browsing regulatory best practices, irrespective of sector. It saves the government and the industry from quicksand of quick bucks.

Last word: Following in Finland's footsteps, the UK regulator has finally allowed the mobile operators to use their 2G spectrum for 3G services.

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SOCIAL MEDIA

Is Facebook really worth $50 billion?

And will its new financing scheme fall foul of regulators?

THE ECONOMIST

In 2009 Rolling Stone described Goldman Sachs, an investment bank, as "a great vampire squid" that likes to stick its "blood funnel" into anything that can make it money. This week the squid inked yet another high-profile deal. Together with Digital Sky Technologies (DST), a Russian group, Goldman invested a total of $500 million in Facebook, valuing the world's most popular social network at a whopping $50 billion. The bank is also planning to set up a fund it will manage that will pump up to $1.5 billion more from wealthy investors into the company.

For Facebook, the deal provides a mountain of extra cash to invest in things such as new data centres and acquisitions. It gives it fuel for further growth without the hassle of listing its shares. For Goldman, the transaction represents an opportunity to stick its "funnel" into an internet firm that makes investors drool. As well as benefiting from any further appreciation in Facebook's value, the bank plans to suck up fees for managing the new fund. And it is no doubt hoping that by cosying up to Facebook's top brass it is boosting its chances of leading an eventual initial public offering (IPO) of the company's stock.

News of the deal has sparked vigorous debate. Facebook's implicit value has risen fivefold since mid-2009, but sceptics doubt that a firm whose business model is unproven is worth more than established media giants such as Time Warner.

Since Facebook is not obliged to divulge financial information, it is hard to know for certain whether Goldman and DST, which already owned a sizeable chunk of Facebook stock, are overpaying. But Facebook bulls argue that the network's sheer scale is proving irresistible to advertisers. Debra Aho Williamson of eMarketer, a research firm, notes that Facebook has even begun to attract notoriously conservative -- and deep-pocketed -- advertisers such as Procter & Gamble.

The company is also starting to look more and more like a natural monopoly. MySpace, which used to dominate the social-networking arena, has come to look like My Empty Space. It is rumoured to be about to make yet more cuts to its workforce. And networking upstarts such as Twitter, which has also seen its valuation soar (to $3.7 billion), have revenues that are a mere fraction of Facebook's, which are said to have hit $2 billion last year.

Still, at $50 billion Facebook looks rather expensive. If its sales really are $2 billion a year, that implies that Goldman and DST are paying 25 times current revenues for their shares. That would be a breathtakingly steep multiple, even by the giddy standards of the start-up world.

SQUID'S IN

Moreover, Facebook has nowhere near as robust an advertising model as, say, Google, whose search-related ads are served up to users when they are often on the point of making a purchase. Much of Facebook's revenue comes from low-end display advertising. And though it will benefit from marketers' growing interest in word-of-mouth promotion, the company will have to scrap for those dollars with traditional media brands, whose rich content makes them attractive venues for social-media advertising too.

In spite of this, investors are still falling over one another to get their hands on Facebook's shares -- and Goldman is keen to help them, so long as they agree to abide by certain rules. Clients considering signing up to its proposed Facebook fund are reportedly being asked to commit at least $2m each to it and to hold on to any shares they receive until at least 2013.

A different problem for Facebook and Goldman is that Goldman's planned fund could fall foul of the Securities and Exchange Commission (SEC). On January 3rd SecondMarket, a broker-dealer in private-company shares, said it had been asked by the SEC for data about pooled investment funds formed to buy private-company stock -- precisely the kind of vehicle that Goldman has in mind for would-be Facebook investors.

In recent months several other financial institutions have formed similar special-purpose vehicles that invest in private companies' stock, piquing the SEC's interest. This has prompted predictions that regulators may end up treating such entities not as a single shareholder, but as a collection of individual investors. That would have important implications for the companies in which they invest. An SEC rule requires private firms with 500 or more shareholders of record in a given type of stock to publish quarterly accounts and audited financial statements. Faced with such obligations, most firms seek a public listing. This rule was one of the reasons that Google ultimately decided to go public in 2004.

Having to go public now would be a nightmare for Facebook and Mark Zuckerberg, its founder and chief executive, who is said to be keen to put off an IPO for as long as possible. The firm reportedly had fewer than 500 shareholders at the end of last year, including employees and venture capitalists, so it is no doubt hoping to avoid having its arm twisted.

Facebook and Goldman seem to have the letter of the law on their side. Joseph Grundfest, a professor at Stanford Law School and a former SEC commissioner, points out that the rule in question states very clearly that a fund such as the one Goldman has in mind should be treated as a single shareholder. "If someone says Goldman is violating the law, then they obviously don't know the law," he says. Were regulators to interpret the rule in any other way, it would have far-reaching consequences for, say, the venture-capital industry, in which funds with multiple investors routinely take stakes in private firms.

However, some observers say that the SEC may be tempted to conclude that the new breed of special-purpose vehicles being created by the likes of Goldman have been set up specifically to get around the 500-shareholder rule. They have the potential to include a much wider range of investors than a typical venture fund, and may attract heightened scrutiny.

Regulators have a duty to protect investors and weigh the concerns of companies that wish to remain private. It is a delicate balancing act. But anyone who invests in a market this frothy must surely realise it is also risky. Meanwhile, Goldman and the other banks which hope to turn these vehicles into a big business should consider friending some good lawyers.