



By Gerry Oberst

Satellite Fees

Satellite communication licensing fees are a normal part of the cost of doing business in this industry. There are times, however, when governments lose sight of the financial structure of the satellite sector in their search for revenues and efficient use of resources. At those times, the industry has begun to push back on fee structures and complain that the resulting costs are not proportionate or reasonable.

The cost of government licensing became an issue when the big international Intelsat and Inmarsat monopolies started to fray at the edges. Once competitive operators entered the market, regulators were faced with a new and different type of approval process with new and different fees.

The fees those regulators applied in the early days of this competition (and even in some markets today) were sometimes arbitrary. In the heyday of the introduction of new VSAT services, the competitive service providers were faced with almost unlimited types of regulatory structures across Europe, often with disproportionate fees that stunted the growth of the service.

Europe subsequently applied a more competitive, open and liberal approach towards service licensing. By 1997, the European legal structure required licensing fees to be proportionate to the administrative work involved. A major loophole was left, however, by allowing national regulatory authorities to impose change to ensure 'optimal use' of scarce resources. Even so, fees must foster the development of innovative services and competition under those rules.

With the advent of the 2002 electronic communications regulatory framework, a stronger move towards eliminating licenses correspondingly decreased the number of fees. If no license for a service can be required because the service inherently could not cause interference, then usually no fees can be applied.

Some countries, of course, did not get the message. At least one major European country devised an approach towards licensing that maximizes fees by requiring both a network license regardless of the number of terminals in the country, plus spectrum and management fees. Other countries indirectly raised the cost of doing business by requiring

a local representative to hold any necessary licenses, in flagrant disregard of European Union requirements for free establishment that seek to eliminate national barriers to cross-border service.

Sometimes these fees structures go haywire. A case study in France is a good example. For one type of satellite communications services provided in a shared band, the regulatory structure in 2007 required a fee on the order of 9,000 euros (\$11,470 at today's rates). The government changed the fees structure in 2008, which caused an astounding increase to 86,000 euros (\$108,335) in this particular case. The rate was disproportionate, and the industry sued. The government subsequently amended its rate structure to decrease the fee to about 27,000 euros (\$34,412). It is hard to believe there is any objective justification for this zigzagging fee target.

Another kind of fee is more pernicious. Industry has resisted auctions based on the international nature of satellite communications. If each country within the service pattern of a satellite gets the notion of applying such fees, the basic viability of satellite service is threatened. As the Satellite Industry Association (SIA) wrote last year in response to proposed U.S. budgetary moves, "the uncertainty of spectrum fees and/or auctions in every country would severely curtail the ability of operators to raise the needed capital to construct, launch and operate their systems."

The issue of fees is coming up now as industry seeks to integrate satellite and terrestrial services. In comments to the U.K. regulator submitted in March 2008, industry associations reiterated that the uncertainty and magnitude of spectrum fees could curtail industry capital raising. Comments noted that if the proposed U.K. fees for terrestrial components of an integrated system were applied across Europe, an operator would have to pay about 183 million British pounds (\$261.94 million today), which would impede the service. Numerous other operators submitted similar comments, estimating the U.K. precedent could imply a pan-European license fee of up to 224 million pounds (\$319.71 million).

A normal cost of doing business quickly can be a block to doing business if not correctly applied. So long as satellite communications provide a critical role as communications infrastructure, a reasonable and proportionate approach towards national fees is in order. ▀

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