

ITEM FOR FINANCE COMMITTEE

HEAD 55 - GOVERNMENT SECRETARIAT : INFORMATION TECHNOLOGY AND BROADCASTING BUREAU

Subhead 700 General other non-recurrent

New Item “Consultancy Services for Licensing of Third Generation Mobile Services”

Members are invited to approve the creation of a new commitment of \$55 million for engaging consultants to assist and advise the Government on the licensing of the third generation mobile services.

PROBLEM

We need to engage consultancy services on the licensing of the third generation (3G) mobile services.

PROPOSAL

2. We propose to engage consultants to assist and advise the Government to -
 - (a) develop the regulatory framework for 3G licensing;
 - (b) design the licensee selection process, including devising rules for the pre-qualification exercise, spectrum auction and bidding; and
 - (c) implement the licensee selection process to ensure that it is conducted with high standards of probity and integrity.

JUSTIFICATION

3. 3G is the next generation of wireless communications services. With a mobile penetration rate of 71% as at August 2000 (the highest in Asia and second

/only

only to Scandinavia) and a competitive market with six operators operating 11 networks on practically all standards, Hong Kong is a leader in mobile communications in the region. Many advanced economies such as Japan, the UK, Finland, the Netherlands and Germany have already awarded their 3G licences. For those which have yet to award the licences, many (e.g. Canada, Belgium, Australia and Singapore) have announced their plans and will soon start their licensing process. In order to preserve Hong Kong's leading position as a telecommunications hub and support our development as an information society, we must award the 3G licences in good time to enable the industry to launch services within a similar timeframe as the other advanced economies.

4. Having regard to our policy objectives of promoting the development of telecommunications industry in Hong Kong, protecting the interest of consumers and maximizing benefits to the economy as a whole, the Office of the Telecommunications Authority (OFTA) proposes a "hybrid" method with "open network" requirement in its second consultation paper issued on 3 October 2000. Under the hybrid method, applicants will go through a pre-qualification process and then bid for the spectrum required on the basis of either cash or royalty. OFTA also proposes to spearhead the introduction of the open network requirement for the four 3G licensees. Successful licensees will open up part of their network capacity for use by other service providers, which in turn will induce competition at the content and service application level.

5. Contrary to past practices (whereby OFTA awarded licences for major public telecommunications services not through bidding but through a selection method that assessed the merits of proposals), the proposed licensee selection method is a novel approach, and involve a very sophisticated and intense process. Procedures for the selection process must be efficient, fair and transparent, while at the same time legally sound and comprehensive. Overseas experience demonstrates that the bidding rules must be carefully designed, for example, to restrict bidding by connected parties and to prevent collusive activities.

6. It is of utmost importance that consultants with the right calibre, experience and knowledge are engaged to advise and assist the Government in this licensee selection exercise. We need to draw from the consultants a broad range of advice, including strategy formulation (including "game theory"), financial and economic modelling, detailed design of auction rules and procedures, and related legal, regulatory and technical advice, etc. The availability of external advice, supplementing our own experience and expertise, will also help speed up our design and implementation process. Such expertise is available in the market, given the 3G auctions in Europe in particular and the spectrum auctions which have taken place in many advanced economies.

7. In order that we keep to the timetable of awarding licences by the middle of 2001, we need to invite applications in early 2001 from prospective licensees. Given so and in the interest of time, we have received and are reviewing the proposals from consultants shortlisted with the approval of the Central Consultants Selection Board.

FINANCIAL IMPLICATIONS

8. The exact cost of the consultancy service will be subject to the outcome of the tendering exercise which is in progress. On the basis of a rough estimate of the cost required, we propose a financial commitment of \$55 million, made up of \$47 million for general financial and strategic work and \$8 million for legal, technical and econometrical modelling.

9. Subject to Members' approval, we plan to phase the estimated expenditure as follows -

Year	\$ million
2000-01	8
2001-02	47
Total	<u>55</u>

10. We have compared our proposed level of commitment with the consultancy fees paid by other governments. For example, the Danish Government has disclosed recently that it would be paying around US\$8.7 million (or HK\$68 million) for its consultancy service. However, we believe the competitive bidding process for the consultancy will help ensure that we would get the best value of money from our service contract.

11. The proposal has no recurrent financial implications. The OFTA will oversee the work of the consultant with its existing staff resources.

BACKGROUND INFORMATION

12. The Telecommunications Authority, supported by OFTA, is responsible for issuing telecommunications licences under the Telecommunications Ordinance (Cap. 106). He aims to finalise the regulatory and licensing framework for 3G by early 2001 and issue licences in 2001.

13. We briefed the Legislative Council Panel on Information Technology and Broadcasting on the first round of consultation on licensing framework for 3G Mobile Services on 10 April 2000 and on 12 June 2000, and on the second round consultation on 13 November 2000. We also consulted the Panel on our proposal to engage consultants for the licensing exercise on 17 November 2000. Members supported our proposal.

Information Technology and Broadcasting Bureau
December 2000