

LETTERHEAD OF PEOPLES

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By Mail & Fax

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Mr. James Tien
Chairman
Subcommittee on draft Telecommunications Regulations
and draft Telecommunications Order
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Sir,

On behalf of Peoples Phone we would like to thank the Sub Committee again for giving us the opportunity to comment on the latest 3G Auction proposals from the TA and SITB.

During last Saturday's meeting, each operator commented on very similar issues individually. We would like to put the issues into a collective context and in this way give you an appreciation of the overall concerns.

Uncertainty of 3G technology - "The Crystal Ball"

All of us are watching the European market very closely as 3G licenses are being issued.

On the one hand, we are seeing high prices being paid for some licenses and we are hearing about litigation and failures from others markets.

On the other hand, we are distressed at seeing delays in 3G roll out. Delays in the NTT DoCoMo and BT Isle of Man networks until September have arisen due to unstable software that prevents handoff from one cell to another. The major vendors predict that commercially available terminals in volumes will not be available until end 2002 that is more than 19 months away! Prototype infrastructure is currently only available in small quantities and we know that the UK operators are rolling out networks albeit in limited areas. However, rolling out a full-scale network with early generation equipment is not the ideal situation. In the majority of cases, this equipment will need to be upgraded or changed out at a later stage.

Much has been talked about the new applications that will be available with 3G and how it will change lifestyles for the mass market. However, these applications are not readily available and, in many cases, are terminal dependant. The applications will have to be developed either in house or through partnerships and must be useful, user friendly and essential enough for subscribers to be willing to pay for them. We do not see any applications with these important criteria now.

New technology has not always been kind to us. WAP was hailed as the "PC in your Pocket" ~ now the usage is very low with a great deal of subscriber disappointment. The race to bring GPRS to the market and the introduction of packetised data has also led to disappointment. Networks were ready last year but the commercially available terminals will not be here until at least Q3 this year and then in older, unattractive body styles. Even testing of the GPRS functionality has been hampered by using only prototype phones that are well short of the final performance. We anticipate the same will be true of 3G.

The delay in having GPRS terminals available is worrying and with 3G technology at about ten times the complexity of GPRS, the potential delay in 3G terminal is very, very real and frightening. When the new 3G terminals do arrive they are likely to be 3 to 4 times the current price of a GSM terminal - making acceptance more difficult by the masses.

On top of all these arguments regarding 3G technology, we will see the release of a new spectrum band within 2005/2006 and the introduction of "4G" which is all IP based transmission. It is likely that this new technology will enter the market whilst the 3G networks are still being rolled out and gaining maturity.

Bidding blind and against each other - "The Dark Room"

The uncertainties of the technology are now compounded with the proposed method of bidding. Bidding in the dark, not knowing who else is in the running will make the business case difficult to analyse. We will all act with rational judgement but a higher element of guess work will always be there when the bidders are unknown.

The argument for the dark room approach is to eliminate collusion and safeguard consumer's interests. This is understandable but looking at the past and current market situation, Hong Kong consumers are enjoying the best mobile tariff offers that can be found anywhere. We doubt whether that will change after the introduction of 3G.

Bearing in mind the uncertainties of the new technology and the masquerade with unknown bidders, we feel that artificially inflating the final bid price by having the final 4 bidders bid against themselves is not helping the industry. We appreciate that the Treasury is looking for the best return on such a valuable resource as spectrum but following such an unorthodox auction practice is not in the true spirit of offering a fair price based on the projected value to the user. It will certainly discourage new entrants, trim down expected rollout plans and reduce employment opportunities. The amount of additional funding required to implement 3G will, in itself, be difficult to bear without the extra burden of an inflated auction price.

Naturally, this extra financial burden has to be covered somehow for the operator to survive and show profitability to its shareholders. The danger now is that these additional costs will be passed onto the consumer with the result that the technology might not be successful and revenues will be low. This will not help either the operator or the Treasury.

We would rather see the TA and SITB helping and encouraging the operators in this revenue sharing venture during the course of operations to improve annual revenues rather than forcing up the auction price. We are aware of the European experience over 3G licensing and it really should be nothing to be proud of. Blue chip Telecoms have lost a sizable chunk of their market capitalisation, made many staff redundant and forced to sell off strategic assets just to comply with the 3G license conditions.

We should take every possible step to avoid these mistakes made elsewhere and instead spend time and effort to develop and encourage the mobile industry in Hong Kong.

The days have long gone where a mobile license was "a license to print money"! Tariffs and ARPUs have diminished dramatically and yet subscriber expectations and demands have relentlessly increased over the years. These characteristics will definitely be transferred to the new 3G networks and the success of the technology will only be realised with full subscriber acceptance. Second best will never suffice in Hong Kong.

We hope that within the confines of these few pages we have been able to summarise the general concerns of the industry over the forthcoming 3G licensing and that you will take the points raised into consideration at your next Sub-Committee meeting.

Yours sincerely,

Charles Henshaw
Chief Executive Officer