

For discussion
on 13 November 2000

Legislative Council
Information Technology and Broadcasting Panel

Licensing of Third Generation Mobile Services

Purpose

This paper briefs Members on the key proposals in the second consultation paper on the licensing framework for third generation (3G) mobile services issued on 3 October 2000.

Background

2. On 21 March 2000, the Telecommunications Authority (TA) issued an industry consultation paper on the licensing framework for 3G mobile services. The former Legislative Council Panel on Information Technology and Broadcasting Bureau was briefed on the consultation paper and progress of the consultation in April and June 2000 respectively.

3. The TA issued a second consultation paper on 3 October 2000 (a copy was distributed to Members vide our letter ref. ITBB CR 7/23/10 (00) Pt. 3 dated 3 October 2000). The paper seeks comments from the industry and interested parties on the further views the TA has formed prior to finalizing the licensing framework for 3G mobile services in Hong Kong. The consultation will last for six weeks until 13 November 2000.

Policy Objectives

4. Our policy objectives in the licensing exercise for 3G mobile

services are to :

- (i) promote the development of the telecommunications industry in Hong Kong;
- (ii) protect consumers' interests; and
- (iii) maximize benefits to the economy as a whole.

Under the three overriding objectives, and having considered the views received at the first consultation exercise, the TA has proposed a licensing framework for the 3G mobile services. A summary of the proposals is set out below.

Proposals in the Second Consultation Paper

A. Licensing Method

5. The TA proposes in the second consultation paper that a **hybrid method with open network requirement** be adopted for the licensing of 3G mobile services. The hybrid method involves a two stage process of pre-qualification and spectrum auctioning. The key features of the proposed licensing method are as follows :

- (a) Prequalification - to ensure the quality of the 3G networks to be built by successful bidders, bidders need to demonstrate their financial and technical capability and meet minimum requirements on network rollout, service levels and coverage. Only those bidders who meet the prequalification requirements may proceed to the next stage of spectrum auctioning.
- (b) Spectrum auctioning – spectrum auctioning is an efficient, fair and transparent method of allocating licences to applicants with the best business case. The TA invites comments on various auctioning methods either by way of cash, as an upfront lump sum or deferred; or royalties with a minimum guaranteed payment. The aim is to find the best approach that strikes a

balance between attracting investment, alleviating any pressure on capital requirement during the initial years in rolling out the network and minimising the risk for the Government.

- (c) Open network requirement – while the number of licences to be issued for 3G network operation will be limited by spectrum availability, the requirement for successful bidders to open up part of their 3G network capacity for use by service providers will introduce more competition at the content and service application level. This will enhance consumers’ interest through effective competition. This network and service separation regime is also most suitable for Hong Kong by giving all of our six incumbent second generation (2G) operators room to participate in the 3G business. Maintaining the investment incentives to rollout the 3G network is also important so as to support a vibrant content and service application business. The TA therefore invites comments on the regulatory regime, including the percentage of the network to be opened between 30% to 50%, and the price of interconnection when commercial negotiations fail.

6. The second consultation paper puts forward the hybrid method as the preferred arrangement after analysing the more ‘purist’ options including selection by merits, cash auction and reverse auctions. The TA explains the merits and demerits of these ‘purist’ options and the drawbacks of adopting any of them.

B. Number of Licences to be issued

7. Taking into account the limited spectrum available, the technical requirements for supporting innovative, multi-media applications in 3G, as well as the open network requirement, the TA proposes to issue **four 3G network licences**. Each licence will have a 2 x 15 MHz paired spectrum plus 5 MHz unpaired spectrum. This will provide sufficient spectrum to operate the 3-layered 3G networks. Otherwise, operators might have to compromise on network capacity and performance.

C. Other regulatory issues

8. The TA also sets out its views on the other regulatory issues in the second consultation paper. They include :

- (i) new entrants and incumbents should compete on an equal basis;
- (ii) there should be mandatory domestic roaming arrangement between 3G and 2G networks – as in the UK, successful bidders who are also 2G operators should allow mandatory roaming into their networks by customers of the new entrants in the 3G market during the initial years of operation of the new entrants. This will provide a level playing field for new entrants to compete effectively with the incumbent operators in the 3G market during the initial years when the latter's networks are being rolled out; and
- (iii) there should be mandatory 3G mobile number portability as with the existing 2G mobile services - this is an essential element for the protection of consumers' interest.

Way Forward

9. The consultation will end on 13 November 2000. The TA aims to finalise the licensing framework and invite applications after considering the views received in end 2000/early 2001 to enable early award of the licences in 2001.

10. To tie in this timetable, the Secretary for Information Technology and Broadcasting will introduce to the Legislative Council as soon as practicable the necessary subsidiary legislation needed for the implementation of the licensing framework under the Telecommunications Ordinance (Cap 106) as amended by the Telecommunication (Amendment) Ordinance 2000. They will include :

- the regulations for implementation of the carrier licence regime under section 7(2); and

- the regulations and order in relation to spectrum utilisation fee under section 32I.

The Secretary also proposes to seek funding from the Finance Committee (FC) to engage an Adviser to assist in the detailed design of the licence allocation process and the regulatory framework, and the implementation of the licence allocation process for 3G. We will consult Panel Members before making a submission to FC.

Information Technology and Broadcasting Bureau
6 November 2000