

**Pacific Century CyberWorks (HKT CSL) Presentation to
LegCo Panel on Information Technology and Broadcasting
on OFTA's Consultation Paper Dated 3 October 2000
on Licensing Framework of Third Generation Mobile Services**

Merit Award

PCCW (HKT CSL) supports a merit award system:

Enables selection of best operators and maximizes user benefits, competition and network usage. Auctions are less likely to achieve this result.

Merit award has been used successfully in the past in Hong Kong:

- Offers some of the lowest tariffs to 2G users
- 2G penetration rate (69%) among the world's highest as well as the highest in Asia.
- Centre of wireless service innovation, service quality and customer satisfaction.

Minimum amount of debt and "sunk" costs for operators:

- Promotes development of broadest range of services and content at lowest cost, fast network and service rollout and comprehensive coverage.
- Spurs competition, particularly price competition.

2G licences are **NOT FREE**. 2G licensees pay a significant sum of between **\$200M to \$300M** each year for use of frequency spectrum and other fees.

Merit award can be transparent with clear selection criteria and guidelines.

Auctions

Moves away from best operator to bidders with deepest pocket and does not maximize user benefits.

Auction costs reflected in prices to users, slower network rollout, minimal coverage, less innovation and lower service quality.

Auction and infrastructure costs are not "sunk" but real and must be recovered.

European experience: auctions result in a long-term price tag for users and economy.

Auctions are not always transparent nor are they efficient -- efficiency comes from competitive markets with multiple buyers and sellers (not a single seller).

Number of Licences

Commercially and technically feasible to operate 3G business on 2x10 MHz paired + 5 MHz unpaired frequency spectrum. Six licences can be issued in a merit award.

In an auction scenario, Four (2x15 MHz) licensees best balances competition with auction revenues, especially if MVNOs are mandated as additional network capacity would then be a firm requirement.

2G licence renewal process -- automatic renewal on same terms and conditions as now.

Additional spectrum and allocation process for 3G in future should be addressed.

Mobile Virtual Network Operators (MVNOs)

Network access should not be mandated. Market forces will best determine content mix, percentage of MVNO usage and licensee/MVNO commercial terms.

MVNOs should not be afforded free and risk-free access to network capacity.

A broad MVNO approach substantially negates incentive to bid substantial sums and build infrastructure.

Operators will have a commercial incentive to attract MVNOs to fill excess network capacity as in other countries.

The MVNO concept raises significant technical issues which have yet to be resolved.

MVNO Business Concerns and Further Information

Effective network capacity partition in the Radio Access Network for MVNOs is outside of existing technology.

Mandated access to network capacity for MVNOs will require up-front commitment from MVNOs. Network operators must be afforded a reasonable time period for delivery (once capacity reservation issue is resolved).

All costs, including auction costs must be recognized in costing of capacity to and interconnection for MVNOs. There are no sunk costs in this greenfield project.

Difference in target customers between network operators and MVNOs discourages building of high quality networks

Licence fees, service quality and rollout, and other obligations of MVNOs should be clearly defined. Maximum capacity for any one MVNO should be established.

Clear and workable definition of affiliated persons and full consideration of its impact and manageability (MVNO issue).

A general lack of sufficient details for potential operators to build up a meaningful business plan and adequately prepare for licence bidding. Best to have further consultation on next OFTA document which must be more detailed.