

Letterhead of SMARTONE

13th November, 2000

Speech by Ian Stone, CEO of SmarTone to the LegCo ITB panel

Ladies and Gentlemen

Good afternoon. I would like to thank the panel for the opportunity to present the views of SmarTone on the licensing of 3rd Generation Mobile Operators in Hong Kong.

SmarTone warmly welcomes the consultative approach that is being taken by OFTA in its approach to 3G licence allocation. The move towards the 3rd Generation mobile networks represents probably the most significant change in the mobile communications industry since its foundation. 3G will provide mobile operators with the chance to offer to users services undreamt of even a few years ago. The speed and economy of these networks will enable operators to truly put the internet into peoples pockets. Our expectation of what users will do with this capability once we have provided it is bounded only by our imagination.

For such an important industry development, it is critical that the regulatory framework under which the networks are established and operated is conducive to investment and innovation. Experience tells us that only by providing quality, and cost effective services in a timely manner will users fully realise the benefits of such a development. SmarTone's response to the consultation paper put forward by OFTA is aimed at ensuring the proposed framework achieves these objectives.

OFTA in its second consultation paper has moved away from the selection by merits approach to favour a hybrid auction process. Proponents of auctions argue that this process will provide a more open and transparent process under which licences are allocated. Auctions have certainly generated significant sums of money for some governments in Europe, but they have failed to fully realise the anticipated level of transparency and positive market response once hoped for. In Europe, four out of the five auction process completed so far (Netherlands, Germany, Austria, and Italy) are subject to enquiries which

may result in legal action. At the same time, the UK process, initially perceived to be a great success, has generated significant negative market sentiment. The auction processes that have followed the UK have realised ever decreasing amounts of money for the sponsoring government. Moreover, the financial markets have reacted to these processes by downgrading the credit ratings of successful operators, and diverting cash from investment in services to servicing debt..

Hong Kong needs an approach that continues to encourage innovation, high quality services and fast network roll-out. Compare the 70% penetration in Hong Kong and the high levels of innovation, with the 40% penetration, basic service offerings and limited coverage of the US mobile market. It is no coincidence that this is the country with the world's longest history of spectrum auction processes. This underlines the need for a robust and carefully designed auction process, should this be OFTAs preferred route.

SmarTone has responded fully to OFTA's current consultation process, making a number of proposals that we believe will strengthen the allocation process. We would also strongly support further consultation to address the detailed auction options and rules to be used within the final allocation process.

Turning to the overall proposed regulatory framework, we strongly believe that OFTA should continue to carry forward the light touch approach to regulation that has been successful in the cellular industry to date.

SmarTone supports OFTA's proposal that operators open their networks to a range of commercial partners and allies, including the new category of entity, the Mobile Virtual Network Operator (MVNO). We fully agree with OFTA that such a move will promote competition and innovation, and enhance the efficiency of an operators network. Indeed, SmarTone has already entered into many partnerships with other organisations aimed at bringing new services to customers to broaden its customer base. We will certainly welcome MVNO's to a SmarTone 3G network should we be successful in the allocation process.

We do not believe, however, that OFTA should impose commercial terms on those parties. The market is already highly competitive, with many different commercial arrangements being entered into by the players. This level of activity will increase quite naturally under the new competitive environment. Monitoring and policing capacity utilisation within networks is highly complex. To impose regulatory conditions on MVNO agreements will be an extremely bureaucratic process for both operators and regulators that risks increasing dramatically the cost and complexity of such arrangements to both OFTA and the operators.

Rather we would encourage OFTA to let market forces prevail as far as possible, and to intervene and arbitrate between parties only as a last resort. To support that position we would also recommend that OFTA defines what is meant by an MVNO. OFTA should use the existing regulatory framework to facilitate agreement on the commercial arrangements under which such operators gain access to the resources they require to execute their business successfully.

To conclude, SmarTone believes that 3rd generation represents an outstanding opportunity for the mobile communications industry to deliver "more for less" to the citizens of Hong Kong and put the internet in the pocket of the Hong Kong consumer. That proposition we believe will have a dramatic impact on the lives of the individual and the productivity of business. SmarTone very much welcomes the broad thrust of the proposals put forward by OFTA to achieve a regulatory framework conducive to the success of the industry. We believe our proposals strengthen two key issues within that framework that must be addressed, and look forward to discussing our views over the following weeks and months.