

Panel on Information Technology and Broadcasting

Extract from minutes of the meeting held on 4 February 2013

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IV. Arrangements for the frequency spectrum in the 1.9-2.2 GHz Band upon expiry of the existing frequency assignments for 3G mobile services

(LC Paper No. CB(4)364/12-13(04) -- Administration's paper on arrangements for the frequency spectrum in the 1.9-2.2 GHz Band upon expiry of the existing frequency assignments for 3G mobile services

LC Paper No. CB(4)364/12-13(05) -- Paper on issues relating to arrangements for frequency spectrum prepared by the Legislative Council Secretariat (background brief)

LC Paper No. CB(4)377/12-13(01) -- Administration's paper on arrangements for the frequency spectrum in the 1.9-2.2 GHz Band upon expiry of the existing frequency assignments for 3G mobile services (power-point presentation material))
(tabled at the meeting and subsequently issued via email on 8 February 2013)

Presentation by the Administration

At the invitation of the Chairman, Secretary for Commerce and Economic Development (Communications and Technology) ("SCED") briefed members on the second consultation launched by the Commerce and Economic Development Bureau and the Office of the Communications Authority ("OFCA") on 28 December 2012 concerning the proposed

arrangements for re-assignment of the frequency spectrum in the 1.9 – 2.2 GHz band upon expiry of the existing frequency assignments for third generation ("3G") mobile services in October 2016. Head, Competition and Economic Analysis, OFCA then gave a power-point presentation on the subject. She advised that in formulating the options for re-assignment of the 120 MHz of frequency spectrum in the 1.9 – 2.2 GHz band upon expiry of the existing frequency assignments, the following three options were proposed in the First Consultation Paper to seek views from the industry and interested parties:

- Option 1: An administratively-assigned approach – right of first refusal to be offered to the incumbent 3G operators;
- Option 2: A full-fledged market-based approach – re-auctioning all the spectrum; and
- Option 3: A hybrid between administratively-assigned and market-based approach – right of first refusal to the incumbent 3G operators for them to retain part of the spectrum, while part of the spectrum would be returned to the Communications Authority ("CA") for re-auction.

Head, Competition and Economic Analysis, OFCA further advised that Option 3 had been proposed for further consultation with the industry and interested parties. Details of the briefing and presentation were set out in the Administration's papers (LC Paper No. CB(4)364/12-13(04) and CB(4)377/12-13(01)).

Discussion

Option 2 vs. Option 3

2. Noting that the four incumbent 3G operators, namely CSL Limited, Hong Kong Telecommunications (HKT) Limited, Hutchison Telephone Company Limited and SmarTone Mobile Communications Limited had issued a joint letter dated 1 February 2013 to members of the Panel expressing objection to the proposed Option 3 for re-assignment of the 120 MHz of frequency spectrum in the 1.9 – 2.2 GHz band upon expiry of the existing frequency assignments (tabled at the meeting and subsequently issued vide LC Paper No. CB(4)391/12-13(02)), Mr Charles Peter MOK enquired about the Administration's assessment on Option 2 vis-à-vis Option 3 in terms of the impact on service continuity.

3. Director-General of Communications ("DGC") advised that China

Mobile Hong Kong Company Limited ("China Mobile"), the only mobile network operator ("MNO") which did not have any 3G frequency assignment, had repeatedly indicated its strong interest in acquiring some of the 3G spectrum, and was in support of Option 2, which would put up all 3G spectrum for auction. CA therefore considered that there were clear competing demands for the frequency spectrum in the 1.9 – 2.2 GHz band. Nevertheless, if Option 2 was adopted, the auction outcome would be highly uncertain. The auction might result in a reduction of individual incumbent operators' network capacity to the extent that it would cause degradation of customer services in the form of slower data download speed and a greater number of drop calls, and also weakening or even complete loss of indoor mobile coverage for 3G services. The impact could last for two to three years. In light of the potentially severe and long lasting effect on service quality and especially indoors reception, the Administration considered that there were overriding public policy reasons for it to deviate from the full-fledged market-based approach in re-assigning the frequency spectrum in the 1.9 – 2.2 GHz band.

4. DGC further advised that under Option 3, the incumbent 3G operators could retain two-thirds of the original 3G spectrum in the 1.9 – 2.2 GHz band. This amount of spectrum would enable them to maintain an acceptable level of service quality in respect of most of the existing 3G services. Besides, they would also have the opportunity to take part in the auction to bid for the one third of the spectrum that they had returned to the CA, and to even bid for additional spectrum for building up a contiguous band of 2 x 20 MHz of spectrum, thereby reaping the full potential of the Long Term Evolution-Advanced technology.

5. Noting the view of the four incumbent 3G operators that Option 3 was at odds with the international practice as in the case of the United Kingdom, Australia and New Zealand, where the licences of the incumbent operators were renewed upon their expiry, Ms Claudia MO enquired about the policy rationale behind Option 3.

6. DGC reiterated that in light of the potentially severe and long lasting effect on service quality and reception especially in indoor areas under Option 2 during the transitional period, SCED considered that there were overriding public policy reasons for the Administration to deviate from the full-fledged market-based approach in re-assigning the frequency spectrum in the 1.9 – 2.2 GHz band. On overseas experience, while there were cases of renewal of the spectrum assignments to the incumbents, there were also cases of re-auctioning all the spectrum as in the experience of Ireland and the Netherlands.

Spectrum utilization fee

7. Ms Emily LAU expressed concern about the view of the four incumbent 3G operators that if Option 3 was adopted, the spectrum charging arrangements proposed under the option could make Hong Kong's spectrum utilization fee ("SUF") amongst the highest in the world, which could affect consumers either through higher prices or less innovation or investment.

8. DGC advised that SUF in Hong Kong was determined by auction and it would therefore reflect the full market value of the spectrum. The level of SUF varied among spectrum at different frequency bands. In response to Ms LAU's enquiry, DGC said that other than China Mobile, it was difficult to predict whether any potential new market entrants would be interested in bidding for the returned spectrum as they were not required to express their interest beforehand. There had been occasion in the past whereby a new entrant was successful in obtaining spectrum through auction without giving any prior notice to the Administration about their interest. In any event, China Mobile had already expressed its interest to bid for the 3G spectrum. The Administration was requested by Ms LAU to provide a written response to the joint submission from the four MNOs dated 1 February 2013 regarding arrangements for the frequency spectrum in the 1.9-2.2 GHz band upon expiry of the existing frequency assignments for 3G mobile services.

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(Post-meeting note: The Administration had subsequently advised that as the consultation exercise was still ongoing and the deadline for responses had just been extended to 11 April 2013, the Administration would examine all the views and comments received in mapping out the way forward. The decision on the arrangements on spectrum re-assignment would be announced through a formal Statement as soon as practicable three years before expiry of the current spectrum assignment, viz. by October 2013. The Administration would set out its responses and feedback to the submissions received during the consultation, including those from the incumbent operators, in that Statement, a copy of which would be provided to the Panel once issued.)

Other issues

9. Mr SIN Chung-kai enquired whether the Administration would adopt the same policy consistently with respect to both frequency spectrum for mobile communications services and domestic free television programme services.

10. In response, SCED advised that the Administration was guided by the principles in spectrum management as stipulated in the Spectrum Policy

Framework promulgated by the Government in April 2007 ("the Policy Framework"). The Policy Framework applied to all radio spectrum, including that for broadcasting, and provided, inter alia, that a market-based approach in spectrum management would be used for spectrum wherever the CA considered that there were likely to be competing demands from providers of non-Government services, unless there were overriding public policy reasons to do otherwise. There was thus consistency in spectrum management. DGC added that as the current domestic free TV programme service licences of the Asia Television Limited ("ATV") and Television Broadcasts Limited ("TVB") were due to expire in 2015, the CA would conduct a review of the licences of ATV and TVB later in 2013.

11. In response to Mr YIU Si-wing's enquiry about the service quality of all five existing MNOs (namely, the four incumbent 3G operators and China Mobile) in Hong Kong, DGC advised that the quality of mobile communications services provided by MNOs in Hong Kong ranked amongst the highest in the region and the world. The Administration was satisfied with the overall service quality of all five MNOs. In this connection, Mr LEUNG Kwok-hung expressed concern whether the consumers' personal information was adequately protected by the MNOs, in particular the one with Mainland background. In response, DGC said she was unable to see any relevance of this with the matter under discussion by the Panel.

12. Mr MA Fung-kwok enquired about the possible impact to consumers on service fees as a result of transition from 3G services to 4G services in future. DGC advised that the Administration had all along adopted a technology-neutral approach. MNOs were allowed to freely refarm the frequency spectrum assigned to them for the provision of 2G, 3G or 4G services. Some of the spectrum in the 900 MHz and 1800 MHz bands had been refarmed for the provision of 3G and 4G services respectively. It was not possible for MNOs to force consumers to pay high prices for upgraded services. Ever since the launch of mobile services, charges had been determined by market forces. Hong Kong consumers enjoyed very low telecommunications charges as compared to other major international cities like New York and London.

13. In response to Mr Christopher CHUNG's enquiry about the projected demand for frequency spectrum in the long run, DGC advised that with the robust growth in mobile data traffic, frequency spectrum would continue to face keen competing demands in the foreseeable future.

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