

**Speaking note of Mr Stuart CHIRON of
Hong Kong Telecommunications (HKT) Limited**

The Government's approach of supporting an outcome that will decrease service quality and increase costs is unprecedented and against consumer interests. The only winner is the Treasury as the proposed price for the spectrum is excessively high – only a monopoly like the Government could demand prices this high.

More importantly, the Administration has presented a false choice between Options 1 and 3. They are focusing the debate on these 2 options in order to disguise the proposed excessive prices for spectrum.

Just as with land sales, the Administration should put new spectrum into the market (as they did with the 3G spectrum in 2001) and then allow a secondary trading market to develop. Without a proper secondary spectrum market the Government is attempting to manipulate the market with the wrong regulatory tool – unilaterally imposed and excessively high spectrum prices – with the resulting service quality decline and financial costs being borne by consumers.

Spectrum trading has been discussed since the 1990's – and we have been through extensive consultation exercises on it. And everyone – yes, everyone agrees we should have it! Spectrum trading is global best practice and is supported by the industry. Spectrum trading was endorsed by the Government's consultants in 2006 and was separately endorsed by the Government in the same year, and subsequently in more recent decisions through 2009. We have all been waiting since 2009 for further Administration action. So, if everyone agrees that spectrum trading most

efficiently and flexibly meets new and evolving demands for spectrum, why hasn't the Administration implemented it? ... and why instead have they come up with a scheme that they admit (and want you to support) that will substantially harm users?

The sensible way forward would be to renew the existing licenses and to adopt spectrum trading. This preserves service quality, which must be the prime objective, allows a market-based regime to be finally introduced, and produces a fair return to the Treasury. Indeed it is fair to the industry, consumers and the public interest alike.

OFCA has put forward several myths to support its "hybrid" option. OFCA's first myth is that a significant decline in service quality is acceptable. The truth is that no economy, and especially a market that is services based, can afford a significant decline in telecoms service quality. We need to be going forward, not backward.

OFCA's second myth is that a \$10b or more increase in spectrum costs (which OFCA's hybrid method will create) will not flow through to users. The truth is that prices reflect costs and costs are ultimately borne by users.

OFCA's third myth is that it has a duty to maximize revenues for the Treasury, an entity with massive reserves. The truth is that maximizing revenues is not found in the telecoms statute or in the relevant policy criteria at all. So why introduce a new and substantial tax on consumers?

OFCA's fourth myth is that its proposal would increase competition, efficiency, investment and innovation. The truth is that the facts as

acknowledged by OFCA point in the other direction. Further, OFCA's analysis to the extent that it exists is written in terms of could's, might's, maybe's and possibly's...all of which are pure speculation. There is no real data or analysis supporting OFCA's positions. The reality is that the existing market is generating world best benefits to users, a reality which OFCA generally likes in other settings to take full credit for.

OFCA's fifth myth is that their proposed approach is consistent with global best practices. The truth is that it is not. Renewals at reasonable prices or even for free is global best practice as seen in the UK, USA, Australia, New Zealand, Canada and most of the EU. Not surprisingly, this is done to ensure service continuity. No country has opted for an anti-consumer solution that decreases service quality while at the same time increases costs. Why could anyone in a competitive global marketplace shoot themselves in the foot?

OFCA's "hybrid" option is so fundamentally flawed and so much out of step with world's best practice and the public interest it is shocking that we are forced to spend time discussing it. Why would we embark on such a risky anti-consumer experiment just because a bureaucrat wants to be "creative" or "theoretical".

There is really just one rational way forward: protect service quality through automatic renewals and spectrum trading. We have a truly world-class mobile service in Hong Kong – it is the envy of the world. Why risk it?