

By Fax 3151 7052

Attention: Ms Yue Tin-po, Chief Council Secretary, Legislative Council Panel on Information Technology and Broadcasting ("**ITB Panel**")
[For Distribution to Members of the ITB Panel]

16 October 2013

Dear Sirs,

Re-Assignment of the Spectrum in the 1.9 – 2.2 GHz Band ("3G Spectrum**")**

We refer to previous correspondence and attach a copy of a news article from the South China Morning Post ("**SCMP**") on Sunday, 13 October 2013 which sets out the concerns expressed by the Consumer Council regarding the adoption of Option 3, that is, the CA's and SCED's preferred option of taking one-third of each operator's current 3G spectrum allocation and re-auctioning it.

SCMP News Article

In the article, the Consumer Council appears to share the concerns expressed by certain ITB Panel Members (particularly at the public hearing on 27 March 2013), and by ourselves, about the substantial degradation in customer service which would result from Option 3, such as slower data download speeds and loss of voice service in the MTR.

The Consumer Council also questions (as we have) whether the possible entry of a new network operator as a result of adopting Option 3 would make the market more competitive, when Hong Kong already has one of the most competitive markets in the world. Indeed, there appears to be some confusion about the creation of "additional competition", and that Option 3 may increase competition in the market. To be clear, China Mobile is currently in the mobile market, it provides 2G, 3G and 4G mobile services, and is the second largest service provider by subscribers. Moreover, China Mobile has access to 3G spectrum via MVNO and network sharing arrangements with some of the existing mobile operators. It is therefore a red herring to say that competition will increase if China Mobile obtains 3G spectrum. If China Mobile obtains its own 3G spectrum, that by itself will essentially change nothing as to the level of competition in the short term, other than it being the largest holder of 4G spectrum and may become the largest holder of 3G spectrum under Option 3. This outcome may have not only a negative impact on competition in the mid- to long-term, but it will also fragment spectrum and thus decrease spectrum efficiency and harm consumers.

If additional competition refers to a totally new entrant, then: (a) it will take time for a new network to be built (e.g. 21 ViaNet); (b) a new entrant would more likely than not use this '3G' spectrum for growing 4G services rather than established 3G services; and (c) the market is hyper-competitive and it is less than clear that a new entrant could create an attractive business plan supporting entry as the 6th or 7th operator in a small market. Again, spectrum would be fragmented into smaller and less efficient blocks, decreasing spectrum efficiency and harming consumers.

Request for Special Hearing

The main purpose of this letter is to ask for a special and urgent meeting of the ITB Panel to discuss this vitally important matter, given that the decision of the CA and SCED is scheduled for this month (we believe 21 October), and the Panel has not yet had the opportunity to consider two important consultancy studies which have now been completed concerning the extent of customer service degradation which would result from Option 3. Our attempts to persuade the CA and SCED to postpone the decision-making deadline so that these studies can be properly discussed before the decision is made have not been successful.

Since the Panel's public hearing on 27 March 2013, a number of important developments have taken place:

- You will recall that OFCA's then Deputy Director-General Mr YK Ha informed the Panel at that hearing that OFCA was in the process of appointing a consultant to undertake a detailed study of the extent of customer service degradation which would result from Option 3. We understand that this study (by Network Strategies) was completed in August 2013. However, in spite of repeated requests to disclose its findings, so that LegCo and the public have the chance to consider it before a decision on the choice of options is made, OFCA has refused to do so.
- Given that the scope of the brief given to Network Strategies was too narrow and over-simplistic, we have commissioned and published a report from Plum Consulting, a renowned telecommunications consultancy, on the impact on degradation of service of the adoption of Option 3 and the divergence of Plum's findings compared to those of the CA and SCED, which measured service degradation at only 9%. The estimate of 27% by Plum Consulting is a weighted average across all four networks, but in the worst scenario, an operator which is most reliant on its 3G Spectrum could face a 39% downgrade in service level.
- We have been invited to a meeting with the CA on 19 October 2013 to discuss the Plum Report, but the CA and SCED have still not agreed to release the Network Strategies report, so that a proper discussion can take place before they decide which option to adopt. Nor have they agreed to extend their decision-making deadline to enable such a discussion to take place.

In the circumstances, we would ask for an urgent special public hearing of the ITB Panel before the decision is made. If it is not possible to accommodate this in a very short time frame before the likely handing down of the decision on 21 October 2013, we would respectfully request that the ITB Panel insist that the decision be postponed until the Panel can have such a hearing, receive further material, particularly from Plum Consulting and Network Strategies, and allow other interested parties to submit their comments.

The public are potentially affected to a large degree by service degradation but also by the increased, unnecessary and wasteful cost of reinforcing the 3G networks if the current licensees were to lose part of their spectrum because they are outbid by a fifth operator.

We therefore look forward to hearing from you as soon as possible on whether a special hearing can be convened ahead of the CA and SCED's decision.

Yours faithfully,

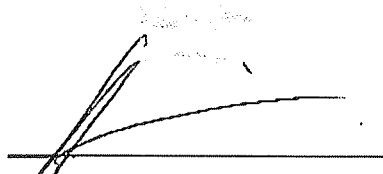
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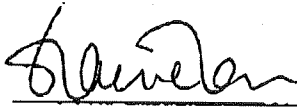
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Warning of disruption to mobile users over expansion of 3G telecom market

Sunday, 13 October, 2013, 12:00am

Business > Companies TELECOMMUNICATIONS

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Consumer chief raises fears over idea to expand city's 3G market, saying that splitting services to allow in another operator could be detrimental

Hong Kong's top consumer rights advocate has described a possible shake-up in the city's 3G mobile market as her "top concern" and questioned the idea that more competition would be a good thing.

Consumer Council chief executive Gilly Wong Fung-han says the potential disruption from splitting services among more operators was worrying because of the huge number of mobile users it could affect.

Speaking publicly for the first time on the issue, Wong told the *Sunday Morning Post* in an exclusive interview: "Right now we have two different stories - from the telecom operators, who say it will be very detrimental, producing a 27 per cent degradation in service, and the government, which says 9 per cent.

"There is a huge difference between the two figures presented to the public."

State-owned giant China Mobile, the world's biggest mobile operator with 750 million customers, said it would be interested in seeking a licence to capture a slice of the 11 million-strong 3G and 4G Hong Kong market.

But the big four 3G mobile operators - HKT (PCCW), SmarTone, CSL (one2free) and 3 Hong Kong (Hutchison Telecom) - have come out against more competition.

One option is to keep the status quo, the second is to put the whole spectrum up for public auction and the third would see an equal share taken from the operators and put to auction, paving the way for a new player.

If more competition is granted, mobile users could be the big losers, facing higher prices and poorer network signals.

The Office for the Communications Authority (Ofca), the industry regulator, will decide whether more competition and a fifth player - possibly China Mobile - is needed by the end of this month.

Wong said: "From a consumer protection standpoint, the school of thought is always having more competition, more choice for consumers and more innovation value.

"People have already said Hong Kong is a highly competitive market. But there is a question mark over whether we can accommodate one more player in the market."

The impact of a fresh competitor and the overhaul of signal distribution would be equivalent to converting the Cross-Harbour road tunnel for MTR use only.

Plum Consulting, a British firm hired by the telecom operators, said it arrived at the 27 per cent figure - weighted across the four networks - after assessing all their infrastructure capacity.

In a worst-case scenario, the operator most reliant on 3G services faced a 39 per cent loss in network signals. But technical experts said the impact on signal quality depended on whether operators were using all available space for 3G services. HSBC research revealed SmarTone "has deep broad-spectrum

holdings and significant excess network capacity". SmarTone declined to comment.

Disruption to output would affect all users connected to 3G, including on 4G, as when it is not available the signal is downgraded to 3G automatically.

It could take 70 seconds longer to download a YouTube video and calls would be prone to more dropouts and static interference.

Peter Koo Heung-shing, a partner at professional services firm Deloitte China, said the mobile market looked "a little saturated". Koo said that with 1.5 phones per customer, the market was already "highly penetrated".

Operators have warned that bills will rise. Alex Arena, group managing director at HKT, the biggest telecommunications operator, previously estimated bills would rise by HK\$360 a year.

Users are already experiencing patchy services on the city's 3G network. One2free 4G customer Josh Tam Siu-hay, 32, said he relied on the 3G network at home in Yuen Long.

"I've had calls drop, and my iPhone says 'call failed,'" Tam said. "A big impact in my service quality would be devastating."

Wong said: "If the direction is to auction some of the spectrum, all measures to minimise the impact to consumers are very important and we have voiced this to the government already."

More on this: [Mobile service overhaul will increase prices, say experts \[1\]](#)

Source URL (retrieved on Oct 15th 2013, 3:28pm):

<http://www.scmp.com/business/companies/article/1330571/warning-disruption-mobile-users-over-expansion-3g-telecom-market>

Links:

[1] <http://www.scmp.com/business/companies/article/1330576/mobile-service-overhaul-will-increase-prices-say-experts>