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STT's Response to OFTA 2nd Consultation Paper on Licensing Framework for Third Generation Mobile Services (3G)

1 Introduction

This submission is made in response to OFTA's invitation for comment in its 2nd Consultation Paper on Licensing Framework for Third Generation Mobile Services dated 3 October 2000. This submission outlines Singapore Technologies Telemedia Pte Ltd (STT)'s views on the specific issues raised by OFTA relating to hybrid auction approach, open network requirements and payment method.

2 STT's Response

- 2.1 STT supports the proposal of OFTA to conduct Pre-qualification follows by Auction to decide on the award of four licences. Each licence is awarded 2x15 MHz paired spectrum unpaired spectrum. Through the pre-qualification process, all applicants are to put in much efforts to prepare their business plan, demonstrating their financial and technical capability and their detailed network rollout, service level and radio coverage. This is the threshold or minimum level before entering into the auction process. It could be a painful process for some applicants, but it is certainly a good step to eliminate the less serious applicants.
- 2.2 STT congratulates OFTA for its decision to implement "Open Network" requirement. With Open Network, there will be more players in Hong Kong overcoming the restriction placed on by the limitation of radio frequency spectrum. It brings about a new business model that encourages competition by differentiation and creativity in service offering. This would stimulate competition at the content and service level. With the introduction of Mobile Virtual Network Operator (MVNO), it provides a viable alternative for non-licensed winners, enabling the entry of small, innovative content and services providers.
- 2.3 However, MVNO is still a new concept, we can appreciate the resistances from incumbent operators. If Open Network Access is not introduced as a new regulatory requirement, it will be very difficult for a new entrant to negotiate commercially with an incumbent operator. STT believes that Open Network Access is a structural evolution for the mobile communications industry and other markets will increasingly adopt it.

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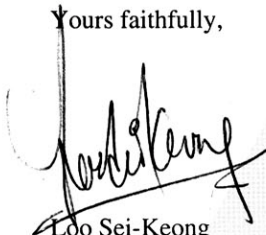
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- 2.4 As MVNO is a new concept, there is no operational statistics available that can be used as a guide to determine the network capacity sharing between the Host Network Operator (HNO) and the MVNO. STT feels that OFTA's suggestion of 30-50% is a good starting point and it is a reasonable value. Through their business operation, the HNO and MVNO would have a better way to determine their network capacity requirements, and both parties could then negotiate and adjust the network capacity requirements based on their operational needs.
- 2.5 The mobile communication industry has evolved to a point where the business opportunity cost is very high for all players. The implementation of radio spectrum auction method by the country regulator aggravates the problem further. Indeed, within the industry, there is warning signal calling for mobile operators to be cautious and not end up with a 3G licence to lose money. This is evident by the recent auction results in some European countries where the auction has fallen below expectations. There is a need to find a balance between the high auction price and a sustainable business. The "Royalty Auction" concept suggested by OFTA is a good way to soften the total business risk. STT believes that an operator will strive to do better if there is a commitment to an annual payment to the Government.
- 2.6 On the wholesale price of the 3G network licenses to MVNOs and resellers, STT supports OFTA's preferred approach of leaving it to commercial negotiation among the parties. Nevertheless, between the "cost-plus" and the "retail-minus" approach, STT would prefer the "retail-minus" approach. This is also the approach adopted in the UK where the government mandated the two leading 2G incumbents (Vodafone and Cellnet) to open their networks to a new fifth 3G operator (Hutchison) on a retail-minus basis. The retail-minus approach is also easier and simpler to work out the prices, since the retail price of the services provided by the network operator and the cost of providing the services are easily established. On the other hand, both the MVNO and HNO will have difficulties in agreeing to the long run average incremental cost in operating the network and providing the conveyance service including an appropriate cost of capital commensurate with the risk of investment in a 3G network.

3 Conclusion

OFTA has given a very clear analysis and good reasoning for its approach to the licensing of 3G network operators. With the mandated Open Network Access, OFTA is setting the trend for an evolution in the cellular industry. STT agrees and supports the proposal of OFTA on Pre-qualification, "Royalty" Auction and Open Network.

Yours faithfully,



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