
City Telecom (HK) Ltd's comment on the Licensing Framework for Third Generation Mobile Services – An industry Consultation Paper

1. Introduction

City Telecom (HK) Ltd (CTI) welcomes OFTA to consult the industry about the licensing framework for Third Generation Mobile Services. In order to ensure sufficient competitions in the coming 3G market, CTI believes that the licensing framework for 3G should be in the direction to

- continue the pro-competition approach in the market;
- encourage innovative idea and aggressive rollout;
- minimize barrier to new entry;
- maximize the number of new and existing operators allow to enter the market;
- encourage re-use of allocated spectrum;
- minimize customer switching cost among 2G and 3G operators .

Based on the above believes, it is our pleasure to provide the following comments for OFTA's consideration.

2. Standards Issues

- With regard to clause 2.9 of the consultation paper:

“The TA intends to open to the prospective operators to use any IMT-2000 standards within their assigned 3G frequency bands for 3G mobile services, subject to the TA being satisfied that the various technical standards are compatible with each other from the users' point of view. The main consideration is to ensure that customers can easily switch from one network to another to obtain similar services and to maximize convenience in using roaming services without having to change the mobile terminals. The TA invites views from the industry on this proposal”

CTI is of the opinion that a technology neutral approach to 3G standards will help to protect the interest of consumer by allowing them a free choice as well as to promote new technology innovation.

3. Spectrum Issues

- With regard to clause 3.8 of the consultation paper:

“To allow existing 2G mobile operators to evolve their networks to 3G and to be in line with the adoption of the technology neutrality policy discussed in paragraphs 2.5-2.98, the TA intends to open to the existing 2G operators, whether they are successful or not in obtaining 3G spectrum, to use any IMT-2000 standards within their assigned 2G frequency bands for 3G mobile services when equipment is commercially available in the market, subject to the TA being satisfied that the various technical standards are compatible with each other from

the users' point of view and that the interest of existing 2G consumers is adequately safeguarded."

CTI supports allowing 3G services in 2G spectrum provided that the technical standards are compatible. It is in line with the view of enhancing competition on 3G services.

- With regard to clause 3.12 of the consultation paper:

"Taking into consideration paragraphs 3.9-3.11, the TA is of the view that Hong Kong should adopt a 3G band plan that is in compliance with the ITU IMT-2000 allocation. Any comment on the issue is welcome"

CTI supports adopting 3G band plan according to the international standard but one should ensure the alignment with Mainland China to minimize interference and roaming issue.

- With regard to Clause 3.19 of the consultation paper:

"Based on the considerations in paragraphs 3.13-3.18, the TA is of the view that a new 3G operator will need 2x15 MHz paired spectrum in order to allow the implementation of three-layer hierarchical cell structure and the provision of full range of 3G services including the high speed multimedia services at 2 Mbps in an indoor environment. For incumbent 2G operators, the TA considers that less spectrum would be required because they can upgrade their 2G systems and use them to provide the macro layer. In this case, the minimum spectrum per existing operator is 2x10 MHz. If the foregoing spectrum allocation is adopted, between four to six licences can be issued for 3G services, depending on the licensing model adopted (see paragraph 4.5 below). The TA invites comments from the industry on the proposed minimum 3G spectrum allocation to new and existing operators."

CTI supports the view that new 3G operators should be allocated with 2x15 MHz while incumbent 2G operators should be allocated with 2x10MHz. This allocation principle will allow not only introduction of new competitor with sufficient bandwidth to compete with incumbent 2G operators; but also providing incentives for incumbent 2G operators to synergy their existing frequency allocated.

- With regard to Clause 3.21 of the consultation paper:

"The TA therefore considers that there may be no immediate need to make a decision on the allocation of the TDD spectrum. However the TA will reserve the TDD spectrum in the 3G band for use by the licensed 3G operators and will further consult these operators when it is timely to allocate this spectrum. The TA invites views from the industry on the proposed allocation of TDD spectrum."

CTI supports the reservation of the TDD spectrum in the 3G band for use by the licensed 3G operators and to consult these operators when it is timely to allocate this spectrum.

4. Licensing Issues

- With regard to Clause 4.3 of the consultation paper:

"In view that 3G technologies may provide the scope for innovative service developments and, as a new entrant would not be constrained by any legacy network elements, it would have more flexibility in developing its network for new service applications and providing

new input to the benefit of the industry and consumers. The TA therefore considers that the introduction of new entrants to the 3G market will be beneficial to market development and to consumers”

CTI supports TA's view of bringing in new entrant to stimulate not only innovative services but also wider choice to customer. In view of the recent abnormal mobile price adjustment in the 2G market, it further supports that bringing in new entrants would secure the competition in mobile broadband services.

- About Clause 4.4 of the consultation paper:

“The TA is therefore of the preliminary view that there are benefits in allowing incumbent operators to bid for the 3G services, but they should not be given any priority over new entrants in the bidding process. Vies and comments are sought on this issue.”

CTI supports TA's view that no priority should not be given to the incumbent in the bidding process, as there is no direct relation or restriction that require customers to use the same operators for both narrowband network and broadband network services. Priority to incumbent operator will simply mean restriction of customer switching to new operator in 3G-market arena.

- With regard to Clause 4.6 of the consultation paper:

“The TA has not yet formed a view on the preference for any one of the above licensing options and would like to seek comments from the industry prior to making a final decision”

CTI is of the view that only option 4 can guarantee

1. the introduction of new entrants to stimulate the growth of the 3G market
2. the incumbent operators to fully utilise their existing frequency for both 2G and 3G purpose
3. the maximum number of both new and incumbent operators allowed with limited bandwidth available (i.e. 2 new entrants + 3 existing operators)

These guarantees will ensure valuable frequency resources being effectively used with more new entrants to ensure a competitive environment that is beneficial to the public. Thus, CTI is of the view that option 4 is the most preferred options as compare to the others.

- With regard to Clause 4.14 of the consultation paper:

“The TA invites comments from industry on his intention to select 3G licensees by evaluation based on merit”

CTI supports TA's view of using evaluation based on merit instead of auctioning in granting licence. It is because CTI is of the view that auctioning will create unnecessary problems as follows:

- Auctioning will forbid innovative and energetic company from participating the 3G network independently.
- Auctioning will allow large corporations to dictate the licences which in turn the future pricing and services availability.
- Auctioning will generate high cost on the part of the operators which would be transferred to the customer in turn. Some may argue that competition will drive down the cost which will limit the transfer. However, owing to fact that only limited spectrum is available, competition cannot be secured with limited number of players. There are extra incentives

- for them to manipulate the market to obtain abnormal profit if the licences are finally dictated by large corporations with minimal network investment and extraordinary pricing.
- Auctioning process will eventually dry down all development investment to just meeting the basic licensing requirement and all those excess investment will be absorbed by the auction price. One may argue that this can be prevented by listing all the requirements in the licence condition. However, it should be noted that in this fast changing industry with actual 3G services have not yet been launched in any place of the world before, it is not possible to foresee all innovative ideas and put down in the license to force the operators to follow. Thus, auctioning will push the successful licencees to maximize their own benefit by meeting only the minimum requirement which may not be beneficial to Hong Kong's information infrastructure. In summary, it will be very difficult to drive them to provide innovative services that are not reflected in their auction price and their minimum condition.
 - Auctioning will also put extra burden on the Government which should be originally be borne by the industry. For instance:
 - The Government has to decide how to invest the telecommunications fund obtained from the industry through auctioning which originally should be used by the industry in investing in the telecommunications infrastructure.
 - The Government will realise long-term telecommunications development into short-term benefits, which move away from its original vision on telecommunications policy. The industry will then be less vulnerable to economic changes. The unpleasant experience in the property industry and taxi industry, that deploying auctioning process in granting lands and taxi licences, provides strong support on the argument.

Thus, CTI is of the opinion that auctioning of 3G licences is not to the long-term interest of the public, government and Hong Kong's telecommunications industry.

5. Regulatory Issues

- With regard to Clause 5.7 of the consultation paper:

"The 3G mobile systems have the capability of providing broadband multimedia services. It is expected that the scope of services that will be provided by 3G platforms will be substantially more extensive than that of the 2G platform. As the operation and the scope of the 3G services are significantly different, the TA would like to seek the views of the industry on whether the 3G services should be regulated under a similar regulatory framework as that for the mobile telephone services at present. In particular, the TA invites views on whether any safeguarding measures should be introduced or strengthened to preserve effective competition in the 3G market."

Similar to that experience in narrow band network, interconnection and facilities sharing will still be the main issue concerning the effective competition on broadband network.

- With regard to Clause 5.12 of the consultation paper:

"The TA would like to seek views and comments from the industry on the necessity to maintain a regulatory distinction between the fixed services and the mobile services and whether there is a need to maintain separate forms of licences for the FTNS and mobile telephone services."

CTI prefers the distinction between FTNS and mobile telephone services should be maintained until merging of the two begins.

- With regard to Clauses 5.13 and 5.14 of the consultation paper:

“The TA invites views from the industry before deciding on whether such an obligation should be imposed on the 2G network operators if they are successful in obtaining 3G licences, and if so, whether such an obligation should be a short-term one and the applicable charging principles.” And “The TA invites views from the industry on whether such a roaming arrangement from 2G networks to 3G networks should be implemented. The TA would also like to seek views on the technical and commercial implications of such a roaming arrangement and whether there are technical and operational difficulties in roaming from 2G to 3G networks.”

CTI supports roaming arrangement from 2G to 3G should be imposed and charging principle should be on cost based in order to allow passing the maximum benefit to the end customers.

- With regard to Clause 5.18 of the consultation paper:

“The TA invites views and comments from the industry on the concept of separating service provision from network operation and whether it should be implemented in the 3G mobile services”

CTI is open on the issue of separate service provision from network operation so far it benefits the industry and the public.

- With regard to Clause 5.19 and 5.20 of the consultation paper:

“The TA intends to set out MNP as a mandatory requirement in the licensing conditions of the forthcoming 3G licences” and “The TA intends to allocate the leading digit “6” primarily for 3G services”

CTI is open to the above issues so far it benefits the industry and the public.