

Submission for the Consultation on Licensing Framework for Third Generation Mobile Services

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Licensing 3G: Services, not networks

Introduction

The discussion about licensing operators for 3G in Hong Kong has been a lively one, with good reason: cellular is the one hi-tech industry where Hong Kong has skills and technology equal to the best in the world. Successful implementation of next generation cellular is critical for Hong Kong's future economic growth and competitiveness. This paper canvasses an approach to licensing which recognises the business and technology complexity of broadband cellular as well as the strengths of the 'auction' and 'merit' selection processes.

Background/Objectives

The prime objectives for introducing 3G should be:

1. To ensure Hong Kong mobile phone users have access to the best available cellular technology and services ;
2. To further stimulate development of an already-sophisticated local cellular industry in order to create more jobs and investment.

A third point, which should be implicit in all public policy deliberations, is that the public interest should be safeguarded if not advanced. Certainly, public interest would be met by maximising fair financial return. An auction of radio frequencies could be an effective way of doing this, but this approach appears to have little support in the government and especially, the existing operators. Accordingly, the following approach is suggested:

Licensing networks and 'virtual operators'

It is proposed that OFTA separate the networks from the services. In addition to three or four 3G networks, it licenses up to 20 'virtual operators' (MVNOs), or service providers, who can sell services to consumers on the basis of capacity wholesaled by the network operators.

The key terms would be as follow:

- i) Would-be operators must apply for licenses separately
- ii) Bidders may apply for, and operate, both, but they must do so through structurally separate companies and must provide access to their networks on a non-discriminatory basis.
- iii) Network operators be prohibited from controlling more than one-third of the services market (as determined by number of customers and/or gross revenues)
- iv) Network operators would be prohibited from forcing service providers into long-term contracts; no more than two years.
- v) Service providers would not be limited in the number of networks they can lease from
- vi) The current licensing fee continue to be imposed on network operators, at double the present rate.

Selection of MVNOs

An auction is well-suited to the MVNO selection process. Indeed, given the dynamic nature of broadband services, only the market can really make a call on whether a company is suited to offering a service to a cellular customer.

Further, given the relatively large number of licenses, the cost of auctioning for individual companies should not be exorbitant.

Advantages

1. Structurally, this is similar to the current ISP environment: service and content providers create the applications and content. ISPs and carriers provide the transport platforms.
2. This would stimulate competition among both network and service providers, providing incentives for both to invest.
3. A much larger pool of players would be able to enter the market - and not just telecom players. Media companies, ISPs, banks and consumer brands are all possible candidates for 3G service

licences.

4. Competitors would be able to focus on their strengths: either providing technology platforms, or developing and marketing services. Few existing fixed or cellular operators display a facility for both.
5. Network operators will have far broader revenue streams than as 'mere pipe providers'
6. It applies the strengths of both the auction and the beauty contest processes.

Arguments for and against, briefly

It is a more complex structure than the existing market

So is 3G. In fact, this approach decomplexifies the market. Instead of 3G operators providing everything but the handset they are encouraged to focus on their strengths. The delineation already exists in the fixed market There is no evidence for the apparent belief of cellular network operators that they are uniquely capable of bringing mobile content and applications to the masses.

There is still a danger of over-zealous bidding for licenses among service providers.

There is also the danger that Ofta will call it wrongly in its network beauty parade. By applying both methods where they work best we are maximising the potential for bringing innovative and reliable operators and SPs into the market.

Network operators will be 'pipe providers'.

First, there is nothing wrong with this - after all, it is something that network providers can actually do. A number of fixed line companies, such as Level 3, specialise in providing broadband pipes and do well because of spiralling demand. Second, it's not true. Under this structure operators would be able to derive revenue streams from a broad range of platforms: apart from the network comprising the air interfaces, servers switches/routers and gateways, there are billing, customer care, operational support, intelligent network and security platforms, just to name a few.

There is no incentive to invest.

If operators don't invest in their networks, the service providers will quickly move to another.

The services market will be too fragmented between too many players. Between them they may be too small to develop quality broadband content.

There is nothing to stop the service providers from forming mergers and alliances. But it is important to have a larger number of SPs given that the number of operators has reduced.

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