



Achieving Effective Economic and Technical Regulation of Advanced Telecom Services to Foster Industry Growth

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Mobile Services Market in Hong Kong

- Six mobile network operators with ten 2G networks
 - 3 GSM, 6 PCS, 1 CDMA
- Four 3G networks
 - WCDMA
 - operated by incumbent 2G operators
 - licensed in October 2001 through open auctioning
 - launched services in 2004 and 2005
- Number of 2G/3G operators limited by spectrum
- Seven MVNO
 - no upper limit on numbers of operators
 - may commercially reach agreements with 2G or 3G network operators



Mobile Services Market in Hong Kong

- 8.4 million mobile subscribers by October 2005
- 121% penetration
- 20% are advanced mobile services customers
- Almost ubiquitous mobile coverage
- Affordable prices to consumers



Mobile Services Market in Hong Kong

- Mainly voice communications
- Slightly slow take up rate for data services
 - flat rate local telephone services
 - accustomed to voice communication
 - marketing strategies of our mobile operators to compete in voice service
 - as low as US\$5 per month for 500 call minutes, equivalent to flat rate mobile call charge
 - small market, high cost for data call e.g. content development
- Operators have started adjusting marketing strategies
 - offering various data services packages at competitive prices, e.g. 30 US cents per Mbyte



Regulatory Principles and Approaches

- Liberalization and competition
- Light-handed approach that relies on market forces
- Regulatory intervention unless the market fails
- All investment market driven without government ownership or subsidy
- No foreign ownership restriction
- Selection: moving from “beauty contest” to market mechanism



Regulatory Principles and Approaches

- Market entry and exit facilitated by mergers and acquisitions (M&A) legislation, a clear framework for the investors to consider investment
- Regulatory intervention only if M&A would substantially lessen competition
- Recent M&A activities in Hong Kong market
 - PCCW acquired shareholdings in SUNDAY in July 2005
 - China Mobile acquires shareholdings in Peoples in Jan 2006
 - A proposed transaction whereby a JV company will own CSL and New World PCS



Regulatory Principles and Approaches

- Fair competing environment
- Regulatory framework conforms to the best practices
 - Reference Paper in the WTO telecommunications agreement
- Transparent and based on law
- Independent regulator
- Building blocks of a fair regulatory system implemented
 - e.g. a cost-based interconnection regime, mobile number portability, sharing of bottleneck facilities, access to limited resources, fair competition provisions, etc.



Our Mobile Market too Competitive?

- Disagree that competitiveness should dampen investment incentive
- Consideration for investment decisions
 - Investors' own commercial decision to enter or exit the market.
 - Fair regulatory framework in place to ensure fair competition in market
 - Recoup investment with the expected return



Attributes to a good investment environment for mobile services

- High GDP per capita: US\$29,000
- A capital for regional headquarters/offices
- A regional centre for financial services, logistics, tourism and professional services
- Geographic location, infrastructure, rule of law, clean government, simple and low tax regime (16% of revenue), free flow of information, talents, entrepreneurship, etc.
- Society is moving to a knowledge-based and high value-added economy



Effective competition will not deter investment

- Competitive prices need not be a deterrent for investment
- Returns commensurate with risk
- Legislation in place to guard against predatory pricing
- Effective competition leads to prices that cover costs including the cost of capital
- Effective competition prevents excessive prices



Open Network Access Policy

- Mandate open network policy for 3G networks
- Introduce greater competition at the content, application and service level
- Preserve sufficient investment incentives for licensees to roll out their network
- Enable non-network operators to participate in the 3G market



Open Network Access Policy

- Must open up to 30% of 3G network capacity for use by non-affiliated service providers on a non-discriminatory basis
- Encourage small and medium sized content and service providers to develop innovative and interactive multi-media services
- Facilitate the convergence of the mobile phone market with the fast expanding content provision market



Major Reviews on Policy and Regulation

- Review on fixed-mobile convergence
- Review on spectrum policy and management



Fixed Mobile Convergence

- Blurred boundaries
 - telecommunications and broadcasting markets
 - mobile and fixed services markets
- Capability of providing multi-play services
 - e.g. Cable TV network - VoIP, broadband Internet, TV
 - Fixed network - broadband Internet services, IPTV services
 - 3G network - mobile voice services, mobile broadband Internet access,
 - Future terrestrial UHF digital TV network - TV, telecom services, mobile TV



Fixed Mobile Convergence

- Availability of integrated customer premises equipment
 - e.g. computer with multimedia players, GSM/Wi Fi handsets, GSM/DVB handsets
- Converged service platforms
 - e.g. fixed and mobile services delivered by broadband wireless technologies, IP multimedia sub-system
- Convergence of market segments which are previously separate market segments



Fixed Mobile Convergence

- At present, different fixed and mobile regulation e.g.
 - fixed number portability and mobile number portability, but no fixed-mobile number portability
 - asymmetrical interconnection charge payment between mobile and fixed operators
 - different access right to buildings



Fixed Mobile Convergence

- Advent in technologies calls for review of our separate mobile and fixed regulatory regime
- Lift of the fixed mobile boundary
 - may lead to new and innovative services
 - bring convenience to users and generate value to operators
- Conducting a review on the regulatory changes for the fixed mobile convergence



Spectrum Policy Review

- “Command and control” approach in managing radio spectrum
- Held the first spectrum auction in 2001 in relation to 3G services
- Not sufficiently responsive to the dynamic needs of the market?
 - Await regulator’s decisions in allocating spectrum e.g. BWA spectrum
- Is market-based mechanism a better way to allocate spectrum, to value spectrum and to promote efficient use of the resource?



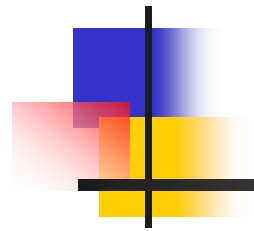
Spectrum Policy Review

- The objective is to formulate a responsive and transparent spectrum policy to enable the community to reap the maximum benefits from the deployment of spectrum
 - Spectrum trading and/or liberalization
 - Facilitating the introduction of new and innovative radiocommunications services



Consultation

- Duty of regulator to minimize the regulatory risks to be faced by the operators
- Need to make sure that the regulation is clear, predictable and transparent. Any change in regulation to cope with technological and market developments will only be made after proper consultation with the parties affected
- Regulator and industry player should maintain close dialogue and exchange views
- Industry players be given opportunities to express concerns and participate to shape the regulatory evolution



Thank you
