Speech by Mr M H Au,
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"Hong Kong as Asia's Wireless Development Centre"
Organized by Telecoms InfoTechnology Forum and
Hong Kong Wireless Development Centre

Mobile Contents and Applications
- Hong Kong's Telecoms Advantage

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Good afternoon, Ladies and Gentlemen,

Two days ago, I was speaking at a Broadband Workshop organised by the APEC Telecommunications and Information Working Group. Dr John Ure was also one of the speakers. The Chair-lady in her summary of the discussions echoed the views expressed in the Workshop that the three most important factors for broadband to take off were "price, price, price". For mobile data services, I think the corresponding set of three factors is "applications, applications, applications". In this context, "applications" include the delivery of contents.

The three ingredients of success for mobile data services that I identified in a seminar on MMS in May 2002 were:

- Availability of handsets that are suitable for the display of multimedia content;
- Tariffs that are affordable and readily understood by users;
- Availability of services, contents and applications that users are prepared to pay for.

Two years later, it seems that we have made some progress in all of these factors.

There is no shortage of choice in the market for appealing handsets with larger and colour screens, larger memories and a host of supporting functions for multimedia contents and applications.

The launch of 3G networks and the capacity that comes with them provide opportunity for the transmission charge per unit volume of mobile data to fall by least one order compared with 2.5G services.

The most important factor now is to exploit the handset capability and network capacity by launching more contents and applications to attract the users to pay a little bit more for the mobile data services.

When I read articles in the media and discussed with members of the industry, the standard "complaint" is that the Hong Kong is too small and therefore the contents and applications providers need to develop markets outside Hong Kong in order to provide them with commercial incentive and economy of scale.

I do not disagree that Hong Kong developers of contents and applications need to set their sight on the bigger markets outside Hong Kong. However, should our developers not also strive to establish a strong presence in Hong Kong to demonstrate their capability to the overseas customers? After all it is the taste of the local customers that our developers know best.

In promoting the development of contents and applications for the local market, the Government's role is to provide a conducive environment for this to happen. The support of the Hong Kong Wireless Development Centre is part of the effort of the Government to help the contents and applications developers to test their products on the different handsets and different platforms of mobile network operators in Hong Kong.

We have also specified the "open network access" obligation on all 3G network licences issued in October 2001. Under this obligation, each 3G network operator has to open at least 30% of its network capacity to non-affiliated contents and applications providers.

Last week, we have issued the second consultation paper on the licencing of the spectrum in the 2G bands (800 MHz, 900 MHz and 1.7-1.9 GHz bands) when the current licences expire in 2005 and 2006. We have also proposed similar “open network access” obligation on the nine GSM licences to be offered to the existing six licensees given the “right of first refusal”. For the proposed new licence in the 800 MHz band for which we intend to invite open bids, we have also included this “open network access” requirement.

Through “open network access”, we aim to enable the contents and applications providers who are not affiliated with any mobile network operator to be given an opportunity to reach their customers with the minimum of hassle. To fulfil this obligation, the network operators have to publish tariffs for the provision of network services to deliver the contents and applications of the non-affiliated providers to their customers. Because the terms and conditions for such services are transparent, the contents and applications providers need not spend time to negotiate with the network operators for putting their products onto the networks. There is also a recourse to the regulator if the published terms are discriminatory, unfair or anti-competitive. This provides certainty for the contents and applications providers and they can spend their resources in the design and development of their products, the areas which most of their time and resources should rightly be spent on. To the network operators, it represents a “win-win” situation as the more non-affiliated contents and applications providers use the networks for the delivery, the more service charges will be collected by the network operators.

Why are we so insistent on the “open network access”? When we look at the experience in Japan and South Korea, the two markets in which mobile data services have achieved more success than other countries, we note the importance of choice of contents and applications. According to the website of one Japanese operator, there are over 4,000 sites accessible from the operator’s portal and there are over 70,000 “independent” sites accessible by the customers. This is in stark contrast to the number of sites accessible to Hong Kong mobile customers at present. The other Japanese and Korean operators who have not adopted the model of that particular Japanese operator still mention hundreds of sites or channels for customers to choose.

Can we not simply leave it to the market to achieve “open network access”? We consider that we need to retain the obligation under the licence conditions because the mobile network operators themselves would be offering contents and applications to retail customers and there could be incentive for them to block the non-affiliated providers to weaken their competitive position in the market. We welcome commercial offers by the mobile network operators to provide the network capacity to the non-affiliated contents and applications providers. If the terms offered by the network operators are fair and non-discriminatory, we, as the regulator, would be quite happy to leave the matter to the market alone. It is only when we consider that the market is ineffective to sort the matter out that we would invoke the licence condition on the "open network access" obligation.

Apart from "open network access" under the licences for the 2G spectrum, we have proposed a measure to stimulate a more vibrant mobile data market in Hong Kong. We have proposed to use the spectrum vacated in the 800 MHz band to license a new network which potentially could offer innovative mobile data services that have proven success in other countries, namely South Korea and Japan.

I should emphasize at this point that the proposals in the second consultation paper are just proposals, not decisions. These are proposals for consultation. Naturally we expect support of and objection to the proposals. We welcome all views and we urge interested parties to submit their views to us before 30 April 2004, the closing date of the consultation. All views will be carefully considered before we take the final decisions.

Some operators have expressed concern about the possible addition of one new operator to the already intensely competitive mobile market with six operators, four of which have 3G licences.

I wish to make it very clear that the objective of the new licence which would prescribe stringent conditions on quality and variety of services would be to enable the introduction of advanced and innovative mobile services to benefit consumers, spawn new industries and enhance Hong Kong's status as a mobile services hub in Asia.

We have carefully considered the other option of not opening the spectrum for another network. We have decided against proposing this option because it would be closing the market just to protect the existing operators. We do not take the administrative decision that there should be a new operator. *In fact, we have not specified the number of operators in Hong Kong.*

We just propose to offer the opportunity to the potential investors. We have heard expression of interest from a number of potential investors who are willing to consider coming into our market. It is for them to judge whether they can still establish a viable business case before deciding to bid for the new licence. Existing operators can also bid. Therefore we did not specify the seventh mobile licensee or a fifth 3G licensee. If potential investors are willing to invest in the Hong Kong market and such investment would generate employment opportunity and other economic benefits, there is little reason for us to exclude them from the market.

The critiques said that *the Government has decided* that Hong Kong needs a fifth 3G licences and needs a system based on the cdma2000 standard. This is plainly wrong. It is precisely because we do not think it is appropriate for Government to take these decisions that we propose to leave the decision to the market. If the Government should propose that the market were to be reserved for the four existing 3G licensees, *is the Government not deciding that we do not need the fifth 3G licence and the cdma2000 is not suitable for Hong Kong?* What is the basis of these decisions?

The market is open for entry and exit. The recently enacted mergers and acquisitions regulation under the Telecommunications Ordinance provides for a framework for entry into and exit from the market without harming consumer interest. In any open market, entry and exit of operators are normal business decisions and should not be government decisions. The Government's duty is to safeguard consumer interest by maintaining competition in the market.

We have not departed from the technology-neutrality concept. We have only set targets for certain performance related to mobile data service under the new licence because we do not wish to introduce another cheap and cheerful mobile predominately voice service. We wish to introduce a network that would potentially change the landscape of the mobile data market. It is the location of the spectrum, and the commercial equipment availability in that part of the spectrum, and spectrum management considerations such as the need to avoid mutual interference between the radio networks in Hong Kong and the Mainland that would ultimately decide the technical standard to be used in the band.

Some argue that the Government should provide an environment to foster the growth of the four 3G network operators.

The task of the regulator is to protect competition and not competitors. At the time of inviting applications for the 3G licences in 2001, the applicants were fully aware that the Government would not offer new cellular licences before 2005. They were also aware that the existing 2G spectrum may be used for 3G. There is also additional spectrum in the 2.5 – 2.69 GHz band for 3G in the future. They are aware that 3G would compete with Wi-Fi. In due course, they would probably be competing with Wi-Max and IEEE 802.20 technologies. In the more distant future, 4G would come along. No operators in the market can be immune from competition from new technologies. The fixed network operators face substitution of their legacy services by the IP services run over the Next Generation Networks. This is part of the business risks. Associated with the threat, the new market environment also brings new opportunities.

What we have in mind about the new operator, if the market decides that there should be a new operator, is that it would not operate another network predominately used for voice. We expect, and will include licence conditions to ensure, that the new network operator will include the provision mobile data services as a principal part of its market portfolio. These conditions include targets on maximum speed, usage of capacity for data services and coverage of these data services.

We must not view the matter as a zero-sum game. Even if there would be a new operator entering the market, it may not necessarily lead to reduction in the revenue of the existing operators. More mobile data applications and contents would change consumers' expectation and usage patterns of mobile data services. Once a critical mass is reached on the use of mobile data services, the revenue pool would be expanded and all players are going to benefit.

We are talking about a new market - the mobile data market. At present, the number of 2.5 G and 3G users constitutes only about 12% of the mobile customer population. We are happy to see this growing quickly, but still data users represent a small minority of mobile users at present in Hong Kong. In Japan, 90% of users are mobile Internet users. We read reports that data revenue of Hong Kong operators represented generally less than 10% of the total revenue although we have seen the figure of 11% according to a public statement of one operator. In Korea and Japan, such level is in the 20% to 30% region, and these are just the level today.

On the other hand, stagnation of the market under a policy of "protectionism" may not be of interest to the consumers, the operators and the contents and applications providers. Competition spurs both the incumbents and new entrants to invest. Any operator not investing risks being phased out of the market.

I wish to conclude my presentation today by returning to the theme that the organizer wants me to speak on:

- With mobile penetration exceeding 100%, we have a large customer base to which contents and applications may be launched.

- We have a customer base which is accustomed to the high-speed and "always on" capability in broadband access in the offices and homes. They will expect similar capabilities when they are on the move.

- We have included "open network access" obligations in our mobile network licences to provide a certain environment for contents and applications providers to market their products to their customers.

These are the telecom advantages of Hong Kong in becoming a wireless development centre for mobile contents and applications. Let us fully exploit them.

Thank you.

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