

PCCW Limited

Response to Public Consultation on 2007 Digital 21 Strategy

18 December 2006

Dear Sirs,

PCCW is pleased to provide this response to the Office of the Government Chief Information Officer (OGCIO) on the above consultation paper. Our submission provides the viewpoints of a number of business within our corporation representing a cross-section of industry sectors as media broadcasting and ICT.

Overall, PCCW fully endorses the spirit of Digital 21, but stresses that only concrete execution plans and quantifiable success measures can make a significant contribution to Hong Kong's future economic development.

Here we present three specific areas which PCCW would like to highlight for consideration by the OGCIO in further developing the 2007 Digital 21 Strategy: Public Wi-Fi Access, Digital Terrestrial Television, and Cross-border e-Business ecosystem

Public Wi-Fi Access

We applaud the vision of making broadband Internet access available to all citizens in Hong Kong, regardless of whether they are at home or on the move using mobile facilities. Hong Kong needs to move ahead to enable mobile Internet and eventually reaching the stage of ubiquitous broadband communication with seamless mobility over heterogeneous networks.

Hong Kong has made impressive progress on fixed broadband and mobile phone penetration, however there is much room for improvement on mobile Internet. One area that Hong Kong is considerably lacking behind is the deployment of public Wi-Fi service. Public Wi-Fi service has proliferated around the world, with major undertakings in US, Europe and Asia. Examples are:

- In US, 68 municipal Wi-Fi networks are already in operation and deployment is expected to expand to 306 cities and counties under the current projection
- Major initiatives taken by European players like The Cloud and BT
- Taiwan's M-Taiwan project
- Singapore's Wireless@SG initiative

As an international city and regional hub, business travelers and visitors will expect topnotch public Wi-Fi service be available in Hong Kong as well. Unfortunately, the reality is quite different.

Although Hong Kong introduced the public WLAN class licence in February 2003, there was no further major measure from the government to remove the barriers to service providers. The operating environment makes it difficult to sustain the business in long term and provides little incentive for expanding deployment in large scale.

The top challenge for WLAN service providers is the acquisition of locations. Very often owners are unwilling to open up the property for public Wi-Fi service or demanding an excessive fee for the use of location. Hong Kong government is able to help the nascent industry by opening up government property and right-of-way of public assets for Wi-Fi hotspot deployment. In addition,

Hong Kong government is encouraged to handle the land use rights issue in more flexible manner for the deployment of Wi-Fi hotspot at certain public utility installation as well.

The lead taken by Hong Kong government will definitely encourage the community providing more support to the public Wi-Fi service industry.

Implementation Framework for Digital Terrestrial Television (“DTT”)

To promote advanced technology and innovation, we consider that the Government should work out an appropriate arrangement to facilitate the development of mobile television in terms of spectrum distribution and regulation. Understanding that the government will start its public consultation on the development plan in the coming months, we would like to highlight some of the issues here.

Currently, out of the five channels available in Hong Kong for DTT broadcasting, the incumbent free-to-air television broadcasters will share one of them to migrate their existing free-to-air television service from analogue to a digital transmission format. In addition, each of them will take up one additional channel for new high definition television (HDTV) broadcasting services. The remaining two channels will be assigned at a later stage after the free-to-air television broadcasters have confirmed their technical feasibility for delivering HDTV services.

As can be seen, the current policy on DTT broadcasting unnecessarily favors the free-to-air television broadcasters over the domestic pay television broadcasters. While this favoritism probably stems from the policy being formulated several years ago, it is now appropriate to adopt a policy that is neutral between free-to-air and pay television licensees.

In fact, as the over-riding objective of ensuring a smooth analogue-to-digital migration of existing terrestrial television services has already been achieved using one of the channels, it is unnecessary to go beyond this objective by granting the free-to-air television broadcasters further spectrum to provide HDTV services especially when there are likely to be competing demands for this spectrum. In addition, the fact that separate spectrum has already been reserved for the free-to-air television broadcasters for providing HDTV services clearly suggests that there is no reason to delay other parties from using the two remaining channels to introduce new services such as mobile television. Furthermore, there is no requirement for the two remaining channels to be used to offer exactly the same services as those being tested by the existing free-to-air television broadcasters, i.e. HDTV. A more appropriate approach would be to permit the two remaining channels to be released for immediate use after trial by interested parties. The Government could consider offering the spectrum to interested television service providers based on a competitive bidding process so that the scarce resources are only assigned to those who value it most.

Trials for mobile television services have been completed or are being conducted in many parts of the world. The Government should facilitate the introduction of these new services by addressing related regulatory and spectrum assignment issues. The earlier release of the two channels can ensure that Hong Kong stays at the forefront of service innovation, and that user benefits are maximized.

Cross-border e-Business ecosystem

Hong Kong’s unique positioning to act as e-business hub for China Hong Kong is uniquely suited to operate as an e-business hub to lead China into the age of digitalization and globalization in the 21st century. A number of intrinsic factors supports this positioning. The world-class monetary & financial service environment can easily support international e-business transactions between RMB and foreign currencies (as e-business users prefer to deal in their native currencies). High awareness of international markets and products, a more progressive legal environment that uphold electronic transactions, product innovations and IPR as well as R&D efforts in ecommerce interoperability help to booster self-developed innovation and IPR. As a delivery port, Hong Kong possesses a world class postal and delivery machinery renowned for its efficiency and quality.

However, since both HK and GD governments are pushing digitalization actively, if agreeable cooperation areas are not established, it will quickly evolve into two competing systems.

Expediting an e-business ecosystem infrastructure with robust cross border broadband infrastructure is imperative as a first step to fill this gap. For example, working out how to authenticate each other's digital certificates with the associated legal support would be critically important. Failure to seize the opportunity will lead Hong Kong to suffer from diminishing opportunities in China's e-business growth. According to Yankee "in the next few years, the largest area of [B2B] growth will be [in] Asia, and specifically, China" (Yankee 2006). Yahoo for example recently acquired the Hangzhou-based Alibaba (a B2B-sourcing company), which is expected to more than double its revenue to \$200 million USD this year.

It must be pointed out that connection with the mainland is only a first step, the eventual success of the e-business ecosystem will depend on the number of foreign governments and countries that can be attracted to join and trade, so creating effectively an off-shore business model, leveraging on the low cost of production in the mainland. This help Digital 21 to empower Hong Kong to reach out to the rest of the world, instead of remaining an island. Hong Kong's progressive strength in worldwide standardization activities including e-commerce and e-business interoperability will also elevate its positioning in China's 11th-5 year plan

Importance of e-business in establishing a "leading digital city" Globalization is helping to bring real economic benefits to digitalization leveraging regional differences in cost of production and product pricing. E-business as part of digitalization is the bridge which helps globalization and therefore is integral to any sustainable development plan. Today Hong Kong is increasingly forced to compete with neighboring ports and cities especially in China per physical assets or human resources. Over time China cities will come to the same level of performance as Hong Kong so her advantage will diminish. E-business can help Hong Kong to secure a place in China's future e-business operation mode, which is the biggest growth in the region in the next few years. E-business also help Hong Kong's local business, which is predominantly small business (SMEs), to participate in larger scale economic growth in the region. Without such proactive initiatives these SMEs will find it very difficult to initiate or sustain business.

On behalf of the PCCW Group and affiliated industries we wish you every success in formulating the final version of the 2007 Digital 21 Strategy and transitioning Hong Kong to centre stage as a leading digital city.

Yours faithfully,

Jack So