

## **Mobile Admin Fee set to rise substantially unless monopoly rents are curbed**

**HKT (SEHK:6823) – HONG KONG, December 21, 2016** – HKT today issues a paper to explain the Admin Fee charged by mobile service providers and the cost drivers of the Admin Fee.

The Admin Fee has been in place since 2001 to allow mobile service providers to pass through to consumers the monopoly rents being extracted by the Government, the MTR and road tunnel operators. Although mobile service operators increased the Admin Fee in 2006 and 2014 to respond to the continuing increases in the monopoly rents, operators struggle to recover the full costs via the Admin Fee.

HKT's analysis shows that:

1. The current Admin Fee does not cover HKT's full costs in paying the monopolists' fees and charges; and
2. HKT has been slow to pass the full costs onto its customers. While costs have gone up, HKT's Admin Fee has stayed constant – but inevitably HKT cannot be expected to continue to absorb these cost increases.

It is expected that the Admin Fee will increase significantly because the monopolists insist on extracting higher fees to subsidize their core businesses. On average, road tunnel costs and MTR costs have been increasing by 8% and 10% each year respectively. However, the biggest input cost is spectrum. It is noted that the Government is proposing to increase spectrum costs dramatically and thus keep Hong Kong's spectrum costs as the most expensive in the world and to raise billions of dollars for the Government's consolidated revenue.

In conclusion, these monopoly rents are not trivial - and the largest costs (by a huge margin) are the costs imposed by the Government for spectrum and licence fees. The mobile service providers cannot avoid these costs, nor increases in these costs, hence the Admin Fee is an appropriate and transparent mechanism to pass through these costs to consumers. Unless these monopoly costs are curbed, the industry's Admin Fee will increase substantially in years to come.

Mobile users are invited to read HKT's papers on mobile spectrum at [www.hkt.com](http://www.hkt.com) and to participate in the policy debate on this important matter that will impact mobile users and the Hong Kong economy for decades to come.

The full paper is attached for media information.

- # -

*cont'd ...*

## **About HKT**

HKT (SEHK: 6823) is Hong Kong's premier telecommunications service provider and leading operator in fixed-line, broadband and mobile communication services. It meets the needs of the Hong Kong public and local and international businesses with a wide range of services including local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting, and contact centers.

HKT offers a unique quadruple-play experience in Hong Kong delivering media content on its fixed-line, broadband Internet access and mobile platforms jointly with its parent company, PCCW Limited.

HKT also provides a range of innovative and smart living services beyond connectivity to make the daily lives of customers more convenient, whether they are at home, in the workplace, or on the go.

### **For further information, please contact:**

#### **Stella Wong**

#### **Group Communications**

Tel: +852 2888 2253

Email: [stella.wm.wong@pccw.com](mailto:stella.wm.wong@pccw.com)

#### **Ivan Ho**

#### **Group Communications**

Tel: +852 2883 8747

Email: [ivan.wy.ho@pccw.com](mailto:ivan.wy.ho@pccw.com)

Issued by HKT Limited.

## **The Facts about the Admin Fee – and why Spectrum Costs drive increases in the Admin Fee**

The mobile service providers have added an Admin Fee<sup>1</sup> to monthly service tariffs for years yet the Admin Fee is poorly understood. Through this paper, Hong Kong Telecommunications (HKT) Limited (“HKT”) aims to lift understanding of the Admin Fee among consumers and the community - and to explain the cost drivers of the Admin Fee.

### **Why is there an Admin Fee?**

The mobile telecommunications market has been highly competitive since inception in 1984. In a competitive market, the service providers can use their judgment and commercial negotiations to build their businesses and control their costs and manage their operating margins, e.g. if a landlord of one shop premise demands too much rent then the service provider can find other shop premises instead; if a landlord demands too much rent to locate a mobile cell-site then the service provider can often find an alternative cell site location at a reasonable cost.

However, some costs are unavoidable and are not in the control of the service providers because they are bottleneck resources that are controlled by monopolies (including the Government). The critical costs that fall into this category are:

#### *1. Spectrum fees*

The Government has a monopoly on spectrum planning, assignment and pricing and hence mobile service providers are at the mercy of the Government. Worse still, there is no secondary market in spectrum which allows operators to trade spectrum between themselves because the Government has not yet introduced such regime in Hong Kong (unlike many countries that have introduced spectrum trading). The Government is therefore free to set the reserve prices for spectrum auctions that aim to maximize revenues.

#### *2. Annual licence fees*

These are collected via OFCA and paid to the Government. These annual fees charged by OFCA to each operator are excessive in view of the high returns OFCA continually earns. These returns well exceed OFCA’s annual targeted return as evident from its annual Trading Fund reports.

#### *3. MTR fees*

Mobile service providers are charged fees to access, install and maintain network in the MTR. In Hong Kong, consumers are fortunate to have high quality mobile coverage throughout the MTR rail network (including in the stations, the concourses and throughout the tunnels). Many leading cities in the world (for example, London) have zero mobile or very limited coverage in their underground rail networks. However, the MTR is a monopoly and mobile service providers have extremely weak negotiating power when it comes to fees and charges levied by the MTR. As a result, these fees are high.

*cont'd ...*

<sup>1</sup> Shown on mobile bills as the “MTR/Tunnels/Mobile License/Adm fee” or “Mobile Service Licence and Admin Fee”.

#### 4. Tunnel fees

Mobile service providers are charged fees to access, install and maintain network in the various road tunnels in Hong Kong. These tunnels are operated by several different operators but each operator has a monopoly over its tunnel. Again, these monopoly road tunnel operators extract monopoly fees and charges from mobile service providers.

Consumers in Hong Kong have come to expect mobile coverage throughout Hong Kong - including unbroken coverage throughout the MTR and in passing through the road tunnels. OFCA expects the mobile service providers to meet consumer expectations yet OFCA does little to assist in squeezing down the monopoly rents extracted by the above monopolists.

Given that the mobile service providers cannot control these monopoly fees and charges the industry created the Admin Fee to cover these costs.

#### Historical Movement in the Admin Fee

Chart 1 below gives the historic movement in the Admin Fee. The Admin Fee was first levied by mobile service providers at \$10 per customer per month in 2001. Since then, it has increased twice; firstly to \$12 in 2006, and then to \$18 in 2014.

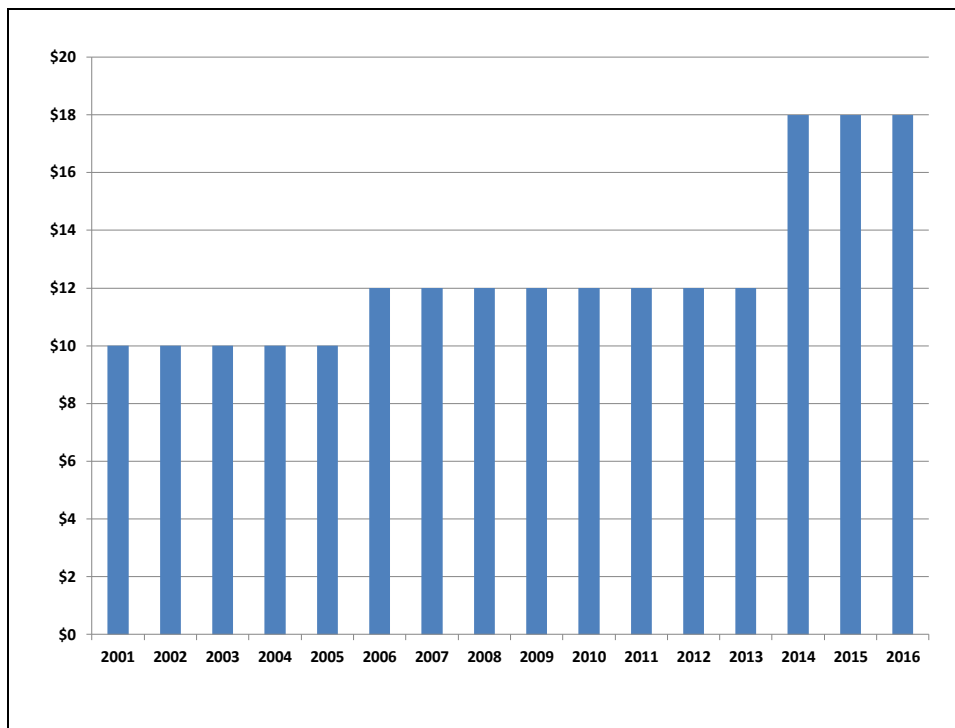


Chart 1: Historical movement in the Admin Fee

The increases in the Admin Fee were necessary to respond to continuing increases in the monopoly fees discussed above. The composition of HKT's current costs that are supposed to be covered by the Admin Fee is shown in Chart 2 below.

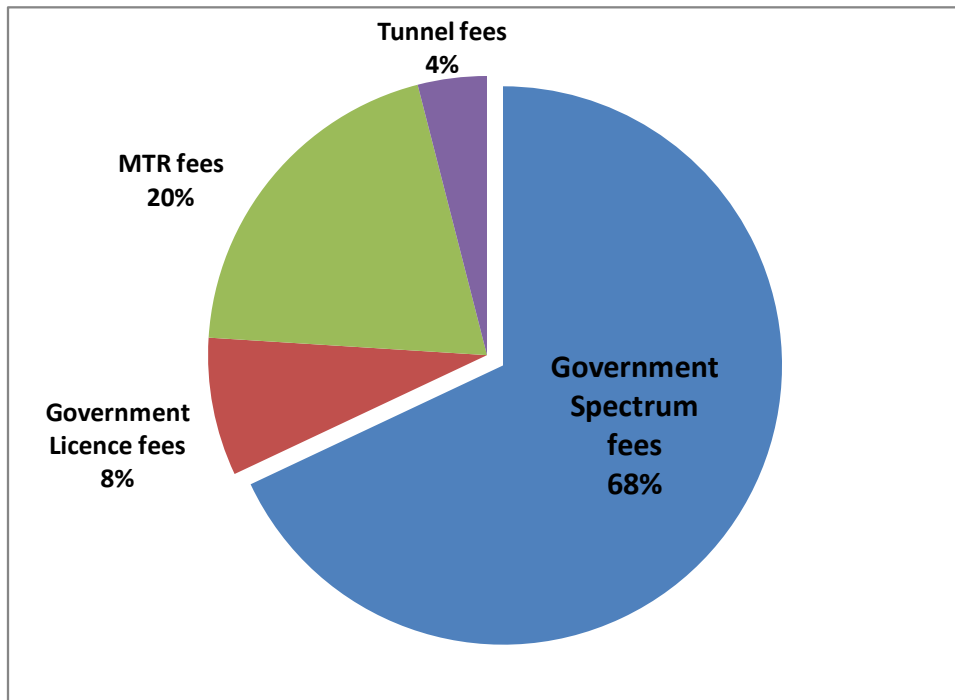


Chart 2: Composition of HKT's costs to be covered by the Admin Fee

As can be seen from Chart 2, the biggest monopoly cost is Government spectrum fees. These costs make up 68% of the monopolist costs,

Chart 3 below shows how HKT's costs paid to monopolies have increased over the years and how these costs compare to the Admin Fee levied by HKT to recover these costs.

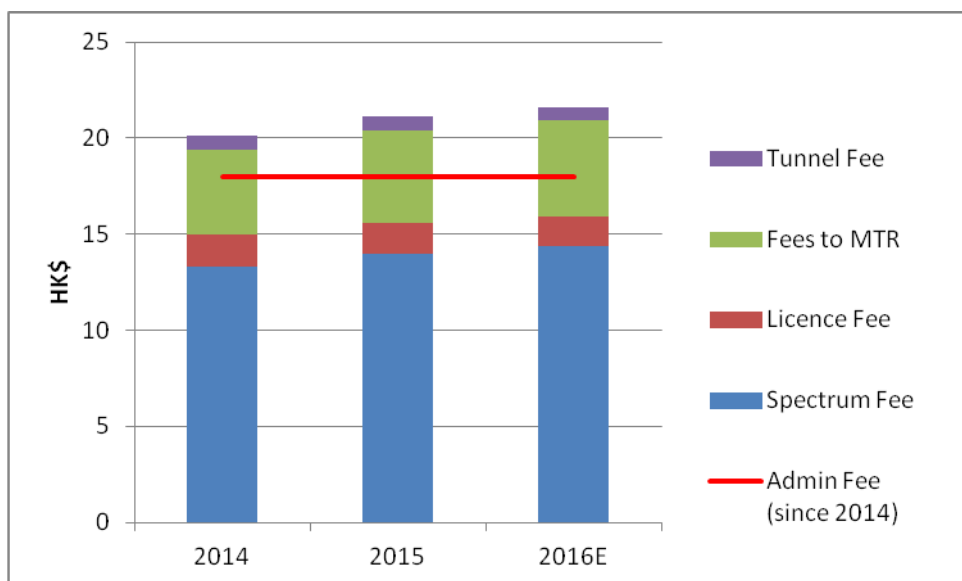


Chart 3: Monopoly fees over the years compared to Admin Fee

Two things are obvious:

1. The current Admin Fee does not cover HKT's full costs in paying the monopolists' fees and charges; and
2. HKT has been slow to pass the full costs onto its customers. While costs have gone up, HKT's Admin Fee has stayed constant - but inevitably HKT cannot be expected to continue to absorb these cost increases.

Since the monopolists levy the same scale of fees and charges on all operators, HKT is not in a unique position. Indeed, because HKT has the biggest customer base it is quite likely that HKT's costs per customer are actually lower than the other mobile service providers - yet even HKT struggles to recover the monopolists fees and charges via the Admin Fee.

### **Future Movements in the Admin Fee**

It is not difficult to determine the direction and quantum of future Admin Fees. Clearly, Admin Fees will increase because the monopolists insist on extracting higher fees and use these to subsidise their core businesses.

Road tunnel fees will increase as the tunnel operators extract new charges because of more road tunnels being built (e.g. the Central–Wanchai bypass and the Tuen Mun to Airport sub-sea tunnel) and as new network is built as technology develops (e.g. 4G and 5G). Also, the road tunnel operators have been increasing charges at the end of each rent review period. On average, road tunnel costs have been increasing by 8% each year.

The MTR is also expanding its network (e.g. the South Island line, the Shatin Link) plus new 4G infrastructure is being expanded throughout the stations, concourses and tunnels; and a whole new round of costs will need to be incurred with the advent of 5G. On average, MTR costs have been increasing by 10% each year.

However, the biggest input cost is spectrum. The next spectrum auction is expected to take place before 2020 for the 900MHz and 1800MHz spectrum currently being used by the mobile service providers. OFCA's first consultation paper issued earlier in 2016 gave the Government's expectations of the reserve prices it would set for this auction. Obviously, the Government is proposing to increase spectrum costs dramatically and thus keep Hong Kong's spectrum costs as the most expensive in the world and to raise billions of dollars for the Government's consolidated revenue. Based on the Government's proposed reserve prices, it is expected to raise at least \$10.8 billion from the auction of the 900MHz and 1800MHz spectrum. The actual amount raised could be much higher.

*cont'd ...*

Taking the above cost increases into account, HKT expects that the costs from the monopolists above to rise as per Chart 4 below.

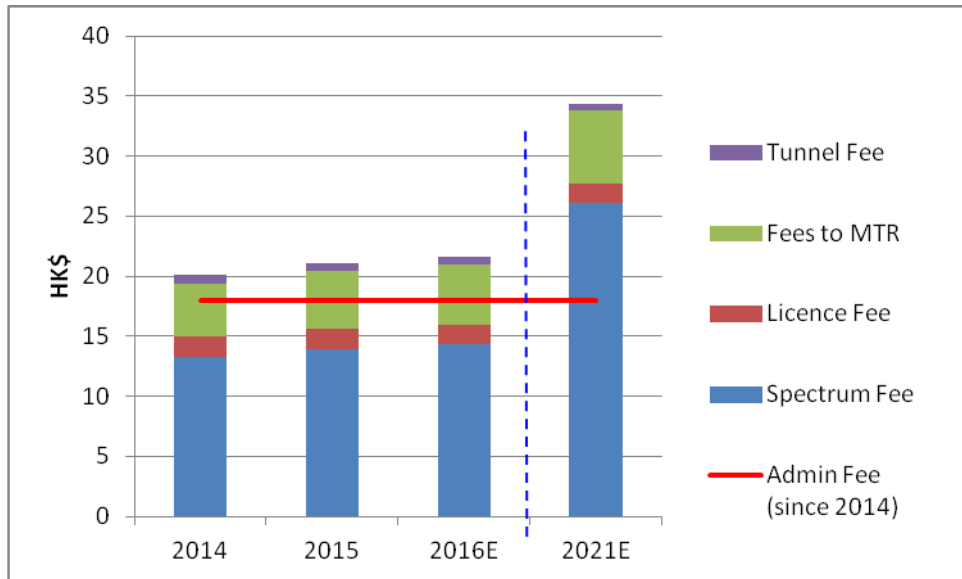


Chart 4: Projected monopoly fees

As can be seen from Chart 4 all operators will need to increase the Admin Fee to cover the monopoly rents extracted by the Government for spectrum and licence fees, the MTR and the road tunnel operators. It is also clear that the Government spectrum fees drive the biggest increases in the costs and that the current \$18/month Admin Fee will not even cover the spectrum costs on their own.

## Conclusion

The Admin Fee has been in place for years to allow the mobile service providers to pass through to consumers the monopoly rents being extracted by the Government, the MTR and road tunnel operators. These monopoly rents are not trivial - and the largest costs (by a huge margin) are the costs imposed by the Government for spectrum and licence fees. The mobile service providers cannot avoid these costs, nor increases in these costs, hence the Admin Fee is an appropriate and transparent mechanism to pass through these costs to consumers. Unless these monopoly costs are curbed, the industry's Admin Fee will increase substantially in years to come.