

February 5, 2007



Economic Development Branch (Division A)
Economic Development and Labour Bureau
2/F, Main Wing, Central Government Offices
Lower Albert Road
Central, Hong Kong
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Re: Consultation on the way forward for competition policy in Hong Kong

Dear Sir/ Madame,

STAR Group Limited (STAR) appreciates this opportunity to comment on the Government of Hong Kong (the Government)'s public discussion document on the way forward for competition policy in Hong Kong, "Promoting Competition – Maintaining our Economic Drive" (the Consultation Paper).

STAR is a leading media and entertainment company in Asia providing over 50 television channels in nine languages to more than 300 million viewers throughout the region and beyond. Hong Kong serves as STAR's pan-Asia headquarters for corporate and broadcasting functions. We have a substantial presence in Hong Kong's pay TV industry currently providing 18 channels across several genres including general entertainment (Star World, Xing Kong, Star Plus), movies (Star Chinese Movies, Star Movies), music (Chanel [V]), sports (ESPN, Star Sports), documentary (National Geographic Channel, National Geographic Wild, A1), as well as news and current affairs (Fox News, Sky News, Phoenix InfoNews Channel).

In this submission, we will comment on the following:

- The growth and development of Hong Kong's Pay TV market under the existing competition law framework
- General comments on the Consultation paper

Competition provisions and the pay TV Industry in Hong Kong

Hong Kong ended cable's monopoly in 2000 with the issuance of new Pay TV licenses to several new competing platforms. Since then, Hong Kong's Pay TV industry, operating under the competition provisions of the Broadcasting and Telecommunications Ordinance, has enjoyed a period of significant growth in investment, consumer choice, and provision of advanced services.

During this period of time, for instance, overall Pay TV Penetration of TV homes has increased from 26% (or 522,000 subscribers) in 2000 to 63% (or 1.4 million subscribers) in 2006 and penetration is expected to reach 77% in 2010. In addition, the number of domestic Pay TV channels available to viewers also increased significantly from 32 channels in 2000 to 207 channels in 2005 via three operators. Furthermore, average investment levels from



2001 to 2004 reached USD 393 million¹. From consumers' perspective, they are seeing significant price competition and an increasing focus on bundled broadband Pay TV services. Different pricing models are also available to consumers such as a-la-carte service packaging, and on-demand services.

All of the above indicates that the Hong Kong Pay TV market is vibrant and thriving where competing players continue to invest in high quality content, and consumers benefit from a wide range of local and foreign programs at prices reasonably constrained by competitive forces in the market. We believe that these impressive growth results attest to the Government and the Broadcasting Authority's commendable effort in nurturing the right market environment where players and consumers can enjoy the benefits of competition.

Our view is shared by the Cable and Satellite Broadcasting Association of Asia (Casbaa) in its 2005 study on effective regulation of the Pay TV Industry in the Asia-Pacific region. In this study, Hong Kong received the highest ranking in the evaluation of regulatory practices of any market in the Asia Pacific region. The study concluded that "Hong Kong's regulatory framework is determined by market mechanisms and professional, evenhanded regulators. This, together with liberalization and a level playing field for competition, has meant that Hong Kong's consumers enjoy the highest level of choice and greatest variety of programming of any in the Asia Pacific"².

Media Partners Asia, a leading market research firm, holds a similar view, observing that, "[c]ompetition, investment in content and distribution, and a supportive regulatory framework continue to drive the market for pay-TV and broadband in Hong Kong"³.

We congratulate the Government and the Broadcasting Authority in its contribution to the growth and development of the Pay TV industry thus far. As Hong Kong considers the way forward in formulating its competition policy, we believe it is instructive to assess the lessons learned in the Pay TV market, and ensure that the success achieved in this market will not be jeopardized in the future evolution of Hong Kong's competition policy.

General comments on the Consultation Paper

Cross-sector or sector-specific competition law

Hong Kong currently adopts a sector-specific approach to competition law. Two industry-specific regulators, the Broadcasting Authority (BA) and the Office of Telecommunications Authority (OFTA), are responsible for administering their respective competition regimes, with shared jurisdiction in certain instances, including aspects of the Pay TV industry. As discussed in the above section, we are of the view that the current competition framework for Pay TV in Hong Kong is effective and a key driver of the growth of the industry as a whole.

¹ Data source: Media Partners Asia, Casbaa, the Broadcasting Authority Annual Report 2004-2005

² "Regulating for Growth – A Casbaa Study on Effective Regulation of the Pay-TV Industry in the Asia-Pacific Region", Casbaa, October 2006

³ "Asia Pacific Pay TV & Broadband Markets 2006", Media Partners Asia, 2006



We therefore take the view that in whichever approach the Government may decide to adopt, it should strive to preserve and certainly not damage the competition and regulatory regime applicable at present for the pay TV industry.

Should the Government choose to create a generic competition regulator, it is important that the Government provides clarity to the relationship between the sector regulator and the competition authority in light of its policy goals and objectives.

Furthermore, we draw the Government's attention to its consultation paper on the establishment of the Communications Authority in 2006⁴. This paper highlighted the difference between the two competition regimes and proposed a framework to consolidate them under a staged approach. Although the timetable of this process has not been announced, we urge the Government to ensure that the policy directions of both processes be consistent and aligned as they move forward.

To conclude, we commend the Government's effort in undertaking this enormous task to consider the way forward of competition policy in Hong Kong. The issues are complex and intertwined spreading across numerous policy areas and industry sectors. We look forward to providing further input to the Government as it considers these important policies going forward.

Sincerely,

A handwritten signature in black ink, appearing to read "Suzanne Tong".

Suzanne Tong
Associate Vice President
Government Affairs
STAR Group Limited

⁴ "Consultation on the Establishment of the Communications Authority", Communications and Technology Branch, Commerce, Industry and Technology Bureau, March 2006