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Chairman and Members
Information Technology & Broadcasting Panel
Legislative Council
Legco Secretariat
Legco Council Building
8 Jackson Road
Central
Hong Kong

Dear Sirs

Re: Interconnection and Competition Issues

In response to the Chairman's invitation in a letter to us dated 11 January 2001 to make written submissions of our views on interconnection issues, we attach a paper setting out our views on the subject. We have also taken the opportunity to address in our paper the concerns of Panel Members about the extent of service coverage of the new operators following liberalization of the fixed telecommunications market in 1995 and choices available to consumers.

Yours faithfully,
For and on behalf of
Hutchison Global Crossing Limited

Agnes Miu
Director of Legal and Regulatory

Type I Interconnection

The major issues we have on Type 1 interconnect arrangements with HKT are of a nature different from those outlined by New T & T and New World.

In our initial years when our network was still under-developed, we did not have the necessary transmission circuits to effect the desired bilateral Type 1 interconnect arrangements with HKT whereby each party self-provide their own interconnect facilities. Our only option then was to lease from HKT the required transmission circuits.

With the gradual expansion of our network, we are now capable of self-providing such transmission circuits and are in a position to cease our lease arrangements with HKT. Our focus now is, therefore, on the migration of our Type 1 interconnect arrangements with HKT from the transmission circuits leased from HKT to our self-provided facilities. Commercial negotiations with HKT to effect such migration is underway and we expect conclusions some time this year.

The difficulties on Type 1 interconnect arrangements described by New World and New T & T relate to complex issues of traffic forecasts, service ordering, costs recovery arrangements and incentives to HKT to provide adequate switching ports. This subject has been covered in great details with certain proposals for improvements in the Ovum Report on "Review of Forecast of Traffic Volume to meet Traffic Demand of Telecommunications Networks and Services in Hong Kong" released by OFTA on 18 January 2001. We do not see the need to elaborate further here but would support exploring these issues further with other industry players to arrive at satisfactory arrangements.

Type 2 Interconnection

It has always been part of our corporate strategy that we focus on the development of our own network and direct access to customers. As our network coverage expands with time as a result of our heavy capital investment in infrastructure, we are rapidly reducing our dependence on Type 2 interconnection for reaching customers.

Currently, only about 25% of our telephone subscriber's lines utilize Type 2 interconnect arrangements. This compares very well to our 44% reliance in 1999. The difficulties in this area, as expressed by New T & T and New World, now have less of an impact on us.

In any event, our plan is to eventually phase out Type 2 interconnection arrangements. We believe that public interests are better served when FTNS operators compete in the deployment of the latest technology to develop their own infrastructure. It is only when such competition exists that consumers can benefit from having a genuine choice between fixed network providers based on their individual network service quality.

Members concern on service coverage and choice to consumers

Members' attention has been drawn to the fact that after more than five years since liberalization of the fixed telecommunications market, all new operators together enjoy less than 5% of market share. While this has been quoted to illustrate how difficulties encountered by the new operators on interconnection issues has stunted their growth, we are concerned that it should not be read as a lack of achievements of the new operators. We therefore would like to present to you the following.

HKT's present network coverage is the result of over 100 years of construction in an extremely favourable monopoly situation. We are already working at the fastest speed we can on our own network roll-out within all physical and regulatory constraints on us which HKT did not have at their time: e.g. lack of space in existing buildings and man-holes, restrictions on road opening, time needed on commercial negotiations with the incumbent and other FTNS operators on facilities sharing, etc. Within a short time span of 5 years, our achievements are significant:

Building Access - we now have direct PSTN access to over 970 buildings and direct leased line access to over 500 buildings. Before the end of 2002, we will have direct access to over 2000 buildings, i.e. over 25% of the buildings in Hong Kong.

We own and operate 6 telephone exchanges of our own. (note: this figure should not be compared with that of HKT's network which has been based on electrical copper wires. Since our network is 100% optical fibre, it requires a much smaller number of telephone exchanges for optimal efficiency.)

Our network with territory-wide coverage has a total fibre cable length of 2,500 kilometres capable of transmission of telecommunication traffic at the highest speed that the latest technology permits.

Overall effect of liberalization on competition in the market

When assessing how much benefits have resulted from the liberalization of the fixed telecommunications market since 1995, one should not only focus on how much or how little market share the new operators have developed for local residential and commercial fixed line telephony services.

Local fixed line telephony services is only one of the many services provided by a fixed line telecommunications operator. Apart from consumers, fixed line telecommunications operators also serve other telecommunications service providers.

We provide leased lines to mobile service operators for connection between their cell-sites and switches. We provide the necessary bandwidth to internet access service providers for access to the World Wide Web. We provide landing and backhaul services

to cable operators and international carriers. We also provide local leased line services to other FTNS operators and international leased line services to a variety of customers.

As a result of the liberalization, alternative choices for a variety of fixed network service products have become available to these telecommunications service operators. As a result of competition between these alternative sources of supplies, we see all the benefits of competition like decreasing prices and improving service quality. These benefits have helped promote a more healthy operating environment for providers of telecommunications services generally which ultimately benefit consumers.