

For Information
On 12 February 2001

Legislative Council
Information Technology and Broadcasting Panel

Tariff Control for Local Telephone Line Services
after the End of 2001

Background

Under the Framework Agreement concluded in January 1998 between the Hong Kong SAR Government and Hong Kong Telecommunications Limited for the early termination of the exclusive licence for external circuits and services of Hong Kong Telecom International Limited, Hong Kong Telephone Company Limited (now PCCW-HKT Telephone Limited (PCCW-HKTC)) was allowed to increase the tariffs for residential telephone lines to \$90, \$100, \$110 per month as from 1 January 1999, 2000 and 2001 respectively, while no price control arrangement is to be applied to the residential telephone lines provided by PCCW-HKT from 1 January 2002. This Agreement was endorsed by the Provisional Legislative Council.

2. In pursuance of this Agreement, the price control arrangement for local telephone lines of PCCW-HKTC under the Telephone Regulation was repealed as from 1 July 1998. (The ceilings for the prices for residential telephone lines remain subject to the obligations under the Framework Agreement until the end of 2001.)

3. Under the licence issued to PCCW-HKTC, the tariffs of the telephone line services provided by the company are subject to the approval of the Telecommunications Authority (TA) while the company remains as the dominant operator in the market for fixed telephone line services. Under the licence conditions, an application for tariff revision may be rejected only if the application is in breach of the licence conditions prohibiting unauthorized discounts, anti-competitive practices and abuse of dominant position.

4. The reason for lifting the price control for local telephone line services

is that with the liberalization of the market for external services, it would no longer be possible to use the margin from the external services to cross-subsidize the provision of local telephone line services. The prices for the local telephone lines should therefore be gradually raised to cover the costs of provision. This will facilitate the development of healthy competition in the market for local telephone lines. With the progressive liberalisation of the local telecommunications market, competitive forces in the market will be the effective restraint on price increase of competing operators, including PCCW-HKTC. There is no need for regulation to be imposed on the charges for the local telephone line services.

5. In consideration of the extension of the moratorium for the licensing of wireline-based local fixed telecommunications network services (FTNS) until the end of 2002, the three new wireline-based FTNS operators, namely Hutchison Global Crossing Limited (HGC), New T & T Hong Kong Limited (New T & T) and New World Telephone Limited (NWT) have in 1999 submitted Deeds of Undertaking to the Government committing to certain capital investment and network coverage by the end of 2002. These commitments were guaranteed by the provision of performance bond of \$50 million per operator.

6. The coverage of the three new FTNS operators by the end of 2001 and 2002 is given in a separate paper on "coverage of the networks" for the same Panel meeting. By the end of 2002, more than 50% of the residential line customers should have an alternative choice of at least one new FTNS operator.

7. In addition, competition is expected to come from the following services:

- (a) In addition to PCCW-HKTC and the three wireline-based FTNS operators, there are six other local FTNS operators in the market. They have the capability of providing voice telephone services and some have plans to do so.
- (b) The TA will invite applications for licences for wireline-based local FTNS operators within 2001 for operation from 1 January 2003. The entry of new operators into the market will provide restraint to the raising of charges for telephone line services.

- (c) To a certain extent, the very competitive prices of mobile telephone services restrain the increase of charges for residential telephone lines.

8. The work of the TA in the coming year will be to facilitate competition in the provision of local telephone line services, particularly to residential customers. This will include work to facilitate the progress of Type II interconnection to ensure the coverage commitments of the new wireline-based local FTNS operators under their Deeds of Undertaking will be met. Now that the price level of residential telephone lines have been restored to cost level, the TA believes that there should be commercial incentives for the operators to develop the business of supplying residential telephone lines.

9. In conclusion, the TA considers that existing and emerging competition in the market will constrain the ability of PCCW-HKTC in raising the charges for local fixed telephone line services.

Office of the Telecommunications Authority
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