

立法會
Legislative Council

LC Paper No. CB(1)448/01-02
(These minutes have been
seen by the Administration)

Ref : CB1/PL/ITB/1

Legislative Council
Panel on Information Technology and Broadcasting

Minutes of meeting
held on Monday, 12 November 2001, at 2:30 pm
in the Chamber of the Legislative Council Building

- Members present** : Hon SIN Chung-kai (Chairman)
Hon Howard YOUNG, JP (Deputy Chairman)
Hon Kenneth TING Woo-shou, JP
Dr Hon David CHU Yu-lin, JP
Hon Eric LI Ka-cheung, JP
Hon CHAN Kwok-keung
Hon YEUNG Yiu-chung, BBS
Hon Emily LAU Wai-hing, JP
Hon LAW Chi-kwong, JP
Hon Albert CHAN Wai-yip
Hon MA Fung-kwok
- Members absent** : Dr Hon Philip WONG Yu-hong
Hon Timothy FOK Tsun-ting, SBS, JP
- Non-Panel members attending** : Hon Fred LI Wah-ming, JP
- Public officers attending** : Agenda Items IV, V and VI
Mrs Carrie YAU, JP
Secretary for Information Technology and
Broadcasting

Agenda Item IV

Ms Eva CHENG, JP
Deputy Secretary for Information Technology and
Broadcasting (1)

Mr A S K WONG, JP
Director-General of Telecommunications

Mr M H AU, JP
Deputy Director-General of Telecommunications

Ms Gracie FOO
Principal Assistant Secretary for Information
Technology and Broadcasting (E)

Agenda Item V

Mr Michael STONE, JP
E-government Co-ordinator, Information
Technology and Broadcasting Bureau

Ms Joyce TAM
Principal Assistant Secretary (EG), Information
Technology and Broadcasting Bureau

Mr Simon YAN
Assistant Director (E), Information Technology
Services Department

Agenda Item VI

Mr Eddy CHAN, JP
Commissioner for Television and Entertainment
Licensing

Mr PO Pui-leong
Assistant Commissioner for Television
and Entertainment Licensing (Entertainment)

**Attendance by
invitation**

: Agenda Item IV

- Local wireline-based FTNS operators

Hutchison Global Crossing Limited

Mr Peter K.F. WONG
Chief Executive Officer

Ms Agnes MIU
Director of Legal & Regulatory

New World Telephone Limited

Mr Dumas CHOW
General Counsel

Mr Paul HO
Director, Marketing

PCCW-HKT Telephone Limited

Mr Linus W.L. CHEUNG
Deputy Chairman

Mr Stuart E. CHIRON
Director of Regulatory Affairs

Wharf New T&T Limited

Mr Tony CHEUNG
Director, Consumer Market

Ms Agnes TAN
Director, Legal Regulatory & Carrier Affairs

- Local non-wireline-based FTNS operators

Hong Kong Broadband Network Limited

Mr Eric WONG
Associate Director

- External FTNS operators

CLP Telecommunications Limited

Mr Peter HEAVYSIDE
Managing Director

Mr Thomas YAU
Regulatory Manager

FLAG Telecom Asia Limited

Mr Owen BEST
Vice President

Level 3 Communications Limited

Mr Alasdair GRANT
Director, Regulatory and Strategic Affairs, Asia

Mr Ken LIU
Director Regulatory Affairs, Hong Kong

- Concern Group

Hong Kong Consumer Council

Mr Ron CAMERON
Principal Trade Practices Officer

Mr Victor HUNG
Chief Trade Practices Officer

Clerk in attendance : Miss Polly YEUNG
Chief Assistant Secretary (1)3

Staff in attendance : Mrs Eleanor CHOW
Senior Assistant Secretary (1)SC2

I Confirmation of minutes and matters arising

(LC Paper No. CB(1)83/01-02)

The minutes of the Panel meetings held on 11 October 2001 were confirmed.

II Date and items for discussion for next meeting

LC Paper Nos. CB(1)223/01-02(01) and (02)

2. Members agreed to discuss the following items at the next regular meeting of the Panel which would be held on Monday, 10 December 2001 at 2:30 pm :

- (a) Provision of intelligent networks for buildings; and
- (b) Progress of interconnection issues. Mr Albert CHAN suggested that representatives from the Housing Department/Housing Authority should also be invited to provide information and brief the Panel on the planning and provision of FTNS for new public housing estates in new towns, notably whether and how alternative choice of operators is made available to the inhabitants. The Chairman advised that the issue should be discussed under the same item.

III Papers issued since last meeting

(LC Paper No. CB(1)18/01-02)

3. Members noted LC Paper No. CB(1)18/01-02 attaching copy of a submission from Hong Kong Information Technology Federation which set out the Federation's proposals to support the local IT industry and to enhance the competitiveness of local small and medium enterprises and a press release on the subject.

IV Implementation of the full liberalization of the local fixed telecommunications network services market from 1 January 2003

(LC Paper Nos. CB(1)223/01-02(03), 240/01-02(01), 266/01-02(01), (02) & (04), 279/01-02(01)-(03) and submissions from CLP Telecommunications Limited and Level 3 Communications Limited circulated vide LC Paper No. CB(1)292/01-02.)

4. Members noted that a background brief on liberalization of the local fixed telecommunications network services market had been prepared by the Secretariat and issued to members vide LC Paper No. CB(1) 240/01-02(01).

Meeting with the Administration

5. With the aid of power-point presentation, the Secretary for Information Technology and Broadcasting (SITB) and the Director-General of Telecommunications (DG/Tel) presented the background and major proposals of the consultation paper.

6. SITB informed members that following two rounds of extensive consultation in 1998 and 1999, the Government decided in May 1999 to fully liberalize the local and external fixed telecommunications network services (FTNS) market as from 1 January 2003 and to issue licences for the operation with effect from 1 January 2003 of external telecommunications facilities based on submarine or land cables to those who had acquired capacity through the purchase of Indefeasible Rights of Use (IRUs) of cables. In line with the Government's pledge in the 2001 Policy Address to invite by end 2001 applications for new licences to commence operation from 1 January 2003, a consultation paper had been issued by the Telecommunications Authority (TA) to seek comments of the industry and interested parties on the implementation of the decided policy on full liberalization.

7. DG/Tel also advised that over the years, the Government had taken a strong preference for market-driven solutions and there would not be any restriction on the number of FTNS licences unless there were certain physical constraints (e.g. scarcity of spectrum). The licensing regime would be technology neutral and there would not be any foreign ownership restrictions for telecommunications operators.

8. DG/Tel highlighted that views were being invited on implementation details including -

- (a) arrangements for preparatory activities of new licensees to be allowed before 1 January 2003 such as planning and design of network, entry into contracts for interconnection and leasing ducts, and coordination arrangements for laying of ducts, cables and ancillary equipment after end of 2002;
- (b) arrangements for granting authorizations under section 14(1) of the Telecommunications Ordinance (Cap 106) to new operators for access to space inside building and for road opening on a case-by-case basis; and
- (c) arrangements for permitting existing external FTNS and local wireless FTNS licensees to operate local fixed wireline-based networks, including backhaul. However, mobile operators who wished to operate these networks would be required to apply for separate fixed carrier licences.

9. The Chairman then invited members to give their views on the consultation paper.

Market share and competition

10. Mr Fred LI Wah-ming enquired about the market share of the three new FTNS operators. In reply, DG/Tel advised that the cumulative market share of the three FTNS operators was no more than 10 % and he would confirm the figure after the meeting. However, about 30% of residential customers now had alternative choices for other network services. In this regard, DG/Tel undertook to provide further information for members' reference after the meeting.

Admin

11. Mr Eric LI Ka-cheung was concerned about the competitive edge of FTNS operators in Hong Kong following China's accession to World Trade Organization as full liberalization was not yet implemented in the Mainland. In reply, SITB pointed out that the Mainland was in the process of progressively liberalizing its telecommunication market, and it would not be in the best interest of Hong Kong to defer full liberalization.

12. On whether full liberalization would bring about genuine benefits to consumers, Mr Howard YOUNG expressed concerns that FTNS operators might only choose to provide service in areas where business was profitable. He asked whether consideration would be given to requiring new entrants to provide service coverage in less profitable or remote areas. In response, DG/Tel said that while there was keen competition among operators for high-value customers, it had long been the Government's policy to ensure that basic telecommunication services would be provided in all districts by at least one FTNS operator at the same price as other districts. A mechanism was in place for other operators to make contributions to the Universal Service Fund which was used to compensate for the deficit incurred in the mandatory supply of services to all districts.

The licensing and regulatory regime

13. On members' concern about the regulatory framework for ensuring fair and effective competition, DG/Tel responded that a well-established, transparent and fair regulatory regime was in place to safeguard against the abuse of market dominance and to provide competition safeguards.

14. Addressing Mr Eric LI Ka-cheung's concern about the possibility of China-based telecommunications operators dominating both the Hong Kong and Chinese markets by virtue of their market position in China, DG/Tel advised that in June 2000, the Telecommunication Ordinance was amended to incorporate provisions to safeguard against anti-competition practices and the abuse of dominant position. Where necessary, TA could declare that a

licensee was in a dominant position and impose additional safeguards on it to prevent the possible abuse of dominant position. He assured members that a number of internationally renowned telecom companies also operated their business in Hong Kong and so far, no problem of unfair competition as envisaged by Mr Eric LI had arisen.

15. Noting that there would not be any limit on the number of FTNS licences and that performance bonds would not be required from new licensees, Dr David CHU Yu-lin was concerned about the possibility of default by licensees and asked if any additional requirement would be imposed on new entrants. In this regard, DG/Tel advised although players were free to enter the market, new operators would be required to submit business plans for assessment and to satisfy TA of their financial capabilities to fulfil their submitted plans. Each licensee would be required to pay an annual licence fee which consisted of a fixed fee of \$1 million, a fee based on the number of customer connections, and a fee for the use of any radio spectrum assigned. Besides, new carriers had to obtain authorizations before they would be allowed access to buildings and for road opening.

Consultation and overseas experience

16. While supporting full liberalization of the local FTNS market, Miss Emily LAU enquired if the pace and preparation for liberalization would be too hasty as according to the information provided by some of the deputations, debates on the issue of full liberalization took a much longer time in the European Union, New Zealand and Australia, whereas in Hong Kong, a consultation period of only some six weeks was allowed. In reply, SITB reiterated that the policy decision on full liberalization had been announced in 1999 when the Government also agreed to extend the moratorium on the issue of further FTNS licences to end 2002. The consultation in question focused only on details of the implementation of the decided policy. She believed that these technical issues could be resolved eventually under the existing mechanism. She stressed that it would not be in Hong Kong's interest to defer implementation of the policy in order not to lag behind competitors in neighbouring regions.

17. Mr Fred LI Wah-ming and Mr CHAN Kwok-keung enquired about the experience of overseas countries in liberalizing their FTNS markets. In reply, DG/Tel advised that the FTNS market in countries in the European Union, United Kingdom, USA, Australia, Canada, Japan, Singapore and Taiwan had been fully liberalized. He said that these countries were successful in the process though it might take some years to assess the ultimate results.

Supplementary Information

Admin

18. Summing up, the Chairman requested the Administration to provide supplementary information on the liberalization experience of other countries, including the number of FTNS operators in these countries; the latest service coverage and market share of the three new FTNS operators in Hong Kong; as well as the impact of full liberalization on the local telecommunication market, having regard that most of Hong Kong's neighbours, notably Mainland China, were not open markets.

Meeting with deputations

19. The Chairman informed the meeting that the Administration had extended the deadline for submission from 13 November to 27 November 2001 in response to some deputations' requests. He understood that some deputations would need more time to study the consultation paper and prepare detailed submissions to the Office of the Telecommunications Authority (OFTA). As such, he would welcome the deputations to present their views to the Panel on this occasion and to provide the Panel with their finalized submissions, if any, in due course.

Local wireline-based FTNS operators

Hutchison Global Crossing Ltd (Hutchison)
(LC Paper No. CB(1)266/01-02(01))

20. Mr Peter WONG took members through Hutchison's submission which in gist contained the following points -

- (a) Hutchison would not oppose to liberalization of the telecommunications market but a comprehensive plan should be devised to ensure that the liberalization process would result in a healthy environment conducive to fair competition. However, the consultation paper had not addressed questions such as how the regime would work and how it would benefit consumers at large.
- (b) In the absence of licensing criteria or service commitment by the new entrants, full liberalization at this stage would lead to negative effects and jeopardize the current state of competition. New entrants might choose to invest in the profitable sectors only in order to extort undue gains while less profitable sectors would continue to be disadvantaged.
- (c) OFTA should deal with issues such as the economic and policy basis of the new regulatory regime, the extent to which new entrants and existing operators should be regulated, the continuing

role of the OFTA in a highly liberalized market and the risks of full liberalization for Hong Kong's economy when most of Hong Kong's neighbours were not open markets.

- (d) To minimize the adverse effects of the misguided regulatory policies, the Government should allow more time for detailed study and analysis in order to address these complex issues.

New World Telephone Limited (NWT)
(LC Paper No. CB(1)266/01-02(02))

21. Mr Paul HO highlighted the stance of NWT on the implementation of the full liberalization of the FTNS market as follows -

- (a) NWT agreed that the Government should foster a fully competitive market but it should create a level playing field for all FTNS operators. The Government should satisfy itself and the public that new entrants would benefit the public.
- (b) At present, the three new FTNS operators had not been able to establish themselves as viable competitors to PCCW. Allowing additional wireline operators could not facilitate the development of a fully competitive market, but would only weaken existing operators and entrench PCCW as the dominant player.
- (c) The existing number of operators should be preserved until a fully effective regulatory regime was in operation. The new entrants should be required to commit to infrastructure and service roll-out and should seek approval for any preparatory work to be carried out only after 1 January 2003.
- (d) The Government should take into account the Audit Commission's report to be released next April before implementing the full liberalization of the local FTNS market.

PCCW-HKT Limited (PCCW)
(LC Paper CB(1)279/01-02(01))

22. Mr Linus CHEUNG elaborated on the PCCW's position as follows -

- (a) PCCW fully supported the development of a liberalized market and the Government's initiative in conducting the consultation. However, before proceeding with full liberalization, the Government should analyze the proposal's impact on investment incentives and job creation, review the service quality of the operators and assess the likely effects of liberalization on the

overall economy.

- (b) As the new licensees were not required to meet investment and build-out obligations and yet still able to obtain the same interconnection rights, such a move was a disincentive to further investment by existing operators. Some existing FTNS operators had already chosen the low cost option of simply reselling services. Eventually, there would be keen competition in some business districts for high value customers while the majority of users in remote geographic areas would unlikely receive any real benefits.
- (c) The Government should address concerns about existing interconnection charges and practices as PCCW was now required to subsidize its competitors in the provision of interconnection support while the latter were not required to provide commitments for their capacity forecasts. Significant investments made by PCCW were generally not recoverable because such costs were not paid for until the capacity was fully used over a 15-year period.
- (d) PCCW urged the Government to provide a sound, strong and secure foundation for a balanced competitive environment. It would be in the best interests of all concerned that liberalization proceeded cautiously and in a timely manner.

Wharf New T & T Limited (New T & T)
(LC Paper CB(1)279/01-02(02))

23. Mr Tony CHEUNG elaborated on the views of New T & T as follows -

- (a) While supporting full liberalization of the FTNS market, New T & T stressed the need for a truly competitive market. In the absence of sufficient regulatory measures to check the dominant position of the largest carrier, the proposed arrangement would only result in more licences, but without a right balance.
- (b) In the past few years, PCCW had used unfair market activities, such as imposition of unreasonably high PNETS charges, excessive delay, restrictive provisions, and other anti-competitive acts to protect its position. Although many customers would like to switch to subscribe for the services provided by New T & T, its market share had not increased remarkably due to hurdles placed by PCCW, especially in effecting interconnection.
- (c) Before implementation of full liberalization, OFTA should closely monitor the dominant operator and eradicate the barriers for fair competition. In order that consumer interests would not be

jeopardized by PCCW's abuse of dominance, it was important for TA to intervene in a prompt and timely manner, and take deterrent measures to prevent the dominant operator from pressuring competitors out of the market.

Non-wireline-based FTNS operators

Hong Kong Broadband Network Limited (HKBN)
(LC Paper No. CB(1)266/01-02(03))

24. Mr Ricky WONG highlighted the salient points in HKBN's submission -
- (a) HKBN supported the full liberalization of the telecommunications market without any pre-set number of licences, and that the business model as well as the number of operators should be determined by market forces.
 - (b) Notwithstanding, service providers should be required to fulfil certain minimum commitments. There had been practical problems arising from non-committed service providers. In the event of their default, the provision of service and customers' interests would be adversely affected.
 - (c) On the issue of number portability, instead of allowing an incumbent operator a lead time of six to nine months, three months would suffice for the coordination and arrangement by the new operators. Besides, negotiations for interconnection arrangements would be complicated if there were too many FTNS operators.
 - (d) To strike a balance between free competition and public interest, the requirements for certain minimum service coverage within a specified period of time, and performance bonds were essential to prevent any abuse or manipulative acts by individual operators.

External FTNS operators

CLP Telecommunications Limited (CLP Telecom)
(LC Paper No. CB(1)292/01-02(06))

25. Mr Peter HEAVYSIDE briefed members on CLP Telecom's position on the consultation paper as follows-

- (a) CLP Telecom welcomed the proposals in the consultation paper and believed that the current moratorium had impeded the development of innovative competition and it would be desirable to fully liberalize the market in January 2003.

- (b) Regarding the network construction of new entrants, CLP Telecom considered that more preparatory works should be allowed during 2002 so as to enable the introduction of new services at the earliest possible date.
- (c) The company was concerned about the creation of 'second-class licensees' which would not be granted the rights to building access, road opening and access to unbundled local loops. To ensure that the widest range of telecommunications services would be available to consumers at affordable costs, the new licensees would need the right to self-build as a competitive pressure on incumbent operators. No restriction should be imposed on the right to road opening as granting authorization on a case-by-case basis was inconsistent with the spirit of full liberalization. To avoid uneconomical duplication of assets, new entrants should be allowed to access unbundled local loops of PCCW on a long run average incremental cost basis.

Flag Telecom Asia Limited (FTA)

26. Mr Owen BEST welcomed the OFTA's initiative to implement full liberalization. He considered that the OFTA should continue with the move in the right direction and the company would look forward to the comprehensive plan incorporating details for the implementation of the liberalization process.

Level 3 Communications Limited (Level 3)
(LC Paper No. CB(1)292/01-02(07))

27. Mr Alasdair GRANT took members through Level 3's submission and highlighted the following points-

- (a) The policy of prohibiting new carriers to build competitive networks before 2003 and the proposed arrangements in relation to rights of way and building access would only entrench and extend the current advantages enjoyed by the incumbent operators over new entrants under the so-called "tollkeeper approach".
- (b) The "tollkeeper" approach would not work in the broadband world. Web-centric companies needed a cheap and plentiful supply of high capacity bandwidth and businesses needed to be able to enjoy advanced services at very low prices, not at huge premiums to prices already paid for existing services.
- (c) It seemed that the proposed regime strongly favoured the incumbent operators and were extremely hostile to potential new competitors. In view of the small and mature nature of the

market of Hong Kong, Level 3 urged the Administration and Members to give due regard to the regulatory environment (including how it was administered) which was the most important factor for telecom investors to assess the investment risks.

Concern Group

Consumer Council (CC)

(LC Paper No. CB(1)279/01-02(03))

28. Mr Ron CAMERON briefed members on the CC's submission as follows -

- (a) The CC welcomed the initiative to liberalize the fixed telecommunications market but noted that despite the introduction of competition since 1995 and the extension of the moratorium announced in 1999, the market share of new FTNS operators in the past two years had not improved beyond a limited reach into the overall Hong Kong market.
- (b) Regarding claims that new entrants' marketing activities concentrated on more profitable commercial users rather than those less profitable users in the residential markets, the CC opined that the regulatory regime of the OFTA had not produced all the desired results in benefiting consumers at large.
- (c) The CC considered that the OFTA should approach its task by focusing on the assumption that facilities based competition was the best way of promoting competition. To meet the objectives of the Government and facilitate competition, it was more appropriate for the OFTA to guide operators to focus on efficient network investment.

Members' deliberations

29. The Chairman invited questions from members on the deputations' submissions.

Contestability of FTNS operators

30. Given that there would not be any pre-set number of licences, Mr YEUNG Yiu-chung sought the deputations' views on whether there should be an upper limit on the number of licences so as to sustain healthy competition. Mr Peter WONG of Hutchison said that as long as the FTNS operators had the expertise, bona fide incentive and service commitment, it might not be necessary to impose any limit on the number of licences. Meanwhile, Mr

Paul HO of NWT considered that among the nine existing FTNS operators, eight of them had difficulties in establishing themselves as viable competitors to the dominant operator. Apart from the number of licensees, it was essential that an operating environment conducive to fair competition should be in place.

31. In view of some deputations' concerns that it might be necessary to impose certain services obligations or requirements on new entrants, Mr Howard YOUNG requested further elaboration. Mr HEAVYSIDE of CLP Telecom did not consider that such obligations would necessarily result in an undue burden on the new entrants and agreed in principle that FTNS operators should not just invest in the profitable sectors of the market only.

32. Mr Linus CHEUNG disagreed with some deputations' criticisms against PCCW. He maintained that PCCW had been assisting the three new FTNS competitors in the past six years by providing wholesale services at price levels which were below cost. Besides, significant investments had been made by PCCW to provide interconnection support which were generally not recoverable until after a long period. On service coverage, Mr Linus CHEUNG said that some existing FTNS operators only chose to develop high margin markets by securing customers in the central business districts, which explained why some public housing estates and residential customers in some remote areas had not benefited from the Government's issue of additional FTNS licences in 1995.

33. Referring to contestability of PCCW in the telecommunications market, Mr Linus CHEUNG of PCCW commented that while PCCW was required to unbundle its services, there was no corresponding requirement on its competitors. For example, other operators were not allowed to interconnect with the Hybrid Fibre Coaxial network of Hong Kong Cable Television Limited.

Possible consequences of full liberalization

34. Noting that some deputations had cautioned in their submissions that under-recovery of investment as a result of full liberalization would be detrimental to the business of the operators and might lead to staff redundancies, Miss Emily LAU sought the deputations' views.

35. Mr Linus CHEUNG of PCCW stated that despite a under recovery of interconnection costs, PCCW strove to tighten its expenditure in order to avoid any massive lay-offs in 1998.

36. Mr Ricky WONG of HKBN explained that as the telecommunication market became more competitive, profit margins narrowed and uncertainties increased. In order to cut costs, it would be inevitable that there would be lay-off and redundancies.

37. As regards the impact of full liberalization on investment incentives, Mr Tony CHEUNG assured members that with over HK\$10 billion investment in the last nine years, there would not be any question of investment disincentive for New T & T. Regarding criticisms that residential line service had been neglected by new FTNS operators, Mr Tony CHEUNG explained that historically, the price of residential lines had long been below cost and cross-subsidized by IDD services. As a result of the re-balancing of the local tariff, there was more scope for new FTNS to compete with the incumbent operator. Despite the difficulties cited by him earlier on, he said that New T & T secured 35,000 residential customers while its subscribers were on the increase.

38. Mr Peter WONG of Hutchison also informed members that over HK\$ 10 billion had been committed by the Hutchison to further boost the company's development in network infrastructure that enabled the company to broaden its customer reach.

Availability of real choices for customers

39. On the availability of customers' choice, Mr Albert CHAN enquired whether the goals to enhance real competition had been achieved as a result of progressive liberalization, as he noted that there were in practice very limited choices in some districts in the New Territories. Miss Emily LAU also sought the CC's comments on the effectiveness or otherwise of the Government's liberalization policy.

40. In this regard, Mr CAMERON of the CC stressed that competition goals such as market share of new entrants, should be set as a benchmark against which the effectiveness of the policy would be tested. Moreover, geographic and user profile dimensions should also be used to reflect the overall success of the Government's policy.

41. Mr Ricky WONG of HKBN opined that with new technologies, more choices were available for customers. He said that HKBN, with its wireless networks, provided service coverage to about one quarter of the territory at affordable prices two years after obtaining the FTNS licence.

Regulatory regime

42. Mr MA Fung-kwok sought the deputations' views on the effectiveness or otherwise of the existing regulatory regime. Mr Paul HO of NWT mentioned a few examples to illustrate that the OFTA had not taken swift action in ensuring fair competition and that it had adopted a light-handed approach in regulation. Sharing similar views, Mr Tony CHEUNG of New T&T also urged the OFTA to take more proactive and timely measures to check anti-competition practices with a view to deterring operators from engaging in such activities.

43. While agreeing that the OFTA had made steady improvements in the past years, Mr Ricky WONG of HKBN referred to a recent case in which during a joint meeting with the Housing Department on service roll-out in the public housing estates, the representatives of the OFTA attending the meeting did not seem to be following the established policy. Mr WONG thus questioned the inconsistency, if any, between the policy-making and operational levels of the OFTA.

Interconnection

44. Mr Peter WONG of Hutchison stated that in the past, the networks of new FTNS operators were still in the course of being developed, therefore, the only option was to lease from PCCW the required installations. In his view, if operators self-provide their own interconnect facilities and develop their own networks, their contestability would be enhanced.

45. Mr Ricky WONG of HKBN explained that some FTNS operators chose to become re-sellers as they could not self-provide their own interconnect facilities. Besides, it might not be feasible to roll-out networks in certain areas to provide direct reach to customers.

46. While agreeing that sufficient competition amongst networks in the supply of access would drive the interconnection charge to an efficiently determined market level, Mr CAMERON of the CC also believed that when operators invested in network infrastructure, it would provide a wider range of telecommunications services to the community in the most economically efficient manner.

Wrap-up discussion with the Administration

47. At the Chairman's invitation to give a preliminary response, SITB re-affirmed that it was the Government's decided policy to fully liberalize the FTNS market starting from 1 January 2003. Progressive liberalization had achieved good results. For example, the usage rate of broadband network services had increased substantially in the past 12 months at affordable charges. At present, Hong Kong was only second to South Korea for the usage of broadband services in Asia. She did not consider that the Government had taken hasty action in implementing full liberalization. For example, the Administration had exchanged views with Members and deputations at open meetings in the past few years, details of which had already been outlined in the background brief prepared by the Secretariat. In response to the industry's request, the OFTA had also agreed to extend the consultation period to allow more time for study.

Admin

48. On the Government's regulatory role, DG/Tel advised that the OFTA had assumed the functions of an industry regulator and a mediator in case of disputes. He reiterated that the Government was committed to providing a regulatory framework which encouraged competition and preserved investment incentives. Regarding the case mentioned by Mr Ricky WONG of HKBN on the operations of the OFTA, he undertook to look into the matter. He further informed members that in recognition of its work, the OFTA had been voted the Best Asian Regulator in the last few years.

49. Regarding comments about "second-class licensees", DG/Tel confirmed that there would not be any differential treatment between existing and new FTNS licensees. Regarding licensees' rights to building access and road opening, granting authorization on a case-by-case basis was appropriate and consistent with the objective of implementing full liberalization in an orderly manner.

Admin

50. SITB assured members that the Government would study all submissions received during the consultation carefully before finalizing the details on the implementation of full liberalization of the FTNS market. The Chairman further requested the Administration to provide a detailed response to the concerns raised by the deputations.

V Capital Works Reserve Fund Head 710 Block Vote for Computerisation in 2002-03
(LC Paper No. CB(1)223/01-02(04))

51. In order to benefit from the downward adjustment of prices in the prevailing market, the Chairman suggested that the Government should implement more new computerization projects. There being no other comments from members, the Chairman said that by and large, the Panel was in support of the proposal.

VI Reduction of fees under the Film Censorship Regulations
(LC Paper No. CB(1)223/01-02(05))

52. Miss Emily LAU referred to Annex B of the discussion paper and sought clarification on the 77.61% decrease in the fee charged for viewing or inspection of videotape, laserdisc, packaging or advertising material in the repository. In response, the Commissioner for Television and Entertainment Licensing (C/TELA) explained that the existing rate was set in 1996 when the capabilities of the equipment used at that time were quite limited. With the purchase of more sophisticated equipment in 1997, its handling capacity was substantially increased, thereby reducing the cost and consequently, the level of fee charged.

53. Mr Albert CHAN questioned whether the administrative cost for implementing the fee reductions would be justifiable. In response, C/TELA assured members that the financial implication for implementing the related arrangements would not be significant.

54. On Mr Albert CHAN's comment that the term “豁免費用” (“exemption fee”) lacked clarity, C/TELA advised that the existing expression (both Chinese and English) was a term used in the relevant subsidiary legislation to refer to the fees charged for the service provided for the consideration and granting of exemption from classification.

55. There being no other questions from members, the Chairman summed up that the Panel was in support of the proposed amendments and hoped that the reduction in fees would be implemented early.

VII Any other business

56. As the regular meeting for the month of February 2002 was scheduled to be held on 11 February 2002 which would be the lunar new year's eve, members agreed to reschedule the date of the February meeting to Friday, 8 February 2002 at 2:30 pm.

57. The meeting ended at 4:50 p.m.

Legislative Council Secretariat
6 December 2001