

For Discussion
On 8 February 2002

Legislative Council
Information Technology and Broadcasting Panel

Reduction of Licence Fee
under Telecommunications Regulation and
Telecommunications (Carrier Licences) Regulation

Purpose

This paper briefs members on our proposal to reduce the licence fees payable under the mobile carrier licences and public radiotelecommunications service licences from \$30 to \$25 per year. In order that the proposed reduction in licence fees may become effective as from 1 May 2002, the Government will introduce the proposed Regulations to the Legislative Council as soon as practicable after the completion of the consultation exercise.

The Proposal

2. We propose to reduce the licence fees from \$30 to \$25 per year payable under the following licences:
 - (a) the mobile carrier licences – the four third generation (3G) mobile services operators hold this licence;
 - (b) the public radiocommunications service (PRS) licences – the six second generation (2G) mobile services operators, operators of trunked radio services, radiolocation services and paging services hold this licence; and
 - (c) the public non-exclusive telecommunications service (PNETS) licences – the mobile virtual network operators hold this licence.

Part of the licence fees of all these three licences are payable on the basis of the number of mobile stations used by customers of the service, we therefore propose to reduce their fees to the same level and at the same time.

3. The fees are collected by the Office of Telecommunications Authority (OFTA) Trading Fund to recover its cost. To effect the proposed reduction, the Government needs to amend the following Regulations:

- (a) the Telecommunications (Carrier Licences) Regulation – the licence fee payable under the mobile carrier licence is prescribed by the Secretary for Information Technology & Broadcasting under this Regulation; and
- (b) the Telecommunications Regulation – the licence fee payable under the PRS licence is prescribed by the Chief Executive in Council under this Regulation.

On the other hand, the Telecommunications Authority (TA) is empowered under section 7(6) of the Telecommunications Ordinance (Cap. 106) to set the licence fee for PNETS licence.

4. The TA will also take the opportunity to include the number of activated prepaid Subscriber Identity Module (SIM) cards in addition to the number of registered subscribers (i.e. post-paid subscriber accounts) when calculating the amount of licence fee payable on the basis of the number of mobile stations used by customers of the service by operators. With the advancement in technology and changes in consumer pattern, the use of prepaid SIM cards has become more prevalent. The number of prepaid SIM cards surged from 42,335 in 1997 (representing two per cent of total number of mobile customers) to 1,061,052 in 2000 (representing 20 per cent of total number of mobile customers). Customers may now buy prepaid SIM cards and use them with mobile handsets directly procured from the market without opening subscription accounts. As the basis for collecting the licence fee is mobile stations used by customers of the service, the practice of mobile operators excluding the activated prepaid SIM cards should be changed. This change will ensure a fair method in calculating the licence fees collected from the

mobile operators. Moreover, only the activated prepaid SIM cards will be subject to payment of licence fees. OFTA estimates that the number of activated prepaid SIM cards is around 770,000 in 2000 (about 73% of the total number of prepaid SIM cards set out in this paragraph).

5. It is our assessment that, by implementing the change in ascertaining the licence fee together with a reduction in licence for mobile station, the proposed arrangement should be a revenue neutral proposal for the six 2G mobile operators. As the total amount of licence fees payable by the six 2G mobile operators are more or less the same as before, we do not expect customers to be affected by the change. Paging operators, radiolocation service operators and trunked radio operators who hold the PRS licence will benefit from the proposed fee reduction. 3G mobile operators and MVNOS will also benefit when they commence services.

6. Before amending the Telecommunications (Carrier Licences) Regulation, we are required by the Telecommunications Ordinance to, by notice in the Gazette, consult members of the public who are interested in the matter, and consider the representations received. The consultation paper is available from the homepages of the Information Technology and Broadcasting Bureau and OFTA at <http://www.info.gov.hk/itbb/> or <http://www.ofta.gov.hk>. The consultation commenced on 11 January 2002 and will end on 1 February 2002.

Way Forward

7. After the conclusion of the consultation exercise, we intend to introduce the two sets of amendment Regulations mentioned in paragraph 3(a) and (b) to the Legislative Council as soon as practicable in order to effect the proposed reduction on 1 May 2002 to benefit all licensees.

Information Technology and Broadcasting Bureau
31 January 2002