



November 7, 2001

Hon. SIN Chung-kai
Chairman

Teleglobe
Hong Kong
Limited
LegCo Panel on Information Technology and Broadcasting
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**Re: *Invitation for Written Submissions on the Consultation Paper
on Implementation of the Full Liberalisation of the Local Fixed
Telecommunications Network Services Market from 1 January 2001***

Dear Honorable SIN Chung-kai,

Teleglobe Hong Kong Limited (THK) appreciates the Legislative Council's (LegCo) Panel on Information Technology and Broadcasting's invitation to present its views concerning the Telecommunications Authority's (TA) consultation paper on "Implementation of the full liberalization of the local fixed telecommunications network services market from 1 January 2001." The consultation paper represents a critical component of the TA's efforts to liberalize the local fixed telecommunication market and to bring the benefits of competition to end users as well as telecommunications network and service providers in Hong Kong.

THK holds an external Fixed Telecommunications Network Services (FTNS) license for the provision of non-cable based international services as well as a PNETS external telecommunications services license. Currently, THK holds a Letter of Intent (LOI) from the TA to modify its FTNS license to provide submarine cable based service in Hong Kong. THK offers broadband services and international connectivity to the world's largest backbones for Internet Service Providers, content providers, business customers and carriers. THK's corporate parent, Teleglobe Inc., is a leading global provider of broadband services with the most extensive global Internet network, delivering advanced broadband applications to customers in more than 100 countries.

As an international network and services provider, THK supports the TA's proposals to liberalize the local fixed telecommunications market and views effective implementation of the TA's proposal as an opportunity to further position Hong Kong as the leading telecommunications market in Asia. Having entered the Hong Kong market as an international provider, the existence of robust competition in local fixed telecommunications markets is of critical importance to THK's ability to obtain local access facilities at competitive prices. Local access facilities, including backhaul, represent a significant and sometimes exorbitant cost component for international carriers. The existence of numerous local market competitors will stimulate increased end user demand and market based pricing for local network facilities.

The LegCo Panel on Information Technology and Broadcasting's public invitation highlights the following three general issues raised by the TA's consultation paper:

- 1) measures to facilitate the roll-out of new local wireline-based FTNS networks as soon as practicable;
- 2) arrangements for granting authorizations under section 14(1) of the Telecommunications Ordinance (Cap 106) to the new licencees for access to space in buildings and for road opening; and
- 3) arrangements for existing local wireless FTNS and external FTNS operators to operate new local wireline-based FTNS networks.



In response to the LegCo's request, Teleglobe respectfully submits its position on the following issues identified by the TA in its consultation paper:

Backhaul

The TA puts forward two proposals concerning backhaul: 1) require all external facilities licensees use the circuits of local FTNS operators for their backhaul until 31 December 2002 (i.e. circuits linking their cable landing points or satellite earth stations to the international gateways); and 2) that external FTNS operators be permitted to operate local fixed wireline-based networks for the purpose of backhaul only.

Teleglobe Position

Teleglobe agrees with the TA's proposal allowing external FTNS operators to operate fixed wireline-based networks exclusively for purposes of backhaul, noting that the ability to "operate" backhaul should include the ability to construct backhaul. Additionally, Teleglobe would encourage the TA to accelerate the deadline of 31 December 2002 to allow external FTNS operators to self-provision backhaul. Backhaul represents a significant cost component for external FTNS operators not only in Hong Kong, but also in most markets around the world. Given present conditions in the international telecommunications market, the ability to reduce backhaul costs is a prime consideration for all international operators.

Performance Commitments

The TA proposes to eliminate performance commitments for new local fixed wireline-based network licensees.

Teleglobe Position

Teleglobe agrees with the TA that players should be free to enter the market and offer services on a scale dictated by their own business plans. Teleglobe would note that, given the current condition of the capital markets, entrants should not be required to post performance commitments imposed by the TA as a guarantee of ultimate investment. Accordingly, the TA should eliminate performance bond requirements for network build out plans to all FTNS applicants, both present applicants as well as new applicants. If the TA likewise refuses to impose a performance bond requirement for future IRU-based FTNS submarine cable licensees, it should also release existing performance bond requirements for cable based FTNS licensees so as to avoid creating a competitive imbalance in favor of IRU-based international carriers.

New Licensing Regime for "Carriers"

The TA proposes to allow new applicants to obtain a single FTNS license for both local fixed wireline-based services, wireless local fixed network services as well as external facilities services whether they operate satellites, submarine cables or overland cables. The TA also proposes a fixed annual licence fee of \$1,000,000, a fee based on the number of customer connections, and a fee for the use of any radio spectrum assigned.

Teleglobe Position

Teleglobe supports the TA's proposal to effectively streamline the licensing process. With regard to annual license fees, Teleglobe maintains that the fee should bear a rational relationship to the costs incurred by the TA to regulate the licensed market participants. The fixed annual fee calculation should also take into account new local fixed FTNS applicants as well. Teleglobe believes that a fee based on the number of customer connections is appropriate since this calculation would reflect the relative level of oversight required of companies with greater numbers of customers, particularly residential customers. Since Hong Kong is moving toward complete liberalization of the local market, the lion's share of TA's



resources will be allocated toward regulating the incumbent to ensure that it does not frustrate competition through abuse of its market position. Teleglobe also maintains that non-spectrum providers' license fees should not be utilized by the TA to regulate spectrum use or allocation.

Access to Space Inside Buildings

The TA notes that ten FTNS licensees have been granted authorization to place and maintain telecommunications lines, including ancillary facilities, in the common parts of building which include the telecommunications/broadcasting equipment rooms and risers, ducts, conduits etc. used as cabling facilities. The TA also concludes that, given demand factors and the limited number of end users in buildings, it would be more economical to encourage operators to pursue interconnection to existing in-building telecommunications systems as opposed to installing additional in-building systems. The TA proposes that, should interconnection negotiations fail, operators can seek a determination by the TA of interconnection terms and conditions under section 36A of the Ordinance. The TA also proposes to consider applications for authority to place facilities in buildings on a case-by-case basis.

Teleglobe Position

As the local services market in the SAR matures, and demand for broadband and advanced services grows, access to building space will increase in importance as a competitive issue. The TA should be careful not to set a course that unduly restricts carriers' ability to access buildings for the purpose of installing telecommunications systems. At present, building access authority rests with the four wireline-based FTNS licensees as well as five wireless FTNS licensees. The benefits of competition that new local FTNS entrants will bring will be lost if end users are unable to access them. This access can be achieved only if new licensees have the authority to access buildings and buildings owners are obliged to permit tenants to secure access to their carrier of choice. In that sense, building owners comprise the real "last mile." If new carriers are unable to negotiate reasonable, nondiscriminatory access to building tenants, their economic viability may be in jeopardy, as well as the success of the TA's policies.

Road Opening

The TA proposes to require existing FTNS license holders, in accordance with normal road opening coordination procedures, to consult other licenced operators – specifically new entrants – about their ducting requirements along the same route and lay the ducts required for the new entrants as well, subject to mutually agreed upon cost sharing arrangements.

Teleglobe Position

Since the presence of competitive local access providers in the market is critical to the availability of competitively priced local loop facilities, Teleglobe encourages the TA to adopt its proposal for taking into account new entrants' requirements for any road opening projects undertaken by the existing licensed operators before the end of 2002. As the TA correctly observes, failure to impose this requirement could effectively delay or foreclose entry of new local fixed operators who cannot commence service until 1 January 2003.



THK respectfully submits these comments to the LegCo Panel on Information Technology and Broadcasting and looks forward to contributing to the continued development of Hong Kong as the leading telecommunications market in Asia.

Sincerely,

/s/

Kelvin Law
Managing Director
Teleglobe Hong Kong Limited

