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Panel on Information Technology and Broadcasting

Meeting on 10 December 2001

**Background brief on
interconnection issues relating to the local fixed telecommunications
network services market**

Purpose

This paper provides a summary of past discussion on interconnection issues relating to the local fixed telecommunications network services (FTNS) market.

Background

2. Competition in the local FTNS market was introduced on 1 July 1995 when Hutchison Telecom (Hong Kong) Ltd (now Hutchison Global Crossing Limited (Hutchison)), New T&T Hong Kong Limited (now Wharf New T&T Limited (New T&T)) and New World Telephone Limited (New World) were licensed as FTNS operators in addition to the former monopoly operator, Hong Kong Telephone Company Limited. In May 1999, the Administration announced, inter alia, its decision to extend the moratorium on the issue of further local FTNS licences up to 31 December 2002, subject to satisfactory commitments from the three existing new FTNS licensees on further network roll-out during the moratorium. In October 2001, the Telecommunications Authority (TA) issued a consultation paper to invite views on the proposed arrangements for the implementation of the decided policy on full liberalization of the local FTNS market with effect from 1 January 2003.

3. The Panel met with the Administration and deputations to receive views on the aforesaid consultation paper on 12 November 2001. A background brief outlining major FTNS-related issues (including interconnection issues) has been issued to members vide LC Paper CB(1)240/01-02(01).

Interconnection

4. In a multi-network environment, interconnection is important to enable :
 - (a) customers connected to one network to communicate with customers, or to have access to services, connected to another network (Type I interconnection);
 - (b) customers to be reached by one network operator through the customer access network of another network operator (Type II interconnection).

5. Without Type I interconnection, customers would be reluctant to be connected to the networks of the new operators as the vast majority of the parties they want to communicate with are connected to the incumbent's network. Without Type II interconnection, the new entrants will have to duplicate the customer access networks first (which may be a time consuming process or space constraints may prevent such duplication) before they can deliver their services to the customers.

Concerns about interconnection

6. The Panel has exchanged views on interconnection issues with the Administration and deputations at the meeting held on 8 January 2001 and 12 February 2001 respectively. In the course of reviewing the progress of network roll-out and the relatively small market share achieved by the three new FTNS licensees, members were deeply concerned about the current interconnection arrangements and the difficulties cited by some operators in effecting interconnection with the dominant operator, PCCW-HKT Telephone Limited (PCCW).

7. At the meeting held on 12 February 2001, the four existing wireline-based FTNS operators, a non-wireline-based FTNS operator, an external FTNS operator and the Consumer Council gave their views which are summarized at **Annex I**. These concerns were reiterated by representatives of the industry and the Consumer Council at the meeting held on 12 November 2001 to receive views on the implementation of full liberalization of the local FTNS market.

8. Members are aware of the importance of an effective interconnection regime in facilitating the development of a liberalized and competitive FTNS market. They are keen to ensure that arrangements should be in place to enable licensees to interconnect promptly and efficiently. The effectiveness of the existing regulatory framework on interconnection was also one of the concerns raised by Hon Howard YOUNG in his written question at the

Legislative Council meeting on 14 February 2001.

The regulatory framework

9. As interconnection is important to protect consumer interest and promote effective competition, the obligation to interconnect promptly and efficiently is included in the licence conditions of network operators.

10. The Administration has stressed that its policy objective is to provide a regulatory environment which encourages competition and maintains investment incentives. On concerns about the TA's role in resolving interconnection problems, the Administration highlighted that the existing framework was based on Hong Kong's well-established market-led principle. Operators should first seek to reach agreements through commercial negotiation, failing which TA might make a determination in accordance with section 36A of the Telecommunications Ordinance. Members noted that amendments were introduced to the Telecommunication Ordinance (Cap. 106) in June 2000 to clarify the TA's powers in making determinations on interconnection. Competition provisions were also incorporated in the said Ordinance to safeguard against the abuse of dominant position.

11. As determination of disputes needs to go through a due process which takes time, members note that very often, an informal mediation process is adopted by TA to resolve disputes. Regarding complaints about long turnaround time, the number of subscriber lines to be cut-over and other operational problems in effecting Type II interconnection, the Administration advised that an industry forum participated by all the four local wireline-based FTNS licensees was set up by TA and a Code of Practice was drawn up in 1999 to facilitate Type II interconnection arrangements and speed up the process. Members were informed that the forum met frequently and kept the provisions in the Code of Practice under review.

Latest position

12. Members note that without interconnection, it will be extremely difficult for new entrants to compete effectively with the incumbent operator in the market. As Hong Kong's local FTNS market will move towards full liberalization starting from 2003, members consider that an effective interconnection regime underpinned by legislation and administrative measures is essential in enhancing competition and providing consumers with real choices.

13. To follow up past discussion, the Panel will review the progress of interconnection issues with the Administration at the meeting on 10 December 2001.

Legislative Council Secretariat

4 December 2001

Main points of deputations' views on interconnection

Organization	Views
Local wireline-based FTNS licensees	
1. Hutchison	On Type I interconnection, Hutchison's focus was on the migration of its interconnect arrangements with PCCW from the transmission circuits leased from PCCW to Hutchison's self-provided facilities through commercial negotiations with PCCW. On Type II interconnection, Hutchison's plan was to rapidly reduce its dependence on Type II interconnection by developing its own infrastructure to provide direct access to customers.
2. New T&T	A number of interconnection hurdles placed by PCCW had curtailed effective competition. For example, PCCW did not provide sufficient point of interconnection capacity to facilitate Type I interconnection on the grounds of lack of commitment and over-forecasts by the requesting operator. On Type II interconnection, the main difficulties included the long cut-over time for subscriber lines and the high cost of implementation and maintenance. Reliance on commercial negotiation to reach interconnection agreement did not always work because of the inherent conflicts of interest between the dominant and the new FTNS operators.
3. New World	There were difficulties in extending the last mile coverage through Type II interconnection, such as the long lead time from filing of application to the provision of service, restrictions on the rate of implementation of co-location at exchanges, unreasonably high charges and restriction on the number of subscriber lines to be cut-over etc.
4. PCCW	It was unfair to require PCCW to provide interconnection support to other licensees in the absence of any financial commitments on the latter's part to match their capacity forecasts. The significant investments were generally not recoverable because such costs were not paid for until the capacity was fully used over a 15-year period. PCCW's interconnection charges were regulated by TA and were among the

Organization	Views
	lowest in the world. On the other hand, PCCW had difficulty in obtaining access to the FTNS network of "i-cable" and to buildings owned/managed by companies affiliated with the other FTNS operators.
Local wireless FTNS licensee	
5. Hong Kong Broadband Network Limited	OFTA should take proactive steps in devising more effective implementation rules for compliance by network operators to expedite interconnection. In requesting for network capacity, an "ordering approach" instead of the current "forecasting approach" should be used where both the requesting operator and PCCW would be committed to certain network capacity or financial commitment.
Cable-based external FTNS licensee	
6. Level 3	Level 3 had difficulties in building the final segment of its network, or to buy an appropriate element from a local FTNS operator. In the absence of effective rights to "build" or "buy" the elements of their networks, external FTNS operators could only acquire the final links at very high prices.
Concern Group	
7. The Consumer Council	The Council considered inter alia that the Industry Code of Practice for the interconnection of Local Access Link issued by TA should be reviewed on an ongoing basis to ensure its efficacy in facilitating Type II interconnection.