

**For Discussion
on 13 January 2003**

**Legislative Council
Panel on Information Technology and Broadcasting**

**Submission by the Society of Hong Kong External Telecommunications
Service Providers on
International Call Forwarding Service and
Increase in Mainland Termination Charge**

Introduction

The Society of Hong Kong External Telecommunications Service Providers (“ETS Society”) has made a submission to the Panel on two matters, namely International Call Forwarding Service (“ICFS”) and Increase in Mainland Terminating Charges. This paper presents the views of the Telecommunications Authority (“TA”) on the matters.

International Call Forwarding Service

Background

2. ICFS is a service provided by the external telecommunications service providers. It allows subscribers to forward their incoming calls to their mobile or fixed numbers to an overseas number, such that the subscribers can still be reached via their local numbers when they are not in Hong Kong. ICFS is a value added telecommunications service. It benefits consumers and businesses at large by offering an alternative choice of telecommunications service.

3. In the case of incoming calls to a mobile number the provision of ICFS involves routing the incoming calls through the mobile networks to the ICFS platform for transmission to the overseas numbers. Hence, the resources of the mobile networks would be consumed. On 11 June 2002, the TA issued a Statement setting out his views on the interconnection charging arrangements for ICFS for incoming calls

to mobile numbers. The new charging arrangements aim to compensate the mobile operators who previously could not charge the ICFS providers for using their mobile network resources. Under the previous charging arrangement, the ICFS providers only paid an access charge to the fixed network operators. The new charging arrangements establish that ICFS providers have a liability as of the date of the TA Statement, i.e. 11 June 2002, to pay the mobile operators an access charge which should be cost-based and preferably be determined by commercial negotiation. Technically speaking an ICFS provider may connect directly with the mobile network or indirectly through a fixed network. Currently all ICFS providers connect to mobile networks indirectly through the fixed networks.

The ETS Society's Submission

4. The ETS Society has raised three matters in relation to ICFS in their submission. Firstly the ETS Society suggests that the mobile operators should recover their costs by charging their mobile customers extra fee for forwarding calls to ICFS, instead of charging the ICFS providers the access charge. Secondly the ETS Society submits that they would encounter some implementation issues of charging arrangement, e.g. how to bill and reconcile the ICFS traffic between the ICFS providers and the mobile operators. Thirdly the ETS Society considers that the level of charge proposed by the mobile operators are higher than the access charge they used to pay to the fixed network operators.

5. TA clarifies that the three matters raised by the ETS Society are terms and charges of an interconnection. Section 36A of the Telecommunications Ordinance deals with such an issue. TA encourages the parties concerned to commercially negotiate the terms and charges. In respect of the implementation issues TA plans to finalise his technical proposal and issue a statement shortly to facilitate the commercial negotiation. If the parties still cannot reach a commercial agreement on the terms and charges within a reasonable period, either party can seek a determination by the TA under section 36A of the Telecommunications Ordinance. Section 36A is a due process and the TA has to consider the representations of the parties concerned before making a determination. To date the TA has not received any request for making a determination. Separately TA will also monitor the situation on the progress of the commercial negotiations. He will consider initiating a determination under section 36A if no commercial agreement could be reached within a reasonable period.

Increase in Mainland Termination Charge¹

Background

6. On 28 October 2002, China Telecom issued a notice to all its counterparts globally, standardizing its termination charge to US\$0.17 per minute for incoming international/external traffic from all countries and regions effective from 1 November 2002. The same raise in termination charge was also introduced by other Mainland operators. The net cost for delivering outgoing traffic to the Mainland by the external fixed network operators in Hong Kong is however not necessarily equal to the termination rate. The net payment depends on the balance of outgoing and incoming traffic and terms of agreements between carriers for cross-border traffic. Such terms include the committed volume of the traffic which either party has committed to send to the other party; arrangement for the handling of traffic to and from third country or region and the revenue and cost for such handling; the provision of dedicated circuits between the two places; and the charges for the handling of different types of calls (e.g. toll-free calls, home direct calls).

7. The ETS Society and some ETS operators alleged that the Mainland operators had offered some preferential treatment to several external fixed network operators in Hong Kong, giving the fixed network operators a lower cost base in providing retail external services. On the other hand, ETS operators did not receive lower wholesale rates from the external fixed network operators. Accordingly, some external fixed network operators could offer retail external services at prices much lower than the ETS operators.

Wholesale² and Retail³ External Service Prices

8. At present, wholesale external services are offered to ETS operators by a number of operators, including external fixed network operators and service-based operators. According to the latest information submitted by the ETS Society, the existing wholesale rates for external service to Mainland China range from HK\$ 0.43 (US\$0.055) to HK\$ 0.55 (US\$0.07) per minute. In other words, wholesale rates

¹ An originating operator in a place has to pay a termination charge to another operator in another place for terminating the international traffic.

² A service is said to be provided on “wholesale” basis when it is provided to service providers who do not intend to utilize the service for their own use, but to utilize the service to provide telecommunications service to third parties.

³ A service is said to be provided on “retail” basis when it is provided to end-customers who intend to utilize the service for their own use.

have gone down significantly from the level of HK\$1.33 (US\$0.17) per minute during the past few weeks.

9. To date, none of the major external fixed network operators offers retail external service at prices lower than their price levels before 1 November 2002. These operators do offer competitive retail rates for promotion, but these promotional rates are applicable for specified non-peak hours and are expected to last for a certain period of time only. As of 20 December 2002, majority promotional rates ranged from HK\$0.47 (US\$0.06) to HK\$1.35 (US\$0.17) per minute⁴. Therefore, there is no evidence that the retail external service rates offered by the external fixed network operators are lower than the wholesale rates available in the market. The allegation that the profit margin of ETS operators has been unduly squeezed could not be established.

Fair Market Competition

10. Hong Kong operators are still negotiating the terminating rates with their counterparts in Mainland China. As such, there is no evidence at this stage to conclude that any Hong Kong operator has received preferential treatment from the Mainland operators. OFTA will continue to liaise with operators in Hong Kong to find out the latest progress of their discussion. If there is any evidence of unfair market competition in Hong Kong caused by any agreement or arrangement between a Hong Kong operator and a supplier outside Hong Kong, the TA may invoke section 6B of the Telecommunications Ordinance to direct the Hong Kong operator to take such action as to restore the fair market competition.

Office of the Telecommunications Authority

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⁴ One lowest retail external service rate offered by an external fixed network operators for promotion was noted to be HK\$0.34 (US\$0.044) per minute. However, this rate is restricted to calls to Mainland fixed numbers only. Calls to Mainland mobile numbers will be charged at HK\$0.88 – 1.88 (US\$0.11 – 0.24) per minute.