

**立法會**  
**Legislative Council**

LC Paper No. CB(1)1894/02-03(01)

Ref. : CB1/PL/ITB

**Panel on Information Technology and Broadcasting**

**Meeting on 9 June 2003**

**Background brief on  
issues relating to Type II interconnection arrangements in  
the telecommunications market**

**Purpose**

1. This paper summarizes key developments and concerns on issues relating to Type II interconnection arrangements between local fixed telecommunications network services (FTNS) operators.

**Background**

2. 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).
3. 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 operators into the market 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.
4. In essence, Type II interconnection enables a new FTNS operator to compete with the incumbent operator by making available its service to

customers without having to roll out its own network first. The terms and conditions of interconnection arrangements (including interconnection charges) are a subject of commercial negotiation between the incumbent FTNS operator and the FTNS operator which seeks to use the network of the former.

5. Competition in the local FTNS market was introduced on 1 July 1995 when Hutchison Telecom (Hong Kong) Ltd (now Hutchison Global Communications Limited), New T&T Hong Kong Limited (now Wharf T&T Limited) and New World Telecommunications Limited were licensed as FTNS operators in addition to the former monopoly operator, Hong Kong Telephone Company Limited (now PCCW-HKT Telephone Limited (PCCW)). It was also the date when Type II interconnection was implemented for narrowband services. Subsequently, Type II interconnection was extended to broadband services as announced by the Telecommunications Authority (TA)'s Statement entitled "Broadband Interconnection" issued on 14 November 2000.

### **The regulatory framework**

6. 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.

7. The Administration has stressed that its policy objective is to provide a regulatory environment which encourages competition and maintains investment incentives. On concerns about TA's role in resolving Type II interconnection problems, the Administration highlighted that the existing framework was based on the well-established market-led principle. Operators should first seek to reach agreements through commercial negotiation, failing which TA may make a determination in accordance with section 36A of the Telecommunications Ordinance. Where justified, TA may direct that interconnection be effected before a determination is made. The determination on interconnection charges would then be applied with retrospective effect.

8. As determination of disputes over interconnection needs to go through a due process which takes time, 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 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.

## **Discussion at Panel**

9. The Panel has exchanged views on interconnection issues with the Administration and deputations at several meetings held between January 2001 and June 2002.

10. On the need or otherwise for Type II interconnection, the Panel noted the objection of the incumbent operator, PCCW, to the existing Type II interconnection regime whereby it was required to unbundle its local loop to the other FTNS operators. In the view of PCCW, Type II interconnection, which was introduced in 1995 to jump start competition in the initial stage of market liberalization, should now be phased out. Over-reliance on Type II interconnection would deter incentives for network investments and the Administration should encourage operators to self-provide their own networks instead.

11. The other FTNS operators also agreed in principle that providing telecommunications service through self-built networks was the ideal and more economical arrangements in the long run. However, Type II interconnection was still needed to help new market entrants speed up market penetration and bring about competition.

12. In this connection, the Panel noted that in view of space limitation for the installation of additional telecommunications systems within old buildings, Type II interconnection was the most viable option to promote competition and provide choices to consumers within a reasonable period of time. On the other hand, new buildings were usually equipped with their own in-building telecommunications systems which could be opened up for access by all authorized telecommunications and broadcasting operators.

13. The Panel has taken note of the Government's target that by the end of 2002, over 50% of the residential customers would have the choice of an alternative service provided by one of the three new FTNS operators. In examining how far the said target has been achieved, members remain concerned about the extent of network rollout of the new FTNS operators, their service coverage and market share; and how far Type II interconnection can enhance the FTNS operators' capability in these aspects.

## **Issues raised by the Director of Audit**

14. In its Report No. 38 published in March 2002, the Director of Audit highlighted the need for the Office of Telecommunications Authority (OFTA) needs to monitor the time taken for conducting major interconnection negotiations between the incumbent and the new operators and to take

appropriate measures to facilitate the early resolution of interconnection disputes. On making determinations, OFTA should closely monitor the progress of all determination cases to ensure that they are completed as soon as possible and within the time limits specified. It was recommended that OFTA should carry out a detailed post-determination review on the completed cases to ascertain the factors that have contributed to the long processing time and so on. In response, OFTA has taken on board these recommendations for improvement.

### **Latest position**

15. TA has published a consultation paper on "Review of Regulatory Policy for Type II Interconnection" on 23 May 2003 and will brief the Panel on 9 June 2003. One of the key issues which will be included in the review is whether the policy on Type II interconnection remains relevant and necessary to facilitate effective competition and promote investment in the telecommunications market.

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6 June 2003