

Wharf T&T Limited
九廣電訊有限公司

11/F, Telecom Tower
Wharf T&T Square, 123 Hoi Bun Road
Kwun Tong, Kowloon, Hong Kong
Telephone (852) 2112 1121
Facsimile (852) 2112 1122
Website www.wharfit.com



立法會 CB(1)2129/06-07(06)號文件
LC Paper No. CB(1)2129/06-07(06)

Your Reference: CB1/PL/ITB
Our ref: 001.005/17

Direct Fax No: 2112 2680
Direct Tel No: 2112 2518

16 July 2007

By fax and email to mleung@legco.gov.hk

Ms. Erin Tsang
Clerk to Panel on Information, Technology and Broadcasting
Legislative Council
Legislative Council Building
8 Jackson Road
Central,
Hong Kong

Dear Ms. Tsang,

Panel on Information Technology and Broadcasting - Meeting on Wednesday 18 July 2007 - Invitation for submissions

In response to the captioned matter, please find enclosed our submissions with our views and comments in relation to Universal Service Arrangements. An electronic copy of the submissions would also be provided by e-mail today to the specified address as requested.

Thank you very much.

Yours sincerely,

Jordan Lee
Senior Manager
Regulatory & Carrier Affairs

Encl.



& IT services subsidiary



「全面服務責任安排」已過時，理應取消

背景、定義及原則

根據電訊管理局局長於 1998 年制訂及 2000 年更新的現行「全面服務責任」規管框架下，推行全面服務責任的目的是要確保全港市民不論於本港何處居住或經營業務，都能以可負擔的價格使用基本電話服務，包括提供服務予那些無利可圖甚至虧本的無經濟效益的客戶。基本服務主要包括電話服務及公眾收費電話服務。電訊盈科是現行承擔「全面服務責任」的唯一一家營辦商。

有關數據

那麼「全面服務責任安排」應該是一個源於為市民服務為本的良好機制，旨在讓市民受惠，使資源運用適得其所，難道不是嗎？然而，過去十年，在全面服務機制下，無經濟效益的用戶佔全面服務用戶的總數由 1997 年的 49% 大幅下降至 2004 年的 10%，顯示市民對全面服務的依賴正不斷萎縮。相反，電訊業在過去十年的發展蓬勃，市民可以享受各式各樣通訊帶來的樂趣，如互聯網、收費電視、流動電話等等。基於全面服務責任機制的精神下，正使用其他電訊服務的用戶，是否應該從機制下剔除，以確保全面服務責任的公平原則？

根據電訊管理局於 2006 年 11 月 13 日發出的全面服務補貼報告指出，2004 年已確定補貼費達 \$103M，當中 \$55M 補貼無經濟效益的客戶，\$47M 補貼收費電話亭。可是值得注意的是，現時全港約 4,200 台收費電話亭中，94% 是使用率甚低以致無經濟效益的。作為市民的代表，請問閣下使用收費電話亭的次數有多少？你是否知道最鄰近的收費電話亭位處何方？

市場開放，網路覆蓋範圍廣泛

電訊市場自二零零零年起迅速轉變，通訊科技如網路電話等不斷發展，電訊市場開放後新營辦商的加入促使市場競爭加劇，市民在電話通訊方式及營辦商已有很多選擇。根據 2007 年 2 月的數字顯示，現時香港共有 10 家本地有線固定電訊網絡服務營辦商、1 家本地無線固定電訊網絡服務營辦商、6 家利用衛星提供對外固定電訊網絡服務營辦商、21 家利用電纜提供對外固定電訊網絡服務營辦商。同時，還有 252 家對外電訊服務營辦商，提供電子郵箱、儲存轉發傳真、電子數據交換等各類增值服務。

資訊及通訊科技發達普及，全面服務責任安排已過時

在電訊市場百花齊放下，我們認同電訊管理局提出將有其他固網營辦商提供服務的樓宇，應從全面服務責任安排的框架下剔除，而在有其他收費電話亭營辦商提供服務的地區，這些納入「全面服務責任安排」下的收費電話亭也應剔除。若剔除上述兩項建議後，被納入「全面服務責任」的範圍將大幅減少。基於「全面服務責任安排」的原則，那麼「全面服務責任」框架是否應該刪除，政府、營辦商及普羅大眾心裏有數。

再者，香港是一個非常現代化的城市，資訊及通訊科技發展及普及情況已非常發達。香港是全球第一個擁有全面數碼化固定電話網絡的城市，在國際電話通話時間，以及電話線、流動電話及傳真機的普及率等方面於亞洲區內居領先地位。香港設有亞洲最大的衛星地面收發站，而接駁的光纖電纜亦較亞洲其他經濟體系為多。1998年香港在全球率先推出以寬頻為本的互動電視服務。香港也是推出固定電話用戶號碼全面可攜服務的全球主要城市之一，有助開放本地固網市場。現時香港住戶固定電話線普及率高達 92%，按人口計算的流動電話用戶普及率更高達 136%，意味著平均每個人擁有 1.3 部流動電話。過去已有 39%原屬全面服務責任安排下的用戶受惠於新市鎮及電訊市場的迅速發展，成功脫離電訊業全面服務的補助。然而，在香港電訊市場百花齊放下，就算全面服務責任安排被淘汰，現在屬全面服務責任安排下的少數用戶，仍然可繼續安然使用固網或其他通訊；皆因電訊營辦商不會將已投資興建的電訊基建網絡連根拔起，更不會因為全面服務責任安排被取締而停止向現有客戶提供服務。

因此電訊設備的發展、應用和普及率之高，用戶已經能選擇使用不同方式的通訊系統，亦不只限於固定電訊網絡。「全面服務責任」的原意已不設合現時的需要。

「偏遠地區」的定義應重新釐定，確保業界資源運用適得其所

要執行全面服務責任安排，確保全港市民不論於本港何處居住或經營業務，都能以可負擔的價格使用基本電話服務的原則之外，政府亦應對「偏遠地區」的定義重新釐定，以確保業界的資源運用適得其所，而非用作無謂的投資。

從 2006 年香港中期人口統計報告顯示，香港的人口分布持續改變。過去十年，大部分新界的地區人口均有增長，新界人口分布佔全港人口的比例由 1996 年的 47% 上升至 2006 年的 52%。隨著大嶼山北新市鎮的發展，離島成為香港人口的增長率最高的地區，達 117%；其次為西貢，人口增長率達 105%。過去被稱為「偏遠地區」的新界和離島，現在逐漸發展成新市鎮；過去被稱為「偏遠地區」的居民，現在不用為對外通訊問題而費心，因為現在城市規劃井然有序，網絡基建無遠弗屆。香港還有幾多地區的用戶納入全面服務責任安排下呢？

自 1997 至今，業界已付出約超過\$20 億對全面服務的補助。然而政府將推行的責任委於業界，要業界向唯一「責任」承辦商不斷進行補貼，實有欠公允。綜觀現時香港電訊業的發展情況，實施全面服務責任的原則已不合時宜，勉強保留只會令社會資源繼續錯配，有礙香港電訊市場的自由發展。

電訊盈科或電訊管理局若堅持繼續推行全面服務責任，我們認為現行全面服務責任的唯一營辦商電訊盈科應承擔有關費用。

全面服務責任安排令唯一承辦商繼續享有其既得利益

為甚麼電訊盈科應承擔費用呢？電訊盈科執行「全面服務責任安排」同時得到無形利益及優勢。電訊盈科或其附屬公司能利用全面服務責任安排的補貼鋪設網絡，在提供固網電話服務的同時，並推銷電訊盈科其他服務如收費電視或寬頻服務等。因此，電訊盈科不但能壟斷偏遠地區的客戶，更能使用補助金資助他們擴張勢力，利用履行全面服務責任安排之便，增加市場推廣及宣傳，例如於收費電話亭宣傳電訊盈科旗下的產品，不斷展示電訊盈科商標增加企業形象。總括而言，全面服務補貼只會繼續阻礙市場進行公平競爭，令有全面服務責任安排的唯一承辦商繼續享有其既得利益。

總結：全面服務責任安排已過時，理應取消

全面服務責任安排已不設合香港現時的环境，應予以取消；我們認為政府須因應實際情況，制定合適而公平的法規，鼓勵香港電訊市場的自由發展，不要繼續浪費寶貴的社會資源，補貼市場壟斷者進行不公平的商業競爭。

**WHARF T&T LIMITED
SUBMISSION IN RESPONSE TO
THE TELECOMMUNICATIONS AUTHORITY ("TA")
CONSULTATION PAPER DATED 28 DECEMBER 2006 ON REVIEW OF THE
REGULATORY FRAMEWORK FOR UNIVERSAL SERVICE ARRANGEMENTS**

14 March 2007

1. INTRODUCTION

- 1.1 We welcome the review initiated by the TA on the regulatory framework for universal service arrangements. The review is long over-due considering the market developments since the universal service arrangement was first put in place.
- 1.2 We believe that many of the questions put forth by the TA are unnecessary at this stage of the review. The key questions to be addressed at this stage should be:
- (a) Whether the existing universal service arrangement should continue;
 - (b) Whether the scope of Basic Service should be re-defined; and
 - (c) Whether there should be competitive provision of universal service.
- 1.3 The other issues as raised in the consultation paper, namely, costing for universal service obligations (USO), funding arrangements for USO and administration matters are best to be left to a later stage when the key issues are settled. Indeed these issues may not need to be addressed at all depending on the outcome of the review on the key issues.
- 1.4 We do not agree with the TA that the current universal service arrangement should continue to be maintained. We submit that the universal service arrangement should be cancelled for the reasons as we set out in this submission. In short the costs of maintaining it do not justify its continuation. If universal service arrangement were maintained we believe PCCW-HKT Telephone Ltd. ("PCCW-HKT") the current universal service provider should bear the USO and the costs thereof due to the various intrinsic benefits accrued to PCCW-HKT and its affiliates.

2 UNIVERSAL SERVICE ARRANGEMENT

- 2.1 We note the 1998 Statement sets the policy objectives for universal service arrangement being:
- *To ensure access to affordable basic telephone services for all people in Hong Kong on a non-discriminatory basis irrespective of where they reside or carry on business; and*
 - *To ensure that the costs of providing universal basic services are fairly borne by the users of network services.*

- 2.2 To achieve these policy objectives, the existing universal service arrangement has been put in place whereby PCCW-HKT has the universal service obligation to provide basic service to all persons within the areas of Hong Kong, as defined in section 35B of the Telecommunication Ordinance and in the fixed carrier licence granted to PCCW-HKT. For the USO, PCCW-HKT is being compensated by all external telecommunication service providers for the costs that it has incurred in meeting the USO in the form of universal service contribution for each minute of external telecommunication traffic and in the form of local access charge (LAC).
- 2.3 We believe it is timely to review these policy objectives and the current universal service arrangement. We do not believe it is equitable for the other network users to subsidize those who choose to reside or do business in a remote rural area when they do have a choice. It is only fair that those who choose to reside or do business in a remote rural area would have to bear the extra costs (if any) of telecommunication services in the same way, as they would be paying more for transportation for instance. One cannot demand the same proximity from the nearest bus stop and the same frequency of bus services if he or she elects to live in a remote location (which is precisely what USO would guarantee all fixed line users).
- 2.4 It is also timely to review the policy objectives and the current universal service arrangement given that the telecommunication market in Hong Kong has been fully deregulated for a number of years now and there are abundance of choice of fixed network service providers. Due to keen competition in the telecommunication market, prices for telecommunication services including charges for IDD calls, line rentals etc have fallen dramatically and in some instances services are provided below costs. It is no longer the case where industry should be expected to carry the social and economic costs of providing telecommunication services to those in remote rural areas.
- 2.5 The consultation paper mentions that PCCW-HKT has to face competition from new entrants in the more profitable areas and business that it is no longer viable for it to meet the universal service obligation with profit generated from its profitable operation or business to cover the loss incurred in the provision of services in high costs area. However this is an altruistic statement and ignoring the intrinsic values brought to PCCW-HKT with the USO, the market power that it can exert in the market and the hurdles face by its competitors. Behaviorally, PCCW-HKT is already gouging uncontested customers to subsidise contested customers, which is unfair and immoral to its competitors, particularly when they are having to in turn subsidise PCCW-HKT through the USC to enable PCCW-HKT to compete for the very customers that competitors are competing for.
- 2.6 With USO and the universal service contribution PCCW-HKT has built out its territorial wide network. This territorial wide network has enabled PCCW-HKT and its affiliates to provide other non-basic services such as broadband services and pay TV, particular in the remote rural areas which resulted in PCCW-HKT and its affiliates enjoy de facto monopoly status in the broadband and pay TV services market in these areas. Effectively all contributors to the universal service costs of PCCW-HKT have funded the roll out, operating and maintenance of the network

which is being used by PCCW-HKT and its affiliates for other services such as broadband and pay TV services.

2.7 The current universal service arrangement involves significant costs for all contributors to the universal service costs and OFTA. Based on the TA's statement dated 13 November 2006 on the Confirmed Level for Universal Service Contribution for 2004, the total universal service cost came to \$103.3 million or 1.3 cents per minute of external traffic. The confirmed level of universal service costs for 2004 comprised of \$55.5 million for serving uneconomic customers and \$47.2 million for uneconomic payphones. Among the 1.9 million customers, 10% of them were uneconomic during the estimation period and they took up 9% of the number of telephone lines. The universal service costs for serving the uneconomic customers was \$55.5 million, or an average of \$25 per uneconomic customer per month. The administrative cost and bad debts was around \$0.6 million for 2004 which do not take into account the administrative costs of OFTA and contributors to the universal service costs.

2.8 With the adjustment of over-compensation to PCCW-HKT in LAC of 1.0 cent per minute, the actual universal service costs for 2004 was 0.3 cent per minute. Based on our estimation of the relative share of external traffic, the actual amount of universal service contribution received by PCCW-HKT from other contributors for 2004 was about HK\$18 million (OFTA may verify this amount). Based on the statements published by OFTA each year for confirmed level of universal service costs, the total universal service costs for serving uneconomic customers and the number of uneconomic customers as well as their average costs are declining.

The table below shows the declining costs of USC for the period from 1997 to 2004:

Universal Service Contribution

Year	Total USC (HK\$)	Uneconomic customers (HK\$)	Uneconomic payphones (HK\$)	Uneconomic customers
1/4/97-31/3/98	\$510.5M	\$398.2M	\$112.3M	2.7M customers: 49% uneconomic = Average \$25.6 p/c/m USC
1/4/98-31/12/98	\$360M	\$303M	\$57M	2.7M customers: 46% uneconomic = Average \$27.1 p/c/m
1999*	\$327M	\$242.6M	\$83.7M	2.7M customers: 23%# uneconomic = Average \$32.4 p/c/m
2000	\$170.7M	\$102.1M	\$67.3M	2.7M customers: 9%# uneconomic = 8% of telephone lines = Average \$34 p/c/cm
2001	\$127.9M	\$74.8M	\$53.2M	2.6M customers: 7% uneconomic = 6% of lines = Average \$33 p/c/m
2002	\$111.3M	\$67.3M	\$43.1M	2.4M customers: 8% uneconomic = 8% of lines = Average \$28 p/c/m
2003**	\$104.2M	\$59.8M	\$44M	2.1M customers: 7% uneconomic = 8% of lines = Average \$31 p/c/m
2004##	\$103.3M	\$55.5M	\$47.2M	1.9M customers: 10% uneconomic = 9% of lines = Average \$25 p/c/m

* Prior to actual for 1999 – calculation was based on TA statement on Universal Service Arrangements: the Regulatory Framework issued on 14/1/98. Review for 1999 and onwards are based on the revised calculation methodology stated in TA Statement dated 13 July 2000 and also took into account the re-balancing of residential DEL and full ETS commencing from 1/1/99

uneconomic customers significantly reduced due to permission to re-balance tariff for RDEL+

** Took into account promotional offers by PCCW to customers – unfair for contributing parties to finance the marketing campaigns of PCCW, therefore any rebates, discounts and incremental costs associated with promotional programs were taken out from USC calculation. Also for promoted DEL that were likely to have been switched to competitors had those promotions not been launched, they were excluded from USC calculation

To ensure USC contributing parties were not unfairly financing marketing campaigns of PCCW, any discounts including rebates, waivers, allowances, freebies and any other incremental costs associated with the promotional programs of PCCW would continue to be taken out from USC calculation. Also those lines under promotions by PCCW that could have been switched to other competitors had those promotions not existed would be totally excluded from USC calculation.

2.9 Given that the amount of universal service contribution received by PCCW-HKT is declining each year and the total universal service costs for serving uneconomic customers and the number of uneconomic customers as well as their average costs are declining, the costs for maintaining the current universal service arrangement simply do not justify its continuation in its present form.

2.10 In view of the above we do not agree with the TA's preliminary view that the universal service arrangements should continue to be maintained. We believe the current universal service arrangement should be cancelled as soon as practicable. If the Government wishes to continue the universal service arrangement, we submit that PCCW-HKT should continue to bear the USO. We propose that either the Government funds the costs of the USO of PCCW-HKT or PCCW-HKT and its affiliates bear the costs of the USO. We believe PCCW-HKT and its affiliates should bear the costs of USO for the following reasons:

- (a) PCCW-HKT has by far the most extensive network coverage which has been funded by universal service contributions;
- (b) PCCW-HKT's affiliate uses the very same network to provide broadband and pay TV services to generate revenue and in remote rural areas it enjoys de facto monopoly status with pricing power since its competitors do not have the coverage;
- (d) costs of USO is insignificant considering the financial power of PCCW-HKT and its affiliates. For 2004, the actual USC of \$103 million represents only a 0.4% of PCCW's 2004 turnover of \$22.9 billion. The estimated \$18 million USC which it received from other contributors represents 0.08% of its 2004 turnover; and
- (e) PCCW-HKT and its affiliates enjoy intrinsic benefits associated with USO e.g. visibility of corporate image; ease of building access, access to advertising space and revenue.

3 SCOPE OF UNIVERSAL SERVICE

3.1 The scope of universal service is referred to as the basic service, which is defined in the Telecommunications Ordinance and the special conditions of the various

telecommunications licences. At this stage of the review we do not suggest any changes to the scope of the basic service.

- 3.2 Based on the yearly statements by the TA on confirmed level of universal service costs, and as provided in Table 1 in the consultation paper, uneconomic payphones costs have come down from \$112.3 million for the period 1 April 1997 to 31 March 1998 to \$47.2 million for 2004. Payphones now represent nearly half of the total universal service costs, compared to 26% for the period from January 1999 to December 1999. Whilst we agree that the costs of maintaining the uneconomic payphones has become stable since 2002, nevertheless it represents a very significant portion of the universal service costs and for 2004, 94% of the payphones were uneconomical and there were 4,200 payphones for the same period. We believe there is a need to review the need for universal service contribution towards maintaining these uneconomic payphones given that nearly all of them are uneconomical.
- 3.3 As pointed out in the consultation paper, these payphones have been used by PCCW-HKT and its affiliates for advertising. We understand they have been used for advertising PCCW-HKT's own products and the products of its affiliates for a period of time. Whilst PCCW-HKT may not actually receive advertising revenue from the advertisements, however the benefits must be taken into account in calculating the costs for maintaining these uneconomic payphones. The advertising revenue should reflect the fair market value of the advertising space on the payphone kiosks. If PCCW-HKT were permitted to place advertisements on its payphone kiosks, it should also be required to offer the advertisement space to other operators on commercial terms.
- 3.4 In addition to the advertising revenue, the costs of maintaining these uneconomic payphones should also take into account the intrinsic benefits or value to PCCW-HKT and its affiliates with the visibility of its corporate image through these payphones kiosks. We suggest that OFTA engage an independent body to assess the amount of the intrinsic benefits of the payphones kiosks to PCCW-HKT and its affiliates.
- 3.5 In view of the advertising revenue and the intrinsic benefits to PCCW-HKT and its affiliates, we believe PCCW-HKT and its affiliates should alone shoulder the costs for maintaining the payphones. Given the actual amount of universal service costs that PCCW-HKT would collect from the contributors, it is not cost effective to introduce any mechanism or arrangements to add to the administrative burden for all concerned.

4 COMPETITIVE PROVISION OF UNIVERSAL SERVICE

- 4.1 We agree with the TA as stated in the consultation paper that, in principle, the universal service should be provided by the most efficient operator irrespective of the technology deployed and whether they are mobile or fixed network operator. There is no reason why the provision of universal service could not be opened up for competitive bidding and with the extensive network coverage of mobile operators, they are equally able to compete in providing universal service.

4.2 Subject to the TA's verification, the network coverage of PCCW-HKT is by far the most extensive one and it is in the best position to provide universal service given its incumbency and USO. Therefore the incremental costs (if any) for PCCW-HKT to extend its network to provide universal service would be less than the other non-incumbent operators.

4.3 Given the current legislative framework we agree that the current review should perhaps be confined to examining the existing arrangement of providing universal service by PCCW-HKT.

5 EXCLUSION FROM USO OF AREAS WITH ALTERNATIVE FIXED NETWORK COVERAGE

5.1 We agree that to continue subsidizing the universal service provider in areas where other network operators are willing to compete will distort the competitive landscape and it is also not a fair or reasonable arrangement.

5.2 We agree with the TA's preliminary view that areas or buildings with alternative fixed network coverage should be excluded from the USO and where there are choices for public payphones, these payphones should also be excluded from the USO.

5.3 With such proposed exclusions we could expect the areas subject to USO to be significantly reduced and the corresponding universal service costs as well as universal service contribution. Indeed this is further justification to discontinue the universal service contribution to PCCW-HKT for such reduced USO given the significant administrative costs that would be involved to calculate the universal service costs and contribution.

6 COSTING FOR USO

6.1 We submit that other network users should not be expected to subsidise those who choose to reside or do business in remote rural areas and the price of the service should reflect the costs of provisioning the service. However if it is considered that basic service or universal service should be maintained and be made available to those in remote rural areas and where there is no other alternative, we believe PCCW-HKT should provide the required basic service and bear the costs thereof and should not look to contributions from the other service providers for its USO. If not, the Government should bear the costs of USO.

6.2 Given the estimated decline in the scope of universal service coverage, universal service costs and amount of universal service contributions to be received, it is not costs efficient to maintain the universal service contributions in view of the costs involved in calculating the universal service costs and contributions.

6.3 In terms of compensation for its reduced scope of USO, PCCW-HKT should look to the intrinsic benefits or value associated with the USO including provision of broadband services using the same network, advertising revenue on its payphone kiosks, corporate image on payphone kiosks etc accrued to it and its affiliates.

- 6.4 Subject to our comments above, we do not see any reasons for departing from the current costing principles for universal service costs, which was last reviewed in 1999 to 2000 and concluded in a TA's statement issued on 13 July 2000.
- 6.5 Based on the review of the costing principles for universal service costs in 2000, where the line is used for the provision of both narrowband and broadband services, the "relevant costs" include only the costs apportioned to the narrowband services. Where the same physical connection line has been used to provide broadband and pay TV services, we believe the TA should again review the economics of providing broadband and pay TV services with the view to consider whether the revenue from them should be included in the "relevant revenue". It is possible that a customer could be economic with the inclusion of broadband and pay TV related costs and revenue due to increasing penetration of broadband and pay TV services and declining costs.
- 6.6 In calculating the universal service costs, OFTA has rightly excluded any discounts including rebates; waivers, allowances and freebies associated with the promotional offers of PCCW-HKT and rightly adopted PCCW-HKT's standard tariffs for the telephone lines. We believe the treatment of telephone lines under promotions as stated in the consultation paper should be formalized and continually to be applied. As rightly pointed out by OFTA, to do otherwise would mean that contributors to the universal service costs would be subsidizing PCCW-HKT's promotional programs to their detriment.
- 6.7 We are very concerned with the ability of PCCW-HKT to recover its impairment of assets losses through universal service costs. We are of the view that the asset written downs should be excluded from the calculation of universal service costs.
- 6.8 We submit that it is unfair for PCCW-HKT to recover the costs of excess capacity as a result of effective competition. Any costs of excess capacity should not be included in the calculation of universal service costs.
- 6.9 We do not believe we should consider alternative costing principles at this stage of the review. Given the size of Hong Kong in terms of geography landscape and population, it can hardly be sensible to follow the situations of other countries such as Canada and USA.
- 6.10 The current approach on customer-by-customer basis to identify each individual uneconomic customer, as rightly pointed out by OFTA is an extremely detailed approach. Whilst it might have given high accuracy of estimation of costs, it is not efficient or costs effective and the calculation is always some 2 years behind. We would support a simplified approach such as using the approach of "area" provided such approach does not result in higher universal service costs. However we believe this issue is premature at this stage of the review.
- 6.11 There are intrinsic benefits accrued to the universal service provider. As identified in the consultation paper, these benefits include brand awareness/loyalty, public payphone advertising/visibility, ubiquity of service and life cycle effects. In addition to those benefits identified by the TA, PCCW-HKT and its affiliates have used the same network funded by universal service contribution to provide other

services such as broadband and pay TV services. These benefits should not be underestimated or ignored.

- 6.12 In our view the costs involved in administering the current universal service arrangement including the effort of OFTA in determining the scope of USO, calculation of universal service costs, the collection fees for the collection agency and the reporting obligations on the part of the contributor, it is time that we should take a practical approach to universal service arrangement and query in an environment such as Hong Kong whether we need to have a universal service arrangement.
- 6.13 Given the size of Hong Kong, with reduced scope of USO (based on the actual level of universal service contribution for 2004, only 10% of customers were uneconomic or 9% of the lines), reduced universal service costs and the amount of universal service contribution actually received by PCCW-HKT, the universal services costs of PCCW-HKT would be more than compensated by the intrinsic benefits associated with the USO.

7 FUNDING ARRANGEMENTS FOR USO

- 7.1 Given that the USO is to meet social objectives, we believe the Government should be funding it instead of the telecommunication industry. If funding by the industry were justified based on the size of the revenue base in comparison to the cost of USO and the benefits from the universality of network services, PCCW-HKT and its affiliates would be the ideal candidate to fully fund the cost of USO.
- 7.2 IDD traffic minutes have been used as the USC sharing basis. The first reason for using IDD traffic minutes i.e. the cross-subsidy between local and IDD services no longer holds true. Whilst IDD services providers do rely on local fixed network for access, they compensate for such access via LAC to the fixed line operator whose network has been used. Whilst other mobile network operators and fixed line operators benefit from universal service, they pay for the services they acquired.
- 7.3 There are complications associated with looking at alternative sharing arrangement. The 4 options identified by OFTA are:

Option 1 – Status quo, i.e. sharing on the basis of IDD traffic minutes through circuit-switched networks;

Option 2 – Sharing on the basis of eligible revenue;

Option 3 – Sharing on the basis of numbers allocated to fixed services with prefixes 2, 3, 8, 57 and 58; and

Option 4 – Sharing on the basis of numbers allocated for fixed and mobile services with prefixes 2, 3, 6, 8, 9, 57 and 58 when MNOs are accorded the same treatment as FNOs in relation to regulation of the fixed mobile interconnection charge, subject to the outcome of consultation of the Deregulation for Fixed-Mobile Convergence. Prior to that, Option 3 is adopted.

- 7.4 There are pros and cons with each of the option. We object to option 3 where sharing is based on numbers allocated to fixed services. We fail to see why fixed services have to be singled out to bear the burden of USO. We fail to see why MNOs should be given preferential treatment .
- 7.5 We are very concerned that on one hand the TA continues to impose burdens on fixed carriers in relation to universal service and the costs of USO, on the other hand he continues to give relieves to MNOs via several rounds of reductions in their licence fees and taking regulatory intervention in the review of fixed-mobile interconnection charges. It is time that the TA takes a balance approach and give some form of relieve to the fixed carriers in the form of a reduced licence fees.

8 ADMINISTRATION MATTERS

- 8.1 We maintain our view expressed earlier that with the declining scope of USO, universal service costs that it is not cost justified to maintain the universal service arrangement. With the abolishment of universal service or our suggested arrangement whereby PCCW-HKT and its affiliates bear the costs of USO, then we can dispense with the collection agent and OFTA's on-going administrative costs as well as the on-going administrative costs for the other contributors to the scheme.
- 8.2 We do not have objection to the TA's proposal in handling the unclaimed rebate.

9 IMPLEMENTATION OF THE NEW REGIME IN PHASES

- 9.1 We agree that a comprehensive review of the universal service arrangement could take a long time to complete. We suggest that the review should focus on the key issues namely the need for the universal service arrangement and the funding arrangement.
- 9.2 Our proposal is to cancel the universal service arrangement given the size of Hong Kong, the number of lines or customers considered as uneconomic is very small and the unjustified costs in administering the universal service arrangement. With this proposal the industry and the regulator would be relieved of the burden of administering the universal service arrangement and there is no need to review all the complex issues identified such as the identification of relevant revenue, relevant costs, calculation methodology of USO, contributions and on-going administration.
- 9.3 If for social and economic consideration the Government considers it necessary to continue the universal service arrangement we submit that PCCW-HKT should undertake the USO. The cost of USO should be funded by PCCW-HKT and its affiliates. With the declining scope of USO and costs, the cost burden to PCCW-HKT and its affiliates would be insignificant. Besides PCCW-HKT and its affiliates have been enjoying and will continue to enjoy the benefits associated with USO namely the corporate image, potential advertising revenue and more importantly due to the extensive network coverage it is the only operator which is able to provide universal network coverage to provide broadband and pay TV

services etc on top of basic services to remote rural areas which no other operator is able to compete.

10 CONCLUSION

- 10.1 We welcome the review of universal service arrangement. We urge the TA to take a practical approach to dealing with the arrangement. Ensuring that basic service is available to those in remote rural areas at acceptable costs is essentially a social and economic issue that the Government should also take responsibility.
- 10.2 The actual level of universal service costs for 2004 shows that there were only 9% of the lines, which were uneconomic, on average \$25 per customer per month. For the same period uneconomic payphones represented nearly half of the total universal service costs and 94% of them were uneconomical. Yet to administer the universal service arrangement on an on-going basis, the TA and the industry have to carry a huge burden and costs to service 9% of the uneconomic lines and 94% of uneconomic payphones. The costs and effort involved do not in our view justify the continuation of the universal service arrangement; we therefore propose that it be cancelled.
- 10.3 If the Government is concerned to ensure that basic service is available to those in remote rural areas, it should impose the USO on PCCW-HKT and require PCCW-HKT and its affiliates to bear the costs of USO.
- 10.4 In view of the various intrinsic benefits associated with the USO and the actual amount of universal service contribution, which it received for 2004, as well as the expected or projected decline in scope of USO and costs of USO, we believe PCCW-HKT and its affiliates would be well able to bear the costs of USO. This would save the TA and all existing contributors to the universal service costs significant costs and resources in administering the universal service arrangement.

Submitted by Wharf T&T Limited
14 March 2007