

**立法會**  
**Legislative Council**

LC Paper No. CB(1)468/06-07  
(These minutes have been seen  
by the Administration)

Ref : CB1/PL/ITB/1

**Panel on Information Technology and Broadcasting**

**Minutes of meeting**  
**held on Monday, 13 November 2006, at 2:30 pm**  
**in Conference Room A of the Legislative Council Building**

**Members present** : Hon Albert Jinghan CHENG (Chairman)  
Hon Fred LI Wah-ming, JP  
Dr Hon LUI Ming-wah, SBS, JP  
Hon Jasper TSANG Yok-sing, GBS, JP  
Hon Howard YOUNG, SBS, JP  
Hon Emily LAU Wai-hing, JP  
Hon Timothy FOK Tsun-ting, GBS, JP  
Hon Albert CHAN Wai-yip

**Members absent** : Hon SIN Chung-kai, JP (Deputy Chairman)  
Hon Ronny TONG Ka-wah, SC

**Public officers attending** : Agenda Item IV  
  
Mr Howard C DICKSON  
Government Chief Information Officer  
  
Mr Stephen MAK, JP  
Deputy Government Chief Information Officer  
(Operation)  
  
Ms Linda SO  
Deputy Government Chief Information Officer  
(Planning & Strategy)

Mr Raymond CHAN  
Chief Systems Manager  
(E-government Policy and Development)

Agenda Item V

Mr Howard C DICKSON  
Government Chief Information Officer

Mr Stephen MAK, JP  
Deputy Government Chief Information Officer  
(Operation)

Ms Linda SO  
Deputy Government Chief Information Officer  
(Planning & Strategy)

Mr Victor LAM  
Assistant Government Chief Information Officer  
(Digital 21 Policy & Strategy)

Agenda Item VI

Mrs Marion LAI, JP  
Deputy Secretary for Commerce, Industry and  
Technology  
(Communications and Technology)

Mr T Y CHAN  
Assistant Director  
Regulatory Affairs Branch  
Office of the Telecommunications Authority

**Clerk in attendance** : Miss Polly YEUNG  
Chief Council Secretary (1)3

**Staff in attendance** : Miss Erin TSANG  
Senior Council Secretary (C)4

Ms Debbie YAU  
Senior Council Secretary (1)1

Ms Annette LAM  
Senior Council Secretary (1)3

Ms Sharon CHAN  
Legislative Assistant (1)6

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Action

**I Confirmation of minutes and matters arising**

(LC Paper No. CB(1)190/06-07 -- Minutes of meeting held on  
12 October 2006)

The minutes of the special meeting held on 12 October 2006 were confirmed.

**II Papers issued since last meeting**

(LC Paper No. CB(1)172/06-07(01) -- Executive summary of the  
consultation paper on proposed  
spectrum policy framework

LC Paper No. CB(1)233/06-07(01) -- Submission from a member of the  
public on "Consultation Paper on  
Proposed Spectrum Policy  
Framework")

2. Members noted the two papers issued since last meeting.

**III Date and items for discussion for next meetings**

(LC Paper No. CB(1)237/06-07(01) -- List of outstanding items for  
discussion

LC Paper No. CB(1)237/06-07(02) -- List of follow-up actions)

Regular meeting on 11 December 2006

3. Members noted and agreed to discuss the following items at the next regular meeting to be held on 11 December 2006:

- (a) Implementation of pilot e-procurement project;
- (b) Public consultation on release of spectrum to enable the provision of CDMA 2000 service; and

- (c) Information security (item deferred from the November 2006 meeting).

Regular meeting in January 2007

4. The Chairman suggested that the item "Public consultation on proposed spectrum policy framework" should be included on the agenda of the Panel meeting in January 2007. He also suggested that apart from a briefing by the Administration, the Panel should also invite the industry, stakeholders and other interested parties to provide submissions on the subject and to attend the meeting. As the consultation period would end on 24 January 2007, the Chairman proposed to re-schedule the Panel meeting to mid-January 2007 instead of on 8 January 2007 as originally scheduled to allow more time for deputations to prepare their submissions. Members agreed. The Secretariat would work out alternative dates and consult members on the revised meeting arrangements in due course.

Clerk

*(Post-meeting note: The meeting has been re-scheduled to 15 January 2007. Members have been duly informed of the arrangement on 1 December 2006 vide LC Paper No. CB(1)416/06-07.)*

**IV CWRP Head 710 Computerisation Subhead A007GX - New Administrative Computer Systems**

(LC Paper No. CB(1)236/06-07(01) -- Information paper provided by Administration)

5. The Chairman said that having regard to the experience at the last Panel meeting held on 17 October 2006, he would prefer to continue the practice of not imposing restriction on Members' speaking time. He however urged members to try to limit their speaking time to five minutes. He added that the arrangement could be reviewed in the light of implementation experience.

Introduction by the Administration

6. At the invitation of the Chairman, the Deputy Government Chief Information Officer (Planning & Strategy) (DGCIO(P&S)) briefed members on the funding requirement for 2007-08 for the implementation of computerization projects under the Capital Works Reserve Fund (CWRP) Head 710 Computerization Subhead A007GX- New administrative computer systems. She said that based on the proposals submitted by bureaux and departments, the Office of the Government Chief Information Officer (OGCIO) estimated that for 2007-08, a block allocation of \$540 million would be required to fund a total of 279 administrative computer system projects. These included \$422 million for the 193 projects initiated in 2006-07 or earlier; and \$118 million for 86 new projects. DGCIO(P&S) further advised that the new projects to be implemented included (a) projects to enable the delivery of better services to the citizens and businesses; (b)

projects to attain greater efficiency and productivity; and (c) projects to enhance the e-government infrastructure of government bureaux and departments. Members noted that the relevant funding request would be submitted to the Finance Committee for consideration on 12 January 2007 after endorsement by the Public Works Subcommittee on 19 December 2006.

## Discussion

### *Projects*

7. Noting the established practice that projects not exceeding \$10 million each were funded through a block allocation, Mr Howard YOUNG remarked that members might be concerned that a certain project, in particular those costing just below \$10 million, might in fact be part of a bigger project but had been singled out for seeking approval as part of the block allocation.

8. Referring to Annex B of the Administration's information paper (CB(1)236/06-07(01)), Mr Howard YOUNG noted that one of the proposed new computerization projects was the appointment of external consultants to review and formulate an Information System Strategy Plan proposed by the Immigration Department (ImmD) to improve efficiency and productivity. Mr YOUNG was concerned whether the project could improve the efficiency of immigration and custom clearance for Mainland and foreign visitors, such as the implementation of an automated passenger clearance system for visitors similar to the e-channels currently available for Hong Kong permanent residents.

9. In response, the Deputy Government Chief Information Officer (Operation) (DGCIO(O)) advised that as he understood, the ImmD kept its information systems strategy under regular review once every few years to see whether the existing systems could still support the department's scope of services, such as expediting immigration and custom clearance for visitors to Hong Kong. Where there was a justified need, the ImmD would submit further proposal(s) again to seek additional resources to develop new administrative computer system(s).

10. Mr Howard YOUNG sought elaboration on the project to upgrade and extend email services proposed by the Lands Department which was also included in Annex B of CB(1)236/06-07(01). He considered that the infrastructure for the provision of email services should be standardized among all government departments, and was therefore concerned whether the upgrade would also be applied to other departments.

11. In reply, DGCIO(O) explained that the software currently used by the Lands Department could no longer meet its service requirements and would need to be upgraded. As the upgrading would cover the entire department, the project was estimated to cost \$8.9 million. On the service-wide electronic/email system, DGCIO(O) said that OGCIO was going to conduct an overall review to ensure that the system could support the business requirements of individual departments.

*System design*

12. Mr Albert CHAN noted that in the past, some computerization systems developed by government departments were not utilized due to obsolete design or changes in service requirements. He enquired about the Administration's measures to safeguard against wastage of public resources in the face of rapid technological changes or changes in service requirements.

13. In response, DGCIO(O) pointed out that under the existing practice, departments administering computerization projects funded by the block allocation would review the development of each information system six months after implementation to see whether it was within budget and rolled out on schedule. They were also required to submit reports to OGCIO. After considering the review reports, OGCIO would follow-up with the respective departments on those information systems which required improvement.

14. In this connection, Mr Albert CHAN pointed out that a \$100-million information system developed by the Social Security Branch of the Social Welfare Department had been left idle. As such, Mr CHAN urged the Administration to review the existing mechanism and improve coordination to prevent the recurrence of similar wastage by, for example, shortening the tendering process and providing more flexibility in the specification in the tender documents.

15. Noting Mr CHAN's concern, the Government Chief Information Officer (GCIO) said that he was aware of some slippage in project delivery, but added that such a situation was not unique to the implementation of e-government in Hong Kong. Nevertheless, to improve risk management, OGCIO had strengthened the monitoring system for computerization projects. For example, projects costing \$100 million or more would receive the personal attention of GCIO to ensure that their design and scope were workable and that they would be delivered within budget and on schedule.

16. The Chairman was concerned whether the strengthened mechanism was also applicable to those projects listed in Annex B of the Administration's information paper (CB(1)236/06-07(01)). In response, DGCIO(O) confirmed that the new mechanism applied to all of the 400 or so information systems developed under CWRP Head 710. In fact, following OGCIO's enhancement of the mechanism in April this year, each computerization project, depending on its scale, would be reviewed by the appropriate level of staff in OGCIO and where necessary, follow-up actions would be taken. DGCIO(O) further said that where applicable, OGCIO would also take part in the tendering and assessment processes, including a review of the project from inception to implementation. At the Chairman's request for information on the number and nature of the projects reviewed, DGCIO(O) undertook to brief the Panel on the details in due course.

Admin

17. Summing up, the Chairman concluded that the Panel supported the proposal.

**V Public Consultation Document on Digital 21 Strategy**

(LC Paper No. CB(1)237/06-07(03) -- Information paper provided by Administration

LC Paper No. CB(1)105/06-07(01) -- "Public Consultation on Digital 21 Strategy – Continuing to build on our strengths through technology across the community" provided by the Administration

LC Paper No. CB(1)105/06-07(02) -- Leaflet entitled "Public Consultation on Digital 21 Strategy – Continuing to build on our strengths through technology across the community" provided by the Administration)

Introduction by the Administration

18. At the invitation of the Chairman, GCIO gave a brief introduction on the draft 2007 Digital 21 Strategy which was an updated blueprint for the development of information and communications technology (ICT) for Hong Kong. The draft Strategy was released for a two-month public consultation until 18 December 2006. He said that with the vision of building on Hong Kong's position as a world digital city through advancing the achievements made and seizing new opportunities, the theme underpinning the 2007 Digital 21 Strategy was "Continuing to build on our strengths through technology across the community". DGCI (P&S) then briefed members on the details of the draft 2007 Digital 21 Strategy as set out in LC Paper No. CB(1)237/06-07(03) with the aid of power-point presentation. She indicated that after considering views received during the consultation period, the Administration aimed to publish the finalized 2007 Digital Strategy within the first half of 2007.

Discussion

*Qualification Certification*

19. Referring to the initiative of developing Hong Kong as a hub for technological cooperation and trade, Mr Jasper TSANG asked whether there were any arrangements made for the information technology (IT) sector under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). He also enquired about the progress of the certification of IT professional qualifications in Hong Kong, and the business opportunities of local IT companies for and job prospects of local IT professionals in providing services in the Mainland.

20. DGCIO(O) advised that under CEPA II, arrangements had been made for Hong Kong IT companies and service suppliers to apply for Computer Information System Integration Qualification Certification (SI Qualification Certification), thereby enabling them to participate in Levels 3 and 4 IT projects in the Mainland. A number of Hong Kong IT companies had already successfully attained the SI Qualification Certification. In response to the Chairman's concern on the entry threshold for access to the Mainland market by local companies, DGCIO(O) advised that the Administration had successfully strived to lower the threshold. At the request of the Chairman, he undertook to provide further information in this respect to the Panel after the meeting.

Admin

21. Concerning IT professionals, DGCIO(O) said that as provided under CEPA II, local IT professionals could take the examination for SI Project Manager Qualification in Hong Kong, thus opening the door for them to render services related to systems integration and project management in the Mainland. However, noting that there were less than 20 persons who had attained such qualification, the Chairman and Mr Jasper TSANG enquired about the reason for the low success rate, and the efforts made by the Administration to assist local IT personnel in attaining the requisite Mainland qualification. In reply, DGCIO(O) explained that it was a matter of personal preference for taking the examination or otherwise. Nevertheless, the Administration would, in collaboration with the industry, endeavour to provide them assistance, and training courses had been organized by service providers such as the Hong Kong Productivity Council to local IT personnel.

22. Mr Jasper TSANG enquired whether the Administration had adequate communication with the industry to ascertain its needs and concerns on areas such as the attainment of professional qualifications. DGCIO(O) assured that the Administration was mindful of the importance of maintaining close coordination and communication with the industry, and was fully aware of the need for close collaboration with IT professional bodies. The arrangements made under CEPA had also been widely publicized to ensure a high degree of industry awareness. Moreover, to facilitate the continued upgrading of ICT workforce to meet future challenges, the Education and Manpower Bureau was developing a Qualifications Framework (QF). A set of Specification of Competency Standards for the ICT industry would be drawn up which would set out standards required for different levels of qualifications under the QF as well as the articulation ladders. In addition, the Administration had sponsored the Hong Kong Computer Society to conduct a study on a Certification System for IT Professional Qualifications and an IT Manpower Roster for Hong Kong. Liaison with the Hong Kong Institution of Engineers was also underway to explore the feasibility of setting up a registration system for IT practitioners.

*One-Stop Access Portal and the e-government programme*

23. Concerning the launching of the new One-Stop Access Portal, GovHK, Mr Albert CHAN remarked that although the new portal meant to be citizen-centric and to provide a one-stop shop for government information and services, it in fact posed

hurdles at each and every stop for the public. Citing his personal experience of encountering much difficulty in obtaining an application form for a snack kiosk licence for a carnival, he was of the view that government departments should be required to set out clearly for the public's information and easy reference the kind of application forms which could be downloaded from the websites and application procedures which could be processed on-line. He considered that such arrangement would not only facilitate members of the public but also promote positive competition on service delivery among bureaux and departments (B/Ds), thereby leading to service improvement. Sharing Mr CHAN's views, the Chairman requested the Administration to provide information on on-line services currently provided by departments on GovHK portal, and departments which had yet to ride on the GovHK platform for provision of services to the public so that effective assessment on the cost effectiveness of the e-government programme could be made. The Administration undertook to provide after the meeting the requisite information on a department-by-department basis.

Admin

24. While acknowledging members' concerns, GCIO pointed out that the successful operation of e-government services required a process of familiarization as the mode of service delivery was transformed from conventional forms by means of papers and human interface into digital means. DGCIO(P&S) added that increased efforts would be made to integrate services across B/Ds and agencies for delivery of quality services through the new portal to meet public expectations. OGCIO would also monitor closely the provision of e-government services by B/Ds and provide B/Ds with the necessary support.

25. In this connection, Mr Albert CHAN was concerned that as the provision of e-government services had a major impact on the everyday life of the general public, advances in IT would widen the digital divide between those who were IT-literate and those who were not which would result in social unfairness. He quoted for illustration the on-line booking system for facilities provided by the Leisure and Cultural Services Department, and remarked that it was always the same batch of people who could successfully make their bookings on-line while the majority of intended users who did not have the technical know-how failed to make their bookings. Another example was the IT-enabled telephone system launched by the Hospital Authority which rendered patients no option except to book their medical appointments through the telephone. In reply, DGCIO(P&S) advised that measures were in place to enhance the accessibility of e-government services having regard to the different needs of social sub-groups and those with special needs. A Channel Management Strategy would be developed in 2007 to examine the possibility of rationalizing different delivery channels such as conventional counter services in accordance with what customers needed and valued. As regards on-line booking, DGCIO(O) advised that normally, government departments would only reserve some of their service quotas for on-line booking. Departments would also regularly review the utilization rates of service delivery channels including the on-line channel for timely adjustment in the distribution of service quotas to meet customer demand.

26. Referring to the proliferation of on-line bookings which gave rise to a new profession of making bookings for profiteering in the United States, the Chairman said that on-line service providers would review and revise their booking procedures from time to time to prevent abuses. As such, he enquired about the course of action to be taken by the Administration if there was abuse of the government on-line booking system. In response, DGCIO(O) assured that the Administration had established a comprehensive information security infrastructure to counter abuses and cyber crime as well as guarding against system hack-in. In terms of operational procedures, departments had an on-going system of monitoring and analyzing their on-line transactions for detection of unusual usage pattern for investigation and follow-up.

*Privacy safeguards*

27. Referring to the recent incident concerning the leakage of complainants' personal data held by the Independent Police Complaint Council on the Internet, Mr Albert CHAN expressed concern on the protection of data privacy during electronic transactions and the commercial selling of personal data for business promotion and marketing purposes by individual civil servants. He opined that the Administration should consider drawing up guidelines against the commercial selling of personal data and imposing penalty for non-compliance.

28. DGCIO(O) advised that the Administration had put in place a comprehensive set of information security policies and guidelines for reference by civil servants on how to safeguard personal data. Non-compliance could lead to disciplinary action. In outsourcing contracts, departments should stipulate in the agreements express terms and provisions relating to the protection and secure transmission of personal data. Contractors were required to comply with the information security policies and guidelines promulgated by the Administration and were subject to the provisions of the Personal Data (Privacy) Ordinance (Cap. 486). Precautionary measures should also be taken by contractors in the handling of personal data with due care.

*Electronic Health Records*

29. On the Administration's vision of developing a territory-wide electronic health record (eHR) system, Ms Emily LAU remarked that it was a sensitive issue with far-reaching implications. She enquired about the overseas experience in this respect. GCIO advised that the eHR system was a strong movement around the world and had been adopted progressively in the United States and the United Kingdom. It was believed that the availability of comprehensive records would enable timely and informed decisions to be made at the point of care. The Hospital Authority had embarked on a pilot project of sharing its eHR with a number of private hospitals and private medical practitioners. But this pilot project was primarily one-directional at this stage. Territory-wide implementation of eHR was a long-term objective and a progressive and consultative approach would be adopted.

30. In response to Ms Emily LAU's enquiry as to whether a healthcare professional in public hospitals and clinics could access the eHR, DGCIO(O) confirmed that subject to confidentiality and data security safeguards as well as the patient's consent, a medical practitioner could access the patient's health record on a need basis.

*Overall progress and achievements of Digital 21 Strategy*

31. Noting that the Digital 21 Strategy was published in 1998 and had been launched for eight years, Ms Emily LAU questioned the slow progress made by the Administration so far such as in enabling every student to have access to suitable ICT facilities to support their learning, offering affordable software solutions to small and medium enterprises (SMEs) for enhancing their productivity, and bridging the digital divide faced by underprivileged groups.

32. In reply, GCIO stressed that the Administration had to find out the barriers and identify the problems before solutions could be worked out and implementation strategies be launched. He pointed out that the major challenges lied in people's mind set and attitude, as well as the amount of resources they wished to commit on ICT facilities. For instance, apart from the lack of means and space, parents' concern over their children spending too much time on-line could also impede students' access to ICT facilities. Regarding SMEs, while some did not see the need to use ICT in the course of their daily business, others might lack the resources or expertise to upgrade their ICT capabilities. DGCIO(O) said that focus groups would be organized to better understand the particular needs and interests of individual groups. To encourage greater ICT take-up among SMEs, free seminars and workshops would be organized to raise their awareness of the benefits of ICT adoption, and to tender advice to business start-ups on ICT and e-business applications.

33. On the achievements made so far, DGCIO(O) said that the ICT development in Hong Kong had received international recognition, and there was good progress in terms of Internet connectivity and ICT penetration as compared with those in overseas countries. The penetration rate of mobile phone increased from 104% in 2003 to 125% in 2006; household personal computer (PC) penetration from 68% in 2003 to 70% in 2005; broadband household Internet penetration from 50% in 2003 to 66% in 2006, and PC penetration in business from 55% in 2003 to 60% in 2005. The Administration also led by example in the use of e-business for both internal and public services and encouraging progress had been achieved over the years. Despite these, he said that it should not be complacent as successful ICT implementation required the participation and concerted effort of the entire community, including the Administration, the ICT industry, the academia and the public.

34. Dr LUI Ming-wah considered, however, that the achievements attained so far were attributable to commercial activities rather than efforts made by the Administration. At Dr LUI's request, the Administration undertook to revert to the

Panel on the specific achievements of the Strategy since its implementation in 1998 with quantifiable figures for assessment of the actual progress as well as efforts made by the Administration.

Admin

35. In this connection, Ms Emily LAU reiterated her disappointment that notwithstanding the launching of the Strategy since 1998, the Administration was still in the course of identifying problems associated with the implementation. She urged the Administration to identify the problems and come up with practical solutions and concrete plans as soon as possible. At the request of Ms LAU, the Administration undertook to report to the Panel in six months' time the updated progress of the Strategy.

## **VI Review on the convergence of fixed and mobile communications services**

(LC Paper No. CB(1)237/06-07(04) -- Information paper provided by Administration with executive summary attached)

(Second consultation paper on deregulation for fixed-mobile convergence dated 14 July 2006 (English version only) available at: <http://www.ofta.gov.hk/en/report-paper-guide/paper/consultation/20060714.pdf>)

36. Members noted the information provided by the Administration as per paragraph 30 of LC Paper No. CB(1)237/06-07(04), i.e. the incumbent fixed network operator, PCCW-HKT Telephone Limited (PCCW), had filed an application to the Court for judicial review and an interim stay of the public consultation process for fixed mobile convergence. It was also stated therein that the Court had subsequently granted leave to the application for judicial review but refused the interim stay. In this connection, the Assistant Director, Regulatory Affairs Branch of the Office of the Telecommunications Authority (AD(R)) referred to the court hearing in the morning of 13 November 2006 and clarified that a decision had yet to be made by the Court on PCCW's application for an interim stay.

*(Post-meeting note: The letter from PCCW's legal representative, which was issued to the Department of Justice on 13 November 2006 and copied to the Clerk, was circulated to Panel members for information vide LC Paper No. CB(1)276/06-07.)*

37. Mr Albert CHAN declared and requested to put on record that he had received a letter from PCCW's legal representative asking if he wished to be heard or represented at the hearing for the interim relief application scheduled for 13 November 2006. He added that according to the letter, since he had filed submissions to the Office of the Telecommunications Authority, he might be

considered as an interested party. Mr CHAN said that he had decided not to attend the hearing. In this connection, he raised concern on whether PCCW's application for judicial review would have any implications on the Panel's discussion of the agenda item. The Clerk informed members that the Administration had advised that it did not see any problem with the Panel's discussion of the agenda item. The Panel's legal adviser had also been consulted on the basis of the information available before the meeting and she had not raised any objection to the Administration's advice. The Chairman also drew members' attention to Rule 41(2) of the Rules of Procedure which provided that reference should not be made to a case pending in a court of law in such a way as, in the opinion of the Chairman, might prejudice that case.

38. On PCCW's application for an interim stay of the public consultation, Ms Emily LAU enquired whether there was any flaws in the consultation procedures which might have led to such an application. In response, AD(R) said that as the legal proceeding was in progress, it was not appropriate for the Administration to comment on the court case. Nevertheless, he informed the meeting that in PCCW's view, the Administration had taken a predetermined position on the telecommunications regulatory framework. He nevertheless explained that the consultation exercise was to gauge the views of the industry and the public. For this purpose, some preliminary proposals on deregulatory measures in the fixed-mobile convergence environment had been drawn up to facilitate consideration. AD(R) stressed that the Administration was open-minded and was prepared to listen to the views of the public and the industry in mapping out the way forward. He added that the preliminary proposals put forth in the consultation paper had been drawn up on the basis of the findings of a consultancy study. AD(R) highlighted that the consultation process was being conducted in a transparent manner and would continue until and unless the Court directed otherwise.

## Discussion

### *Number portability*

39. Mr Albert CHAN opined that the porting of numbers across fixed and mobile services would provide greater convenience to users. In response, AD(R) said that the Administration had adopted a market-driven policy on the development of the telecommunications industry, and took an open stance on fixed mobile number portability (FMNP) which was technically viable. Nevertheless, he pointed out that if FMNP was adopted, telecommunications user might be assigned with a single number for both fixed and mobile services, and call recipients would not be able to discern whether the call originated from fixed or mobile network. Since the consultancy study had not identified any urgent need for proceeding with FMNP, the Administration would conduct further market studies to assess whether there was market demand for FMNP before putting up a proposal.

*Interconnection charging arrangements*

40. Mr Albert CHAN considered the existing interconnection charging arrangement of “Mobile Party’s Network Pays” (MPNP) unfair and unacceptable as mobile network operators had to pay to fixed network operators the usage charges for the interconnection between the respective networks irrespective of whether the call originated from the fixed or the mobile network. He then enquired about the rationale behind such an asymmetric arrangement.

41. AD(R) explained that the MPNP arrangement dated back to the early 1980’s when mobile services were at their inception and their prices not regulated, while the tariff for local fixed telephony service was regulated in the form of a flat-rate monthly package which was below operating cost and cross-subsidized by the provision of the profitable international telephone service. If the MPNP arrangement had not been adopted at that time, the then franchised fixed network operator would have had to increase the flat monthly fees of its customers to cover the costs for carrying the calls to or from the mobile network operators. Moreover, since mobile services were treated as premium value-added services at that time and mobile network operators charged their customers on a per-minute basis, it was considered reasonable for the mobile network operators to pay the franchised fixed network operator an interconnection charge regardless of the origin of the call. However, as the market developed over the past years, the factors underpinning the MPNP arrangement in the early 1980’s had changed. While the prices of fixed telephony services had been allowed to be increased to full cost recovery, the level of charges for mobile services had fallen substantially over the years due to keen competition. Moreover, although the volume-based mobile charges still existed theoretically, the majority of customers actually paid flat-charges for call packages. The penetration rate of mobile service had also surpassed that of the fixed service. As such, the Administration considered it timely to seek the public’s views on whether the existing regulation, which was introduced more than twenty years ago, should be retained.

42. Noting that the Telecommunications Authority (TA) might resort to the powers under section 36A of the Telecommunications Ordinance (Cap. 106) to determine terms and conditions of interconnection between particular networks, Ms Emily LAU sought elaboration on the underlying principles and circumstances under which such power might be invoked by the TA. In response, AD(R) explained that under the Administration’s proposal, the current regulatory guidance on MPNP be phased out over a transitional period of two years during which the status quo was to be maintained. The network operators would be free to negotiate the terms and conditions of interconnection to apply after the transitional period using mutually acceptable settlement options. If commercial negotiations failed and a market failure was established, the TA would then make a determination under section 36A of the Telecommunications Ordinance to safeguard the interests of consumers and the public. In the current consultation exercise, the TA would like to seek the views of the public and the industry on whether the existing MPNP mechanism should be withdrawn and be replaced by another mechanism as well as the mechanism to be adopted. The TA had no

pre-conceived position on the matter and would come up with a view after analyzing views received during the consultation.

43. The Chairman remarked that in view of Hong Kong's international position as a leading ICT centre, the Administration should ensure the smooth operation of the telecommunications market and take all preventive measures to avoid any occurrence of market failure. AD(R) took note of members' concerns. He assured members that while the Administration did not anticipate that there would be a market failure if the existing regulatory guidance were to be withdrawn, every effort would be made to safeguard against such occurrence. The Administration undertook to revert to the Panel in due course if major changes were to be introduced to the existing telecommunications regulatory frame work.

Admin

## **VII Any other business**

44. The Chairman reminded members that a special meeting would be held on 23 November 2006 at 4:05 pm in Conference Room A to discuss "Issues relating to change in shareholding in PCCW Limited" within the Panel's purview. The meeting would be preceded by a special meeting of the Panel on Financial Affairs on the same subject.

45. The Chairman thanked Miss Polly YEUNG, Clerk to Panel, who would take up clerkship of another Panel very shortly for her past dedicated service; and welcomed Miss Erin TSANG, Clerk to Panel (Designate).

46. There being no other business, the meeting ended at 4:17 pm.