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Miss Erin Tsang
Chief Council Secretary (1)3
Clerk to Panel
Panel on Information Technology and Broadcasting
Legislative Council Secretariat
3/F Citibank Tower
3 Garden Road
Central
Hong Kong

Dear Miss Tsang,

**Panel on Information Technology and Broadcasting
Special Meeting on 18 July 2007: Agenda Item 2 on
Review of Regulatory Framework for Universal Service Arrangements**

At the Special meeting of the Panel on Information Technology and Broadcasting (ITB) held on 18 July 2007 to discuss the new regulatory framework for the universal service obligation (USO) arrangements, Panel Members asked questions about the profitability of IDD service and the trend of increasing volume of IDD traffic made through the Internet instead of the conventional public switched telephone network (PSTN). In response, I would like to provide additional information as follows.

Drop in IDD profitability

OFTA has been monitoring the IDD rate since year 2000. Assuming that the average IDD price index was 100 in 2001, our record indicates that the same price index was 31 in 2006 i.e. the average IDD rate has fallen by 69% within 6 years.

Similar trend can be found in other economies. Based on a report released by the Federal Communications Commission (FCC) of the USA entitled “2005 International Telecommunications Data” regarding IDD traffic between the US and other countries, the average IDD rate per minute dropped by 21% in one year’s time.

OFTA has examined the financial performance of some major local IDD service providers and found that while the total traffic volume has increased, both the profit (in absolute terms) and profit margin (in terms of % revenue) have decreased. In the case of one major local IDD service provider, which is a publicly listed company and which has therefore made available the relevant data in the public domain, the total traffic volume which it handles has increased by 36% over the past six years but the profit and profit margin have dropped by 71% and 41% respectively.

It is on the above basis that the statements in paragraph 8 of LC Paper No. CB(1)2098/06-07(05) that “the profit margins generated by external telecommunications services (ETS) are on the decline”, and that “the past reason for funding the USO by operators providing IDD services may become inapplicable” were made.

International voice-over-IP (VoIP) traffic

According to a report entitled “TeleGeography 2006 – Global Traffic Statistics & Commentary”, international VoIP traffic has grown from less than 10 million minutes in 1997 to 30.8 billion minutes in 2004. VoIP traffic grew 35% in 2004, and is on track to grow 38% in 2005. In addition, VoIP traffic is increasing three times faster than traffic handled by the conventional PSTN and accounts for a steadily growing share of the IDD market. For information, this document is an authoritative source in the telecommunications sector. The Statement in paragraph 7 of the Panel paper that “increasing volume of international calls has been made through the Internet instead of the PSTN, thereby bypassing the USC sharing mechanism” was made on this basis.

Conclusion

Based on the above considerations and other factors as explained in the Panel paper, the Telecommunications Authority comes to the conclusion that the existing arrangement may not be sustainable in the longer term and therefore there is a need to update the relevant regulatory framework for USO.

Yours sincerely,

(Mrs Marion Lai)
Director-General of Telecommunications