



By Fax 2537 1851 [3 Pages] and Mail

20 June 2008

Hon Bernard Chan, GBS, JP  
Chairman  
Subcommittee on Subsidiary Legislation to Introduce a Unified Carrier Licence under  
the Telecommunications Ordinance  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong

Dear Mr Chan,

**Subcommittee on Subsidiary Legislation to Introduce a Unified Carrier Licence  
under the Telecommunications Ordinance (“Subcommittee”)**

I refer to the two written submissions prepared by the Administration in response to  
issues raised by the Subcommittee and the deputations concerning the Number Fee  
that were tabled for discussion at the Subcommittee meeting on 20 June 2008<sup>1</sup>.

PCCW-HKT Telephone Limited (“PCCW”) considers some of the Administration’s  
explanations to be unconvincing and would like to respond to each specific comment  
as follows:

- 1. The Administration argues that restricting the Number Fee to idle numbers  
only would not promote the efficient use of numbers because, on the contrary, this  
would encourage operators to assign numbers in a less than disciplined manner so  
as to reduce/ evade payment of the Fee.*

This argument seems to assume that operators either: (a) can somehow force  
customers to take up idle numbers; or (b) will engage in some fraudulent  
practices. PCCW rejects these assumptions.

- 2. The Administration has emphasized that its Number Fee proposal is  
supported by the Hong Kong Telecommunications Users Group (“HKTUG”), which  
represents general consumers and corporate users.*

This is not strictly correct. Per the HKTUG’s written submission to the  
Subcommittee for its second meeting on 14 June 2008<sup>2</sup>, its preferred approach

<sup>1</sup> See LC Paper No.CB(1)1958/07-08(01) on *Summary of deputations’ views and the Administration’s  
response (as at 19 June 2008)* and LC Paper No.CB(1)1958/07-08(02) on *Assessment of Different  
Scenarios on Charging Number Fee*.

was to only levy the Number Fee on those unused numbers and to allow each operator to hold a stock of numbers pending assignment to customers:

*For the financial incentive, there are previous examples in Hong Kong and elsewhere that the Number Fee is an attractive instrument to encourage efficient use of numbers. Ideally only the unused numbers should be charged and each operator can be allowed a small % such as 5% as buffer for their unused numbers.*

It is therefore clear, on the contrary, that general consumers and corporate users, as represented by the HKTUG, support first and foremost a scheme whereby the Number Fee is only charged on unassigned telephone numbers.

**3. *The Administration has explained that the increase in the licence fees for fixed line operators is to enable OFTA to recover its costs because OFTA's workload in administering fixed line services is not expected to drop in the near future. Regulatory issues such as handling of determinations, interconnection disputes, customer complaints, building access/ exchange co-location issues as well as the review of directory services would continue to require substantial effort.***

Whilst it may be the case that OFTA's workload will not drop in the near future, PCCW does not believe that OFTA will be required to *increase* its resources to handle issues pertaining to fixed line operators. There is therefore no clear reason to raise the licence fee for this sector of the industry. The list of regulatory issues indicated by OFTA above are not new. They are simply ongoing matters which require OFTA's continued attention. It would be very surprising after all if, as OFTA gradually withdraws from regulation, it were forced to spend more resources than before in regulating the industry! We would note from the issues now before OFTA that 'fixed' issues are not in the majority compared to 'mobile/wireless' or 'mixed' issues.

**4. *The Administration has stressed on several occasions that the Number Fee payable by the fixed line operators represents a very small portion of their operating costs and hence they would be unlikely to pass on this cost to their customers via higher charges.***

Firstly, this suggests the Administration considers it permissible to force a new tax on the operators and their customers without any regard as to whether it is needed simply because the amount is insignificant. \$45 million is not insignificant; but assuming it is then why impose it when there is no number shortage? This is unacceptable.

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<sup>2</sup> See LC Paper No.CB(1)1897/07-08(05).



Secondly, the size of the charge is irrelevant. The fact is, there is no need to introduce this Number Fee to tackle any apparent number shortage problem. There are other non-financial measures which could be immediately instituted (without objection) to encourage more efficient use of numbers.

Thirdly, it would be naïve to believe that the fixed line operators would be generous enough to accommodate the Number Fee without seeking to recover their costs from customers. Given the potential loss of \$600 million worth of revenues resulting from the deregulation of fixed-mobile interconnection charges, the fixed line operators would be hard pushed not to raise their retail rates in an attempt to recover at least part of this revenue.

**5. *The Administration advises the fixed line operators that they could reduce their licence fees by simply returning telephone numbers to OFTA.***

Fixed line operators will return numbers, and some savings will occur. But, with an efficiency ratio above 70% and the need to have on hand numbers for new line requests, this new tax will be substantial and punitive. Further, given that the Number Fee will be levied on assigned as well as unassigned numbers, simply returning unused numbers to OFTA will still not enable the operators to avoid paying the Fee.

PCCW continues to feel strongly that it is neither necessary nor appropriate to introduce the Number Fee as proposed by the Administration. Alternative options have already been put forward by PCCW and others in their previous submissions which are more practical and effective in encouraging the efficient use of numbers.

PCCW recognizes that the Government is simply holding to its arguments as it often does. PCCW would ask the Subcommittee to think about this issue in terms of necessity and the logic of employing non-tax solutions first. PCCW urges the Subcommittee to consider these options in lieu of the Number Fee tax proposal put forward by the Administration.

Yours sincerely,

Stuart Chiron  
Director of Regulatory Affairs