

LC Paper No. CB(1)194/99-00  
(These minutes have been  
seen by the Administration)

Ref : CB1/PL/ITB/1

**Legislative Council**  
**Panel on Information Technology and Broadcasting**

**Minutes of special meeting**  
**held on Monday, 13 September 1999, at 2:30 p.m.**  
**in Conference Room A of the Legislative Council Building**

**Members present** : Hon SIN Chung-kai (Chairman)  
Hon MA Fung-kwok (Deputy Chairman)  
Hon Kenneth TING Woo-shou, JP  
Hon David CHU Yu-lin  
Ir Dr Hon Raymond HO Chung-tai, JP  
Hon Fred LI Wah-ming, JP  
Hon James TO Kun-sun  
Hon Howard YOUNG, JP  
Hon YEUNG Yiu-chung  
Hon CHOY So-yuk  
Hon LAW Chi-kwong, JP

**Member attending** : Hon NG Leung-sing

**Members absent** : Hon Eric LI Ka-cheung, JP  
Prof Hon NG Ching-fai  
Hon Emily LAU Wai-hing, JP  
Hon Timothy FOK Tsun-ting, SBS, JP

**Public officers attending** : For Item II  
Miss Annie TAM, JP  
Deputy Secretary for Information Technology  
and Broadcasting (3)

For Items III and IV

Ms Eva CHENG  
Deputy Secretary for Information Technology and  
Broadcasting (1)

For Item III

Mr M H AU  
Acting Director-General of Telecommunications

For Item IV

Mr William TANG  
Principal Assistant Secretary for Information  
Technology and Broadcasting (Y2K)

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

**Staff in attendance** : Ms Sarah YUEN  
Senior Assistant Secretary (1)4

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**I Confirmation of minutes of meeting**  
(LC Paper No. CB(1)1817/98-99)

The minutes of the joint Panel meeting with the Panel on Planning, Lands and Works held on 29 April 1999 were confirmed.

2. The Chairman explained that the Administration had informed him that it was not yet ready to report on "the development of broadband and Internet services in Hong Kong", which was the original item II on the meeting's agenda. Discussion of the item would therefore be deferred. Meanwhile, he also informed members that the Administration would brief members on the "progress report on the moratorium on the issue of further local fixed telecommunications network services licences", and "Y2K monitoring and co-ordinating arrangements for roll-over to 9 September 1999" under "Any other business".

**II Progress of the Cyberport project**  
(LC Paper Nos. CB(1)1677/98-99(01) and 1879/98-99(01))

Admin 3. The Deputy Secretary for Information Technology and Broadcasting (3) (DS/ITB(3)) briefed members on the progress report of the Cyberport project (the Project). Members agreed that the Administration should report on the Project whenever there were major developments/milestones.

Admin 4. As regards the progress of signing the Project agreement with the Pacific Century Group (PCG), DS/ITB(3) advised that the relevant legal documents were being finalised and it was hoped that the agreement could be signed within 1999 in time for the Cyberport works to commence during the second half of 2000 as scheduled. At the Chairman's request, DS/ITB(3) undertook to report on further progress of the agreement with PCG under "superstructure construction" in the Project's programme chart and to brief the Panel on the main provisions of the agreement when it was finalised.

5. In response to the Chairman, DS/ITB(3) clarified that item 10 of the Project's programme chart only referred to information technology facilities, while items 11, 13 and 15 referred to the detailed design of the physical superstructures of the Cyberport to be constructed under different phases.

Admin 6. On the formation and incorporation of the Cyberport Company, DS/ITB(3) advised that the relevant company registration procedures were under way and the Company was expected to be incorporated in September 1999. As regards its board of directors, DS/ITB(3) explained that as the main object of the Company was to hold title of the Cyberport, there was no immediate need to appoint the directors early. She undertook to report the board membership to the Panel upon its appointment. However, in consideration that the Company and its board of directors would have to vet tenancy applications and sign the tenancy agreements, the Chairman opined that the board should be appointed not later than the second quarter of 2000. In response, DS/ITB(3) assured members that the board members would be appointed upon grant of the development right of the residential portion of the Cyberport to PCG, around mid 2000. In reply to the Deputy Chairman, she also confirmed that the Project agreement with PCG would be signed in the name of the Cyberport Company.

7. As far as the land grant was concerned, DS/ITB(3) informed members that the entire site for the implementation of the Project would be owned by the Cyberport Company, which would then grant the development right of its residential portion to PCG.

### III Progress report on the moratorium on the issue of further local fixed telecommunications network services licences

(The relevant LegCo Brief (Ref.: ITBB(CR)7/4/6(99)Pt.16)

8. The Deputy Secretary for Information Technology and Broadcasting (1) (DS/ITB(1)) briefed members on the progress report on the moratorium on the issue of further local wireline fixed telecommunications network services (FTNS) licences subject to further network roll-out commitments from the three existing new FTNS licensees. In reply to Mr YEUNG Yiu-chung, she confirmed that the latest policy decision was to extend the moratorium to 31 December 2002 only. Thereafter, the fixed telecommunication services market would be liberalised and it would be up to the three existing new FTNS licensees to decide whether to make further investments.

#### Further network roll-out commitments

9. Noting that the total new capital investment commitment of the three existing new FTNS licensees was just \$3 billion, Mr YEUNG Yiu-chung queried why it was sufficient to justify the extension of the moratorium. In reply, DS/ITB(1) emphasised that apart from the new capital investments, the Administration would also consider the extent of the new network roll-out and Type II interconnection commitments, which would have the cumulative effect of offering some 55% of residential customers the choice of an alternative service provided by at least one of the three existing new FTNS licensees by the end of 2002, as well as strengthening Hong Kong's telecommunications infrastructure significantly. Their investment commitment was only the minimum the FTNS operators were willing to commit by means of a performance bond. In a competitive environment, extending their market share was important and they might also be motivated to fill the 45% service gap to stay competitive and profitable.

10. The Deputy Chairman and Mr Fred LI questioned the significant difference in the newly committed capital investments by the three existing new FTNS licensees. In response, DS/ITB(1) pointed out that while the Administration had done their best to encourage the licensees to increase their investments, their committed investments were based on their commercial decisions and as such, also constituted part of their overall business plans and strategies for competing in the FTNS market. She said that the Administration was not in a position to direct them on their levels of investment.

11. The Chairman referred to earlier media reports about remarks by one of the three existing new FTNS licensees that if the moratorium was not extended, the company would withdraw its \$8-billion investment plan. He asked whether the said investment plan was on FTNS and if so, why the actual committed investment should fall far short of \$8 billion. In response,

DS/ITB(1) confirmed that the Administration had not received any such remarks or query of the business environment of the FTNS market from any of the three existing new FTNS licensees as reported in the media.

12. On how the new capital investments by the three existing new FTNS licensees compared with those offered by other operators who were interested in entering the wireline-based FTNS market, DS/ITB(1) drew members' attention to the long lead time required for interested companies to build up their own networks from scratch, and emphasised that the extension of the moratorium subject to further network roll-out commitments from the three existing new FTNS licensees who had already built up their backbone networks would be the quickest way to achieve the greatest possible extension of service coverage to create effective competition. She also advised that since the potential operators had not made any firm investment proposals to the Administration, it would be difficult to make a comparison.

13. Mr Fred LI expressed concern about the uneven distribution of the new network roll-out commitments from the three existing new FTNS licensees and urged the Government to play a co-ordinating role to ensure that all districts could benefit from the extended service coverage. In response, DS/ITB(1) and DG Tel (Atg.) pointed out that the districts so covered only referred to the exchanges to which the three existing new FTNS licensees had committed to connect by Type II interconnection by December 2002. Having regard that a performance bond of up to \$50 million would have to be provided against non-fulfillment of such commitments, it was only natural that the three existing new FTNS licensees would tie their commitment to the specified level of roll-out which they were more certain of attaining. However, as far as the Administration understood, the three licensees all had plans for interconnection beyond the committed extent. DG Tel (Atg.) further explained that while the Administration had tried to ensure an even distribution of the exchanges so connected, some of the exchanges simply could not be connected to because of space constraints, or the network of the FTNS licensee concerned had yet to reach them. Notwithstanding, he pointed out that the future wireless-based fixed services would facilitate early availability of services to areas not served by the three existing new FTNS licensees.

14. Mr YEUNG Yiu-chung considered it unfair to allow the commitments of the three existing new FTNS licensees to vary, so that the licensee who was most keen on making further commitments might turn out to be most vulnerable to the consequence of non-performance. DS/ITB(1) nevertheless remarked that a more aggressive network roll-out or investment plan should bring about a greater market share. As to the circumstances under which the \$50 million performance bond would be forfeited, DS/ITB(1) confirmed that failure to fulfil either network roll-out or Type II interconnection commitments would be liable to forfeiture of the guarantee in full.

### The creation of effective competition

15. The Deputy Chairman and Dr Raymond HO considered that since \$6.7 billion had been paid to Hong Kong Telecom (HKT) to liberalise Hong Kong's external telecommunications market and the extension of the moratorium aimed at enabling the three existing new FTNS licensees to carry out further network roll-out to compete with HKT, the Administration should set standards for them to meet so as to ensure service quality and bring about effective competition.

16. On service quality, DS/ITB(1) and DG Tel (Atg.) advised that basic service requirements were already stipulated in the licence of the three existing new FTNS licensees. In addition, to increase their respective competitiveness, they had also taken the initiative to promulgate specific service standards, such as response time to service breakdown, in the form of performance pledges. As regards the mechanism of handling and monitoring complaints against individual operators' services, DG Tel (Atg.) said that if consumers were not satisfied with the manner in which the operators had handled their complaints, they could lodge their complaints with the Office of the Telecommunications Authority (OFTA) which would follow up as appropriate.

17. Acknowledging members' concern about fair competition, DS/ITB(1) and DG Tel (Atg.) advised that the Administration was taking active measures to enhance competition, such as the implementation of number portability earlier on and the requirements that service switch be smoothly effected within a reasonable timeframe. In this connection, members also noted that as a result of mediation by the OFTA, the four local FTNS licensees had agreed on a code of practice on practical arrangements for Type II interconnection. Moreover, the Telecommunication (Amendment) Bill 1999, if enacted, would also provide further competition safeguards.

### Other concerns

18. Referring to HKT's recent announcement to increase local exchange line tariffs to \$90, Mr Fred LI questioned the effectiveness of the extension of the moratorium in bringing about fee reductions to benefit consumers. In response, DS/ITB(1) stressed the need to initiate a rebalancing programme whereby HKT's local telephone tariffs would be brought in line with the level of costs to enable the three existing new FTNS licensees to compete with HKT on a level playing field. Mr LI was not convinced that the local tariffs had to be increased to \$90 to bring them in line with the level of costs and pointed out that the three existing new FTNS licensees were all able to offer their local service at charges below \$90. Highlighting that most households in Hong Kong were still using HKT's international direct dial (IDD) service for its extensive network coverage notwithstanding its higher charges, he also opined that competition hinged on network coverage and provision of value added

services rather than, as claimed by the Administration, on allowing HKT to increase its local tariffs to obviate predatory pricing. In this regard, DS/ITB(1) pointed out that network coverage was not the sole important factor for effective competition. She drew members' attention to the success of certain IDD operators which did not have their own physical networks.

19. In this connection, the Chairman opined that with HKT's rebalancing of local tariffs to bring them into line with level of costs, the charges for network access such as the Local Access Charge (LAC) and the PNETS charge should be suitably reduced in line with costs. In response, DG Tel (Atg.) advised that these charges, as well as the Universal Service Contribution (USC), were under regular reviews having regard to variations in costs. In fact, the review on the interconnection charge of HKT for the use of its network by Internet Service Providers (the PNETS charge) and mobile phone operators was near completion and the results would be announced shortly. As the level of LAC had only been set in December 1998, it would not be reviewed until the end of 1999. The annual review of USC would also take place shortly but a preliminary estimated level of USC to be charged for the coming year was already available and would be finalised with reference to HKT's accounts on the costs of providing the interconnection service.

20. In response to the Deputy Chairman's enquiry on whether the Administration had made an estimate on the number of households that would switch from HKT to one of the three existing new FTNS licensees as a result of the latter's extended service coverage, DS/ITB(1) stressed that while the outcome of the current exercise would provide a choice of alternative service to over 50% of residential customers, it would be up to consumers themselves to decide whether to switch to another FTNS operator having regard to their needs, service quality and other incentives offered by the operators. She stated that the Administration would not involve itself in individual operators' marketing efforts to compete with HKT for market share.

21. Addressing Miss CHOY So-yuk's concern about the progress of Type II interconnection and the existing arrangements to ensure its proper implementation, DS/ITB(1) reported that under the said code of practice on Type II interconnection, interconnection should be implemented within seven days of the relevant request and this deadline had in general been observed since the code's conclusion in April 1999. DG Tel (Atg.) further explained that as a result of OFTA's mediation, two of the three existing new FTNS licensees had already reached a commercial agreement with HKT on Type II interconnection. The remaining one was expected to sign the agreement with HKT soon in order to fulfil its Type II interconnection commitments. He clarified that the interconnection fee was not the main cause of the deadlock as it had already been agreed to after mediation by OFTA.

**IV Any other business - Y2K monitoring and co-ordinating arrangements for roll-over to 9 September 1999**

(Information note tabled at the meeting and circulated thereafter vide LC Paper No. CB(1)1904/98-99)

22. The Principal Assistant Secretary for Information Technology and Broadcasting (PAS/ITB) briefed members on the monitoring and co-ordinating arrangements for the roll-over to 9 September 1999.

Operation of the Central Co-ordinating Centre (CCC)

23. In response to Dr Raymond HO's question about the operation of the CCC after 1 January 2000, PAS/ITB advised that the CCC would be activated at noon on 31 December 1999. If the roll-over to 1 January 2000 was smooth, the CCC would cease operation on the night of 3 January 2000 and would only be re-activated at the end of February for roll-over to 29 February 2000. He however assured members that in between 3 January and the end of February 2000, the territory-wide situation and roll-over arrangements would continue to be closely monitored and reviewed by the Information Technology and Broadcasting Bureau (ITBB).

24. Dr Raymond HO opined that even if Hong Kong's roll-over to 1 January 2000 was smooth, if there were Y2K-induced incidents in other countries, the CCC should remain in operation after 3 January 2000 to monitor and co-ordinate arrangements for roll-over to other Y2K critical dates in 2000. In response, PAS/ITB pointed out that there might be difficulty in so arranging because the CCC, originally planned to be activated only prior to critical dates, would mainly be manned by staff temporarily deployed during the roll-over period to work on three action teams, namely, a professional team comprising staff from the Information Technology Services Department, the Electrical and Mechanical Services Department and the OFTA, a liaison team responsible for liaising with essential service sectors, and a support team to provide various operational assistance. He nevertheless assured members that the Y2K Division of ITBB would remain in operation until the end of January 2000. Thereafter, its work would continue to be taken up by staff of the ITBB and relevant departments until early March 2000.

25. Mr LAW Chi-kwong proposed that to avoid unnecessarily overloading the CCC and affecting its response to bona fide requests for urgent assistance, departments that had no need to operate on 1 January 2000 should refrain from testing their systems on that day. In response, PAS/ITB assured members that the over 500 monitoring and co-ordinating centres at the organisational and sector-wide levels should be able to work together under the CCC to ensure timely response to all requests for help. Nonetheless, the Administration already had plans to focus on different aspects during different time slots of the roll-over period according to the priority of needs. For



example, from midnight on 31 December 1999 to 8:00 a.m. on 1 January 2000, efforts would be focussed on the handling of emergencies. Thereafter, from 9:00 a.m. to 5:00 p.m. on 1 January 2000, the Administration would take the initiative to conduct testing of mission-critical systems. The purpose was to ensure all systems could operate smoothly on 3 January 2000. At Mr LAW's and the Chairman's request, PAS/ITB agreed to consider whether the above planned testings could be further spread out during other time slots.

Other concerns

26. In response to Miss CHOY So-yuk, PAS/ITB confirmed that no reports of Y2K-induced incidents had been received on 9 September 1999. However, he cautioned that due to the difference in the nature of the problems, the success experienced on 9 September 1999 might not necessarily guarantee a smooth roll-over to 1 January 2000. However, he stressed that the experience gained from operation of the Y2K monitoring and emergency response system was valuable and it was also encouraging to find no panic or irrational behavior on the part of the public on that day.

27. In reply to Mr NG Leung-sing on the status and future deployment of staff for Y2K monitoring and co-ordinating work in the Government, PAS/ITB advised that upon satisfactory completion of all Y2K tasks, members of the Y2K Division who had been redeployed from relevant departments would return to their respective departments, whereas staff redeployed from within ITBB would be deployed to other divisions of the Bureau to take up other duties. He and DS/ITB(1) further explained that no outside professionals had been recruited for these duties because it would be more effective to deploy existing staff conversant with their respective sectors to monitor and co-ordinate the operation and contingency responses in these sectors. PAS/ITB said that as far as the Administration understood, this was also the practice adopted in other Governments in dealing with Y2K issues.

28. The meeting ended at 4:00 p.m.