

LEGISLATIVE COUNCIL BRIEF

The Secretary for Information Technology and Broadcasting submits the following note for Members' information -

<u>Title of Note</u>	<u>Date of ExCo</u>
1998 Review of Fixed Telecommunications - Progress Report on the Moratorium on the Issue of Further Local Fixed Telecommunication Network Services Licences	7 September 1999
10 September 1999	Information Technology and Broadcasting Bureau

LEGISLATIVE COUNCIL BRIEF

1998 Review of Fixed Telecommunications - Progress report on the moratorium on the issue of further local fixed telecommunication network services licences

INTRODUCTION

At the meeting of the Executive Council on 7 September 1999, the Council took note of the information below.

BACKGROUND

Previous Executive Council Decision and Government's Discussion with the Three FTNS Licensees

2. On 4 May 1999, the Council ADVISED and the Chief Executive ORDERED, *inter alia*, that the Government should extend to 31 December 2002 the moratorium on the issue of further local FTNS licences for the construction of new fixed wireline-based networks, subject to satisfactory commitments from the three new FTNS licensees on further network roll-out during the moratorium. Accordingly, the Government invited Hutchison Communications (Hong Kong) Limited (Hutchison), New T & T Hong Kong Limited (New T & T) and New World Telephone Limited (New World Telephone) to make unconditional binding commitments on network roll-out up to December 2002. They submitted their proposed commitments in early June. The Government had since held further discussions with each of the FTNS licensees to seek improvements to their commitments and to remove the conditionality. A summary of their final proposed commitments are set out at Annex A.

Assessment of Proposals

3. We have considered the following factors when assessing the commitments offered by the three new FTNS licensees:

- (a) **The extent of network roll-out to reach end-customers** - this would enable the FTNS licensees to provide direct service to customers reached by the network. The commitment to network roll-out can be measured by the additional number of buildings passed.

- (b) **The extent of Type II interconnection¹ to provide alternative service to consumers over the existing local network of Cable and Wireless HKT (HKT)** - this will also help meet our policy objective of giving choice to consumers of services provided by an alternative FTNS licensee to HKT within the shortest possible time. The commitments will be measured by the total number of telephone exchanges to which Type II interconnection will be made and the districts which will be covered by these exchanges.
- (c) **The amount of capital investment in network infrastructure** - this is necessary to support the commitments on network roll-out and Type II interconnection set out in (a) and (b) above.
- (d) **Performance guarantee** - the three new FTNS licensees should provide a satisfactory level of corporate guarantee for their commitments under (a) to (c) above.

4. Having examined the final proposals from the three new FTNS licensees against the factors set out in paragraph 3 above, we conclude that the commitments offered by them are on the whole satisfactory. Subject to the conclusion of binding and unconditional contracts to be signed with each of the three FTNS licensees, the moratorium on the further issue of wireline-based FTNS licences (with the exception of the FTNS licence that may be issued to Hong Kong Cable Television Ltd to operate telecommunication services on its network) can be extended. The new FTNS licensees have all agreed to provide a corporate guarantee of \$50 million each against the fulfilment of their commitments by 31 December 2002. The overall effect of their commitments in terms of service coverage can be summarised as follows -

- (a) of the two million residential customers (as measured by the number of lines for residential households), the Telecommunications Authority estimates that over 50% will have the choice of an alternative service provided by one of the three new FTNS licensees by the end of 2002, compared with 16% at present; and
- (b) the three new FTNS licensees will extend service coverage to many parts of Hong Kong including the New Territories. The map at Annex B illustrate the extended areas of service coverage by each of the licensees between now and by the end of 2002.

Annex B

¹ Type II interconnection refers to situations where a carrier interconnects with the local loop to a customer built by another carrier in order to provide service to that customer over the local network of the second carrier.

Next Steps

5. We will formalise the proposed commitments in separate agreements with each of the three new FTNS licensees. To this end, we are now discussing with them the legal documentation. Given the interest of the public and the Legislative Council (LegCo) on the commitments to be made by the three FTNS licensees, we will brief the LegCo Panel on Information Technology and Broadcasting on the details.

FINANCIAL AND STAFFING IMPLICATIONS

6. The three FTNS licensees will each provide a corporate guarantee of \$50 million against the fulfilment of their commitments by 31 December 2002. The agreement with them does not give rise to any financial and staffing implications on Government.

ECONOMIC IMPLICATIONS

7. The commitments on further network roll-out by the three FTNS licensees will strengthen our telecommunications infrastructure. Coupled with more extensive Type II interconnection, more effective competition will be generated in the local fixed telecommunications market. This will ultimately benefit consumers. The total commitment of the three new FTNS licensees to invest \$3 billion in capital expenditure will bring economic benefits and create jobs. The clear policies of the Government to progressively liberalise the local fixed telecommunications market will give investors in the industry greater certainty in the market environment.

ENVIRONMENTAL IMPLICATIONS

8. There will be some increase in road openings by the three FTNS licensees as they roll out their local networks. All road openings will continue to be co-ordinated by the Telecommunications Authority to minimise any environmental disturbance.

PUBLIC CONSULTATION

9. We announced our policy decisions on the progressive liberalisation of the telecommunications market, including in particular the extension of the moratorium on the issue of further wireline-based FTNS licences, on 5 May 1999 and briefed the LegCo Panel on Information Technology and Broadcasting on the same day. The policy decisions have, on the whole, received support both from the telecommunications industry and from the community at large.

ENQUIRIES

10. For any enquiries relating to this Brief, please contact -

Ms Gracie Foo

Principal Assistant Secretary (Information Technology and Broadcasting)

Tel : 2189 2210

Fax : 2511 1458

10 September 1999
Information Technology and Broadcasting Bureau
Government Secretariat

Commitments offered by the three new FTNS licensees

Commitments (see Note 1)	Hutchison	New World	New T & T
A. New capital investment from 1 Jan 1999 to 31 Dec 2002	HK\$2.0 billion	HK\$600 million	HK\$400 million
Cumulative up to Dec 2002	HK\$3.75 billion	HK\$1.8 billion	HK\$3 billion
B. Buildings served by self-build networks			
Buildings currently served	506 (directly served)	60 (directly served)	800 (directly served and Type II)
New buildings committed to be served by 31 December 2002	994 (directly served)	200 (directly served)	400 (directly served and Type II) (Note 2)
Cumulative up to Dec 2002	1500 (directly served)	260 (directly served)	1200 (directly served & Type II) (Note 2)
C. Type II interconnection			
1. New exchanges to be connected	13 Aberdeen Chai Wan East Hermes House Jordan Kwai Chung Ma On Shan On Lok Shatin Tai Po Tsing Yi Wan Chai Yuen Long	10 East Jordan King's Road Kwai Chung Ngau Tau Kok Shanghai Street Shatin Tsing Yi Tsuen Wan Wong Tai Sin	4 Kwai Chung Kwun Tong Lai Chi Kok Wan Chai
New lines to be covered by Type II interconnection			
residential	564 000	557 000	180 000
business	<u>365 000</u>	<u>341 000</u>	<u>214 000</u>
Total (Note 3)	929 000	898 000	394 000

Commitments (see Note 1)	Hutchison	New World	New T & T
2. Cumulative exchanges to be connected up to Dec 2002	22 Aberdeen Admiralty Chai Wan East Hermes House Hung Hom Jordan King's Road Kwai Chung Lockhart Ma On Shan Ngau Tau Kok On Lok Queen's Road Shatin Shau Kei Wan Tai Po Telecom House Tsing Yi Wan Chai West Yuen Long	15 Admiralty East Jordan King's Road Kwai Chung Lockhart Ngau Tau Kok Shanghai Street Shatin Shau Kei Wan Telecom House Tsing Yi Tsuen Wan West Wong Tai Sin	10 Admiralty Kwai Chung Kwun Tong Lai Chi Kok Ngau Tau Kok Queen's Road Shau Kei Wan Telecom House Wan Chai West
Cumulative lines up to Dec 2002			
residential	891 000	655 000	390 000
business	<u>743 000</u>	<u>588 000</u>	<u>494 000</u>
Total (Note 4)	1 634 000	1 243 000	884 000
D. Corporate guarantee	\$50m	\$50m	\$50m

Note 1: All figures in bold in this table represent the commitments offered by the three FTNS licensees. Other figures are set out to illustrate the commitments in context.

Note 2: New T & T's commitment is not based on the number of buildings served by its self-build networks. Rather, it relates to the total number of additional buildings which may be served either by self-build networks or Type II interconnection.

Note 3: Type II interconnection makes use of the available local copper wires of Cable & Wireless HKT. These figures represent the total number of lines available from the relevant exchanges.

Note 4: The combined effect of these is that a maximum of 2 142 000 lines may be covered by either Hutchison, New World or New T & T. 1 186 000 of these are residential.

新固網商的網絡覆蓋
Network Coverage of New Fixed Network Operators

Annex B

