

LEGISLATIVE COUNCIL BRIEF

Telecommunication Ordinance
(Chapter 106)

TELECOMMUNICATION (AMENDMENT) REGULATION 1999

**REDUCTION OF LICENCE FEES FOR MOBILE STATIONS
OF PUBLIC RADIOCOMMUNICATION SERVICES**

INTRODUCTION

A At the meeting of the Executive Council on 2 March 1999, the Council ADVISED and the Chief Executive ORDERED that the Telecommunication Amendment Regulation 1999, at Annex A, should be made under section 37 of the Telecommunication Ordinance to reduce the public radiocommunication service licence fee per mobile station from \$75 to \$55 a year with effect from 1 May 1999.

BACKGROUND AND ARGUMENT

General Background

2. Despite no increase in fees since 1990, the OFTA Trading Fund (OFTATF) has inherited a relatively high fees regime from its vote-funded predecessor when it commenced to operate as a trading fund on 1 June 1995. Due to the surge in growth in the telecommunications market in the years preceding the establishment of the OFTATF, we projected at the time that it would generate profits significantly in excess of the target return during its first three years of operation but had expected that the over-recovery in revenue would be short term. To reduce the gap between revenue and cost, we undertook to freeze fees for five years to let inflation catch up and we established a Development Reserve in the books of OFTATF to account for all profits in excess of the target rate. The Development Reserve may be drawn down to reduce the magnitude of subsequent fee increases or to meet future expansion.

Public Radiocommunication Service Licences

3. Due primarily to the continued unforeseen growth in the number of mobile stations, mainly mobile phones and, in the earlier years, pagers, OFTATF's overall after tax profit increased to more than 60% of the value of its average net fixed assets as compared to the target rate of 14.5% set by the Financial Secretary. As a result, the Development Reserve will have a balance in excess of \$260 million at the end of March 1999.

4. OFTA has conducted a review of the PRS licence fees and proposed a fee reduction of \$20 a year per mobile station. At this rate and taking into account the anticipated growth in the number of PRS licences, we expect that the OFTATF will still achieve its target rate of return for the next three years. Should the rate of return fall below the target rate, we may consider drawing on its Development Reserve to top up the shortfall or raising the fees.

Other Licences

5. Currently, the OFTATF has not been able to recover the full cost of processing certain licences such as the Ship Station and Amateur Station licences from users through collecting fees. The total shortfall in revenue in this regard amounted to \$26 million in 1997-98. In view of the undertaking to freeze fees until June 2000, the OFTATF does not propose to increase these fees at the moment. It is reviewing the situation with a view to drawing up a timetable and bringing the fees to a more equitable level, taking into account productivity improvements and the economic situation of the industry.

The Proposal

6. The licence fees for mobile stations of public radiocommunication services are prescribed in Part II of Schedule 1 to the Telecommunication Regulations, which is subsidiary legislation under the Telecommunication Ordinance. We need to amend the Schedule in order to reduce the fees. Allowing time for the scrutiny of the proposed Amendment Regulations by the Legislative Council, we propose that the amendment takes effect on 1 May 1999.

THE REGULATION

7. Section 2 of the Amendment Regulation amends the fees provision so that the licence fee per mobile station will be reduced from 75 to \$55 a year. It does this by reducing the fees for the first 200 mobile stations or less from \$15,000 to \$11,000 a year and for each subsequent 100 mobile stations or less from \$7,500 to \$5,500 a year. The commencement section provides for the Amendment Regulation to take effect from 1 May 1999. The existing provisions which are being amended are at Annex B.

B

LEGISLATIVE TIMETABLE

8. Subject to Members' approval for the Regulation to be made, the legislative timetable will be as follows -

Publication in the Gazette	5 March 1999
Tabling at the Legislative Council	10 March 1999

BINDING EFFECT OF THE LEGISLATION

9. The amendments will not affect the binding effect of the Telecommunication Regulations.

HUMAN RIGHTS IMPLICATIONS

10. The Department of Justice advises that the proposed legislation has no human rights implications.

FINANCIAL AND STAFFING IMPLICATIONS

11. The proposed reduction of the PRS licence fees for mobile stations does not have any staffing implications. With over 3.36 million mobile stations currently in operation, the proposed fee reduction will return approximately \$67 million a year back to the telecommunications sector and consumers. From 2002-03 onwards, should the OFTATF's return fall below the target rate, it will need to draw down the Development Reserve to top up the shortfall or to consider the need for increasing fees.

ECONOMIC IMPLICATIONS

12. The proposed reduction in licence fees will reduce the costs of mobile telecommunications providers and the fees paid by pager users. This will be conducive to the development of the telecommunications industry.

ENVIRONMENTAL IMPLICATIONS

13. There are no environmental implications.

PUBLIC CONSULTATION

14. There has been no public consultation.

PUBLICITY

15. A press release will be issued on 5 March 1999 when the Regulation is published in the Gazette. A spokesman will be available for answering media enquiries.

Queries about this brief may be directed to -

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