Overview of the Fixed Line Market Competition

- submitted by New T&T

Interconnect Issues

Whether the competition introduced in Hong Kong for fixed line telecommunications is effective or not remains questionable as after five years of deregulation, the market share taken up by the three new operators combined is still **less than 5%**.

The major reason that contributed to the low take up rate is not insufficient investment, as generally perceived, by these new operators but because of the ability of the dominant carrier (HKT), who is in control of bottleneck facilities, to administer the growth of it慢 competitors. In fact, these 3 new operators have invested more than HK\$10 Billion dollars on the infrastructure development.

This has seriously deprived consumers of their choice of alternate service providers and when the price cap is lifted next year, they would be subject to the mercy of the dominant carrier. Most consumers of fixed line will find themselves no better than the monopoly days in the past in terms of choices.

What had New T&T done in the past 5 years?

Deregulation of fixed-line telecommunications market commenced in 1995 when 3 new fixed telecommunications network service licences (FTNS) were issued. The licences allow the new comers to operate both international and local telecommunications fixed telecommunications services. New T&T has been focusing on fixed line development and has thrown in tremendous efforts in building up the second largest telecommunications network in Hong Kong. The following is a snapshot of the network build and access coverage of New T&T:

• Building access Direct Access (commercial) 219 buildings

Direct Access (residential) 67 buildings

• Colocation exchanges 11 out of 76 telephone exchanges of the incumbent

operator

Fibre cable network
Switching centres
1,006,000 Meters
6 telephone switches

• Completed backbone network along MTR lines providing capability to serve consumers by Type II Interconnection in proximity regions. The backbone network covering major residential areas in the New Territories will be completed by 2001 providing further capabilities to serve consumers in these areas by Type II Interconnection

Despite of New T&T's consistent efforts, the achievements in building access and colocation exchanges are below our expectation. The main reasons for such are site constraints and administrative barriers imposed by both the dominant carrier and to a certain extent, by the property developers. This has seriously affected the ability of New T&T to rollout its telecommunications services to both consumers and the business community even though the backbone network is ready to serve a vast amount of customers.

Problems Encountered in the Market

Traffic bottlenecks (*Type I Interconnection*)

- telecommunications involve calling and called parties
- a telecommunications service is useless if calls cannot be made to it 優 communication partners
- calls destined to customers connected at another network are transferred through Point of Interconnection (POI) between gateway exchanges of both networks
- the dominant operator is restricting volume of calls being transferred between it's customers (95% of lines in Hong Kong) and New T&T's customers by refusing to provide sufficient POI capacities
- in effect, customers of the dominant operator will experience congestion when making calls to customers of New T&T and vice versa
- congestion can be used as a tool to "bad mouth" new operators' services, further restraining competitors' growth
- traffic bottleneck restricts growth of new operators as more and more new customers are recruited

Last mile coverage (*Type II Interconnection*)

- site constraints within buildings may not allow installation of additional facilities
- excessive road-opening for building coverage requires significant lead time, creates negative impact on traffic and adds up to great social costs
- have to rely on type II Interconnection using the dominant operator's local loop as their coverage is already territory wide (a historic competitive advantage of HKT)
- the dominant operator is restricting type II Interconnection through **administrative bottlenecks** like time to implement co-location exchanges and order quantity limitations
- examples of these administrative bottlenecks are:
 - restricts rate of implementation of co-location exchanges
 - restricts rate of pre-provisioning of facilities in co-location exchanges
 - caps order quantity to 36 lines per day per exchange only
 - refuses to perform cutover after 8:00 pm or at Sunday or public holidays (whereas they will do so for their own customers)

• refuses to perform large volume cutover on the same day (yet they can do so for their own customers)

Difficulties in reaching agreement with the dominant operator on interconnect issues

- tilted playing field
- the dominant operator has no incentive to agree with new operators on equal footings as a reasonable interconnect agreement will help new operators (their competitors) take away their own customers
- light-handed approach of the Government
- new operators are forced to agree on unfavourable terms or the interconnection issue will drag-on at the expense of new operators and ultimately consumer interest

What we expect the Government can do?

- Proactively promote competition
- Fast response to mediation and determination to interconnect issues
- Create a level playing field and provide assistance to the new operators at least in the initial phase until the market matures
- Enforce transparency of information, including cost of provisioning, of the incumbent's network that is required for interconnection
- Review interconnect charges and ensure that they are equitable

Glossary

Backbone network

The infrastructure including fibre cables that link facilities for providing telecommunications services

Co-location exchange

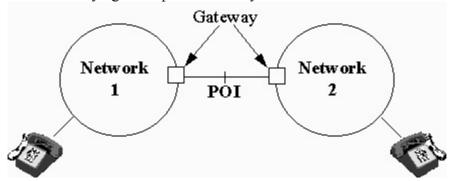
Co-location exchange is a telephone exchange owned by the incumbent operator where new operators can install its equipment for accessing copper loops that are covered by the telephone exchange.

Local loop

Copper cables that link customer premises to a local telephone exchange

Type I Interconnection

Type I Interconnection is an interconnection between network gateways as referred by Statement No 6 - 3 June 1995 "Interconnection Configurations and Basic Underlying Principles" issued by the Telecommunications Authority.



Type II Interconnection

Type II Interconnection is the interconnection in points of local loop as referred by Statement No 6 - 3 June 1995 "Interconnection Configurations and Basic Underlying Principles" issued by the Telecommunications Authority.