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In response to OFTA's consultation regarding Type II Interconnection, Hong Kong Telecom Users Group ("HKTUG") is pleased to provide our comments.

First of all we would like to say that HKTUG is very pleased with the results achieved in Hong Kong under OFTA's direction, that we have one of the highest telecom service levels in the world and the prices are also amongst one of the most competitive.

From OFTA's 23 May 2003 consultation paper, we understand the background and rationale for conducting such a review. We also appreciate the needs and interests amongst different operators, investors and consumers, as well as OFTA's aim to balance multi-faceted objectives, inter-alia, promoting competition, ensuring the healthy growth and success of the industry as well as ensuring consumers a choice in their purchasing of the narrowband and broadband telecom services.

Here are our observations and comments:

Narrowband Market

While paragraph 8 of the 23 May 2003 paper states that "...the overall effect of their commitments in terms of service coverage would be that (a) it was estimated that over 50% of the residential customers would have the choice of an alternative service..."

Yet Table 1 in paragraph 11 reveals that the market share (number of lines) amongst HGC, HKBN, NWT, Wharf T&T combined is merely about 18.3 percent including 329,006 Type II connection. *If Type II Interconnection is removed, will the market share of residential market by alternative carriers be dropped to substantially below 10%?*

Nonetheless, despite that the incumbent still has the lion share of this market, we believe that consumers now have a fairly good variety of choices if we take into consideration of the mobile substitution for voice communications.

It is certainly much desirable if the new built coverage by the alternative carriers could achieve a higher penetration than the current level without using Type II interconnections.

We also believe that if Type II interconnection is indeed discouraging further investments by either the incumbent or alternative carriers, then we would be happy to see that it is sunset or removed from the regulation over a number of years, except in bottleneck and rural areas which may need special consideration. In the meantime, allowing the interconnection charges to reflect the loaded costs progressively over time.

Should eventually the removal of Type II interconnection mandate for narrowband be adopted, we believe that one of the key indicators for success will be that the narrowband prices should at least remain or stay below the current levels.

Broadband Market

Table 2 in paragraph 11 states that all alternative carriers combined provide 452,342 line and roughly 44.7% of the market. We understand that a great percentage of the new built is coming from HKCTV's HFC connections. While HKCTV also provides broadband connections, they are primarily a cable-TV operator and their broadband service is a bundled service which is not quite a substitute for a simple broadband connection.

In addition, majority of these new rollouts are concentrated in commercial areas and high density residential areas such as new housing estates and new districts leaving many old areas under-served by alternative carriers.

Although 44% market share seems that there are sufficient distribution by alternative carriers, taking these two phenomena together into consideration we find that to majority of consumers there are very little or no choices in the broadband area particularly in many residential locations. Should Type II interconnection be removed from regulation, we are afraid that prices will go up sharply.

We would like to see that Type II interconnection for broadband be implemented in certain urban areas and rural areas. The mandate should have a fixed review time that serves to encourage investors / operators to quickly rollout the necessary connections before the sunset date.

We believe that the current Type II interconnection charge is too expensive and should be reduced.

We also believe that there should be a guaranteed QoS, such as achieving 80% of the committed rate at 95% of the time, provided by all carriers.