Submission by Hutchison Global Communications to
Legco Panel on Information Technology & Broadcasting

Hutchison Global Communications (HGC) welcomes the invitation by the Legco Panel on IT & Broadcasting to present our views on the issue of Type II interconnection to the Honourable Members.

HGC was first awarded the FTNS licence in 1995. Since then, we have actively built out our network infrastructure. Today, we own and operate one of the largest optical fibre network in Hong Kong with 700,000 km of optical fibre in total, which is equivalent to 17.5 times of the perimeter of the earth. HGC has all along been focusing our rollout strategy on self-built customer access network. Our reliance on Type II interconnection has been consistently falling. In 1999, we had about 44% of our lines served by Type II. The same figure fell to 25% in 2001 and as at today, only 15% of our lines are provisioned via Type II interconnection. In other words, 85% of our lines in service are provisioned via self-built customer access network.

There are certain advantages in pursuing a self-build strategy. It allows better control in service provisioning and supports more advanced telecommunications services. For example, we pioneered the market by offering our broadband Internet access with symmetrical, dedicated 10 Mbps upload and download speed back in 2000. Had HGC been complacent with a leasing strategy, our customers would have been deprived of the innovative services that they are currently enjoying.

In our submissions on the first consultation paper, we have emphasized the substantial change in competitive landscape compared to 1995 when the market was first liberalized, which warrants an overturn in the current regulatory framework. We remain of the same view and are pleased to see that OFTA has taken a pragmatic approach. In particular, we welcome OFTA's recommendation not to extend the Type II interconnection to fibre networks. This sends a clear signal to the investors in telecom infrastructure which we believe is pivotal to the development of a vibrant telecommunications industry in Hong Kong.

We also support the recommendation by OFTA to phase out the obligation on Type II interconnection in cases where a building is served by an alternative access network. We believe the proposed policy strikes a proper balance between encouraging investment in telecom infrastructure and promoting competition in the market.

In so far as we support OFTA's recommendation in general, we consider the proposed sunset period too long. In the second consultation paper, OFTA proposed a "3+3" sunset arrangement where obligatory Type II interconnection will be phased out in a period of 6 years once a particular building is served by more than two or more self-built customer access networks. This is considerably longer than the normal lead-time taken to access buildings, which is generally about 6 to 8 months. If the proposed transitional period of "3+3" is adopted, operators currently using Type II interconnection will not be motivated to migrate to self built access networks even though another operator has reached a particular building. This is because they are able to enjoy the same Type II arrangement for another 5 or 6 years. 5 to 6 years is an extremely long period. The whole competition landscape in the Hong Kong telecommunications industry has changed completed over a 6 years' period, and this can give you an idea of how long the proposed sunset period is.

The effect of having such a long sunset period would be undermining the willingness of those operators who choose to self-build their customer access network to pursue the strategy proposed by OFTA in its second consultation paper, as they continue to face competitors taking advantage of a low-risk approach during the unrealistically long sunset period. We take the view that if a building is already served by an alternative access network, Type II interconnection should be phased out in a period of three years, with 1 year transitional period and another 2 years grandfathering period to service lines that are already installed.