

NEW WORLD TELECOMMUNICATIONS LIMITED

Briefing Paper
to the Panel on Information Technology & Broadcasting

Meeting on 25 February 2004

Second consultation paper on the review of the regulatory policy for Type II interconnection

New World Telecom thanks the Panel for inviting us to present our views on the review of the Type II regime in Hong Kong.

1. Type II is about customer access

- 1.1 PCCW owns the copper-based local loop that connects to all customers in Hong Kong. Type II access is the most practical and effective way of allowing operators to connect to customers.
- 1.2 Type II access is delivering great benefits to consumers in terms of customer choice. Type II regulation creates competition between PCCW and other FTNS operators for the use of customer access lines. This means better service range and lower prices for Hong Kong.

2. Type II does not discourage investment

- 2.1 Infrastructure is not only the last mile. New World Telecom and other operators have made huge investments in state-of-the-art fibre transmission backbone, switching platforms, international gateways and submarine cable capacity.
- 2.2 The amount of capital investment in the provision of voice services through self-built network and Type II access is the same. At present, the investment for delivering voice services through self-built network is about HK\$3,400 per line. However, through Type II interconnection, NWT needs to pay about HK\$2,900 per line for its back-end network infrastructure plus an additional HK\$500 as the installation fee for the last mile interconnection, which is charged by PCCW. With this figure, it is clear that operators take no advantage of the Type II interconnection.
- 2.3 New World Telecom is providing competitive solutions in local and external voice, data and broadband services to Hong Kong customers. Type II access is the crucial connection between our new networks and Hong Kong consumers.
- 2.4 Type II interconnection is the best option for efficient use of network infrastructure. Duplicating PCCW's local access network is wasteful. Resources should be allocated to develop innovative value-added services over the coppers instead.

3. The new regime would create uncertainty and limit customer choice

Uncertainty

- 3.1 The Type II review has cast a cloud over future policy direction, and has caused the industry to hesitate and postpone investment decisions on Type II lines.
- 3.2 Under OFTA’s proposal, after the transition period it is uncertain whether Type II interconnection will survive. Prices will need to be commercially negotiated. But higher prices may make it uneconomical for FTNS operators to continue with Type II investments and services.

Customer Choice

- 3.3 Many buildings in Hong Kong do not have alternative access networks. Low-density residences, such as bungalows, village houses, pre-war buildings with few storeys, are often not feasible for self-built access.
- 3.4 Type II access gives consumers competitive choice of telephone service provider. But if Type II access is withdrawn, customers in buildings with only two customer access networks will lose choice, in spite of the fully open up of the FTNS market in Hong Kong

4. Government should determine wholesale prices for broadband copper local loop

- 4.1 NWT believes that OFTA should be making the existing Type II regime more competitive, especially in broadband services.
- 4.2 PCCW’s wholesale prices for broadband copper local loop are too high as illustrated in the diagram below, which is stifling market competition.

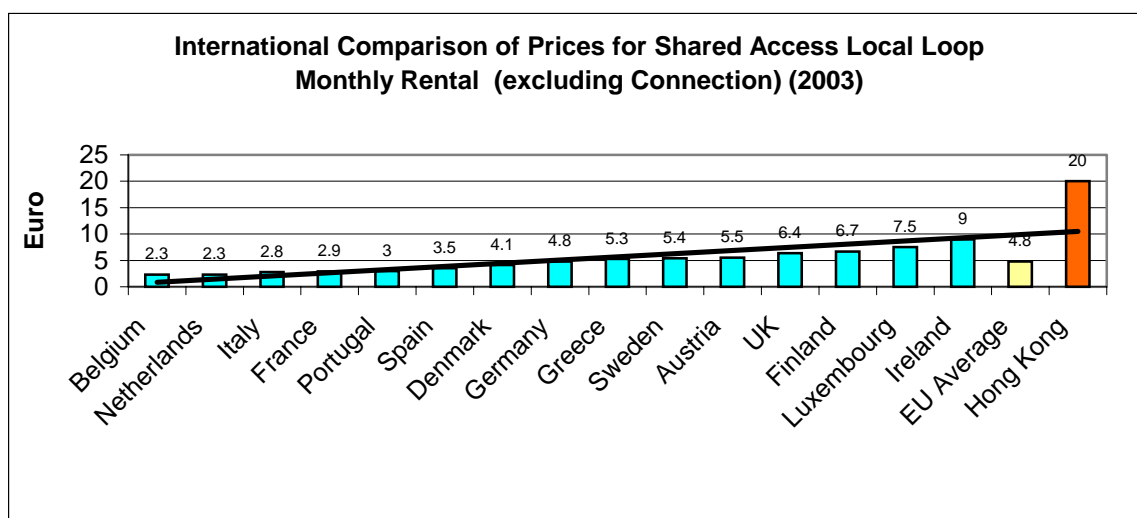


Chart prepared by NWT based on data from the EC’s Ninth Report on the Implementation of the Telecommunications Regulatory Package (November 2003) based on exchange rate of 1 Euro = HK\$9.8.

New World Telecom

- 4.3 Type II interconnection is needed to access customers and deliver alternative services. Lower wholesale prices will boost competition among operators in broadband services.
- 4.4 Type II regulation and access will encourage the industry to invest in DSL technologies to provide high-speed services over PCCW's old copper customer access network. Type II access will promote market growth for broadband services. Type II access is accelerating the transition of the market to critical mass in economies of scale, setting the scene for fully-fledged infrastructure investment competition such as fibre-to-the-home.
- 4.5 Broadband services is the key to helping Hong Kong achieve its goal of being the leading regional hub in IT and telecommunications.