Draft

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Legislative Council

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**Report of the Panel on Information Technology and Broadcasting
for submission to the Legislative Council**

Purpose

      This report gives an account of the work of the Panel on Information Technology and Broadcasting during the 2003-04 session of the Legislative Council.   It will be tabled at the Council meeting on 30 June 2004 in accordance with Rule 77(14) of the Rules of Procedure of the Council.

The Panel

2.   The Panel was formed by a resolution passed by the Council on 8 July 1998 and as amended on 20 December 2000 for the purpose of monitoring and examining Government policies and issues of public concern relating to information technology, telecommunications, broadcasting and film services. The terms of reference of the Panel are at **Appendix I**.

3.   The Panel comprises 12 members.   Hon SIN Chung-kai and Hon Howard YOUNG were elected Chairman and Deputy Chairman of the Panel respectively.   A membership list of the Panel is at **Appendix II**.

Major work

Telecommunications services

Type II interconnection in the local fixed telecommunications network services (FTNS) market

4.   The Panel had deliberated with deputations and the Administration on the major proposals in the second consultation paper issued by the Telecommunications Authority (TA) on the review of the regulatory policy on Type II interconnection.

5.　　　　In examining the pros and cons of the Administration's key proposal to withdraw Type II interconnection obligation in buildings connected by at least two self-built customer access networks, members agreed in principle that operators should not over-rely on Type II interconnection in lieu of rolling out their networks.　They also expressed concern about operators choosing to provide service only in areas where they could make a profit, thus depriving customers in more remote districts the choice of alternative service providers. Regarding the proposed three-year transitional period and three-year grandfathering period to phase out mandatory Type II interconnection requirement in selected buildings, the Panel asked the Administration to re-consider whether the total duration of six years might be too long, having regard to technological advancement and the need to ensure that services to customers would not be unduly disrupted.　Having monitored closely the liberalization of the FTNS market since 1995 and the rapid changes in the market landscape, members were keen to ensure that an updated regulatory policy on Type II interconnection should be formulated to facilitate competition and promote investment in the telecommunications market.　The Panel would keep in view the outcome of the review.

Guidelines on Mergers and Acquisitions in Hong Kong Telecommunications Markets (M&A Guidelines)

6.　　　　Following the passage of the Telecommunications (Amendment) Ordinance 2003 (the 2003 Amendment Ordinance) in July 2003, the Panel followed up with the Administration the proposed M&A Guidelines drawn up by TA after consultation with the industry.　Members agreed that the future M&A Guidelines should provide for predictability and certainty over TA's decisions on M&A matters so as to enable the industry to make informed business decisions. Having regard to the concerns expressed by the Panel and the industry, the Administration revised some of its proposals in the draft M&A Guidelines and conducted a second round consultation.

7.　　　　The Panel noted that despite further revision, some operators remained gravely concerned about the adequacy or otherwise of the Guidelines, in particular whether they could address the special features of the telecom industry in Hong Kong.　In this connection, the Administration referred members to an independent expert opinion it had obtained confirming, inter alia, that the M&A Guidelines provided a sound basis for the application of the 2003 Amendment Ordinance.　Whilst noting that a number of operators maintained their reservation, some members recalled that in drawing up the Guidelines, the Administration had conducted two rounds of consultation and taken into consideration the views expressed by the industry and members.　As the Guidelines could still be revised in the light of future needs, they agreed that the M&A Guidelines should be finalized so that the 2003 Amendment Ordinance could be brought into operation.　The M&A Guidelines were subsequently published on 3 May 2004 and the Commencement Notice appointing 9 July 2004 as the date on which the 2003 Amendment Ordinance would come into operation was gazetted on 14 May 2004.

<u>Information technology (IT)-related issues</u>

Institutional review

8.   The Panel was briefed on the outcome of the Administration's review of the government institutional structure for delivering the IT function. Members were keen to ensure that a strengthened and streamlined institutional arrangement would be in place to enable the Government to lead and foster the further development of IT in Hong Kong.

9.   On the Administration's proposal to merge the Information Technology Services Department with the IT-related divisions of the Communications and Technology Branch of the Commerce, Industry and Technology Bureau (CITB) to form a new, integrated entity within CITB, members had no objection. They also expressed support in principle for the proposed Government Chief Information Officer (GCIO) post to replace the current Director of Information Technology Services post to head the new entity and take forward IT-related policies and operational matters. The Administration had also improved the Chinese title of the GCIO post in response to members' comments. Members had also drawn the Administration's attention to the possible impact of the proposed merger and staffing proposal on the morale and advancement of the affected civil service grade. The proposals would be considered by the Establishment Subcommittee and the Finance Committee on 16 June 2004 and 25 June 2004 respectively.

2004 Digital 21 Strategy (the 2004 Strategy)

10.   The Administration's proposed Strategies for driving IT development in Hong Kong received ongoing attention by the Panel. Members noted changes in the focus of successive Digital 21 Strategies promulgated in 1998 and in 2001 and were briefed on the key proposals in the 2004 Strategy.

11.   While members did not dispute Hong Kong's achievements in the last five years and the major tasks ahead as set out in the 2004 Strategy, some members urged the Administration not to lose sight of fundamental problems such as unsatisfactory reception of the services of the two free domestic television broadcasters which might be caused by the construction of new high-rise buildings blocking the transmission of signals to other buildings in the vicinity. Apart from the technical solution, some members urged the Administration to be more proactive and to examine in consultation with relevant departments the feasibility of tackling the problem by amending building-related legislation to require developers to conduct an assessment on the interference, if any, caused by a new building to the transmission of TV signals.

12.   The Panel would continue to monitor the progress and implementation of the measures set out in the 2004 Strategy.

IT Easy Link

13. The Panel followed closely the development of the IT Easy Link which was an IT support service jointly launched by the Administration and the Hong Kong Computer Society in June 2002 as a one-year pilot project to provide free advice to members of the community on general problems encountered in using basic IT applications. Members had also supported the extension the project for two successive years and the expansion in its service scope to cover the business sector, especially small and medium enterprises.

14. The Panel noted that all along, the services provided under IT Easy Link had been well received by the community and the demand for IT advisory and enquiry services remained high. On account of its proven success, members in general shared the view that the Administration should not discontinue the project due to tight budget when the current extension ended in June 2005. Members also suggested various ways to adjust service standards and lower operating costs in order that the services could be retained. The Administration agreed to consider members' views and would revert to the Panel on the way forward for the project in about a year's time.

Building a digitally inclusive society

15. The Panel took an ongoing interest in how far Hong Kong had advanced in building a digitally inclusive society. It had met with the Administration and non-government organizations (NGOs) to examine the progress and effectiveness of various initiatives to bridge the digital divide so that different sectors of the community could enjoy the benefits brought about by information and communications technologies. In this connection, members requested the Administration to conduct an impact analysis of these initiatives to ascertain their effect on disadvantaged social groups. The Administration referred members to the annual thematic survey on IT usage and penetration in households which provided information on the extent of digital divide from a macro perspective. As the various initiatives had only been implemented in the past two to three years, the Administration considered it more worthwhile to conduct a detailed review, such as the proposed impact analysis, in due course.

16. In response to members' concern about possible reduction in the Government's financial support for IT-related services for the disadvantaged groups due to budgetary constraints, the Administration assured members that it would make every effort to bid resources and seek collaboration with the community to take forward initiatives in building a digitally inclusive society. The Administration had also provided a detailed response to the suggestions/comments of IT bodies and other NGOs, which included a number of initiatives implemented and to be undertaken.

17. On the international front, the Panel noted that representatives from the Administration had participated in the Geneva phase of the World Summit on the Information Society (WSIS) held by the International Telecommunication

Union in December 2003. Members were aware that WSIS aimed at providing a high-level international platform for all stakeholders to develop a better understanding of the issues related to "digital divide" and to identify ways to bridge such divide. The Panel would keep in view the progress of the WSIS and any relevant concerns which might arise.

E-government

18. The progress of the E-government programme had been kept under periodic review by the Panel. On the future direction of the next wave of E-government, members noted that the focus would be on "joining up" government departments using information and communication technologies (ICT), re-engineering government operations and processes and making E-government services more customer-centric.

19. In the course of deliberation, members sought the Administration's updates on initiatives such as the development of the Global Positioning Systems in Hong Kong. They also noted that there was potential for the private sector to work with the Government on research and developmental activities associated with GPS applications.

20. In considering certain popular on-line booking services, members alerted the Administration of the malpractice of some people re-selling sports facility permits at a higher price. The Leisure and Cultural Services Department undertook to monitor the situation closely but confirmed that the problem had mainly stemmed from an inadequate supply of turf pitches rather than the booking procedures. Responding to members' concern about the need to queue up to book community halls/centres, the Home Affairs Department advised that currently, on-line booking service was not available because a number of operational issues had yet to be addressed. Nevertheless, to facilitate booking, the Department planned to post the application forms for the use of community halls/centres on its website for downloading by members of the public.

21. In reviewing the productivity gains of E-government initiatives, members were particularly concerned about details of the benefits/savings, including the number of posts which could be deleted. To address members' concerns, the Administration undertook to include information on realizable and notional benefits/savings arising from E-government initiatives in its future progress reports to the Panel.

Broadcasting

Issues related to the licence renewal of Hong Kong Cable Television Limited (HKCTV)

22. When being briefed on the public views received on the service of HKCTV in connection with the renewal of its licence, some members gave their views on the public hearing held in November 2003 under section 11(4) of the Broadcasting Ordinance (Cap. 562) (BO). They considered that HKCTV

should provide a detailed response to the views and questions raised at the public hearing in an open manner. While confirming that it had followed the statutory procedures stipulated under the BO in processing the renewal of HKCTV's licence by conducting the public hearing and commissioning a survey, the Administration provided, at members' request, a report on HKCTV's responses to the public views raised on its service during the public hearing. Members also noted that on the recommendation of the Broadcasting Authority, the Chief Executive In Council had approved on 25 May 2005 the renewal of the licence of HKCTV for a period of 12 years from 1 June 2005 to 31 May 2017.

Digital terrestrial broadcasting

23. While welcoming the advent in technology, members considered it important that before analogue broadcast was replaced by digital transmission, the Administration must be satisfied that the benefits of digital broadcasting should outweigh its costs. Besides, necessary equipment such as set-top boxes should be available at affordable prices.

24. On the technical standard to be adopted for digital terrestrial television (DTT) service, the Panel had exchanged views with the Administration and deputations on the pros and cons for Hong Kong to await the decision of the Mainland and adopt the same technical standard. Members noted the strong preference of the two domestic free TV broadcasters for this option in view of the vast DTT market in the Mainland. Nevertheless, they were also aware that on the technological side, manufacturers could readily respond to market demand by producing multi-standard DTT reception devices, even if Hong Kong and the Mainland adopted different technical standards.

25. Some members shared the concern that as pay TV programme services became available at competitive prices following the introduction of DTT, the programme content for domestic free TV programme services might decline. They were keen to ensure that the implementation of DTT should not be achieved at the expense of the development of domestic free programme services, bearing in mind that the underprivileged sectors of society might not be able to afford subscription TV programme services.

26. As digital terrestrial broadcasting would enable the more efficient use of the available frequency spectrum, it would be possible to increase the number of TV or radio channels. Some members had therefore re-visited the subject public access channels. In this connection, the Administration maintained its view that since Hong Kong was a small and densely populated territory which was relatively less diversified in terms of its culture and language, it might not be necessary to allocate exclusive channel(s) for the use of the community, especially when they could make use of other convenient platforms such as existing radio channels or the Internet. Some members did not fully subscribe to the Administration's stance and urged the Administration to critically re-examine the feasibility of setting up public access channels to cater for the needs of various social groups.

Radio Television Hong Kong (RTHK)

27.　　　In examining salient issues related to the development of RTHK, the Panel raised concern about RTHK's accommodation needs, the School Educational Television (ETV) service, as well as the content licensing arrangements for RTHK's productions.

28.　　　Regarding the Administration's proposal in 2001 to reprovision the existing Broadcasting House to Tseung Kwan O, members sought clarification on the changes in project scope, if any, the estimated cost and the way forward for the proposed project.　　Members were also assured by the Administration that it was mindful of RTHK's accommodation needs and would keep in view the status of the project.

29.　　　The Panel generally agreed that the cost-effectiveness of the existing ETV service should be enhanced.　　While supporting the outsourcing of production work for ETV programmes, members also found it necessary for the Administration to explore ways, such as providing suitable incentives, to address the concern of RTHK staff about the impact of outsourcing on their employment prospect.

30.　　　In the face of current deficits, members considered that the Administration should formulate an effective strategy to commercialize the quality productions of RTHK so as to generate revenue in the form of licence fees or royalty payments.　　Noting that pursuant to the Public Finance Ordinance, the income derived from content licensing would form part of the general revenue of the Government, while RTHK had to bear the extra costs incurred in the process, members urged the relevant bureaux to examine the feasibility for RTHK to receive part of the income to support its production costs. *[To be further updated in the light of discussion on 14 June 2004]*

Film services

31.　　　The Panel was fully aware of the importance of the local film industry as a major creative industry.　　It had met with various industry bodies and exchanged views with them on issues of concern.

32.　　　On establishing a film financing infrastructure and providing financial support to worthwhile projects, members were concerned about the way forward for the Film Guarantee Fund (FGF) whose trial period would expire in April 2005 and the Film Development Fund (FDF) which ceased operation in March 2004.　　Noting members' concerns, the Administration confirmed that it would conduct a review on the FGF upon its expiry before deciding whether the loan guarantee scheme should be continued.　　The Panel would follow up the outcome of the review in due course.　　Meanwhile, members noted the Administration's plan to redeploy about $5 million from its internal resources for specifically sponsoring three major events of the film industry (namely, the Hong Kong Film Awards Presentation Ceremony, FILMART, Hong Kong International Film Festival) in the next three years.

33.   Members took on board some deputations' concerns about inadequate protection for the rental right of movie works, as well as the growing problem of unauthorized downloading of movie products from the Internet.   In this regard, the Administration assured the Panel that it would examine the provisions relating to rental right in the context of the future review on end-user criminal liabilities under the Copyright Ordinance and consult the industry accordingly.   The Administration would also study the downloading act in question and the different modes of transmission of copyright works on the Internet so as to ascertain whether such act and modes of transmission would give rise to criminal liability.   The Panel on Commerce and Industry has been invited to follow up the Administration's review of these copyright-related issues in due course.

<u>Cyberport</u>

34.   The Panel reviewed the progress and key activities of the Cyberport project periodically with the Administration.   Members also paid a visit to the Cyberport and viewed some of its state-of-the-art facilities.

35.   Members were keen to ensure that the Cyberport would serve its intended objective of creating a strategic cluster of leading IT companies in Hong Kong instead of a property development project competing with other developers in offering quality office premises at cheap rent.   To ascertain the business nature of the tenant companies and how far the Cyberport vision could be met, members sought updates from the Administration from time to time on the profiles of the tenant companies, such as their major activities, whether they were overseas or local companies and their number of employees.

36.   The Administration assured members that the compatibility of the tenant company's business profile with the objective of the Cyberport was a major consideration when the Committee on Admission of Cyberport Office Tenants considered tenancy applications.   Regarding concerns about the competition posed by the Cyberport, the Administration confirmed that while the rental for office premises had dropped, Cyberport's asking rental remained largely at the level first announced in April 2001.   Both the Administration and the Cyberport management highlighted that the main attraction of the Cyberport lay in its state-of-the-art facilities and the emerging cluster of quality IT companies.

37.   With a view to ascertaining the benefits brought about by the Cyberport, members considered it important to be provided with information on the scale of operation of the tenant companies, including the number of staff employed.   In response, the Cyberport management advised that as the IT-related sector comprised new and value-added activities which were not necessarily manpower-intensive, the overall economic benefit of the Cyberport should not be evaluated solely in terms of the number of employees engaged. The rate of business growth and the volume of new business activities generated in the Cyberport were also important indicators.   The Cyberport management

undertook to try to provide information on the new business activities conducted by the tenant companies in the Cyberport and where practicable, the employment situation of the tenant companies on an aggregate basis.

38.   The Panel agreed that an overall review on the Cyberport project vis-à-vis its originally promulgated objectives and anticipated benefits would be conducted in early 2005.

39.   From October 2003 to mid June 2004, the Panel held a total of 12 meetings.   The Panel also paid a visit to the Cyberport and to RTHK. Members had also been invited to view a presentation and demonstration on the latest Third Generation mobile service technologies.

Council Business Division 1
Legislative Council Secretariat
9 June 2004

Panel on Information Technology and Broadcasting

Terms of Reference

1. To monitor and examine Government policies and issues of public concern relating to information technology, telecommunications, broadcasting and film services.

2. To provide a forum for the exchange and dissemination of views on the above policy matters.

3. To receive briefings and to formulate views on any major legislative or financial proposals in respect of the above policy areas prior to their formal introduction to the Council or Finance Committee.

4. To monitor and examine, to the extent it considers necessary, the above policy matters referred to it by a member of the Panel or by the House Committee.

5. To make reports to the Council or to the House Committee as required by the Rules of Procedure.

Panel on Information Technology & Broadcasting

Membership list

Chairman	Hon SIN Chung-kai
Deputy Chairman	Hon Howard YOUNG, SBS, JP
Members	Dr Hon David CHU Yu-lin, JP
	Dr Hon Eric LI Ka-cheung, GBS, JP
	Hon CHAN Kwok-keung, JP
	Dr Hon Philip WONG Yu-hong, GBS
	Hon YEUNG Yiu-chung, BBS
	Hon Emily LAU Wai-hing, JP
	Hon Timothy FOK Tsun-ting, SBS, JP
	Dr Hon LAW Chi-kwong, JP
	Hon Albert CHAN Wai-yip
	Hon MA Fung-kwok, JP
	(Total: 12 Members)
Clerk	Miss Polly YEUNG
Legal Adviser	Miss Connie FUNG
Date	9 October 2003