**Extract**

# 臨時立法會
# *Provisional Legislative Council*

PLC Paper No. FC 152
(These minutes have been
seen by the Administration)

Ref : CB1/F/1/2

**Finance Committee of the Provisional Legislative Council**

**Minutes of the sixteenth meeting**
**held at the Legislative Council Chamber**
**on Friday, 27 February 1998, at 2:30 pm**

**Members present :**

Hon Ronald ARCULLI, JP (Chairman)
Hon Henry WU (Deputy Chairman)
Hon WONG Siu-yee
Hon James TIEN Pei-chun, JP
Hon David CHU Yu-lin
Hon HO Sai-chu, JP
Hon Edward HO Sing-tin, JP
Dr Hon Raymond HO Chung-tai, JP
Hon NG Leung-sing
Prof Hon NG Ching-fai
Hon Eric LI Ka-cheung, JP
Hon LEE Kai-ming
Hon Allen LEE, JP
Hon Mrs Elsie TU, GBM
Hon Mrs Selina CHOW, JP
Hon Mrs Peggy LAM, JP
Hon Henry TANG Ying-yen, JP
Hon YUEN Mo
Hon MA Fung-kwok
Hon CHEUNG Hon-chung
Dr Hon Mrs TSO WONG Man-yin
Hon LEUNG Chun-ying, JP
Dr Hon LEONG Che-hung, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, JP
Hon CHAN Choi-hi

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Hon CHAN Yuen-han
Hon CHAN Wing-chan
Hon CHAN Kam-lam
Hon TSANG Yok-sing
Hon CHENG Kai-nam
Hon Andrew WONG Wang-fat, JP
Dr Hon Philip WONG Yu-hong
Hon Kennedy WONG Ying-ho
Hon Howard YOUNG, JP
Dr Hon Charles YEUNG Chun-kam
Hon YEUNG Yiu-chung
Hon IP Kwok-him
Hon Bruce LIU Sing-lee
Hon LAU Kong-wah
Hon LAU Wong-fat, JP
Hon Mrs Miriam LAU Kin-yee, JP
Hon Ambrose LAU Hon-chuen, JP
Hon CHOY Kan-pui, JP
Hon Paul CHENG Ming-fun, JP
Hon CHENG Yiu-tong
Dr Hon TANG Siu-tong, JP
Hon Timothy FOK Tsun-ting
Hon KAN Fook-yee
Hon NGAN Kam-chuen
Dr Hon LAW Cheung-kwok
Hon TAM Yiu-chung, JP
Hon CHOY So-yuk

**Members absent :**

Dr Hon David LI Kwok-po, JP
Hon NGAI Shiu-kit, JP
Hon MOK Ying-fan
Hon HUI Yin-fat, JP
Hon Frederick FUNG Kin-kee
Hon CHIM Pui-chung
Hon LO Suk-ching

**Public officers attending :**

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| Mr K C KWONG, JP | Secretary for the Treasury |
| Mrs Carrie LAM, JP | Deputy Secretary for the Treasury (1) |

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| Mr K K LAM | Principal Executive Officer (General), Finance Bureau |
| Mr C C CHAN, JP | Principal Government Civil Engineer |
| Mr Roger TUPPER | Principal Assistant Secretary for Economic Services (D) |
| Mr C Y TSANG | General Manager/Operation, Marine Department |
| Mr Raymond H C WONG, JP | Deputy Secretary for Security |
| Mrs Carrie WILLIS | Principal Assistant Secretary for Security |
| Mr Brian BUTT | Controllor, Government Flying Service |
| Mr Graeme MCINTOSH | Chief Aircraft Engineer, Government Flying Service |
| Mr Bobby CHENG | Principal Assistant Secretary for Trade and Industry (B) |
| Mr Francis HO, JP | Director-General of Industry |
| Miss Agnes WONG | Assistant Director-General of Industry (Infrastructure Support) |
| Mr Sidney CHAN | Assistant Director-General of Industry (Development Support) |
| Mr Kevin HO, JP | Deputy Secretary for Transport |
| Mr Martin M GLASS | Deputy Secretary for the Treasury (2) |
| Mrs Agnes ALLCOCK | Principal Assistant Secretary for Transport |
| Mr Esmond LEE | Principal Assistant Secretary for Planning, Environment and Lands |
| Mr C K MAK | Government Engineer of Highways Department |
| Mr K Y YEUNG, JP | Chairman, Kowloon-Canton Railway Corporation |
| Mr Samuel LAI | Director, Finance, Kowloon-Canton Railway Corporation |
| Mr Ian MCPHERSON | Director, West Rail, Kowloon-Canton Railway Corporation |
| Miss Elizabeth TSE | Principal Assistant Secretary for Trade and Industry (D) |
| Mr Stephen IP, JP | Secretary for Economic Services |
| Mr Leo KWAN, JP | Deputy Secretary for Economic Services |
| Mr Geoffrey WOODHEAD | Principal Assistant Secretary for Economic Services (C) |
| Mr Alex ARENA | Information Infrastructure Special Adviser |
| Mr A S K WONG | Director-General of Telecommunications |
| Mr M H AU | Senior Assistant Director of Telecommunications |

**Clerk in attendance :**

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| Ms Pauline NG | Assistant Secretary General 1 |

**Staff in attendance :**

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| Mrs Vivian KAM | Chief Assistant Secretary (1)5 |
| Mr Matthew LOO | Senior Assistant Secretary (1)7 |

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**Item No. 8 - FCR(97-98)99**

**HEAD 106 - MISCELLANEOUS SERVICES**
- **New Capital Account Subhead "Cash compensation for early termination of exclusive telecommunications licence"**

43. To tie in with the proposed liberalisation of the telecommunications market in Hong Kong and having regard to the fact that almost half of the International Direct Dial (IDD) calls in Hong Kong were made with the Mainland, a member asked if the Administration had consulted Mainland authorities on opening up the telecommunications market in the Mainland. In response, the Director-General of Telecommunications (DGT) advised that although there was only one telecommunications operator in the Mainland providing IDD services, the operator had, for many countries, provided access to more than one operator in each country. He assured members that telecommunications authorities in the Mainland had re-affirmed their intention of providing access on non-discriminatory terms to all operators in Hong Kong upon liberalisation of external telecommunications services.

44. Mr MA Fung-kwok said that the size of the proposed cash compensation of $6.7 billion was unprecedented, and its approval warranted careful consideration. A Subcommittee formed under the House Committee to scrutinise two related sets of subsidiary legislation would meet with deputations on 6 March 1998 to receive their views before the subsidiary legislation were due for passage on 18 March 1998. Mr MA asked the Committee to consider deferring the consideration of the cash compensation until after the Subcommittee had a chance to listen to the views of operators and other parties concerned especially in relation to the effectiveness of the arrangements in enhancing competition in the telecommunications market. Approval of the cash compensation at this stage, although it would still be subject to there being no objection to the related subsidiary legislation, would send a message to the international community and potential investors that the legislature was already satisfied that a fair and open competitive market would emerge after the surrender of the exclusive telecommunications licence. On the basis of the

above, Mr MA moved to adjourn discussion on the item until the next Committee meeting on 20 March 1998.

45. The Chairman advised that while members might move to adjourn discussion on the item, the date for re-submission of the item in the event of the motion being carried would rest with the Administration. He then proposed the question on the motion to adjourn discussion on the item.

46. Eight members spoke on the motion. Their views are summarised as follows.

47. Mr James TIEN said that the subject matter had been discussed thoroughly at the joint meeting of the Economic Services and the Information Policy Panels on 2 February 1998. As legislative proposals and financial requests should be considered separately, members should focus on the reasonableness of the cash compensation of $6.7 billion. He objected to the motion for adjournment.

48. Mr Eric LI said that as the amount of compensation was very substantial, it was necessary to consider the proposal not only from the angle of reasonableness but also if it was value for money. The public and interested parties should have sufficient time to air their views in order to understand their concerns. A slight deferral in the schedule for approval of the proposal would not cause any undue delay, but would convey a positive message that Council members had performed properly their checks and balance role. He supported the adjournment.

49. As the compensation package was announced only on 20 January 1998 and with the intervening public holidays, Miss CHOY So-yuk expressed dissatisfaction with the tight schedule for consultation. She also criticised the Administration for being passive in providing relevant information, and was disappointed with details regarding future adjustments in local telephone charges being still uncertain. She expressed support for the motion to adjourn.

50. While agreeing with the need for caution when considering the proposal, Mr CHAN Kam-lam said that the Administration had undertaken extensive consultation with the trade and Council members. He did not support adjournment of the item.

51. Prof NG Ching-fai was supportive of the motion. He advised that the slight deferral would not affect the compensation package but that more in-depth deliberations would increase the creditability of the Council.

52. Mr Paul CHENG objected to the adjournment as separate consideration should be given to the legislative and the financial aspects of the proposal.

53. Mr HO Sai-chu was satisfied with sufficient time and information having been provided to consider the proposal, and did not see a need for adjournment.

54. Mr KAN Fook-yee also objected to the motion on the ground that members had been thoroughly briefed about the proposal.

55. The Chairman then invited the Secretary for Economic Services (SES) to speak on the motion to adjourn. SES advised that the Administration had made extensive efforts in explaining the proposal to all concerned. The industry had affirmed their confidence in the proposal, and were in support of early approval of the compensation package in order that they could proceed with their investment plans. He stressed that the Hong Kong Telecom International Limited (HKTI) would only get the cash compensation if there were no objections to the related subsidiary legislation on 18 March 1998.

56. The Chairman then invited Mr MA Fung-kwok to reply. Mr MA said that many questions on the issue such as that of access fees remained unanswered, and that the adjournment would not result in any inconvenience or loss.

57. The Chairman then put the question on the motion to adjourn discussion of the item to members. The motion was negatived.

58. Some members raised concern about the tangible benefits brought to consumers, such as stabilising local telephone charges, as a result of greater competition. In response, DGT advised that the opening up of the telecommunications market upon surrender of the HKTI licence would open up broad scopes for competition for the four fixed telecommunications operators and 11 mobile phone networks in Hong Kong. In accordance with an agreement reached with the Hong Kong Telecommunications Limited (HKT), the parent company of HKTI, the rates for residential exchange lines would be frozen at the 1997 level in 1998 while that for the ensuing three years would be capped at $90, $100 and $110 per month. Such measures should be sufficient to bring in competitors until 2001. SES confirmed that both the New T&T and the New World Telephone had, in addition to Hutchison Communications which had announced a forecast investment of $8 billion, indicated their support for the proposal and reiterated their interest in investing in the market. Since potential operators might have to rent equipment and facilities from existing operators, a member asked if the rental charges would be capped so that consumers would not have to pay for the costs borne by both operators. The Information Infrastructure Special Adviser (IISA) said in response that legislative amendments passed in 1993 had established a vigorous monitoring mechanism whereby the regulator could have the power to set the charges which a telecommunications operator paid for the services and facilities of another operator. Hence, consumers would not have to pay double fees, and local

services, value-added services and international services would all be on one bill.

59. Referring to the current market share of Hong Kong Telephone of 60% to 70% for international calls and that of almost 100% for local calls, a member asked if the Administration had conducted any assessment on the company's market share in five years' time. In reply, IISA advised that by the end of the existing monopoly in 2006, it was estimated that Hong Kong Telephone would be left with only 40% of the market share for international calls while that for the local market might drop to 75% or less.

60. In response to some members on access fees, DGT advised that the rates for international calls were affected by many factors, and that different rates applied to different countries. For the United States, for example, the access fee was US 40 cents per minute plus other costs, but such a fee level should be reduced in the future. As regards access fees for local calls, the rate was 4.2 cents (in terms of Hong Kong dollars) per minute for the Internet and 6.7 cents for calls using mobile phones. The future fee level would be decided by market forces. On the subsidising of local telephone services by external services, SES agreed that such a cross subsidy should not exist in the long term. With the lifting of the statutory requirement which placed limits on the level of increase in telephone charges by Hong Kong Telephone, such an unfair phenomenon should be eliminated. IISA added that the best way to remove subsidy was to introduce competition as this would bring down costs and introduce new technology.

61. As the discussion paper had not provided an analysis on the basis on which the cash compensation of $6.7 billion had been arrived, a member sought elaboration in this respect. In response, IISA pointed out that the Administration had estimated that fair compensation to HKT should be in the region of $10 to $20 billion. However, the compensation package - consisting of the three components of $6.7 billion cash compensation, royalty foregone, and increases in local exchange line rental - meant that HKT would unlikely get more than $10 billion in compensation. Consumer benefits on the other hand was estimated to be $17 billion. IISA also made the following points to substantiate his analysis of the reasonableness of the compensation:

(a) in a similar case in Singapore, the Government paid nearly $10 billion in compensation for a franchise worth half as much as that of HKTI;

(b) the market value of HKT was $200 billion, and the $10 billion compensation package only represented about 5% of its market capitalisation despite the fact that HKTI itself generates 30% of HKT's after tax profit; and

(c) against the total revenues of $11.2 billion for HKT in the last reported year, the international licence itself generated $3.7 billion in profits after tax. The cash compensation of $6.7 billion only represented about two years' profits from the international licence.

In summary, the negotiated outcome of $6.7 billion represented good value for money for the people of Hong Kong, and the industry had expressed confidence in recouping this investment quickly through the benefits of competition.

62. As regards whether the industry was supportive of proposals made by the Administration other than the cash compensation, SES explained that one of the requirements was for HKT to open up 50% of its telephone network by 1 January 1999. He said that the industry would pledge support only when they were confident of a fair and open market. Furthermore, the Telecommunications Authority was empowered under the Telecommunication Ordinance to monitor and eliminate anti-competitive attempts. IISA also emphasised that in exchange for the compensation package, the Government would get back an old licence with relaxed conditions and which did not allow for a fair level playing field; the new agreement on the other hand imposed tough conditions for HKT to open up its network.

63. The Chairman then put the question on the proposal to members. Mr MA Fung-kwok was dissatisfied with the Administration's response and advised that he would abstain from voting.

64. The Committee approved the proposal.

65. The Committee was adjourned at 6:25 pm.

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