

**Subcommittee on Subsidiary Legislation to Introduce a Unified Carrier Licence
under the Telecommunications Ordinance**

**Summary of deputations' views and the Administration's response
(as at 19 June 2008)**

Abbreviations:	CC	Consumer Council
	CableTV	Hong Kong Cable Television Limited
	HKCSL	Hong Kong CSL Limited
	HKTUG	Hong Kong Telecommunications Users Group
	PACNET	PACNET
	PCCW	PCCW-HKT Telephone Limited
	SmarTone	SmarTone Mobile Communications Limited
	WT&T	Wharf T&T Limited

	Organizations	Views/concerns	Administration's response
(I) Views on the proposed creation of the unified carrier licence (UCL) and licence fee			
1.1	CC	Supports the restructuring of UCL fee which will provide operators with the incentive to use numbers more efficiently. It may also help prolong the current 8-digit numbering plan and defer migration to a longer-digit numbering plan. However, the imposition of the number fee may be used as a focal point or facilitate coordination between operators to increase service fees. CC urges TA to take necessary measures to prevent such from happening.	The Administration trusts that individual operators will consider carefully before deciding whether to raise service fees under the highly competitive market environment for telecommunications service. Anyway, the Telecommunications Authority ("TA") will monitor market development and take necessary action in accordance with the relevant competition provisions under the Telecommunications Ordinance to safeguard fair competition in the market.
1.2	CableTV	Considers the proposed increase of customer connection fee from \$7 to \$8 for fixed operators	The licence fee for UCL is set with a view to recovering the cost of theOFTA in administering the licences, aligning the fees for

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		<p>and introduction of a \$3 number fee unreasonable, premature and unnecessary:</p> <p>(a) The Administration has not provided a convincing case and supporting data to justify an increase of fee at \$1 for each customer connection;</p> <p>(b) The Office of the Telecommunications Authority (OFTA) has achieved good financial results in 2006-2007. It should at least maintain the existing level of licence fee for fixed carriers; and</p> <p>(c) OFTA should work closely with fixed carriers to implement non-financial measures to promote the efficient use of numbers, such as procedures to recycle unused numbers.</p>	<p>fixed and mobile services and providing incentive for efficient use of scarce resource such as numbers.</p> <p>(a) A review of the costs of administering carrier licences for fixed and mobile services indicates that the fees for fixed services need to be increased for cost recovery purpose.</p> <p>(b) See (a). The new licence fee under UCL is “revenue neutral” to OFTA, i.e. it does not generate extra income compared with existing fees for fixed and mobile carriers. If operators return a large amount of unused numbers to OFTA, the licence fee income for OFTA will in fact decrease.</p> <p>(c) Both financial and non-financial measures will be adopted to promote efficient use of numbers. OFTA has set up a Working Group on Numbering Issues, with participation by various stakeholders (including operators, vendors, the CC, HKTUG, and the Hong Kong Institution of Engineers) to look into various administrative measures of improving number utilisation.</p>
1.3	HKTUG	<p>(a) Supports the creation of UCL</p> <p>(b) Agrees that the introduction of number fee is the right self-regulating tool for striking the balance between the interest of the end-users, the operators and the public resources of the telecommunications numbers.</p> <p>(c) Proposes that only the unused numbers should be charged and each operator can be allowed a</p>	<p>(a) Noted.</p> <p>(b) Noted.</p> <p>(c) If only unused numbers should be charged, it may encourage operators to assign numbers to customers in a less than disciplined manner in order to reduce or evade the number fee. The result is more unnecessary consumption of numbers which is contrary to our original aim of preserving scarce number resource.</p>

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		<p>small %, such as 5%, as buffer which is exempt from the number fee.</p> <p>(d) The alignment of licence fee for all fixed and mobile operators under UCL is unavoidable in order to create a unified regulatory environment. There should be safeguards to prevent operators from transferring the increased cost to end-users.</p>	<p>(d) Noted. Under the UCL, fixed carriers may pay more licence fee but it is still a very small portion of their overall operating costs. Under the highly competitive market environment for telecommunications services, operators will think carefully before passing on the costs to customers.</p>
1.4	PCCW	<p>The increase in licence fees for fixed line operators is unjustified and unnecessary:</p> <p>(a) there is no reason for OFTA to increase the licence fees of fixed operators when it has not explained how these fee increases have been reflected by an increased workload in administering the licences pertaining to these operators;</p> <p>(b) there is no real danger of Hong Kong running out of telecommunications numbers before 2010 or beyond. Based on the figures given by the Administration, Hong Kong has up to 40 million unused numbers, representing a massive 200% of the total quantity of numbers that have already been used today;</p> <p>(c) non-financial measures should be implemented before considering the imposition of a number fee; and</p>	<p>The licence fee for UCL is set with a view to recovering the cost of OFTA in administering the licences, unifying the fees for fixed and mobile services and providing incentive for efficient use of scarce resource such as numbers.</p> <p>(a) A review of the costs of administering carrier licences for fixed and mobile services indicates that the fees for fixed services need to be increased for cost recovery purpose. OFTA's workload in administering fixed line services is not expected to drop in the near future. Regulatory issues such as handling of determinations, interconnection disputes, consumer complaints, building access / exchange co-location issues as well as the review of directory services would continue to require substantial effort.</p> <p>(b) Excluding numbers already allocated to operators, only a total of 17.2 million spare numbers are available for new demand of various services. Based on the foreseen demand and existing pace of number allocation, the current 8-digit Numbering Plan may only last up to 2015 (all numbers designated for mobile services are exhausted). As a</p>

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		<p>(d) the increase in customer connection fee and imposition of the number fee will increase the licence fees of fixed line operators by about \$45 million annually. It would be frivolous to suggest that none of the increased charges would be passed on to consumers.</p> <p>PCCW considers that the present customer connection fee payable by fixed operators should be reduced, or at least remains unchanged under UCL.</p>	<p>responsible regulator, the TA considers it necessary to plan ahead and adopt suitable measures to prolong the life span of the 8-digit Numbering Plan as far as possible, since the expansion to a longer-digit plan will have significant cost implication for the community.</p> <p>(c) A multi-pronged approach whereby both financial and non-financial measures will be adopted to promote efficient use of numbers. OFTA has set up a Working Group on Numbering Issues, with participation by various stakeholders (including operators, vendors, the Consumer Council, the Hong Kong Telecommunications Users Group and the Hong Kong Institution of Engineers) to look into administrative measures of improving number utilisation. As the administrative measures take time to firm up, we should not wait for their implementation without introduction of the number fee.</p> <p>(d) Fixed carriers are not required to pay the new licence fee until their licences expire and be replaced by UCLs. They should have sufficient time to adjust their business plan to cope with the change and return unnecessary idle numbers to OFTA. The additional customer fee of \$1 and number fee of \$3 per year (33 cents per month in total) should be relatively small in comparison with the operating costs for a fixed telephone line. It should not have a significant impact on the setting of retail price level by operators. Under the highly competitive environment, operators would need to consider the market situation and the possible impact on their market share when they decide whether to increase service charges.</p>

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			The customer connection fee under UCL is a part of the overall licence fee set on a cost recovery basis and the same level is applied for both fixed and mobile services.
1.5	SmarTone	Supports the introduction of UCL and the proposed licence fees under UCL including the number fee.	Noted.
1.6	WT&T	<p>Objects strongly to the licence fee schedule in particular the customer connection fee and the number fee:</p> <p>(a) TA has not concluded on the operational measure to efficiently use number resources and such measures have not been put to practice to realize the intended effect;</p> <p>(b) The increases in fee represent a whopping 160% increase in licence fee each year for fixed carriers. This increase of fees is not justified given the light-handed regulatory regime taken by TA;</p> <p>(c) Why should the mobile carriers, which drives the biggest demand for number resources, enjoy licence fee reduction whilst the others face an increase; and</p> <p>(d) With the increase of licence fee for fixed carriers, there would be pressure to pass on the costs to consumers and therefore not in the public interest. Moreover, will the TA ensure</p>	<p>(a) See response under item 1.4(c).</p> <p>(b) The licence fee increase for fixed carriers is less if they return idle numbers to OFTA. The fee increase for fixed carriers is justified and reasonable because OFTA has incurred a significant loss in administering fixed carrier licences in the past. The amount of effort to be expended by OFTA in regulating fixed line services is not expected to drop in the foreseeable future. See also response under item 1.4(a).</p> <p>(c) The level of licence fee under UCL is set, among other considerations, to recover the costs of administration and to align the charge for fixed and mobile services. The same customer connection fee of \$8 and same number fee of \$3 are applied for both fixed and mobile services. Compared with the existing fee schedules for fixed and mobile carrier licences, the new fee under UCL implies an increase of unit fee for fixed services and reduction of fee for mobile services. The adjustment is fair and reasonable in the light of the average unit costs actually incurred by OFTA in administering the fixed services and mobile services respectively. Moreover, the record of OFTA reveals that the number utilization rates of fixed and mobile services are at a similar level of 60%, i.e. about 40% of numbers are left unused for</p>

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		<p>that mobile carriers will pass on the savings from reduction of licence fee to the consumers?</p>	<p>both cases. The need to encourage efficient use of numbers, by means of the proposed number fee, should therefore equally apply to both fixed network operators (“FNOs”) and mobile network operators (“MNOs”).</p> <p>(d) See response under item 1.4(d). The level of licence fee is set, among other considerations, to recover costs of OFTA in administering the licences. In the past years since 1990’s, the Administration has progressively reduced the licence fee for mobile services from \$75 to \$18 per mobile station (i.e. about 76% reduction) due to a continual increase of number of mobile subscribers and hence a fall in unit costs of administration. On the other hand, the level of mobile service charge is set by the market. With increased competition, we have seen over 90% reduction of mobile tariffs since the 1990’s.</p>
(II) Other views			
2.1	CC	<p>(a) Supports the proposed special condition of compliance with codes of practice to give practical guidance to carrier licensee to address public concerns on consumer-related issues.</p> <p>(b) Welcomes the way forward proposed under the special condition on service contracts and dispute resolution.</p>	<p>(a) Noted.</p> <p>(b) Noted.</p>
2.2	HKCSL	<p>Considers the proposed legislation appropriate for the purposes it is seeking to achieve. HKCSL also urges OFTA to initiate the removal of the historical regulatory asymmetries and establish a UCL regime</p>	<p>Noted. The UCL is a major initiative to harmonise the regulation of fixed and mobile services by introducing a unified licensing regime with the same fee structure, same licence validity period and similar licence conditions for both fixed and</p>

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		which is future proof, technology neutral and conducive to Fixed Mobile Convergence so that service providers are genuinely allowed to compete with each other on a level playing field.	mobile services.
2.3	HKTUG	Believes that there are rooms for better utilization of the unused numbers through administrative means. For example, the block size of numbers to be allocated can be reduced from the current 100,000 per block to 10,000 per block and that the utilization rate of allocated numbers should be raised.	Noted. The allocation of smaller block of numbers to operators is one of the administrative measures being considered by the Working Group on Numbering Issues established by OFTA.
2.4	Pacnet	Supports OFTA's initiative to introduce UCL as a positive step. As industry conditions have changed greatly since 1995, a further and more fundamental review of the licensing framework should be conducted in the near future taking into account conditions prevailing in the industry and the needs of operators and consumers.	Noted. OFTA will continue to review and update the licensing framework in the future in response to the latest market situation.
2.5	SmarTone	Urges OFTA to devise an effective mechanism for the allocation of numbers to prolong the current 8-digit numbering plan.	Noted. The Working Group on Numbering Issues established by OFTA will look into various measures to improve the number allocation mechanism so as to prolong the life span of the current 8-digit numbering plan as far as possible.
2.6	WT&T	Consumers have a strong preference for lucky numbers such as the digits "2", "3" and "8". Public education should be conducted encouraging them to take up less favourable numbers such as the digits "4" and "5".	While the consumers' preference for lucky numbers is understandable, we should balance it with the need to promote the efficient use of numbers and prolong the life span of the current 8-digit Numbering Plan in the interest of the community. Other than public education, appropriate economic incentive such

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			as the proposed number fee and other administrative measures should be adopted to improve number utilisation.