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(English version only)

WHARF T&T LIMITED
SUBMISSION TO
THE PANEL ON INFORMATION TECHNOLOGY AND BROADCASTING, LEGISLATIVE COUNCIL
ON CONSULTATIONS ON THE PROPOSED UNIFIED CARRIER LICENCES

Introduction

1 Wharf T&T Limited ("WTT") welcomes the opportunity to submit its preliminary views on the consultation paper on the Creation of A Unified Carrier Licence under the Telecommunications Ordinance issued by the Secretary for Commerce and Economic Development ("SCED") and the consultation paper on the Licensing Framework for Unified Carrier Licence issued by the Telecommunications Authority ("TA"), both dated 21 December 2007.

2 Submission to the consultation papers is due on 20 February 2008. WTT is still reviewing the various issues raised in the consultation papers, further and detailed submissions to the consultation papers will be made in due course separately to SCED and the TA. In response to the invitation of the Panel on Information Technology and Broadcasting, in view of the timeline and, notwithstanding our submissions to SCED and the TA in late February 2008, WTT would like to focus on 2 issues in this submission.

Licence Fee

3 The first issue that WTT wishes to raise concerns the fee structure proposed by SCED for the proposed Unified Carrier Licence ("UCL").

The existing licence fees for Fixed Carrier Licence ("FCL") and Mobile Carrier Licence ("MCL") are as follows:

Licence	Fixed fee component	Subscriber-based fee components	Non-subscriber-based fee components
FLC	Annual fee ($1,000,000; or $200,000 for external service only)	Customer connection fee ($7 per connection)	Spectrum management fee (*)
FCRL	Annual fee ($100,000)	Customer connection fee ($7 per connection)	Spectrum management fee (*)
MCL	Nil	Mobile station fee ($18 per station)	Spectrum management fee (*) Base station fee (*)
MCRL	Annual fee ($50,000)	Nil	Land station fee (*)

(*) calculated according to pre-defined formulae set out in Schedule 3 to the Regulation

SCED has proposed the following licence fees for UCL:

Licence	Fixed fee component	Subscriber-based fee components	Non-subscriber-based fee components
UCL	Annual fee ($1,000,000; or $100,000 for external fixed service only and/or for radiocommunications services where moving stations are primarily for use in locations other than on land only)	Customer connection fee ($8 per connection)	Number fee ($3 per subscriber number) Spectrum management fee (*) Base station / land station fee (*)

(*) calculated according to formulae as set out in Appendix B to the consultation paper

4 The proposed licence fee for UCL would significantly increase the costs of FCLs when they renew or replace their licence with UCL. The SCED believed that the licence fee is set at a level to recoup the administrative expenses of the TA in a proportionate manner. Whilst noting that the proposed licence fee would increase the costs of providing fixed line services and lower the costs of providing mobile services, the TA considered that on the whole the same level of fee for both fixed and mobile services should be conducive to the fixed-mobile convergence ("FMC") environment.

5 WTT strongly objects to the proposed licence fee structure of the UCL and finds the arguments put forward by the SCED and the TA for the increase in licence fee to be unconvincing for the following reasons:

- There is no reason that the same level of fee for both fixed and mobile services would be conducive to the FMC environment. Even if the same level of fee for both fixed and mobile services would be conducive to the FMC environment, there is no reason why the customer connection fee should be increased at the expense of fixed line services;

- The introduction of subscriber number fee at $3 per number per annum is also without any justification and would significantly increase the costs of licensees and the increase in costs would inevitably be passed on to the consumers and would inevitably stifle investment in advanced technology, services and infrastructure rollout;

- Given that the telecommunication market in Hong Kong has been liberalized for many years and the maturity of the market, one would expect the administrative expenses of the TA to decline over the years. Indeed the Trading Fund Report of the Office of the Telecommunications Authority ("OFTA") for 2006/07 shows a very healthy financial state of affairs – the pre-tax profit of the Trading Fund has been increased from HK$74.3 million in to HK$92.6 million in 2006/07, marking a 24.6% annual increase. Specifically, the expenditure of the Trading Fund managed by the TA has witnessed a 3.1% yearly decrease in 2006/07, contrasting the nearly 2.5% increase of CPI over the same period; and

- If economizing the utilization of numbers is truly a key concern for the SCED/ TA as they claimed in the consultation papers, they should encourage and/or work with the carriers to minimize unused numbers, as supposed to be "punishing" them on their normal number utilization. The amount of the number fee suggested by the TA appear to be arbitrarily determined and its nature is nothing more than a financial penalty on the carriers and the consumers for using a public resource.

Any-to-any Connectivity

6 The second issue that WTT wishes to point out relates to any-to-any connectivity. WTT agrees that any-to-any connectivity is an important public policy objective and the lack of it would severely undermine the consumers' freedom to choose their service provider and ultimately the development of long-term sustainability in competition in the telecommunications market. Whilst WTT agrees with the proposed express statement on any-to-any connectivity in the Special Condition of the UCL, it is important that:

- Any-to-any connectivity policy is fully implemented and is strictly adhered to amongst the fixed carriers, the mobile carriers and mobile and fixed carriers;

- The scope of any-to-any connectivity is clearly spelt out to avoid any misunderstanding or misconception. We query whether the proposed statement on any-to-any connectivity would extend to (i) the passing of SMS between fixed network and mobile network; and (ii) the access to information contents of any fixed networks or mobile networks by any fixed line user or mobile user;

- The current tariff disparity between Internet access via fixed network and mobile network is not conducive to FMC development. A user with broadband Internet access over fixed network pays for a monthly line rental has unlimited access to the Internet, whereas a mobile user with Internet access via his mobile service provider has to pay monthly rental and usage charge for Internet access except for certain designated information access provided by his service provider. In a truly FMC environment, this situation is not sustainable. A mobile user should be allowed to have the same experience for access to information as he would with fixed line service and be free to move from mobile network to the fixed network regardless of whether his network or service provider operates a fixed or mobile or converged network; and

- The TA should spell out clearly when she would be prepared to intervene to direct interconnection. From experience this often involves protracted delay and great reluctance on the part of OFTA to intervene. The regulatory uncertainty and inaction cause significant regulatory and legal costs to the operators and the service providers. The classic case is the open access to service-based operators for VOIP traffic.

Conclusion

7 WTT will be submitting further views on the consultation papers issued by SCED and the TA as they raise very important issues for the industry and which would have profound impacts on the future development and investments in the telecommunications market in Hong Kong.

8 Given this major licensing review, we believe it is timely that the Government reviews its policy objectives for the telecommunications market going forward and the extent of the Administration's involvement in the growth of the telecommunications industry.

Submitted by Wharf T&T Limited
11 January 2008