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Panel on Information Technology and Broadcasting

Meeting on 8 June 2009

**Background brief on
development of fixed-mobile convergence**

Purpose

This paper provides background information on the development of fixed-mobile convergence (FMC). It also summarizes Members' views and concerns on the subject.

Background

2. Distinction between fixed and mobile networks and services is becoming increasingly blurred because of market and technology developments, giving rise to FMC. To ensure that Hong Kong's regulatory environment remains conducive to the development of FMC, the Telecommunications Authority (TA) conducted two public consultation exercises in 2005 and 2006. The TA subsequently issued a statement on "Deregulation for Fixed-Mobile Convergence" on 27 April 2007 announcing that it would, inter alia, deregulate the Fixed-Mobile Interconnection Charge (FMIC) arrangement by withdrawing the regulatory guidance in favour of a structure for payment of FMIC based on the Mobile Party's Network Pays (MPNP) approach, subject to a two-year transition period. TA stated that primary reliance would in future be placed on negotiated outcomes between the fixed and mobile network operators, with the TA intervening only if agreement could not be reached. The TA also recommended creating a Unified Carrier Licence (UCL) as a single vehicle for licensing fixed, mobile and/or converged services.

3. On 21 December 2007, the Secretary for Commerce and Economic Development issued the "Consultation Paper on the Creation of a Unified Carrier Licence under the Telecommunications Ordinance" setting out the proposals on the general conditions, period of validity and fee structure for the UCL. In parallel, the TA issued a separate consultation paper entitled "Licensing Framework for

Unified Carrier Licence" covering the special conditions proposed to be attached to the UCL, the general approach for granting a UCL under different scenarios and the arrangement for migration of existing carrier licences to UCLs. The Administration also briefed the Panel on Information Technology and Broadcasting (the Panel) at the Panel meetings on the proposals and the consultation findings respectively on 14 January and 13 May 2008.

4. To enable the introduction of the UCL, the Telecommunications (Carrier Licences) (Amendment) Regulation 2008 and the Telecommunications (Level of Spectrum Utilization Fees) (Second Generation Mobile Services) (Amendment) Regulation 2008 under the Telecommunications Ordinance (TO) (Cap. 106) were gazetted on 16 May 2008 and tabled at the Legislative Council meeting on 21 May 2008. The regulations aimed to facilitate the use of the UCL as the licensing vehicle for the broadband wireless access (BWA) service to tie in with the auction of BWA spectrum in the fourth quarter of 2008. A subcommittee was formed to study the two amendment Regulations which came into operation on 1 August 2008.

Previous discussions

Fixed-mobile interconnection charging arrangement

5. Panel members in general supported the introduction of the UCL and the deregulation of the existing regulatory guidance that favours the MPNP approach for the FMIC. On 11 June 2007, the Administration briefed the Panel on the review on the convergence of fixed and mobile communications services. Regarding the deregulation of the existing FMIC arrangement for network operators to negotiate freely interconnection charges and the withdrawal of regulatory guidance on interconnection links, some Panel members expressed concern that failure to reach agreement on the terms and conditions of interconnection through commercial negotiations would lead to disconnection, thus disrupting the smooth operation of the telecommunications market.

6. According to the Administration, network operators would have a two-year transition period to negotiate the terms and conditions of interconnection based on mutually acceptable settlement options during which the TA would closely monitor the situation. In the event that commercial negotiations failed to achieve mutually acceptable terms and conditions and there were indications that a market failure was likely to emerge, the TA would intervene and invoke the powers under the TO to make an order requiring network operators to take such action as the TA considered necessary. This was to secure the interconnection between particular networks or to continue connectivity to ensure efficient and reliable provision of telecommunications services pending an agreement between the network operators or a determination to be made by the TA. The network operators could then settle the connection charges subsequently. The Administration assured members that it

would closely monitor the situation to preclude the occurrence of a market failure and to ensure that the situation was well under control.

Introduction of the Unified Carrier Licence

7. The Subcommittee to study the two Regulations concerning the UCL and the second generation mobile services (paragraph 4 refers) noted that the utilization rate of allocated numbers was about 60% for both fixed and mobile operators. The number fee would be introduced under the UCL from August 2008 regardless whether the number had been assigned to end users or not. This would provide financial incentive for operators to return idle numbers to the Office of the Telecommunications Authority (OFTA) to reduce their operating cost. The amount per number per annum was a relatively small portion and was revenue-neutral on the part of OFTA. The Subcommittee considered that the imposition of the number fee was a policy change which would have significant implications to operators and their existing users. In taking forward the proposal, the Administration should review the UCL regime and study whether the number fee had achieved its intended purpose of prolonging the current 8-digit numbering plan three years after its commencement. The Subcommittee therefore requested the Administration to report to the Panel on the outcome of the review.

8. The Subcommittee also noted that OFTA had set up a Working Group on Numbering Issues, with participation of various stakeholders (including operators, vendors, the Consumer Council, Hong Kong Telecommunications Users Group and the Hong Kong Institution of Engineers) to examine administrative measures for improving number utilization. As the introduction of the proposed financial and administrative measures to increase the utilization rate of numbers would enable the reclamation of idle numbers, thereby prolonging the current numbering plan to beyond 2026, the Subcommittee requested the Administration to provide the Panel with detailed statistics on the utilization rate of numbers allocated to operators, after a conclusion had been reached between OFTA and operators on the definition of idle numbers.

9. Noting the progress of the proposal to implement Fixed Mobile Number Portability (FMNP) and its implications on the UCL, some members of the Subcommittee considered that the advantage of FMNP should be advocated as it could prolong the life span of the current numbering plan.

10. According to the Administration, cross porting of fixed and mobile numbers would pool together the number resources for better utilization and might prolong the 8-digit numbering plan. At present, numbers could be transferred between fixed networks and between mobile networks, but not between fixed and mobile networks. Pursuant to the TA's Statement dated 27 April 2007, a market research to assess the consumers' demand for FMNP was conducted, results of which were being analyzed. The initial findings were that consumers were concerned about how to differentiate fixed and mobile telephone numbers and to

port a telephone number for multiple users. Nevertheless, the feasibility to introduce FMNP should be handled separately from the UCL.

Latest position

11. The Administration will update the Panel on the implementation of the initiatives to facilitate FMC, including the withdrawal of regulatory guidance for the FMIC, the implementation of the UCL and further examination of implementing FMNP, at the Panel meeting on 8 June 2009.

Relevant papers

Information paper provided by the Administration for the Information Technology and Broadcasting Panel meeting on 11 June 2007

<http://www.legco.gov.hk/yr06-07/english/panels/itb/papers/itb0611cb1-1831-14-e.pdf>

Background brief prepared by the Legislative Council Secretariat for the Information Technology and Broadcasting Panel meeting on 11 June 2007

<http://www.legco.gov.hk/yr06-07/english/panels/itb/papers/itb0611cb1-1831-15-e.pdf>

Minutes of Information Technology and Broadcasting Panel meeting on 11 June 2007

<http://www.legco.gov.hk/yr06-07/english/panels/itb/minutes/itb070611.pdf>

Information paper provided by the Administration for the Information Technology and Broadcasting Panel meeting on 14 January 2008

<http://www.legco.gov.hk/yr07-08/english/panels/itb/papers/itb0114cb1-544-3-e.pdf>

Minutes of Information Technology and Broadcasting Panel meeting on 14 January 2008

<http://www.legco.gov.hk/yr07-08/english/panels/itb/minutes/itb080114.pdf>

Information paper provided by the Administration for the Information Technology and Broadcasting Panel meeting on 13 May 2008

<http://www.legco.gov.hk/yr07-08/english/panels/itb/papers/itb0513cb1-1456-6-e.pdf>

Minutes of Information Technology and Broadcasting Panel meeting on 13 May 2008

<http://www.legco.gov.hk/yr07-08/english/panels/itb/minutes/itb080513.pdf>

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

<http://www.legco.gov.hk/yr07-08/english/hc/papers/hc0627cb1-2035-e.pdf>

Minutes of the Subcommittee on Subsidiary Legislation to Introduce a Unified Carrier Licence under the Telecommunications Ordinance meeting on 6 June 2008

http://www.legco.gov.hk/yr07-08/english/hc/sub_leg/sc12/minutes/sc120606.pdf

Minutes of the Subcommittee on Subsidiary Legislation to Introduce a Unified Carrier Licence under the Telecommunications Ordinance meeting on 14 June 2008

http://www.legco.gov.hk/yr07-08/english/hc/sub_leg/sc12/minutes/sc120614.pdf

Minutes of the Subcommittee on Subsidiary Legislation to Introduce a Unified Carrier Licence under the Telecommunications Ordinance meeting on 20 June 2008

http://www.legco.gov.hk/yr07-08/english/hc/sub_leg/sc12/minutes/sc120620.pdf

Question No. 12 at the Council meeting on 2 July 2008 on "Changes of FMIC tariff"

<http://www.info.gov.hk/gia/general/200807/02/P200807020165.htm>

Question No. 16 at the Council meeting on 2 July 2008 on "Fixed-mobile interconnection charge arrangement"

<http://www.info.gov.hk/gia/general/200807/02/P200807020179.htm>

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