



**Brief to LegCo
Information Technology and
Broadcasting Panel**

**Consultation on
Review of Type II
Interconnection**

What is Type II Interconnection

- Interconnection at the customer access network level
- Enable operators without customer access to also provide services to customers through the networks of other operators



Policy Objectives for Type II Interconnection when first implemented in 1995

- Promoting the telecommunications industry
- Encouraging investment in network
- Facilitating effective competition
- Enhancing consumer choice

Objective of the Review

- One of bureau's major tasks in 2003
 - A timely review as more than seven years have passed since liberalization of the local fixed market and implementation of Type II interconnection
- ⇒ **To conduct an overall review on the policy and regulatory regime for Type II interconnection**

Current Market Conditions

A. Market Shares

- Narrowband services (i.e. voice services)
 - new entrants are gaining market shares via both self-built network and Type II interconnection

Current Market Conditions (Cont'd)

Narrowband Market (as at end of December 2002)

	No. of lines connected via Type II interconnection	No. of lines connected via self-built network	Total no. of lines	Market share
HGC	329 006	375 724	704 730	18.3% ^{Note}
HKBN				
NWT				
Wharf T&T				
PCCW-HKTC	0	3 137 017	3 137 017	81.7%
Total	329 006	3 512 741	3 841 747	100%

Note : Among the 18.3% market share, 9.7% is via self-built network and 8.6% is via Type II interconnection

Current Market Conditions (Cont'd)

- Broadband Services
 - Keen competition in the broadband services market
 - New entrant's market share achieved mainly through self-build networks, as Type II interconnection for broadband services is still at initial stage

Current Market Conditions (Cont'd)

Broadband Market (as at end of December 2002)

	LMDS and leased circuits	xDSL	FTTB	HFC	Total no. of lines	Market share
HGC	-	-	√	-	452 342	44.7%
HKBN	√	-	-	-		
HKCTV	-	-	-	√		
NWT	-	√	-	-		
Wharf T&T	-	√	√	-		
Others	-	√	-	-	559 422	55.3%
PCCW-HKTC	-	√	√	-		
Total	>100 000	473 697	155 539	>200 000	1 011 764	100%

Current Market Conditions (Cont'd)

B. Network Rollout and Alternative Choice

- Incumbent's networks (for both broadband and narrowband services) cover virtually the whole of Hong Kong
- New entrants are expanding their networks :-
 - (a) Narrowband services :
 - Three new entrants Hutchison Global Communications Limited, Wharf T&T Limited and New World Telecommunications Limited have extended their network through Type II interconnection to enable over 50% of the residential customers to have an alternative choice

Current Market Conditions (Cont'd)

(b) Broadband Services :

- Hong Kong Cable Television Limited's cable modem service has already achieved over 80% home passed
- Local wireless fixed network operators (eg. Hong Kong Broadband Network) are also extending their networks

⇒ **Consumers have greater choice of services than that reflected in market share of new entrants**



Current Regulatory Framework

- Separate regulation of narrowband and broadband Type II interconnection
- Narrowband Type II interconnection governed by a series of statements issued by the TA on “Interconnection and Related Competition Issues”, last revised on 18 March 2002
- Broadband Type II interconnection governed by the TA statement on “Broadband Interconnection” dated 14 November 2000

Current Regulatory Framework (Cont'd)

- For both narrowband and broadband services :
 - Type II interconnection available for copper-based networks only. Not to optical fibres for the time being.
- Costing principle
 - (1) Long Run Average Incremental Costs (LRAIC)
 - (2) A reasonable cost of capital commensurate with investment risk is included



Key Issues to be Reviewed

- Whether the policy on Type II interconnection remains relevant and necessary to facilitate effective competition and promote investment in the telecommunications market
- Whether Type II interconnection should continue and if so, in what way, taking into account factors such as the nature of services (narrowband and broadband); technologies adopted (copper wires and fibres); and points at which interconnection is to be made (at telephone exchanges or at individual buildings)



Key Issues to be Reviewed (Cont'd)

- Whether the existing charging principles adopted for interconnection continue to be appropriate
- Interested parties are requested to support their views with market data and economic analysis

Way Forward

- Consultation paper issued on 23 May. Industry and public are given 3 months for comments by 22 August
- A further round of consultation may be conducted if necessary before concluding the review

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