Speaking Note of Mary Cheah – Senior Legal Counsel, Hutchison Global Communications to the Legco Panel on Information Technology & Broadcasting on review of Type II interconnection policy (25 February 2004)

Hutchison Global Communications (HGC) welcomes the invitation by the Legco Panel on IT & Broadcasting to present our views on the issue of Type II interconnection to the Honourable Members.

HGC was first awarded the FTNS licence in 1995. Since then, we have actively built out our network infrastructure. Today, we own and operate one of the largest optical fibre networks in Hong Kong with 700,000 km of optical fibre in total, which is equivalent to 17.5 times of the perimeter of the earth. HGC has all along been focusing our rollout strategy on self-built customer access network. Our reliance on Type II interconnection has been consistently falling. In 1999, we had about 44% of our lines served by Type II. The figure fell to 25% in 2001 and as at today, only 15% of our lines are provisioned via Type II interconnection. In other words, 85% of our lines in service are provisioned via self-built customer access network.

There are certain advantages in pursuing a self-build strategy. It allows better control in service provisioning and supports more advanced telecommunications services. For example, we pioneered the market by offering our broadband Internet access with symmetrical, dedicated 10 Mbps upload and download speed back in 2000. Had HGC been complacent with a leasing strategy, our customers would have been deprived of the innovative services that they are currently enjoying.

In our submission on the first consultation paper, we have emphasised the substantial change in competitive landscape compared to 1995 when the market was first liberalised, which warrants an overturn in the current regulatory framework. We remain of the same view and are pleased to see that OFTA has taken a pragmatic approach. In particular, we welcome OFTA's recommendation not to extend the Type II interconnection to fibre networks. This sends a clear signal to the investors in telecom infrastructure which we believe is pivotal to the development of a vibrant telecommunications industry in Hong Kong.

We also support the recommendation by OFTA to phase out the obligation on Type II interconnection in cases where a building is served by an alternative access network. We believe the proposed policy strikes a proper balance between encouraging investment in telecom infrastructure and promoting competition in the market.

In so far as we support OFTA's recommendation in general, we consider the proposed sunset period too long. In the second consultation paper, OFTA proposed a "3+3" sunset arrangement where obligatory Type II interconnection will be phased out in a period of 6 years once a particular building is served by more than two or more self-built customer access networks. This is considerably longer than the normal lead-time taken to access a building which, according to the previous experience of HGC, is generally about 6 to 8 months. If the proposed transitional period of "3+3" is adopted, operators currently using Type II interconnection will not be motivated to migrate to self built access networks even though more than one operator have reached a particular building. This is because they are able to enjoy the same Type II arrangement for another 5 or 6 years. 5 to 6 years is an extremely long period. The whole competition landscape in the Hong Kong telecommunications industry has changed completely over a 6 years' period, and this can give you an idea of how long the proposed sunset period is.

The effect of having such a long sunset period would be discouraging or undermining the willingness those operators who choose to self-build their customer access network to pursue the strategy proposed by OFTA in its second consultation paper, as they continue to face competitors taking advantage of a low-risk approach during the unrealistically long sunset period. We take the view that if a building is already served by an alternative access network, Type II interconnection should be phased out in a period of three years. Those three years include 1 year transitional period and another 2 years grandfathering period to service lines that are already installed.

We are of the view that if the new Type II interconnection policy leads to any significant changes in the telecommunications market, OFTA should conduct another round of review after the changes.

Thank you.