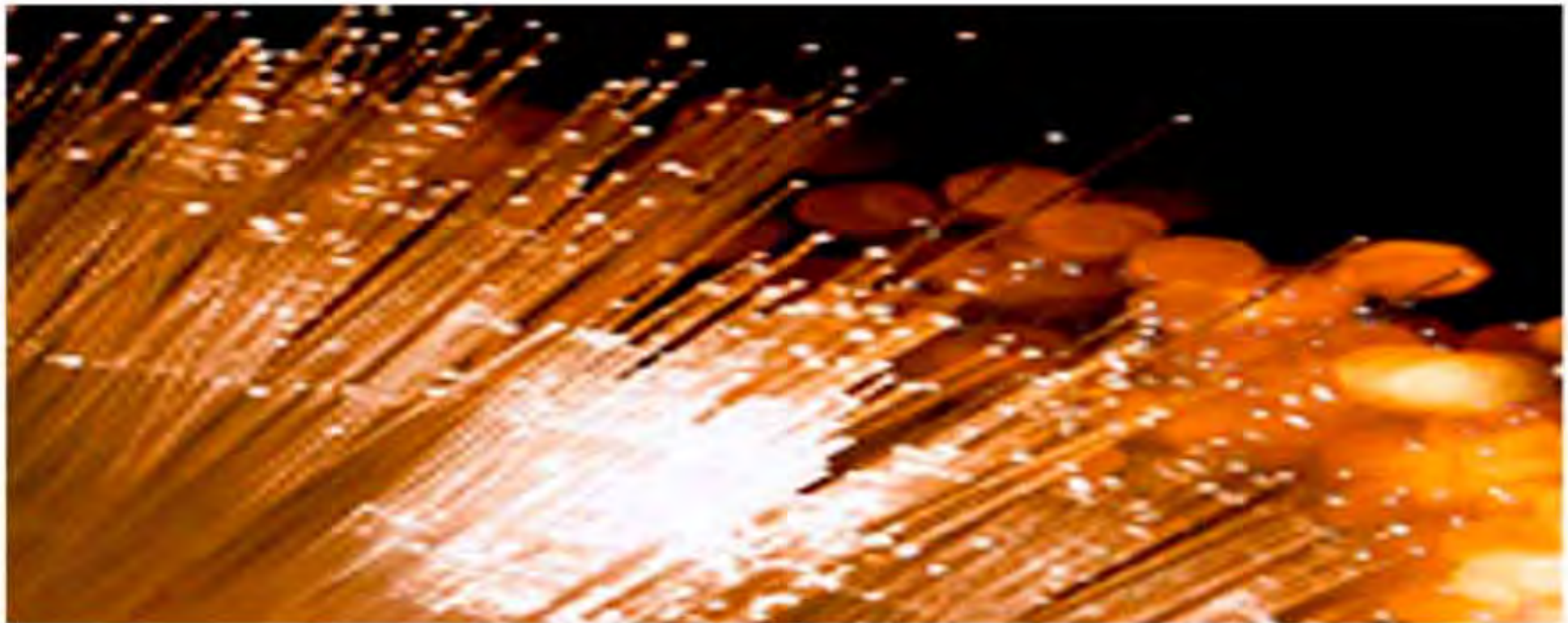
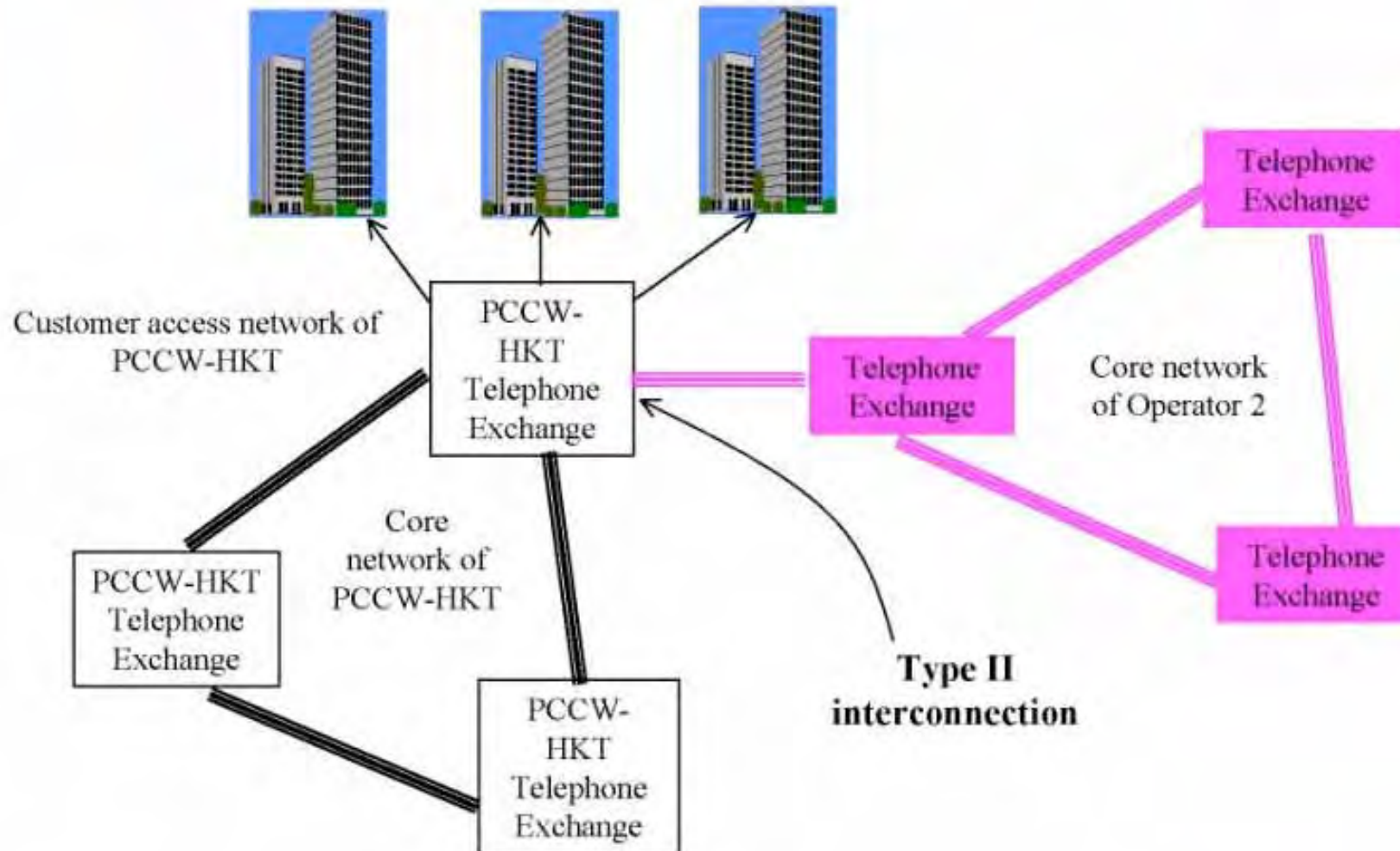


Review of Type II Interconnection Policy
Legislative Council Panel on Information
Technology and Broadcasting



Type II Interconnection

- Requires a fixed operator to open up its copper-based customer access network to competitors at the “last mile”



Background and Issue

- Widely used in other jurisdictions to facilitate market entry, speed up market competition, enable early realization of consumer benefits, and avoid wasteful duplication in network investment
- Introduced in Hong Kong when local fixed market was first liberalised in 1995 with objectives to
 - promote telecommunications industry
 - encourage investment in network
 - facilitate effective competition and enhance consumer choice
- Issue : Still necessary and appropriate in light of updated market and technology developments?

The Policy Review

- Government conducted 2 rounds of public consultation from May 2003 to March 2004
- Continuation of mandatory Type II interconnection is justified only if the benefits from *facilitating effective competition* and *enhancing consumer choice* outweigh potential detriment from *dampening of investment incentive* in network infrastructure



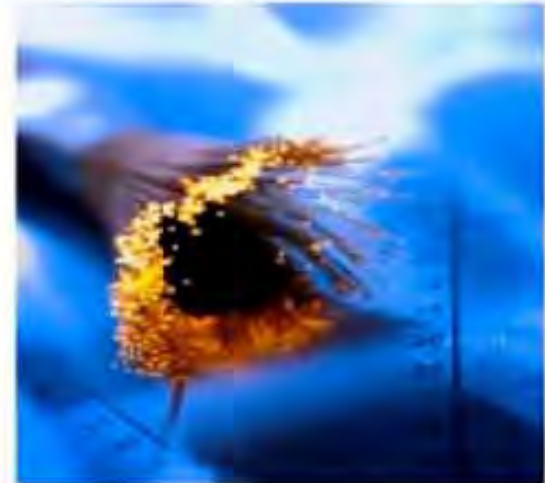
The Market Landscape

- Substantial roll out of self-built customer access network by PCCW-HKT's competitors (Hutchison, Wharf T&T, New World and Hong Kong Broadband) has enabled 53% of households to have a choice of service providers through their own self-built customer access network
- Type II interconnection has enabled 58% of households to have a choice of service providers through renting PCCW-HKT's customer access network
- Significant market share achieved by new entrants
 - narrowband market : 28% (11% through Type II interconnection, 17% through self-built network)
 - broadband market : 45%, including HK Cable TV (almost all through self-built network)



Analysis

- Impressive rollout of self-built network by competitors to 53% households
- Our policy objective is to encourage investment in advanced and high bandwidth telecommunications infrastructure able to support innovative services on demanding technological platforms
 - PCCW-HKT's copper-based network has limitations in delivering multimedia broadband services
 - need to give new impetus to encourage investment in infrastructure to realize our vision as a leading digital city
- However, withdrawal must not be abrupt to avoid disruption to market competition and consumer choice and service; and to allow reasonable time for operators who have formulated their business strategy and invested accordingly based on our current policy to adjust their business strategy and switch to building “last mile” network should they so decide



The Decision

- To withdraw Type II interconnection in an orderly manner:
 1. Full withdrawal by 30 June 2008 (Reason: send clear signal to operators to roll out network)
 2. In run-up to full withdrawal, partial withdrawal on a building-by-building basis and apply to buildings already connected to at least two self-built networks(Reason: Avoid major impact on consumer choice and competition, but encourage roll out)
 3. Withdrawal for buildings in 2 above subject to two-year transitional period (where operators can acquire new customers through Type II interconnection) to ensure no disruption in consumer choice and one year "grandfather period" (where no more new customers can be acquired through Type II) to protect consumers from abrupt increase in retail price
 4. After "grandfather period", or 30 June 2008, whichever is earlier, interconnection charges and terms to be subjected to commercial negotiations
 5. Buildings meeting "essential facilities" criterion can be exempt from full withdrawal (Reason: no operators would roll out to these areas due to technical or economic reasons and consumers will not benefit from sufficient competition)

Major Views Not Taken On Board

- HKCTV should be counted as a self-built network in triggering withdrawal of Type II interconnection

Response

- HKCTV's hybrid fibre co-axial cable network does not qualify to be a self-built network because:
 - it is not yet supporting telephony services;
 - broadband services currently provided by i-cable has limited capacity; and
 - network is not open to other ISPs for access
- Broadband and narrowband services should be treated differently for the purpose of withdrawing Type II interconnection

Response

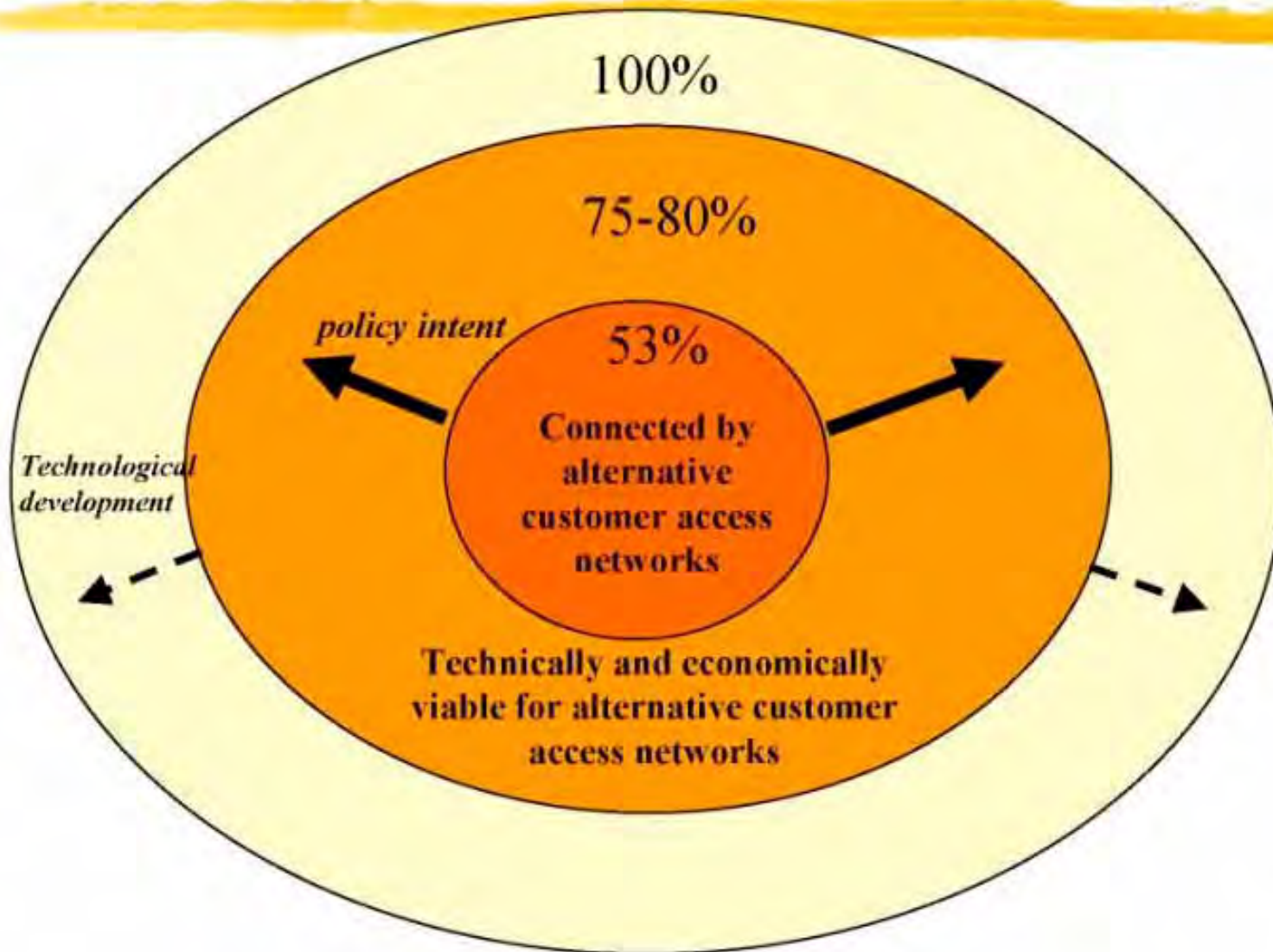
- In era of convergence and technological development, new services continue to emerge, often with blurred demarcation between different services (e.g. voice, broadband internet access, TV, video telephony, voice-over-IP)
- Not appropriate to withdraw Type II interconnection separately with respect to different services

Impact of The Decision

- **Encourage Investment** : Clear signal to operators to invest in high bandwidth and advanced telecommunications network
- **Promote Market Competition and Enhance Consumer Choice** : In the short run, withdrawal of interconnection in buildings with at least two self-built customer access networks will ensure competition and consumers would have a choice. In the long run, operators and other service providers will compete to provide consumers with quality and innovative telecommunications services delivered by high bandwidth and advanced telecommunications network.
- **Conclusion** : Further the objective for Hong Kong to become a leading digital city



Impact of Recommendations (Cont'd)



End

