

## WHARF T&T LIMITED

### SUBMISSION TO THE PUBLIC CONSULTATION PAPER ON 2004 DIGITAL 21 STRATEGY ISSUED BY THE COMMUNICATIONS AND TECHNOLOGY BRANCH OF COMMERCE, INDUSTRY AND TECHNOLOGY BUREAU

1. Wharf T&T welcomes the opportunity to submit its views on the public consultation paper on 2004 Digital 21 Strategy.

#### Where do we stand?

2. The draft 2004 Digital 21 Strategy has pointed out, amongst other things, that:
  - *“Broadband reaches all commercial buildings and virtually all residential buildings;*
  - *Household Internet penetration: 53% in 2002*
  - *Household penetration for broadband Internet service: 48% in 2003*
  - *Internet penetration in business sector: 44% in 2002”*

Compared the above with say Korea and even Canada, Hong Kong is lagging behind.

In Korea, the broadband revolution continues:

- 3rd in the world in terms of Internet users and the nation with the highest broadband Internet penetration rate in the world counting 10 million subscribers
- Household Internet penetration: 64% in 2002 with a 20% annualized growth rate
- Household penetration for broadband Internet service: 70% in 2003<sup>1</sup>

As for Canada, Canadians have emerged as global leaders in the adoption of broadband Internet technologies, with almost one-half of regular home users and the majority of business Internet users connecting using broadband, according to the first comprehensive study of high-speed Internet access.<sup>2</sup> The overall take-up rates in the household and business environments place Canada among the world's leaders in broadband use, ranking second only to South Korea among OECD countries on a per capita basis:

- Household Internet penetration: 62% in 2002<sup>3</sup>

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<sup>1</sup> Bandwidth Report- Korean Broadband Penetration Breaks 70%, June 2003

<sup>2</sup> The Daily of Statistics Canada dated 23 September 2003

<sup>3</sup> The Daily of Statistics Canada dated 23 September 2003

- Household penetration for broadband Internet service as of July 2003: 86% of the Canadian population lived in communities where broadband access by cable or DSL networks was available
  - For the first time in 2002, the majority 58% of businesses in the private sector accessing the Internet used broadband. About 84% of large firms using the Internet had high-speed access, compared with 71% of medium-size firms and 56% of small firms, which were still very much in the process of developing broadband use.<sup>4</sup>
3. The draft 2004 Digital 21 Strategy has also cited the various progress of the Government's implementation of the 2001 Strategy. We would like to comment on the following points:

- *All sectors of the telecommunications market liberalized from 1 January 2003 to encourage competition and provision of services at affordable prices*

With respect to new FTNS licensees with licence to operate from 1 January 2003 they have not so far been active in the provision of retail fixed lines services. There is no obligation on their part to provide services by certain time. There is no indication to suggest that they would enter into retail fixed lines services market. It is yet to see their presence would encourage further competition and provision of services at affordable prices. Issuing licences is easy; however, the key is to develop competition thus bringing about benefits to consumers.

- *Four 3G licences issued in October 2001- 3G services expected to be rolled out later this year*

It is unlikely that 3G services will be rolled out later this year. Some of them have publicly stated that their services would be delayed. There is a lot of hype on this; real benefits have yet to be seen.

Interesting the draft paper has not mentioned anything about Type II interconnection. In an Industry Consultation Paper on Broadband Interconnection issued by the Telecommunications Authority (TA) on 3 November 1999, the consultation paper has the following to say:

*“1.1 As Hong Kong develops into a high value-added and knowledge-based economy, the traditional narrowband telecommunications infrastructure can no longer cope with the increasing demand for the transmission of huge volumes of information at high speeds and real-time exchange of multimedia data streams. It is the aim of the Government to promote investment in broadband*

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<sup>4</sup> Canadian Internet Access and Broadband Market Forecast and Analysis 2003-2007

*telecommunications infrastructure and to facilitate access to such infrastructure for the provision and use of broadband services.*

*1.2 The promotion of investment in “high capacity communications system” (which essentially comprises the broadband telecommunications infrastructure) is a critical part of the ‘Digital 21’ Information Technology (IT) strategy formulated by the Information Technology and Broadcasting Bureau (ITBB). It is one of the ‘enabling factors’ identified by the Chief Executive in his 1997 Policy address which would “make Hong Kong a leader, not a follower, in the information world of tomorrow”.*

*1.3 In pursuing these policies, the key objectives of the Government on broadband services are as follows:*

- (a) to promote investment in broadband infrastructure, as the infrastructure is the backbone of the telecommunications and information technology industries underpinning the service sector of Hong Kong;*
- (b) to promote effective competition and consumer choice at affordable prices, through ensuring unrestricted access to, and interconnection between, broadband telecommunications networks;*  
*.....”*

Broadband Type II interconnection was mandated following two rounds of industry consultation as announced in a statement issued by the TA on 14 November 2000. However more than 3 years down the track, there has been dismal broadband Type II interconnection to the copper local loop of PCCW-HKT Telephone Limited (PCCW) due to various challenges orchestrated by PCCW and the inability of the TA to overcome these challenges. If interconnection were implemented in full as intended, perhaps the type of landscape would be very different to what we are seeing today.

#### Where do we go from here?

4. The draft 2004 Digital 21 Strategy has highlighted eight main areas of action to continue to harness the benefits of IT for business, the community and Hong Kong’s position in the world and they are further elaborated in very general terms in the draft paper:
  - *Government leadership*
  - *Sustainable e-government programme*
  - *Infrastructure and business environment*
  - *Institutional review*
  - *Technological development*
  - *A vibrant IT industry*
  - *Human resources in a knowledge economy*

- *Bridging the digital divide*

5. In this submission we response mostly on infrastructure and briefly on institutional review.

### **Infrastructure**

6. We fully support statements that, “*Government leadership and commitment is vital in realizing our goal as a leading digital city in the region*” and “[t]he *Government’s role is indeed significant if the momentum that has been created can be sustained and deepened.*”

7. The liberalization of fixed telecommunications network services and various regulatory initiatives including interconnection measures have been tools adopted by the Government in its pursuit of its telecommunications policy objectives to ensure:

- *“that the widest range of quality telecommunications services should be available to the community at reasonable cost;*
- *that telecommunications services should be provided in the most economically efficient manner possible; and*
- *that Hong Kong should serve as the pre-eminent communications hub for the region now and into the next century.*”<sup>5</sup>

8. Whilst we agree that world-class infrastructure is fundamental factor contributing to the development of a digitally connected city and a highly competitive economy in a globalized environment, *infrastructure alone is insufficient.*

9. The consumers in Hong Kong have benefited enormously with liberalization in the telecommunications sector, for instance the liberalization of external telecommunications services, mobile services, fixed-lines, have brought about choices to consumers with lower prices and innovative services. However we must not rest on our laurel, much have yet to be done in order to bring about choice of telecommunications service providers to greater segments of Hong Kong so as to drive penetration and increase usage.

10. The draft 2004 Digital 21 Strategy talks about Hong Kong’s world-class infrastructure, free market, excellent financial services, capital market functions and legal system as well as rigorous protection of intellectual property rights. Regrettably it fails to address one key important issue, which is *accessibility* to all of these excellent systems by the consumers.

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<sup>5</sup> Guidelines to Assist the Interpretation and Application of the Interconnection Provisions of the Telecommunications Ordinance (Cap. 106) and the FTNS Licence, June 1995

11. World-class telecommunications infrastructure alone is insufficient to harness the benefits of IT for business, the community and Hong Kong's position in the world. *Accessibility* to this infrastructure at reasonable prices is essential if we are to bring the benefits of IT to businesses and the community.
12. Hong Kong is not short of telecommunications infrastructure. The problem is coverage. In terms of fixed telecommunications, there is only one operator with a ubiquitous network, which is PCCW. In order for Hong Kong to achieve much higher penetration for Internet and to increase usage, it is essential that the Government continue diligently with its mandate on Type II interconnection to the copper local loop of PCCW.
13. It is widely recognized that broadband access is the fundamental building block of an information economy and society:

In December 2002, the OECD stated that it tracks the development of broadband in its member countries because it *"is important for economic growth and development"*.<sup>6</sup>

The United States' FCC Chairman Michael Powell has stated that *"the widespread deployment of broadband infrastructure has become the central communications policy objective today"*, largely agreeing with views that *"ubiquitous broadband deployment will bring valuable new services to consumers, stimulate economic activity, improve national productivity, and advance many other worthy objectives – such as improving education, and advancing economic opportunity."*<sup>7</sup>

The Head of the Telecom Information Society Unit of DG Competition at the EU Commission said, *"[w]e all have in mind what is at stake with the development of broadband services to consumers, namely the availability of easy, user-friendly, time-saving, efficient Internet access, the possibility to deliver rich contents (software applications, media) directly into companies or into customer's homes."*<sup>8</sup>

In its 2003 report, the Australian Broadband Advisory Group identified broadband as *"a key driver of Australia's Gross Domestic Product (GDP), jobs and wages growth...[because]...[b]roadband technologies will be the roads and*

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<sup>6</sup> OECD, Directorate for Science, Technology and Industry, Committee for Information, Computer and Communications Policy, Working Party on Telecommunication and Information Services Policies "Broadband Access for Business 4 December 2002 DSTI/ICCP/TISP(2002)3/FINAL p4.

<sup>7</sup> <http://www.fcc.gov/Speeches/Powell/2001/spmcp109.pdf>

<sup>8</sup> Speech of Pierre Buigues, Head of Unit, "Telecom Information Society", DG Competition – EU Commission, "Benefits for consumers from competition in the "new economy" – The case of access to the Internet and the local loop", European Competition Day, 26 February 2002, Madrid, [http://europa.eu.int/comm/competition/speeches/text/sp2002\\_004\\_en.pdf](http://europa.eu.int/comm/competition/speeches/text/sp2002_004_en.pdf) pp2-3.

*railways of the 21st century, generating the next wave of economic expansion [in the way that] transport opened up new economic horizons in the last century”.*<sup>9</sup>

14. In Hong Kong in order to achieve higher penetration of Internet access, thus promoting the use of IT for businesses, leisure and education pursuits etc, the Government must promote the *accessibility* to telecommunications services including broadband Internet services, at the retail and at the wholesale levels.
15. To promote the accessibility to broadband Internet services, the Government should promote Type II interconnection to PCCW’s local loop. The most successful broadband countries, such as Korea, Canada and the US, have favourable environmental conditions and market features. They have not been content to rely on favourable environmental conditions; they have supplemented them with unbundling of local loop (which is equivalent to Type II interconnection in Hong Kong).
16. In Canada, the Canadian Radio-television and Telecommunications Commission decided 1 May 1997 that it was “... .. *establishing in this decision a set of competitive safeguards that it considers are needed to protect against anti-competitive practices. These include, among things, upper limits on prices that ILECs may charge CLECs for essential facilities and lower limits on prices that ILECs may charge for business local exchange services in order to prevent anti-competitive pricing.*”<sup>10</sup>
17. Korea has a dedicated wholesale provider of cable network services (Korea Electric) who was not allowed to supply end user services. This provided extensive unbundled data service on a commercial basis for new entrants. Even with the phenomenal market penetration already achieved, the regulator in Korea still mandated local loop unbundling. Reasons being that the regulator is concerned that it would not be economical to build out the cable networks to areas with lower population density and the regulator wanted to create a competitive safeguard to balance the incumbent’s substantial advantages in having a ubiquitous copper network.
18. If Hong Kong were inspired to have the achievements of Korea, then it is essential that the Government actively safeguard and promote Type II interconnection to PCCW’s ubiquitous network.
19. Regulation (EC) No. 2887/2000 of the European Parliament and of the Council of 18 December 2000 on unbundled access to the local loop noted the following:

“(1) ... .. *for Europe to fully seize the growth and job potential of the digital, knowledge-based economy, businesses and citizens must have access to an*

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<sup>9</sup> The Broadband Advisory Group “Australia’s Broadband Connectivity” (2003) para 1.1.

<sup>10</sup> Telecom Decision CRTC 97-8, Ottawa, 1 May 1997

*inexpensive, world-class communications infrastructure and a wide range of services. ....*

*(2) Local loop unbundling should complement the existing provisions in Community law guaranteeing universal service and affordable access for all citizens by enhancing competition, ensuring economic efficiency and bringing maximum benefit to users.*

*(3) ... .. New entrants do not have widespread alternative network infrastructures and are unable, with traditional technologies, to match the economies of scale and the coverage of operators designated as having significant market power in the fixed public telephone network market. This results from the fact that these operators rolled out their metallic local access infrastructure over significant periods of time protected by exclusive rights and were able to fund investment costs through monopoly rents.”*

*(6) It would not be economically viable for new entrants to duplicate the incumbent’s metallic local access infrastructure in its entirety within a reasonable time. Alternative infrastructures such as cable television, satellite, wireless local loops do not generally offer the same functionality or ubiquity for the time being, though situations in Member States may differ.”*

20. In a report represented to the Working Party on Telecommunications and Information Services Policy in June 2002 which was declassified by the Committee for Information, Computer and Communication Policy in March 2003<sup>11</sup>, it was concluded amongst other things that, “[t]he majority of countries consider that LLU (local loop unbundling) has the potential to enhance local competition and assist in the development of competition for broadband services as well as in its diffusion. From this perspective, implementation of LLU is expected to benefit consumers by reducing not only local telephony but also broadband Internet access costs and accelerating the supply of new services.”

21. Therefore Type II interconnection to PCCW’s ubiquitous network will:

- **Promote efficient infrastructure deployment and encourage efficient investment** - unless a supplier of goods or services can provide all of its own inputs, it must acquire some of the inputs it requires in another market (e.g. raw materials, labour market, etc). PCCW is the only operator with ubiquitous network and it is simply not possible or cost effective for others to duplicate PCCW’s local loop. Through unbundling to PCCW’s local loop, service providers can acquire input they need for their services and will therefore be able to focus their resources on innovative services/applications that will drive usage/quality etc whilst at the same time the incumbent can earn a fair share of return;

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<sup>11</sup> The report was prepared by Mr Atsushi Umino of the OECD’s Directorate for Science, Technology and Industry. It is published on the responsibility of the Secretary-General of the OECD

- **Promote competition at the wholesale and retail levels** – accessibility to input will encourage the entry of service providers at the wholesale level, greater number of service providers will spur competition at the retail levels thus benefiting the end-users; and
- **Increase choice to greater segments of our community**, particularly those in low population density areas, in buildings with physical constraints; smaller or older buildings; those in buildings where it is not economical to build out to. A lot of our SMEs reside in these buildings. If the Government were serious to drive e-business and IT adoption by SMEs then it is essential that the Government continue to mandate Type II interconnection to PCCW's local loop. This will have very significant economic benefits and significantly reduces the possibility of marginal customer groups being excluded from the benefits of the information society.

### **Institutional review**

22. The draft 2004 Digital 21 Strategy referred to three main aspects which the Government will look into in 2004, namely:
- *The case for a more integrated structure of the Government*
  - *Role of the Information Infrastructure Advisory Committee (IIAC)*
  - *The case for a unified regulatory body*
23. We believe the Government should carry out further public consultation on each of the three mentioned aspects. Until further information is provided such as the details of the proposal itself, reasons for any proposal, benefits and impact, etc. as part of the public consultation, it would be premature for any decision to be taken.
24. Any proposed merger of the TA and Broadcasting Authority must be carefully thought through, as they will affect the industry players. We certainly do not wish to be put through any uncertainty and inconvenience that the proposed merger may bring about. Undoubtedly there are advantages and disadvantages with the proposed merger.
25. At the end of the day what is important is the ability to carve out the right policies to achieve the set objectives and that the regulator (be that in a single entity or 2 separate entities) is able to carry out those tasks effectively in a transparent and efficient manner as well as decisively. We know only too well that inefficient and indecisive administration creates enormous uncertainty and increases the industry's costs.

### **Conclusion**



26. The draft 2004 Digital 21 Strategy praises the Government's achievements to date on Digital 21 Strategy. Yet no statistic has been provided to substantiate achievements and how these achievements fare as compared with targets (if any) or how they compared with other countries.
27. There are a lot of motherhood statements with visions, but specific targets, actions and measurement of achievements are not clear.

Submitted by Wharf T&T Limited  
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