

Forum on Fixed-Mobile Convergence in Hong Kong

Deregulation for Fixed-Mobile Convergence

*M H Au, Director-General of
Telecommunications*

10 October 2006



Telecom Infotech Forum

OFTA

電訊管理局

Disclaimer

- The information in this presentation has been prepared to facilitate discussions at the forum about regulation in an environment of fixed-mobile convergence. Nothing in this presentation should be construed as indicating the Telecommunications Authority (TA)'s conclusions in respect of any of the matters which are currently the subject of the TA's formal public consultation on fixed-mobile convergence.

Why review now?

- The market decides whether there should be FMC, and the extent or pace of FMC in Hong Kong, not the regulator
- The regulatory environment should be conducive to FMC so that, if there is a market demand, FMC will happen without regulatory distortion
- FMC may be at an early stage, but regulatory environment must be clarified as early as possible so as to minimise regulatory risks

“Big Market, Small Government”

“There is general consensus in Hong Kong that the basic role of the government in the economy is to provide the framework for markets to operate effectively, and to act when there are obvious imperfections in the operation of the market mechanism.”

Chief Executive, HKSAR on “Big Market, Small Government” , 18 September 2006

Market driven policy in telecommunications industry

- Market presumed to be the most effective mechanism to protect and enhance public interest
- Regulation is justified only if market (without regulatory intervention) fails to deliver the public interest, *and* it is demonstrable that regulation can do better.

Status quo is regulatory intervention

- Existing regulatory guidance on “Fixed-Mobile Interconnection charge” is a regulatory intervention (introduced 20 years ago)

- Fact :

Maintaining status quo

= *Maintaining existing regulatory intervention*

= *Regulatory intervention*

- Myth :

Withdrawing existing regulatory intervention

= *Regulatory intervention*

Reasons for regulatory intervention introduced 20 years ago

- Mobile services entered market with zero customer base to start with
- Interconnection with monopoly fixed line operator vital for mobile services' operation
- Mobile services were priced at premium rates
- Fixed telephone line prices were regulated at below-cost levels
- Mobile services were treated as “value-added” services

The market now

- Number of mobile customers (8.9 M) exceed number of fixed customers (3.8 M)
- Mobile prices are competitive
- Fixed prices have been fully deregulated
- Fixed and mobile networks are full-fledged networks
- Bargaining power in interconnection negotiations is no longer one-sided
- Interconnection needs are mutual

Regulation only upon market failure

- So far no evidence to show that market will fail without the existing regulatory intervention (in the form of a regulatory guidance on “Fixed-Mobile Interconnection Charge”)
- Therefore OFTA proposes to remove the existing regulatory intervention (with a transition period of two years)

Upon withdrawal of existing regulation

- Fixed and mobile network operators are free to negotiate their interconnection charges on a commercial basis
- “Any-to-any connectivity” obligation remains to protect public interest
- Regulatory intervention (regulatory guidance or determination under section 36A of Telecommunications Ordinance) only as a last resort

Impact of deregulation

■ Operators

- ⊕ *With a reasonable transition period, operators can adjust their business plans*

■ Consumers

- ⊕ *Competition best safeguard for consumers*

- Room for consumer savings in mobile services

- Whether fixed prices can rise will depend on market forces

- ⊕ *Long-term consumer benefits from free-market innovation*

Impact of deregulation (2)

- With a market-driven policy, the TA is neutral on whether retail prices of telecommunications services are flat or usage-based
- In any case, there is no evidence of a direct relationship between pricing structure at retail level and structure of interconnection terms
- Again, competition is the best safeguard for consumers

Regulatory uncertainties?

- Should regulatory guidance be re-issued?
- If yes, what form should the regulatory guidance take?
 - ⊕ *Bill and Keep*
 - ⊕ *Calling Party's Network Pays*
 - ⊕ *Other options?*

Burden of proof

■ Burden of proof

⊕ *Always on the party advocating regulation:*

- Opponents to the TA's proposal to withdraw the existing regulatory guidance
- Whoever advocating re-introduction of regulatory guidance, be it the TA or any interested party

■ Basis of proof

⊕ *Market alone fails to deliver public interest*

⊕ *Benefits with regulation > costs of regulation*

Conclusions

- Consultation period ends on 13 October 2006*
- TA looks forward to receiving submissions from interested parties on the issues in the consultation paper
- TA will only make decisions after thorough considerations of the submissions received

* Some operators requested an extension of the consultation period. OFTA is consulting the industry on this request. Submissions to be sent to OFTA by 10 October 2006.

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Questions welcome



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