Regulatory Policy to Encourage Broadband Uptake - The Hong Kong Experience

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Current Status

- Hong Kong population: 6.8 million
- Number of households: 2.2 million
- Broadband connections
  - exceeded 1.2 million by end-2003
  - 1.1 million to households
  - penetration rate: 18% by population, 50% by households at end-2003
  - 84% of Internet connected homes are connected via broadband

Market Liberalisation

- Progressive liberalisation of local fixed network market since 1995
- Full liberalisation since January 2003
- Liberalisation enables investment in infrastructure by incumbent and new entrants

Overcoming "Last Mile"

- Two-pronged approach
  - Facilitating the construction of self-built customer access networks by new entrants
  - "Type II interconnection" policy

Facilitating Self-Built Customer Access Networks (1)

- Technology-neutrality
- Waiving wayleave fees for cables and ducts underneath public streets and pedestrian pavements
- Coordination of road-opening work and sharing of duct routes underneath public streets and pedestrian pavements

Facilitating Self-Built Customer Access Networks (2)

- Statutory right of access to common areas of buildings for network rollout
- Providing sufficient space for equipment rooms and cabling facilities for telecommunications in new buildings
- Coordination with building managers and owners' incorporations on building access
- Education programmes to enhance public awareness of benefits of building access

Type II Interconnection (1)

- Interconnection by one operator to customer access network of another operator to reach customer of the former operator
- Since 1995, extended to broadband interconnection from March 2001
- Type II interconnection to:
  - In-building wiring systems
  - Local loops underneath public streets

Type II Interconnection (2)

- Type II interconnection to in-building wiring systems to overcome physical and economical constraints for multiple in-building wiring systems
  - Operators with in-building wiring systems to allow interconnection by other operators at cost-based terms
  - Requirement extended to in-building wiring systems owned by landlords and building managers under Class Licence for In-building Telecommunications Systems, October 2002

Type II Interconnection (3)

- Type II interconnection to local loops underneath public streets covers copper-based local loops only
- To lower barriers of the new entrants to reach their customers while they are building their own customer access networks
- To encourage efficient investment

What We Have Done Well

- Broadband penetration second in the world
- Most affordable broadband service charges
- Higher speed enables value-added services including VoIP, video phone and broadcast quality television
- Self-built alternative customer access networks covering 45% of households (on top of near ubiquitous broadband coverage of incumbent)

What We May Not Have Done So Well

- Competition not sufficient at the wholesale conveyance level for service providers
- Potential for service providers to further enhance consumer interest in terms of choice, quality and innovation may be limited as a result
- Balance between facilities-based and service-based competition to be struck

What Can be Learnt from Our Experience (1)

- Current status of broadband development not the result of Government participation or subsidization in investment of infrastructure
- Digital 21 Strategy stimulates demand for connection to networks
- Pro-competition regulatory policy drives broadband prices down to affordable level
- Technological development and high population density give extra push

What Can be Learnt from Our Experience (2)

- Deregulation to allow market entry for network investment
- Proportionate regulation is necessary to foster development of competition
- Regulation to be scaled back or terminated when market is effective

What Can be Learnt from Our Experience (3)

- Consider investment incentive in mandating access
- Benefit of regulation should be balanced against cost
- Does the extent of benefit of enhancing consumer interest justify the cost of regulation?
- Repeat this test as market develops

What Can be Learnt from Our Experience (4)

- Review of regulatory policy for Type II interconnection
  - In areas where it is commercially not viable *or* technically not feasible for alternative customer access networks to be constructed, Type II interconnection policy will not affect investment decision, but will enhance competition and choice
  - In areas where it is commercially viable *and* technically feasible for alternative customer access networks to be constructed, Type II interconnection policy may dampen investment incentive

What Can be Learnt from Our Experience (5)

- Our preliminary view (Dec 2003)
  - withdraw Type II interconnection to copper-based local loops underneath public streets to buildings where at least one alternative customer access network has been rolled out, subject to transitional arrangement
  - maintain Type II interconnection in buildings without alternative customer access network
- Balance between promoting competition and preserving investment incentives

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