

**CLASSIFICATION OF NEW ROUTES IN THE  
WHOLESALE EXTERNAL CALL SERVICES MARKET  
UNDER THE LOCAL ACCESS CHARGE AND  
MODIFIED DELIVERY FEE REGIME**

**Statement of the Telecommunications Authority**

**20 January 2003**

**Introduction**

1. In accordance with the latest external call traffic route reclassifications under the TA Statement titled "*Application for Reclassification of all the Category B and Category B Observation List Routes as Category A*" dated 30 December 2002 (the 2002 Reclassification Statement), Reach Networks Hong Kong Limited (Reach Networks) submitted a Notice of Wholesale Rates (the Notice) to the Government Printer for publication on the Hong Kong Special Administrative Region Government Gazette. A copy of the Notice was submitted to the Telecommunications Authority (TA) under General Condition 20(2)(a) of its Fixed Telecommunications Network Services Licence.

2. In the Notice, four new routes are added to the list contained in the 2002 Reclassification Statement, namely Serbia, Montenegro, Democratic Republic of the Congo (DR of Congo) and Tokelau. The TA must establish the initial classification of these routes into either Category A or Category B under the present interconnection regime between external service operators and local network operators.

**Background**

3. On 1 January 1999, following the liberalization of the external telecommunications services market, external traffic routes were divided into Category A and Category B routes. Category A routes are those with genuine competition at the wholesale external gateway level and Category B are those reliant on a single external gateway then operated by PCCW-HKT (now by Reach Networks). Within Category B, some routes are classified as "Category B Routes on the Observation List", representing potentially competitive routes.

4. Interconnection between external services operators and local network operators are settled in Local Access Charges (LAC) for Category A routes and Modified Delivery Fees (MDF) for Category B routes. On 25 November 1998, the TA published a statement titled “*Local Access Charge and Modified Delivery Fee Arrangements*” (the 1998 LAC & MDF Statement) to the effect of this policy as well as setting out the criteria for route categorization and the charging principles for LAC and MDF. Accordingly, the TA determined the initial route categorization as well as the level of LAC and MDF on 24 December 1998. Since then, he has processed a number of route reclassification applications from Reach Networks, with the latest being concluded in the 2002 Reclassification Statement.

5. This statement should be read in conjunction with the 2002 Reclassification Statement and the 1998 LAC & MDF Statement, which are publicly available for download from <http://www.ofta.gov.hk>.

#### **Criteria for route categorization**

6. The criteria for route categorization were stated in paragraph 7 of the 1998 LAC & MDF Statement:

*(a) whether a service provider in Hong Kong may physically establish connections to and from a particular location without transiting the gateway of [Reach Networks], for example, by international simple resale (ISR) operation over leased circuits, or by separate correspondent relationship in bypass of [Reach Networks'] gateway. In considering whether alternative connections could be made the TA would consider direct and indirect routings (e.g. using refile or transit arrangements) and all technologies capable of providing a reasonably substitutable service; and*

*(b) whether the costs of utilising the connections identified in the first test would allow genuine price competition in the supply of external services to and from that location.*

7. Those routes which satisfy both test (a) and test (b), in both the incoming and outgoing directions, are to be classified as Category A routes. Otherwise, they are to be classified as Category B routes. The TA also stated

that “[i]n assessing whether effective competition can take place on the routes, consideration will be given to whether effective competition has taken place or can potentially take place. Based on the consideration of potentially effective competition, Category A would include those routes for which operators other than the incumbent choose not to establish physical connections, even though it is possible for such connections to be established.” (paragraph 8, 1998 LAC & MDF Statement)

### **The new routes**

8. The TA applies the route categorization tests on the new routes under the Notice, following the approach set out in the 1998 LAC & MDF Statement and the 2002 Reclassification Statement, and based on the monthly traffic statistics reported by the industry over the period from January to October 2002 (the Period):

#### Serbia and Montenegro

9. The Serbia and Montenegro routes are established by splitting the Yugoslavia route into two. Since Yugoslavia is currently a Category A route, the TA is satisfied that the competitive characteristics of Serbia and Montenegro must resemble that of Yugoslavia, and therefore these two routes should initially be classified as Category A routes.

#### DR of Congo

10. DR of Congo is formerly known as Zaire. Reach Networks submits that it has no bilateral relationship with any operator in DR of Congo, and has only been providing service in the outgoing direction via refile. According to the traffic statistics reported by the industry under Zaire, Reach Networks’ outgoing market share was consistently below 50% during the Period. There has been consistently no incoming traffic reported by the industry over Zaire during the Period. The TA also verifies that the refile rates for DR of Congo available in the market (plus external bandwidth cost) is lower than Reach Networks’ proposed gateway price in the Notice. Based on the same rationale set out in the 2002 Reclassification Statement (paragraphs 16, 20 and 26), the TA is satisfied that DR of Congo should initially be classified as a Category A route. His conclusion is further reinforced by the absence of separate correspondence relationship, which renders the accounting rate mechanism and

the MDF regime under Category B irrelevant.

### Tokelau

11. Tokelau is a self-administering territory of New Zealand. The TA notes that the industry does not currently report traffic over Tokelau separately from New Zealand, which is a Category A route. He is therefore satisfied that Tokelau should also be classified as a Category A route. For the same rationale, the TA has already classified Palestine and East Timor as Category A routes, referencing the competitive characteristics of the Israel and Indonesia routes respectively. His conclusion is further reinforced by the fact that Reach Networks has no separate correspondence relationship with Tokelau.

### **Conclusion**

12. The TA is satisfied that the new routes to Reach Networks' external gateway service under the Notice, namely Serbia, Montenegro, DR of Congo and Tokelau, should initially be classified as Category A routes. As stated in paragraphs 17-22 of the 1998 LAC & MDF Statement, any party wishing to reclassify any of the routes should put in applications supported by justifications. The TA would then initiate an industry consultation on the proposed route reclassification, although he considers the reclassification of external routes from Category A to Category B to be unlikely, given the global trend of market liberalization and competition in the telecommunications sector.

13. See **Appendix** for the latest list of external call traffic routes in different categories.

**Office of the Telecommunications Authority**

20 January 2003

**LIST OF CATEGORY A ROUTES**

1	Afghanistan	52	Falkland Is	103	Nicaragua
2	Albania	53	Faroes Is	104	Niger
3	Algeria	54	French Polynesia	105	Nigeria
4	American Samoa	55	Gabon	106	Niue Is
5	Andorra	56	Gambia	107	Norfolk Is
6	Angola	57	Georgia	108	Oman
7	Anguilla	58	Ghana	109	Palau
8	Antarctica	59	Gibraltar	110	Palestine
9	Antigua & Barbuda	60	Greece	111	Panama
10	Armenia	61	Greenland	112	Papua New Guinea
11	Aruba	62	Grenada	113	Portugal
12	Ascension	63	Guatemala	114	Romania
13	Azerbaijan	64	Guinea Bissau	115	Rwanda Rep
14	Bahamas	65	Guinea Rep	116	Sao Tome & Principe
15	Barbados	66	Guyana	117	Senegal
16	Belarus	67	Haiti	118	Serbia
17	Belize	68	Honduras	119	Sierra Leone
18	Benin	69	Hungary	120	Slovak Rep
19	Bermuda	70	Iceland	121	Slovenia
20	Bhutan	71	Iraq	122	Solomon Is
21	Bolivia	72	Iridium	123	Somali Rep
22	Bosnia & Herzegovina	73	Jamaica	124	St Helena
23	Botswana	74	Kazakhstan	125	St Kitts & Nevis
24	Bulgaria	75	Kiribati	126	St Lucia
25	Burkina Faso	76	Kuwait	127	St Vincent & Grenadines
26	Burundi	77	Kyrgyzstan	128	Sudan
27	Cameroon	78	Latvia	129	Suriname
28	Cape Verde Is	79	Lebanon	130	Swaziland
29	Cayman Is	80	Lesotho	131	Syria
30	Central African Rep	81	Liberia	132	Tajikistan
31	Chad	82	Libya	133	Tanzania
32	Colombia	83	Lithuania	134	Thailand
33	Comoros Is	84	Macau	135	Thuraya
34	Congo Rep	85	Macedonia	136	Togolese Rep
35	Cook Is	86	Madagascar	137	Tokelau
36	Costa Rica	87	Malawi	138	Trinidad & Tobago
37	Cote D'Ivoire Rep	88	Mali	139	Tunisia
38	Croatia	89	Malta	140	Turkmenistan
39	Cuba	90	Marshall Is	141	Turks & Caicos
40	Czech Rep	91	Mauritania	142	Tuvalu Is
41	Djibouti	92	Micronesia	143	Uganda
42	Dominica	93	Moldova	144	Ukraine
43	Dominican Rep	94	Monaco	145	Uzbekistan
44	DR of Congo	95	Montserrat	146	Vanuatu
45	East Timor	96	Montenegro	147	Venezuela
46	Ecuador	97	Morocco	148	Virgin Is (British)
47	El Salvador	98	Mozambique	149	Virgin Is (US)
48	Equatorial Guinea	99	Namibia	150	Wallis and Futuna
49	Eritrea	100	Nauru	151	Western Samoa
50	Estonia	101	Netherlands Antilles	152	Zambia
51	Ethiopia	102	New Caledonia	153	Zimbabwe

## LIST OF CATEGORY B OBSERVATION LIST ROUTES

1 Argentina	23 Mexico
2 Bahrain	24 Mongolia Pr
3 Bangladesh	25 Myanmar (Burma)
4 Brazil	26 Nakhodka
5 Brunei Darussalam	27 Nepal
6 Cambodia	28 Pakistan
7 Chile	29 Paraguay
8 Cyprus	30 Peru
9 Diego Garcia	31 Poland
10 Egypt	32 Qatar
11 Fiji	33 Russia
12 Guam	34 Sakhalin
13 India	35 Saudi Arabia
14 Iran	36 Seychelles
15 Israel	37 South Africa
16 Jordan	38 Sri Lanka
17 Kenya	39 Tonga
18 Korea DPR (North Korea)	40 Turkey
19 Laos	41 United Arab Emirates
20 Maldives	42 Uruguay
21 Mariana Is	43 Vietnam
22 Mauritius	44 Yemen Rep

## **LIST OF CATEGORY B ROUTES**

Nil