

**REQUEST FOR RECLASSIFICATION OF
CATEGORY B ROUTES ON THE OBSERVATION LIST
AS CATEGORY A ROUTES**

CONSULTATION PAPER

25 January 1999

Applications for Reclassification

According to the TA Statement made on 25 November 1998 entitled “Local Access Charge and Modified Delivery Fee Arrangements” (“the Statement”), OFTA would initiate an industry consultation to reclassify a “Category B” route on the observation list to a “Category A” route once there is evidence showing effective competition exists. The tests concerning the status of competition would be¹ –

- a) whether a service provider in Hong Kong may physically establish connection to and from a particular location without transiting the gateway of Hong Kong Telecom (HKT), for example, by international simple resale (ISR) operation over leased circuits, or by separate correspondent relationship in bypass of HKT’s gateway. In considering whether alternative connections could be made, the Telecommunications Authority (“TA”) would consider direct and indirect routings (e.g. using refile or transit arrangements) and all technologies capable of providing a reasonable substitutable service; and
- b) whether the costs of utilizing the connections identified in the first test would allow genuine price competition in the supply of external services to and from that location.

It was also mentioned that after services based on ISR have commenced operation the TA will examine the levels and past trends of tariffs of the services provided through HKT’s gateway and those of the services provided through the alternative means. Significantly lower retail and wholesale prices for services through the alternative means compared with those for the services through the HKT’s gateway, or downward trends of the prices for services through HKT’s gateway to match the prices of the services through the alternative means, would be objective indications of the competition pressure on the services through HKT’s gateway².

¹ Paragraph 7 of the Statement

² Paragraph 15 of the Statement

2. The TA has received an application from HKT submitting that effective competition exists in the following eleven (11) routes and requesting the TA to initiate the re-classification process:

India, Indonesia, Malaysia, Pakistan, Philippines, Singapore, Taiwan, Thailand, South Africa, Sri Lanka and Vietnam.

To support the application, HKT has provided the following information:

- a) price trend of the above routes in 1998;
- b) HKT gateway traffic trends of the above routes during the period 1990 to 1998;
- c) a list of international private leased circuits installed by Fixed Telecommunication Network Services (FTNS) and External Telecommunications Service (ETS) operators to the destinations above;
- d) HKT gateway traffic (with breakdown showing the traffic of the four FTNS operators and one ETS operator).

HKT submitted that based on the above information, it has come to the conclusion that prices have dropped significantly or that alternative means other than HKT's gateway are available for sending or receiving IDD traffic to or from the destinations above. These will mean that competition does exist over these routes and so they should be reclassified as "Category A" routes.

OFTA's Observation

3. OFTA has examined the information provided by HKT and a route-by-route analysis of whether competition exists was conducted. Details are shown in the Appendix.

4. OFTA observes that there are certain routes over which the retail prices of HKT's competitors are below the gateway prices of HKT. This is *prima facie* evidence that the tests concerning the status of competition identified in the Statement have been satisfied.

5. OFTA observes that for some routes, certain competitors of HKT have not sent traffic through HKT's external gateway. There are also some routes over which competitors of HKT have established high capacity direct links. These are also *prima facie* evidence that alternative connections exist and such connections may be able to provide price competition.

6. The information provided by HKT shows the possible presence of refileing of traffic through Hong Kong to Vietnam. According to TA Statement of 13 January 1999, only refile in Hong Kong between locations at the end of Category A routes is permitted. Refile in Hong Kong to Vietnam may constitute a breach of licence conditions. The TA will therefore investigate whether such breach has occurred.

Consultation

7. The TA now invites views from the telecommunication industry and interested parties on whether the eleven routes proposed by HKT should be reclassified from Category B to Category A. Any party with views on the proposed reclassification should file their comments with OFTA within 7 working days with justifications and supporting arguments. The TA will consider the reclassification of the routes from Category B to Category A in the following three working days.

8. All submissions should be made to the following address by 5:00 p.m., 3 February 1999 :

Office of the Telecommunications Authority
29/F Wu Chung House
213 Queen's Road East
Wanchai
Hong Kong

(Attn : Senior Controller of Telecommunications
Franchised Services)

Telephone No. : 2961 6678

Facsimile No. : 2803 5112

Office of the Telecommunications Authority
25 January 1999

Appendix

Route-by-Route Analysis

India

HKT's standard rate for IDD 001 calls to India is \$12.00 per minute. Rates ranging between \$5.99 to \$11.50 were available from HKTC's competitors in 1998. The standard callback rate (economy class) of one of the FTNS operators was \$8.80. This is well below the gateway price of HKT under the old delivery fee regime (standard IDD rate minus delivery fee = \$9.77) but well above the current gateway price of \$5.88. Conclusion can be drawn that alternative routes via callback or other means were available at a rate lower than HKT's gateway price. In addition, refile rates lower than the current gateway price are available.

2. Traffic data provided by HKT show that outgoing traffic volume through HKT gateway to India has started to drop since 1995, indicating that there might be alternative routes available since 1995.

3. At least 2 FTNS/ETS operators have not made use of HKT's gateway service since 1 January 1999.

4. Although no direct links with capacity greater than 1 Mbps between Hong Kong and India have been established by FTNS/ETS operators, the above observations indicate that traffic may have been sent by alternative routes.

Indonesia

5. For Indonesia, the lowest rate in 1998 was offered at \$5.99 per minute (corporate account rates). This is higher than the new gateway price determined by the TA (\$4.42) but much lower than the standard IDD rate of \$10.50. Other FTNS operators offered volume discount rates at around \$7.00 in 1998. This is lower than the gateway price under the old delivery fee regime ($\$10.50 - \$2.23 = \$8.27$). In addition, refile rates lower than the current gateway price are available.

6. Traffic data provided by HKT show that outgoing traffic volume through HKT gateway to Indonesia has started to drop since 1996, indicating that there might be alternative routes available since 1996.

7. At least 1 FTNS/ETS operator has not made use of HKT's gateway service since 1 January 1999.

8. Direct links with capacity greater than 1 Mbps between Hong Kong and Indonesia have been established by FTNS/ETS operators, showing that it is likely that alternative correspondent agreements or other forms of arrangements for sending or receiving IDD traffic to or from Indonesia have been established.

Malaysia

9. HKT's standard rate for IDD 001 service to Malaysia is \$7.90 per minute. Rates ranging between \$2.99 to \$5.70 were available from other service providers in 1998. The \$2.99 rate was the volume rate of one service provider released in early December 1998. In October/November 1998, two service providers offered attractive volume rates at around \$4.40. This rate is lower than the old gateway price of \$5.67. The current gateway price is \$3.65. Refile rates lower than the current gateway price are available.

10. Traffic data provided by HKT show that outgoing traffic volume through HKT gateway to Malaysia has started to drop since 1996, indicating that there might be alternative routes available since 1996.

11. At least 2 FTNS/ETS operators have not made use of HKT's gateway service since 1 January 1999.

12. Direct links with capacity greater than 1 Mbps between Hong Kong and Malaysia have been established by FTNS/ETS operators, showing that it is likely that alternative correspondent agreements or other forms of arrangements for sending or receiving IDD traffic to or from Malaysia have been established.

Pakistan

13. For Pakistan, HKT's competitors' rate was around \$11.00 in 1998 except one or two occasional promotional campaigns or the rate for corporate accounts offered by one service provider in December 1998 where the price was around \$6.00 per minute. HKTC's standard IDD 001 rate is \$12.00 and the current gateway price is \$8.06. Refile rates lower than the current gateway price are available.

14. Traffic data provided by HKT show that outgoing traffic volume through HKT gateway to Pakistan has started to drop since 1997.

15. At least 2 FTNS/ETS operators have not made use of HKT's gateway service since 1 January 1999.

16. Although no direct links with capacity greater than 1 Mbps between Hong Kong and Pakistan have been established by FTNS/ETS operators, the above observations indicate that traffic may have been sent by alternative routes.

Philippines

17. HKTC's IDD 001 standard rate for calls to Philippines is \$7.90 while its discounted 0060 rate is \$6.17. In 1998, the lowest rate offered by HKTC's competitor was \$2.99 but that was probably for corporate users only. Another "lowest rate" in 1998 was \$6.00 and again it was for a limited promotional period. It is obvious that the \$2.99 rate is even lower than HKT's gateway price under both the old and the new delivery fee regime. The current gateway price for Philippines is \$3.37.

18. Traffic data provided by HKT show that outgoing traffic volume through HKT gateway to Philippines has started to drop since 1997.

19. At least 2 FTNS/ETS operators have not made use of HKT's gateway service since 1 January 1999.

20. Direct links with capacity greater than 1 Mbps between Hong Kong and Philippines have been established by FTNS/ETS operators, showing that it is likely that alternative correspondent agreements or other forms of arrangements for sending or receiving IDD traffic to or from Philippines have been established.

Singapore

21. For Singapore, there were at least two service providers offering discounted rates at around \$3.30 in 1998 while HKTC's 0060 rate was \$4.60. The standard IDD 001 rate is \$7.90 per minute. The standard rates of other FTNS operators were around \$4.40. As this is lower than the old gateway price (\$7.90 - \$2.23 = \$5.67), alternative routes at lower costs were likely available. In December 1998, one service provider further adjusted the rate down to \$2.59 for major users. The rate is below the old gateway price but higher than the current gateway price of \$1.62.

22. Traffic data provided by HKT show that outgoing traffic volume through HKT gateway to Singapore has started to drop since 1996, showing the likelihood of having alternative routes at a lower cost since 1996.

23. All the 3 new FTNS operators and another ETS operator continue to send traffic to Singapore through HKT's gateway after 1.1.1999.

24. Direct links with capacity greater than 1 Mbps between Hong Kong and Singapore have been established by FTNS/ETS operators, showing that it is likely that alternative correspondent agreements or other forms of arrangements for sending or receiving IDD traffic to or from Singapore have been established.

South Africa

25. For South Africa, HKTC's IDD001 rate is very high - \$14.00 per minute. HKTC's competitors' rates were around \$10.00. In December 1998, one service provider could offer a rate of \$5.18 per minute and this is far below HKTC's rate, indicating that alternative routes might be available. However, after 1.1.1999, the gateway price of South Africa as determined by the TA is only \$2.35. This makes HKT's gateway service the cheapest among other indirect routes.

26. Traffic data provided by HKT show that outgoing traffic volume through HKT gateway to South Africa has started to drop since 1995, showing the likelihood of having alternative routes at a lower cost since 1995.

27. Two FTNS/ETS operators have not made use of HKT's gateway service since 1 January 1999.

28. Although no direct links with capacity greater than 1 Mbps between Hong Kong and South Africa have been established by FTNS/ETS operators, the above observations show that traffic may have been sent by alternative routes.

Sri Lanka

29. Not much very obvious price competition existed in 1998. HKTC's IDD 001 standard rate is \$10.00 and the 0060 rate is around \$8.00. According to the information supplied by HKT, other operators offered similar rates closer to \$8.00. After 1.1.1999, HKT's gateway price is \$5.46 and this appears to be a very competitive price as compared with the cost of other indirect routes.

30. Traffic data provided by HKT show that outgoing traffic volume through HKT gateway to Sri Lanka has started to drop since 1995, showing the likelihood of having alternative routes at a lower cost since 1995.

31. Two FTNS/ETS operators have not made use of HKT's gateway service since 1 January 1999.

32. Although no direct links with capacity greater than 1 Mbps between Hong Kong and Sri Lanka have been established by FTNS/ETS operators, the above observations indicate that traffic may have been sent by alternative routes.

Taiwan

33. For Taiwan, HKTC's IDD001 rate is \$7.90 and its 0060 rate is \$5.90. One service provider managed to offer volume discount rate at around \$4.00 for business customers. In December 1998, another service provider offered a lower rate of \$2.99 for corporate users. HKT's current gateway price is \$1.57. The current HKT gateway price is therefore still lower than the retail prices on the market.

34. Traffic data provided by HKT show that outgoing traffic volume through HKT gateway to Taiwan has started to drop since 1994, showing the likelihood of having alternative routes at a lower cost since 1994.

35. Two FTNS/ETS operators have not made use of HKT's gateway service since 1 January 1999.

36. Direct links with capacity greater than 1 Mbps between Hong Kong and Taiwan have been established by FTNS/ETS operators, showing that it is likely that alternative correspondent agreements or other forms of arrangements for sending or receiving IDD traffic to or from Singapore have been established.

Thailand

37. For Thailand, the lowest offer in 1998 was \$5.00 for heavy users. HKTC' IDD001 standard rate was \$8.50 while the discounted 0060 rate was \$6.40. This shows that alternative routes might be available before 1.1.1999. After 1.1.1999, the gateway price is \$3.18. Alternative routes at a lower cost was available.

38. Traffic data provided by HKT show that outgoing traffic volume through HKT gateway to Thailand has started to drop since mid 1996, showing the likelihood of having alternative routes at a lower cost since mid 1996.

39. At least 1 FTNS/ETS operator has not made use of HKT's gateway service since 1 January 1999.

40. Although no direct links with capacity greater than 1 Mbps between Hong Kong and Thailand have been established by FTNS/ETS operators, the above observations indicate that traffic may have been sent by alternative routes.

Vietnam

41. The rates of HKTC's competitors are around \$7.00 HKTC's IDD001 rate is \$7.90 while its 0060 rate is around \$7.30 According to the information supplied, there was not much price competition in 1998 until December of the year. A service provider offered a per minute rate of \$5.80 for corporate users. This is marginally above the gateway price of HKT(\$5.67). The gateway price is the same before and after 1.1.1999.

42. Traffic data provided by HKT show that outgoing traffic volume through HKT gateway to Vietnam has started to drop since 1995, showing the likelihood of having alternative routes at a lower cost since 1995.

43. All the 3 new FTNS operators and another ETS operator continue to send traffic to Vietnam through HKT's gateway after 1.1.1999.

44. No direct links with capacity greater than 1 Mbps between Hong Kong and Vietnam have been established by FTNS/ETS operators.

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