

Fixed-mobile Interconnection Charge (FMIC, 固定流動網絡互連費用)

20 April 2009

Background

- OFTA's statement on Fixed-Mobile Convergence (固定流動匯流) on 27 April 2007 concluded that:
 - The regulatory guidance on FMIC in favour of Mobile Party's Network Pay ("MPNP", 流動網絡付費) will be withdrawn after 26 April 2009
 - Operators are encouraged to reach a commercial agreement with each other on FMIC
 - If commercial negotiation fails, OFTA may make a determination on the terms of interconnection
 - "Any-to-any connectivity" (互連互通) is an important public interest policy and should be maintained

Background

- OFTA's statement on 3 April 2009 confirmed that:
 - The withdrawal of the MPNP regulatory guidance will take effect after 26 April 2009
 - OFTA will ensure that “any-to-any connectivity” will be maintained

SmarTone-Vodafone's Position on FMIC

- SmarTone-Vodafone's position is Calling Party's Network Pay (“CPNP”, 打出網絡付費)
 - The only fair interconnection charging principle as the call originating network should pay
 - CPNP is the international standard in most advanced economies with open and competitive markets
 - European Community – Sweden, Finland, France, the UK, Austria, Belgium, Germany, Denmark, Spain, Ireland, Italy, Greece, Portugal, Luxembourg, the Netherlands
 - America – the US, Canada
 - Asia Pacific – Australia, New Zealand, India and Malaysia

SmarTone-Vodafone's Position on FMIC

- MPNP is contrary to fair competition
 - A legacy from long ago
 - Mobile operators are effectively subsidising fixed operators in what is now an open and competitive market
- Technology and the industry globally are heading towards Fixed-mobile Convergence. MPNP is totally inconsistent to this direction

SmarTone-Vodafone's Position on FMIC

- Under CPNP, mobile operators will have a net receivable from fixed operators
 - Traffic between fixed and mobile networks is slightly imbalanced
 - Higher volume of fixed-to-mobile calls than mobile-to-fixed calls
 - Mobile termination rate is higher than fixed termination rate in most countries
 - Average in 15 major European markets:
 - Mobile termination rate = HK\$0.803
 - Fixed termination rate = HK\$0.063

SmarTone-Vodafone's Position on FMIC

- Hong Kong's regulatory practice on the determination of interconnection rate is based on:
 - Cost recovery principle
 - Long Run Average Incremental Cost
 - The principle of most efficient network operation (i.e. lowest cost)
- FMIC, last determined in 2004 between Hong Kong Broadband Network and Peoples, was 2.89 cents per minute

After 26 April 2009 – What's Next?

- Existing MPNP interconnection agreements with all fixed operators will be terminated after 26 April 2009
- Customers will not be affected
 - OFTA will ensure “any-to-any connectivity”
 - Charges to customers are market-driven and have nothing to do with the cost settlement between operators
- Negotiation with fixed operators will continue
- SmarTone-Vodafone will no longer account for the PNET charges in its profit and loss account

After 26 April 2009 – What’s Next?

- To help ensure “any-to-any connectivity”
 - SmarTone-Vodafone will continue to monitor closely the interconnection performance with all fixed networks
 - Any signs of abnormal interconnection performance will be reported to OFTA immediately for further action
 - Our customers will be asked to report immediately any unusual incidents of connection failure

After 26 April 2009 – What's Next?

- If any licensee undermines the “any-to-any connectivity”, OFTA has the power to:
 - Impose a financial penalty
 - First occasion: HK\$200K maximum
 - Second occasion: HK\$500K maximum
 - Any subsequent occasion: HK\$1 million
 - If OFTA considers the above is insufficient, it can apply to the court for imposing a penalty of not exceeding 10% of the turnover of the licensee in the period of the breach, or HK\$10M, whichever is higher
 - Withdraw/suspend the licence

Appendix 1 - Overseas FMIC Regimes in Open and Competitive Markets

Country	FMIC Regime	Fixed-to-Mobile Calls	Mobile-to-Fixed Calls
EU Countries (15 countries)	CPNP (with asymmetrical rates, MTR>FTR)	Fixed operators pay	Mobile operators pay
USA	CPNP (with symmetrical rate)	Fixed operators pay	Mobile operators pay
Canada	CPNP (with symmetrical rate)	Fixed operators pay	Mobile operators pay
Australia	CPNP (with asymmetrical rates, MTR>FTR)	Fixed operators pay	Mobile operators pay
New Zealand	CPNP (with asymmetrical rates, MTR>FTR)	Fixed operators pay	Mobile operators pay
India	CPNP (with symmetrical rate)	Fixed operators pay	Mobile operators pay
Malaysia	CPNP (with asymmetrical rates, MTR>FTR)	Fixed operators pay	Mobile operators pay

Source:

1. Information about EU, Australia, USA and Canada: from OFTA's FMC Consultancy Report (2006)
2. Information about Malaysia: Malaysian Communications and Multimedia Commission – "A Report on a Public Inquiry under Section 65 of the Communications and Multimedia Act 1998 on Access Pricing"

Appendix 2 - Mobile and Fixed Termination Rates in European Countries

Country	Mobile Termination Rate (HK\$/min)	Fixed Termination Rate (HK\$/min)
Sweden	0.45	0.06
Finland	0.52	0.19
France	0.67	0.05
UK	0.75	0.01
Austria	0.59	0.08
Belgium	0.85	0.06
Germany	0.80	0.05
Denmark	0.83	0.04
Spain	0.70	0.07
Ireland	0.97	0.05
Italy	1.05	0.04
Greece	0.98	0.05
Portugal	1.08	0.06
Luxembourg	0.88	0.07
Netherlands	0.92	0.07
Average EU-15	0.803	0.063