Mr. Andrew Haire
Senior Director (Regulation & Operations)
Info-comm Development Authority of Singapore
8 Temasek Boulevard
#14-00 Suntec Tower Three
Singapore 038988
Fax: 65 6211 2231
Email: Chao_Jang_Yun@ida.gov.sg

22 March 2002

RE: CHARGING FOR MOBILE PHONE SERVICES: MOBILE-PARTY-PAYS ("MPP") VS CALLING-PARTY-PAYS ("CPP")

Attached please find the comments of MCI WorldCom Asia Pte Ltd in the above referenced proceeding.

Sincere regards,

Joe Welch
Director, Regulatory Affairs
MCI WorldCom Asia Pte Ltd
20 Raffles Place
Ocean Tower Floor 16
Singapore 048620
Phone: 65-6248 -
Email: welch.joe@wcom.com.sg

MCI WORLDCOM ASIA PTE LTD

COMMENTS ON

CHARGING FOR MOBILE PHONE SERVICES: MOBILE-PARTY-PAYS ("MPP") VS CALLING-PARTY-PAYS ("CPP")

I. Introduction

MCI WorldCom Asia Pte Ltd. ("WorldCom") appreciates the opportunity to comment in this proceeding.

WorldCom is a global leader in the provision of data, Internet and voice services, headquartered in the United States and operating in over 65 countries across Asia, Europe, Latin America, and Africa. In Asia, WorldCom operates services in over 11 countries, with fibre optic networks deployed in Japan, Australia, and Singapore. WorldCom's focus in Asia is the provision of voice, data and Internet-based services including Frame Relay, ATM, IP-VPNs, Internet Access and webhosting to a broad range of customers.

WorldCom's business strategy in Asia and around the world is to operate local networks, connecting to WorldCom's own global network, in order to provide customers with a seamless "local-global-local" solution. WorldCom has built an extensive network in the U.S. and in Europe since liberalisation. In Asia, WorldCom's expansion is more recent and clearly tied to liberalisation. Since Singapore's full liberalisation, WorldCom has deployed a metropolitan fibre optic network, physically interconnected with SingTel for the provision of voice service, and launched a full set of data, and Internet services.

II. The iDA Should Approach This Decision With Great Caution: Moving to a New Charging Regime Is Very Difficult, Costly to Carriers, Confusing to Customers, and May Not Have Any Significant Benefits

The Record Shows That Moving to CPP is Difficult, Costly, and Without Clear Benefit to Customers

In May of 2000, the iDA concluded a Consultation on the same general issue – whether to move to a CPP charging system for mobile calls. The industry response at that time was overwhelming against such a move, with SingTel, SingTel Mobile, SingTel paging, and M1 all expressing strong views against a move to CPP. StarHub was the lone voice in support of a move to the CPP system.

The industry response in that consultation was clearly against the move to CPP and is worth reviewing briefly.

- Singapore Telecommunications Limited: "*SingTel opposes any changes to the current Fixed-Mobile Interconnect regime and does not support the introduction of Calling Party Pays (CPP) in any form in the Singapore mobile and paging market.*[1] In addition, SingTel stressed that CPP would: (1) unfairly discriminate against fixed line subscribers; (2) competition, not CPP, was already delivering innovation and allowing flexibility in services

[1] Singapore Telecommunications Ltd Comments in response to iDA's October 1999 consultation document, at page 1.

and pricing; (3) fixed line subscribers call charges would likely increase with a move to CPP; (4) fixed line operators would incur significant costs and technical struggles; and (5) operators would incur a loss of customer goodwill.[2]

- SingTel Mobile: "*SingTel Mobile opposes any change to the current FMI regime and does not support the introduction of CPP in any form in the Singapore mobile market.*"[3]

- MobileOne (M1): *"The current fixed-mobile interconnect regime is well-established, accepted and understood by all telecommunication users in Singapore. Changing this will result in additional cost industry-wide in terms of changes and customer education. M1 sees no compelling reason to revise the existing regime nor any quantifiable benefit that would outweigh the cost of doing so.*[4]

The Present Charging System Remains Successful

The existing charging regime has been successful in Singapore. Under this system, Singapore has attained:

- A 76.8% cellular penetration rate, which is among the highest the world;
- Competitive retail rates which allow consumers to choose among a variety of pre and post-paid plans;
- A competitively-neutral call termination mechanism using a non-discriminatory rate structure that applies equally to calls originating on either on fixed or mobile; and
- Cost-based origination, termination and transit rates that apply consistently to all operators (i.e., vertically-integrated facilities-based operators, mobile network operators, and new entrant competitive carriers).

Implementing the present charging system has been a significant achievement by the iDA. Before considering a change from the present system, WorldCom recommends that the iDA review the results of deliberations on mobile charging issues in other regions of the world. [5] These deliberations have identified a number of issues that WorldCom believes the iDA must address before considering a change in the present system.

The iDA Should Approach This Decision With Great Caution

Two years after the first consultation on this issue, there continues to be a clear set of reasons for the iDA to exercise an abundance of caution before making any decisions relating to moving to a new charging regimes:

- A move is costly to the operators;
- A move is disruptive to customers;

[2] Singapore Telecommunications Ltd Comments in response to iDA's October 1999 consultation document.
[3] Singapore Mobile Pte Ltd Comments in response to iDA's October 1999 consultation document, at page 3.
[4] MobileOne Comments in response to iDA's October 1999 consultation document, at page 1.
[5] For a summary of Europe's response to this issue, see, e.g., *The Final Report on Cost Structures in Mobile Networks and Their Relationship to Prices*(a study undertaken by Europe Economics for the European Commission, the report is available at: http://europa.eu.int/information_society/topics/telecoms/regulatory/studies/documents/2001_mobilecosts_final.pdf

- A move it technically difficult, there is no uniform approach;
- A move is complicated and a risk – it could backfire

In addition, we emphasising that the existing charging system is working well, as the record from the earlier proceeding indicates. New operators such as WorldCom have invested significant capital over the 12 months establishing interconnection. A move to a new charging regime at this point, having only recently fully completed interconnection under the existing charging regime, would be difficult (to say the least) for us and our customers. We could support a move to a new charging system, but we believe strongly that it should be based on empirical evidence of a flaw of in the existing system or overwhelming empirical evidence that a new regime is superior.

An axiom that doctors and regulators share is "first, do no harm." WorldCom is not, in principle, against a move to CPP. But we beseech the iDA to use an abundance of caution in making its decision.

III. The European Experience -- Mobile Termination Rates Under The CPP Regime Are Stifling Competition

The Problem

High mobile termination rates have typically developed in CPP regimes, and this results in artificially high fixed-to-mobile retail rates for the consumer calling a mobile party. The adverse effect on consumers is exacerbated as mobile phone penetration, particularly in the business customer segment, has increased dramatically across Europe: the European Competitive Telecommunications Association (ECTA) estimates that although approximately 10% of the typical European business customers calls are to mobile phones, the price of these calls represents 50% of the average customer's telecom bill.[6]

As consumers become aware of the high mobile termination rates, the demand for fixed-to-mobile calls is depressed. Consumers then make fewer fixed-to-mobile calls and talk for shorter periods when they do make such calls. This economic inefficiency reduces the utility of mobile phones by discouraging consumers from taking advantage of the opportunity to reach mobile phone subscribers wherever they are located.

The problem has developed in CPP regimes in Europe and elsewhere because there is no incentive for mobile operators to reduce inflated fixed-to-mobile termination charges. For instance, there is insufficient price elasticity of demand for fixed-to-mobile calls to persuade mobile network operators to reduce their termination charge in order to stimulate demand. In effect, each mobile operator, regardless of its market share, enjoys a monopoly over the rate charged to other operators for termination to its end-users. The result is that the mobile operator is able to exact super-normal profits rates from other operators, all done out of view of the mobile operator's end-user customers.

Thus, the price for users making fixed-to-mobile calls remains high and the quantity of calls is prone to stagnate.

In addition, the high mobile termination rates are doubly harmful in that they also give rise to serious competitive distortions – in particular price squeezing by integrated mobile-fixed operators (e.g.,

[6] "ECTA Calls For Action on Fixed to Mobile Termination Charges", ECTA Press Release, March 12, 2002.

integrated operators such as SingTel and StarHub are in Singapore). The price squeezing that can occurs here is of the classic variety well recognised by regulators: where an entity is both a supplier and competitor in a market, it has the ability and the incentive to disadvantage its rivals by discriminating in the pricing or provisioning of inputs.

For example, the mobile arm of an integrated operator takes the position that they are observing non-discrimination obligations by charging their fixed line subsidiary the same inflated termination rate as other fixed line operations (and this is by no means clear in the case of bundled services offered to customers). When these circumstances are present, the integrated operator can place its non-integrated fixed-line competitor in a price squeeze, as the fixed-line operator is unable to recoup the cost of the inflated termination charge via its affiliate mobile arm. The result is to unfairly reduce the profitability of new entrant non-integrated fixed-line operators, and to ultimately drive them out of the market.

Europe is Moving Now to Remedy The Inflated Termination Rates That Have Developed Under CPP

The European Commission, and the Commissioner for Competition Policy, Mario Monti, recognise the inflated mobile termination rates as an area of great concern. In February of this year, Competition Commissioner Monti noted that: "Mobile termination rates are also an area of concern: as these wholesale rates are not visible to consumers - neither the caller nor the person called is aware of the rates being charged for termination there is scope for mobile operators to charge excessive prices without being "caught"." [7] Commissioner Monti , in his February address, further noted that investigations are progressing as a priority and concrete steps would be announced in the coming months.[8] In addition to the investigation being conducted by the European Commission, legal proceedings or complaints regarding fixed-to-mobile issues have been filed with regulators in several of the EU Member States.

The National Regulatory Authorities of Europe are also active in this area, taking regulatory action by mandating reductions in the fixed-to-mobile termination rates and opening investigations to determine if there is evidence of price squeezing and other discriminatory actions. (See Annex 1 for examples of actions taken in this regard).

In particular, the United Kingdom has had a difficult time with CPP and inflated mobile termination rates. OFTEL recently identified CPP and mobile termination rates as having an adverse effect on competition, finding that:

> The overall effect of the CPP principle in the retail market is that, whereas mobile networks have an incentive to keep the price of those services required and paid for by the owner at a level to attract and retain customers, they have less incentive to keep the price of calls to mobiles low. As the mobile user does not pay for incoming calls, the incentive for mobile network operators to compete on mobile termination rates is much reduced. This is because the callers cannot take their business elsewhere if dissatisfied as the caller has to use that network to reach that particular number.[9]

---

[7] Prof. Mario Monti, European Commissioner for Competition Policy, "Competition and the Consumer: What are the Aims of European Competition Policy?", European Competition Day in Madrid, February 26, 2002. Text is at: http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=SPEECH/02/79|0|RAPID&lg=EN&display=

[8] Id.

[9] Oftel, *Review of the Charge Control on Mobiles*, September 26, 2001, p. 6.

The Remedy: The Required Regulatory Treatment of Mobile Termination in a CPP Regime

The European experience is illustrative of the many problems that the iDA will face should it choose to move to a CPP charging regime. As the European experience shows, where the CPP system is used, there has been virtually no competitive pressure on mobile network operators to decrease mobile termination rates. A regulatory remedy is required: the implementation of cost-based mobile termination rates for all mobile operators. If iDA moves to a CPP regime, it must simultaneously implement regulation of the termination rates of all of Singapore's mobile network operators, regardless of their market share in the retail market.[10]

Consistent with the iDA's acceptance of cost-orientation as the basic principle for interconnection pricing, it makes little sense to deviate from this basic principle and tolerate market failures in the mobile termination segment.

Any deviancy from cost-based termination rates for mobile operators would be an exception to established practice in telecommunications regulation that terminating access rates should be cost-based. Allowing high termination charges on mobile networks would result in a substantial competitive distortion leading to an artificial transfer of resources from fixed networks to mobile networks. In addition to increasing the cost of calling a mobile phone beyond economically efficient values, this results in an artificial diversion of economic resources from other sectors of the economy towards mobile networks.

Permitting selective above-cost mobile termination may result in further competitive distortions. For example, distortions could occur as between fixed-originated and mobile-originated calls, and as between usage of fixed networks versus Mobile Virtual Private Networks (MVPNs). It also gives rise to inefficient forms of arbitrage such as "tromboning."[11]

Consistent with the iDA's existing cost-based interconnection regime and for the reason discussed in these comments, should the iDA move to CPP it must implement cost-based termination for all mobile operators in Singapore.

IV. CONCLUSION

WorldCom suggests that the iDA approach this decision with great caution, as moving to a new charging regime is difficult, costly, and carries risk of failure.

We also urge the iDA to consider the European experience, and implement cost-based mobile termination rates for all mobile operators in Singapore (should the move be made to a CPP charging regime).

WorldCom looks forward to working with the iDA on these important issues. If desired, WorldCom is prepared to provide the iDA with economic data which conclusively demonstrates the anti-competitive effects of CPP that we and other facility based operators have encountered in the European Union's Member States. We encourage the iDA to avoid making these same mistakes.

---

[10] Oftel found mobile termination to be "an inherently separate market from the provision of other mobile services because it is offered not to retail subscribers of a MNO but to other telecom operators, who use the service as an input into their retail/wholesale products. See *Oftel Mobile Consultation* at pg. 18-19.

[11] Tromboning is a form of arbitrage whereby fixed line operators route domestic traffic destined for mobile networks out of the country then back into the country to be terminated as an inbound international call, thereby paying lower international settlement rates rather than above-cost mobile termination rates. Mobile network operators have attempted to prevent this form of arbitrage by blocking such calls or imposing mobile surcharges on international calls, demonstrating the lack of competition in the mobile termination market and the inherent market power over termination held by the mobile network operators.

Annex

Examples of Actions Undertaken by EU National Regulatory Authorities

Country	Price Controls	Mobile Operators subject to Price Controls	Relation Fixed to Mobile - Fixed to Fixed Termination
Austria	Yes	Mobilkom	944%
Belgium	Yes	Proximus and Mobistar	1184%
Denmark	Yes	Tele Denmark and Sonofon	1698%
France	Yes	Orange and SFR (2)	1618%
Germany	No		1756%
Ireland	No (1)		1895%
Italy	Yes	TIM and Vodafone	1500%
Netherlands	No (3)		2046%
Spain	No (4)		1380%
Sweden	Yes	Telia, Europolitan, Vodafone and Tele2	1764%
UK	Yes	BT Cellnet, Vodafone, (One 2 One, Orange pending appeal)	2358%

(1) Eircell and Esat-Digifone were designated with SMP, ODTR initiated an investigation on SMP operators
(2) Non SMP operators subject to price-cap
(3) Under investigation
(4) Telefonica and Vodafone were designated with SMP, Regulator conducting investigation

Most EU National Regulatory Authorities recognise the problem of inflated mobile termination charges and are moving to regulate these rates. This is depicted in the two middle columns in the chart above.

Continued regulatory intervention will be required, as the cost of mobile termination remains artificially inflated at rates many time that of fixed to fixed termination. This is depicted in the far right column in the chart above.